



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended December 31, 2009



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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, 2009, and the audited consolidated financial statements and MD&A for the year ended June 30, 2009, both of which are available at SEDAR (www.sedar.com).

This MD&A is dated as of January 27, 2010.

BUSINESS PROFILE AND STRATEGY

This section contains forward-looking statements. See Cautionary Statement Regarding Forward-Looking Information located at the end of this MD&A.

Cash Store Financial is an alternative to traditional banks, by providing short-term advances and other financial services, 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 short-term advances and provide other financial 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, 2009, we owned and operated 469 branches in nine provinces and two territories and employed approximately 1,800 associates across Canada. Cash Store Financial is the only broker of short-term advances and other financial services in Canada publicly traded 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 a short-term advances and other 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 term loans, injury advances, financial product insurance, prepaid phone cards and cheque cashing products.

Cash Store Financial is strongly committed to the communities we serve. As part of this commitment we have partnered with the Alberta Diabetes Foundation and the Alberta Diabetes Institute. We have committed to raise \$7.5 million over the next seven years. Annual runs across Canada have been planned and commenced in June 2009.

Cash Store Financial’s strategic priorities are:

Operational:

- Maintaining a dominant position in the Canadian alternative financial services industry, through aggressive expansion into underserved communities;
- Expansion into international markets including:
 - initial openings in the United Kingdom;



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- Approximately an 18% investment in The Cash Store Australia Holdings Inc. which owns and operates 44 branches in Australia; and
 - Approximately a 20% investment in RTF Financial Holdings Inc. which is in the business of micro-sized short-term lending by utilizing highly automated mobile technology (SMS text message lending) currently in Finland and Sweden with expansion plans to the Netherlands, Denmark and other European countries.
- Providing superior service and complementary products with an emphasis on further diversification of the revenue stream;
 - Continued focus on improving Branch Operating Income (“BOI”) margins for all our branches;
 - Developing a motivated, knowledgeable team of associates dedicated to serving our customers; and
 - Providing strong leadership through in-the-field hands-on involvement of senior management.

Financial:

- Maximizing shareholder value by growing our earnings per share;
- Utilizing our strong balance sheet to capitalize on regulatory changes as they occur namely through reducing our cost of capital in regulated provinces;
- Controlling costs through a strong focus on operational excellence; and
- Accelerating profitability for our newer branches through improved location selection and database marketing.

OVERALL FINANCIAL PERFORMANCE

Second Quarter and Year-to-Date Highlights

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

Income for the second quarter was \$5.5 million, compared to \$4.3 million for the same quarter last year. For the six months ended December 31, 2009, income was a record \$11.1 million, compared to \$10.3 million in the same period last year. Diluted earnings per share increased to \$0.32 in the quarter, compared to \$0.23 for the same quarter last year, and a record \$0.65 for the six months ended December 31, 2009 compared to \$0.54 for the same period last year.

The higher second quarter earnings reflect the following:

- Record revenues as a result of the maturation of branches, increased same branch revenues and a focus on complimentary products;
- Record BOI and loan volume; and
- A reduction in corporate expenses related to professional fees associated with the class action lawsuit and non-recurring class action settlements.



The higher second quarter earnings were offset by:

- Higher regional expenses in relation to infrastructure required to support 54 new branches and increased expenses related to starting up operations in the UK;
- Increased corporate infrastructure including a new product development department in order to support future initiatives;
- Increased information systems infrastructure to support future growth initiatives; and
- Increased expenses related to income taxes as a result of the lower tax expenses incurred in the second quarter of 2009 in association with the spin out of the rental division.

Our EBITA for the second quarter was \$10.6 million, compared to \$7.3 million in the same quarter last year. For the six months ended December 31, 2009, our EBITA was a record \$21.4 million compared to \$18.2 million for the same period last year. This increase is due to increased revenues and increased BOI margins, offset by increased regional and corporate infrastructure, information system support and marketing expenses compared to the same quarter last year.

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, have increased the profitable branches as a percentage of our overall branch network and have shown an increase in the earnings contribution of our lowest-performing branches.

Product and revenue diversification initiatives continue to generate positive results. Revenue from other services (including fees from cheque cashing, money transfers, payment protection, debit cards, term loans and collections) increased to \$7.2 million in the second quarter, up from \$6.3 million in the same quarter last year. Year-to-date, other revenue totalled \$14.0 million, compared to \$12.7 million for the six months ended December 31, 2008. For the quarter we have seen a reduction in non-core revenue streams relating to the removal of the mortgage product and sale of the telephone reconnection company. This loss of revenue was more than offset by improvements in products and services which complement our existing product lines. We will continue to progress towards our objective of diversifying our revenue stream with products which enhance and compliment our core products and increasing the value generated from our existing suite of products.

For future periods, we plan to introduce new financial products and services. In this regard we have established a new product development department that has been engaged with several recent initiatives.

On October 15, 2009 we announced that we have entered into an agency agreement with DirectCash Bank, a federally regulated Schedule 1 bank that will enable the offering of new products, including Canadian Deposit Insurance Corporation insured bank accounts.

On January 19, 2010, we announced that we have entered into a strategic relationship with RTF Financial Holdings Inc. (RTF), a Canadian holding company that is in the business of micro-sized short-term lending by utilizing highly automated mobile technology (SMS text message lending) through a series of subsidiary companies. We have acquired an approximate 20% interest in RTF and we have agreed to provide RTF with management and administrative support services, assist RTF in sourcing lenders and in taking RTF public in Canada. The micro-sized short-term SMS lending business was established in Finland in 2005. RTF is currently offering its loan product in Finland and Sweden and will be expanding to the Netherlands, Denmark and other European



countries in the near future. Growth of the SMS lending business and how well it is has been received in the Scandinavian regions indicate that a service of this kind is in demand.

We are well positioned to fund future growth initiatives and working capital requirements with a cash position of \$16.8 million and a positive working capital of \$10.1 million as at December 31 2009. During the first six months of our fiscal year, working capital has increased by \$479,000 from \$9.7 million at June 30, 2009.

Industry and economic review

Many provinces have recently implemented consumer protection measures for the payday loan industry. These measures will and have included rate caps and a ban on rollovers. Eighty-percent of our branches are located in British Columbia, Alberta, Ontario and Nova Scotia. Regulation of the industry in these provinces has been fully implemented with the exception of Alberta which will be fully implemented by the end of the third quarter. This is a welcome development that demonstrates to capital markets that the industry is now supported by a high degree of regulatory certainty and that the industry's long-term stability has been secured. To date our experience has been that we have been able to accommodate new industry rules, we have not experienced any material negative impacts as a result of regulation and we do not anticipate negative impacts in the future. The Company has accommodated regulation more effectively than some competitors and there has been industry consolidation as a result. Regulation has positioned the Company to lend its own capital, which will lead to reduced costs. We believe that industry regulation will encourage previously untapped consumer segments to enter the market and offer new revenue opportunities. We continue to view regulation as a positive for the Company and expect the benefits to accrue over the long-term.

We have not experienced significant negative impacts from the recent economic downturn. Looking ahead we believe that industry regulation will encourage previously untapped consumer segments to enter the market and offer new revenue opportunities.



SELECTED FINANCIAL INFORMATION

<i>Thousands of dollars, except for per share amounts and branch figures</i>		Three Months Ended		Six Months Ended	
		December 31 2009	December 31 2008	December 31 2009	December 31 2008
Consolidated results					
	<i>No. of branches</i>	469	415	469	415
Revenue					
Brokerage		\$ 42,281	\$ 36,966	\$ 83,905	\$ 74,259
Interest income		5	83	19	209
		42,286	37,049	83,924	74,468
Branch expenses		21,509	18,935	42,290	37,470
Retention payments		5,000	4,600	10,100	8,851
Branch operating income		15,777	13,514	31,534	28,147
Regional expenses		2,850	2,024	5,207	3,745
Corporate expenses		3,751	3,691	7,892	7,097
Other amortization		787	281	1,358	495
Income before income taxes and class action settlements		8,389	7,518	17,077	16,810
Class action settlements		100	1,910	100	1,910
EBITA *		10,643	7,303	21,366	18,232
Net income and comprehensive income		\$ 5,467	\$ 4,292	\$ 11,107	\$ 10,348
Weighted average number of shares					
outstanding - basic		16,758	18,507	16,810	18,971
Basic earnings per share					
Net income and comprehensive income		\$ 0.33	\$ 0.23	\$ 0.67	\$ 0.55
Diluted earnings per share					
Net income and comprehensive income		\$ 0.32	\$ 0.23	\$ 0.65	\$ 0.54
Consolidated Balance Sheet Information					
Working capital		\$ 10,146	\$ 8,272	\$ 10,146	\$ 8,272
Total assets		93,776	78,827	93,776	78,827
Total long-term liabilities		3,676	2,231	3,676	2,231
Total liabilities		22,708	15,804	22,708	15,804
Shareholders' equity		\$ 71,068	\$ 63,023	\$ 71,068	\$ 63,023

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

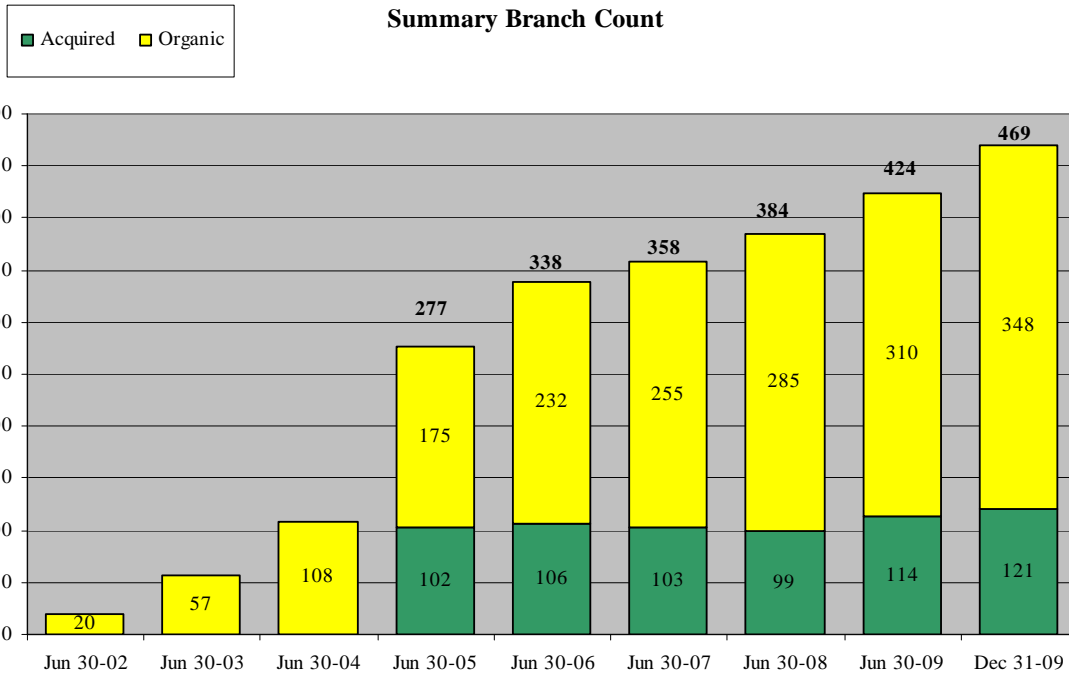
FINANCIAL ANALYSIS

This analysis provides an overview of our financial results for the second quarter ended December 31, 2009 compared to the same quarter last year and the first six months of fiscal 2010 compared to the same period last year.

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 469 branches were in operation, an increase of 54 branches, compared to 415 branches at the end of the same quarter last year. During the quarter, 19 new branches were opened, and one branch acquired last quarter was consolidated with a nearby branch. Branch performance continues to be monitored and consolidations will occur when efficiencies can be achieved.



	Jun 30-02	Jun 30-03	Jun 30-04	Jun 30-05	Jun 30-06	Jun 30-07	Jun 30-08	Jun 30-09	Dec 31-09
Opening	5	20	57	108	277	338	358	384	424
Organic	15	37	51	67	61	20	37	31	41
Acquired	0	0	0	102	6	0	0	18	8
Consolidations	0	0	0	0	(6)	0	(11)	(9)	(4)
Closing	20	57	108	277	338	358	384	424	469

We increased by 19 new branches over the quarter as compared to 27 in the same quarter last year, which is consistent with our growth strategy. We consolidated one underperforming branch as compared to three consolidations in the same quarter last year, and the accounts were transferred to nearby branches. Branch performance continues to be monitored and consolidations will occur when efficiencies can be achieved. We anticipate adding 18 to 20 branches over the next quarter.

Revenue

Revenue increased 14.3% to \$42.3 million from \$37.0 million in the same quarter last year. The higher revenue reflects an increase in both brokerage fees and other services. This growth is due to 54 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, except branch figures)</i>		Revenues			Average Revenue per Branch per Month	
Year Opened	Number of Branches	Q2 2010	Q2 2009	% Change	Q2 2010	Q2 2009
2001*	94	\$ 10,021	\$ 10,007	0%	\$ 36	\$ 35
2002	13	1,830	1,657	10%	47	42
2003	35	4,154	3,952	5%	40	38
2004	52	5,567	5,178	8%	36	33
2005	67	6,561	6,198	6%	33	31
2006	53	4,997	4,501	11%	31	28
2007	24	2,014	1,760	14%	28	24
2008	35	2,716	2,175	25%	26	21
2009	48	2,719	610	346%	19	4
2010	48	1,567	-		11	-
	469	42,146	36,038	17%	\$ 30	\$ 26
Consolidation of branches		29	284			
Other		106	644			
Continuing operations		\$ 42,281	\$ 36,966			

* Instaloans 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>(thousand of dollars)</i>	Three months ended		Six months ended	
	December 2009	December 2008	December 2009	December 2008
Revenues				
Brokerage fees	\$ 35,086	\$ 30,716	\$ 69,907	\$ 61,591
Other	7,195	6,250	13,998	12,668
	42,281	36,966	83,905	74,259
Corporate	5	83	19	209
	\$ 42,286	\$ 37,049	\$ 83,924	\$ 74,468

Broker fees for the second quarter increased 14.3% to \$35.1 million from \$30.7 million in the same quarter last year as a direct result of 54 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, increased marketing initiatives and more effective bonus structures. Year-to-date, broker fees totalled \$69.9 million, compared to \$61.6 million for the six months ended December 31, 2008.

Revenue from other services (including fees from cheque cashing, money transfers, payment protection, debit cards, term loans and collections) increased to \$7.2 million in the second quarter, up from \$6.3 million in the same quarter last year. Year-to-date, other revenue totalled \$14.0 million, compared to \$12.7 million for the six months ended December 31, 2008. For the quarter we have seen a reduction in non-core revenue streams relating to the removal of the mortgage product and sale of the telephone reconnection company. This loss of revenue was more than offset by improvements in products and services which complement our existing product lines. We will continue to progress towards our objective of diversifying our revenue stream with products which enhance and compliment our core products and increase the value generated from our existing suite of products.



Loans brokered in the second quarter totalled \$172.1 million and averaged \$401 per loan (excluding our broker fee), compared to \$147.0 million and an average of \$374 per loan in the same quarter last year. Year-to-date, we brokered \$338.0 million in loans at an average amount of \$389 per loan (excluding our broker fee), compared to \$294.9 million in loans at an average amount of \$369 for the six months ended December 31, 2008.

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 383 locations open since the beginning of the second quarter of fiscal 2009 increased by 7.3% compared to the same quarter last year, with same branch revenues averaging \$99,900 in the second quarter compared to \$93,100 in the second quarter of the previous year. Same branch revenues for the 372 locations open since the beginning of the first quarter of fiscal 2009 increased by 6.2% compared to the same period last year, with same branch revenues averaging \$203,300 year-to-date compared to \$191,400 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, increased marketing initiatives 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 \$15.8 million (37.3% of revenue) compared to \$13.5 million (36.5% of revenue) in the second quarter of last year. Year-to-date, branch operating income was \$31.5 million (37.6% of revenue), compared to \$28.1 million (37.8% of revenue) for the same period last year. Branch operating income improved as a result of increased revenue as noted above partially offset by increased expenses due to the opening of 54 new branches, higher bonuses and retention payments. Branch operating income, by maturity level, is outlined below:

<i>(Thousands of dollars, except branch figures)</i>		BOI (Loss)		BOI % of Revenues	
Year Opened	Number of Branches	Q2 2010	Q2 2009	Q2 2010	Q2 2009
2001 *	94	\$ 4,506	\$ 4,307	45.0%	43.0%
2002	13	762	696	41.6%	42.0%
2003	35	1,825	1,753	43.9%	44.4%
2004	52	2,439	2,062	43.8%	39.8%
2005	67	2,534	2,259	38.6%	36.4%
2006	53	1,906	1,516	38.1%	33.7%
2007	24	702	520	34.9%	29.5%
2008	35	950	505	35.0%	23.2%
2009	48	231	(249)	8.5%	-40.8%
2010	48	(144)	-	-0.3%	-
	469	15,711	13,369		
Branches not yet open		(28)	(2)		
Consolidation of branches		16	(193)		
Other		78	340		
Branch Operating Income		\$ 15,777	\$ 13,514		

* Insta loans 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 \$26.8 million, an increase from \$23.5 million in the same quarter last year. Year-to-date, expenses have increased to \$52.8 million in the first half of the year, compared to \$46.1 million for the same period last year. The increase is primarily due to the addition of 54 new branches, increased bonuses related to higher profitability, an increase in information system support, marketing and corporate infrastructure costs.

Retention Payments

Third-party lender retention payments for the second quarter totalled \$5.0 million (2.9% of loans brokered), compared to \$4.6 million (3.1% of loans brokered) in the same quarter last year. As a percentage of revenue, retention payments have decreased to 11.8% in the second quarter of 2010, compared to 12.4% in the second quarter of 2009. Year-to-date, retention payments totalled \$10.1 million (3.0% of loans brokered), compared to \$8.9 million (3.0% of loans brokered) in the six months ended December 31, 2008. As a percentage of brokerage revenue, retention payments have increased slightly to 12.0% for the six months ended December 31, 2009, compared to 11.9% in the same period last year. Since the economic downturn in Canada our collection experience with external third-party collectors have not met our expectations. As a result, we have initiated an increase in our internal centralized collection department's infrastructure which we believe will reduce our reliance on external parties, increase our control on the collection process and reduce the net costs associated with the collection process.

Amortization

Amortization of capital and intangible assets for the quarter totalled \$2.1 million, compared to \$1.4 million in the second quarter last year. The increase reflects the addition of 54 new branches and a large scale refresh program for our mature branches. Year-to-date, amortization of capital and intangible assets was \$3.9 million, compared to \$2.7 million for the six months ended December 31, 2008. The increase reflects the addition of 54 new branches and a large scale refresh program for our mature branches.

Income Taxes

Our effective tax rate was 34.0% in the second quarter, compared to 23.5% for the second quarter last year. Year-to-date, our effective tax rate was 34.6%, compared to 30.6% for the six months ended December 31, 2008. The increase is as a result of lower tax expenses incurred in the second quarter of fiscal 2009 in association with the spin out of the rental division.

LIQUIDITY AND CAPITAL RESOURCES

Our cash decreased to \$16.8 million in the second quarter, compared to \$18.5 million at June 30, 2009. Significant items impacting cash in the second quarter and year-to-date included:

- The repurchase of our shares, year-to-date, in the amount of \$3.3 million pursuant to a normal course issuer bid;
- Dividend payments of \$1.7 million during the quarter and \$4.0 million year-to-date;
- Issuance of commons shares for proceeds from exercised options of \$362,000 during the quarter and \$1.1 million year-to-date;



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- Cash generated from operating activities, before non-cash operating items, of \$7.8 million during the quarter and \$15.8 million year-to-date;
 - Increase in accounts receivable of \$4.7 million and \$6.3 million year-to-date related to initial steps being taken to enable us to lend directly to customers as well as increases in receivables relating to changes in complimentary product lines and services;
 - Capital and intangible asset expenditures of \$3.7 million during the quarter and \$7.8 million year-to-date; and
 - Investment in RTF Financial Holdings Inc. of \$360,000 during the quarter.

At the end of the second quarter, our working capital position totalled \$10.1 million.

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, including federal interest rate and usury laws and the various provincial consumer protection 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.

Many provinces have recently implemented consumer protection measures for the payday loan industry. These measures will and have included rate caps and a ban on rollovers. Eighty-percent of our branches are located in British Columbia, Alberta, Ontario and Nova Scotia. Regulation of the industry in these provinces has been fully implemented with the exception of Alberta which will be fully implemented by the end of the third quarter. This is a welcome development that demonstrates to capital markets that the industry is now supported by a high degree of regulatory certainty and that the industry’s long-term stability has been secured. To date our experience has been that we have been able to accommodate new industry rules, we have not experienced any material negative impacts as a result of regulation and we do not anticipate negative impacts in the future. The Company has accommodated regulation more effectively than some competitors and there has been industry consolidation as a result. Regulation has positioned the Company to lend its own capital, which will lead to reduced costs. We believe that industry regulation will encourage previously untapped consumer segments to enter the market and offer new revenue opportunities. We continue to view regulation as a positive for the Company and expect the benefits to accrue over the long-term.

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. We have aggressively built our network of retail branches on this basis.

Legal Proceedings

Ontario and the rest of Canada, with the exception of British Columbia and Alberta

On April 13, 2004, a legal proceeding was commenced against The Cash Store Inc. and Instaloans Inc., by Thompson McCutcheon (the "Plaintiff"), a customer. The Plaintiff obtained an order pursuant to the *Class Proceedings Act*, 1992, S.O. 1992 c.6 (the "Class Proceeding Act"), as amended, certifying the action as a class proceeding and appointing him as the representative of the class. The Plaintiff asserted that we were in breach of the *Criminal Code of Canada* and the *Fair Trading Act* as the aggregate of all charges including interest, broker fees and card fees 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 December 2, 2008, the Ontario Superior Court of Justice certified the class action lawsuit as a class proceeding under the Act, and granted approval of the settlement that had been agreed to between us and the representative Plaintiff on behalf of the Class. The settlement does not constitute any admission of liability by Cash Store Financial.

Under the terms of the settlement, we are to pay to the class a minimum of \$750,000 and a maximum of \$1.5 million in cash and a minimum of \$750,000 and a maximum of \$1.5 million in credit vouchers to those customers of The Cash Store and Instaloans, exclusive of Alberta and British Columbia, who were advanced funds under a loan agreement and who repaid the payday loan plus brokerage fees and interest in full. The credit vouchers may be used to pay existing outstanding brokerage fees and interest or to pay a portion of brokerage fees and interest which may arise in the future through new loans advanced. The credit vouchers are fully transferable and have no expiry date. Based on our estimate of the rate of take-up of the available cash and vouchers, a provision of \$2.0 million has been recorded to cover the estimated costs of the settlement, including legal fees and other costs. In addition, we paid the legal fees and costs of the class. On August 6, 2009 the claims process was concluded and we issued \$750,000 in vouchers and \$750,000 in cheques to the class members as full and final satisfaction of all claims. As at December 31, 2009, the remaining accrual is \$44,000.

British Columbia

On March 5, 2004, an action under the Class Proceedings Act was commenced in the Supreme Court of British Columbia by Andrew Bodnar and others proposing that a class action be certified, on his own behalf and on behalf of all persons who have borrowed money from the defendants: The Cash Store Inc., Cash Store Financial, and All Trans Credit Union Ltd. The action stems from the allegations that all payday loan fees collected by the defendants constitute interest and therefore violate s. 347 of the Criminal Code. On May 25, 2006, the claim in British Columbia was affirmed as a certified class proceeding of Canada by the B.C. Court of Appeal. In fiscal 2007, the plaintiffs in the British Columbia action brought forward an application to have certain of our customer's third party lenders added to the Claim. On March 18, 2008, another action commenced in the Supreme Court of British Columbia by David Wournell and others, the "Related Actions", against Cash Store Financial, Instaloans Inc., and others in respect of the business carried out under the name Instaloans since April 2005.



On May 12, 2009, we settled the British Columbia Related Actions in principle. The settlement is conditional upon the terms of the settlement being approved by the Court. The settlement does not constitute any admission of liability by Cash Store Financial. As at December 31, 2009 the settlement had not been approved by the Court. A decision is expected to be received during the third quarter of fiscal 2010.

Under the terms of the settlement in principle, we are to pay to the eligible class members a maximum estimated amount, as at this date, of \$8.0 million in cash and \$8.0 million in credit vouchers, subject to court approval, who were advanced funds under a loan agreement and who repaid the payday loan plus brokerage fees and interest in full or who met certain other eligibility criteria. The credit vouchers may be used to pay existing outstanding brokerage fees and interest or to pay a portion of brokerage fees and interest which may arise in the future through new loans advanced. The credit vouchers are not transferable and have no expiry date. In addition, we are to pay the legal fees and costs of the class. Based on our estimate of the rate of take-up of the available cash and credit vouchers, a provision and accrued liability of \$5.0 million was recorded to cover the estimated costs of the settlement, including legal fees of the Class and costs to administer the settlement fund. The estimated maximum exposure with respect to this settlement is approximately \$16.0 million. It is possible that additional reserves above that already recorded by us could be required. Additional reserves, if required, cannot be reasonably determined at this time because of the difficulty in predicting the number of Class Members who may advance a claim under the settlement.

Alberta

We have been served in prior fiscal periods with a Statement of Claim issued in Alberta alleging that we are in breach of s. 347 of the *Criminal Code of Canada* (the interest rate provision) and certain provincial consumer protection statutes.

The certification motion has been pending since fiscal 2006 and has not yet been heard.

We believe that we conduct our business in accordance with applicable laws and are defending the action vigorously. However, the likelihood of loss, if any, is not determinable. Accordingly, no provision has been made for this action in the accounts.

Other

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

Third Party Lenders/Retention Payments

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

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064 ("Section 3064") Goodwill and Intangible Assets. Section 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. We have adopted these amendments commencing July 1, 2009 and have been applied retroactively resulting in \$3.2 million of net assets being reclassified from capital assets to intangible assets in the comparative June 30, 2009 balance sheet, as well as \$36,000 of amortization being reclassified from amortization of capital assets to amortization of intangible assets for the three months ended December 31, 2008 and \$70,000 for the six months ended December 31, 2008.

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations," which replaces the existing standard. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date and non-controlling interests would be measured at fair value at the date of acquisition. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011 and earlier adoption is permitted. We have adopted this standard commencing in the year ended June 30, 2010 and will not apply it retrospectively.

Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1602, "Non-Controlling Interests," which establishes standards for the accounting of non-controlling interests of a subsidiary in the



preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. The Section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted. The adoption this standard has not had a significant impact on our consolidated financial statements.

Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements," which replaces the existing standard. This Section carries forward existing Canadian guidance for preparing consolidated financial statements other than non-controlling interests. The Section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted. The adoption this standard has not had a significant impact on our consolidated financial statements.

Financial Instruments – Recognition and Measurement

In June 2009, the CICA amended Handbook Section 3855, "Financial Instruments - Recognition and Measurement," to clarify the application of the effective interest method after a debt instrument has been impaired. The Section has also been amended to clarify when an embedded prepayment option is separated from its host instrument for accounting purposes. The amendments apply to interim and annual financial statements relating to fiscal years beginning on or after May 1, 2009 for the amendments relating to the effective interest method. The adoption this standard has not had a significant impact on our consolidated financial statements.

Equity

In August 2009, the CICA amended presentation requirements of Handbook Section 3251, "Equity", as a result of issuing Section 1602, "Non-Controlling Interests". The amendments apply only to entities that have adopted Section 1602. The adoption this standard has not had a significant impact on our consolidated financial statements.

Comprehensive Revaluation of Assets and Liabilities

In August 2009, the CICA amended Handbook Section 1625, "Comprehensive Revaluation of Assets and Liabilities" as a result of issuing Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interest" in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted provided that Section 1582 is also adopted. The Company has adopted this standard commencing in the year ending June 30, 2010 and will not apply it retrospectively. The adoption this standard has not had a significant impact on our consolidated financial statements.



RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

Financial Instruments – Recognition and Measurement

In June 2009, the CICA amended Handbook Section 3855, "Financial Instruments - Recognition and Measurement," to clarify the application of the effective interest method after a debt instrument has been impaired. The Section has also been amended to clarify when an embedded prepayment option is separated from its host instrument for accounting purposes. The amendments relating to embedded prepayment options apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. We are currently evaluating the impact of this amendment.

Financial Instruments – Disclosure

In June 2009, the CICA amended Handbook Section 3862, "Financial Instruments - Disclosures", to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. We are currently evaluating the impact of the amendment to the standard.

International Financial Reporting Standards (“IFRS”)

Canada's Accounting Standards Board ratified a strategic plan that will result in generally accepted accounting principles (“GAAP”), as currently used by Canadian public companies, being evolved and converged with IFRS over a transitional period to be completed by 2011. The official changeover date to IFRS is for interim and annual financial statements related to fiscal years commencing on or after January 1, 2011, specifically July 1, 2011 for us.

We are currently in the process of developing an IFRS changeover plan which will address key areas such as accounting policies, financial reporting, information systems, disclosure controls and procedures and other business activities. As part of this changeover plan, we are currently identifying differences in accounting policies on an ongoing basis as compared to choices that are in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards.

We have not yet quantified the effects of the potential significant differences between GAAP and IFRS, which may or may not be material to the financial statements. The impact of adoption will be monitored on a continual basis and we intend to disclose the impact of these difference in our future consolidated financial statements, as we finalize our assessment.

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, 2009 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, 2010, we had 16,801,341 common shares outstanding. There were also options to purchase 1,170,375 common shares, which if exercised, would provide us with proceeds of approximately \$7.1 million.

DIVIDENDS

Prior to August 31, 2007, we had not declared or paid a dividend on the common shares. We declared our first dividend on August 31, 2007 in the amount of \$.025 cents per common share. In total, dividends of \$3.6 million were paid to holders of common shares in fiscal 2008; \$5.3 million in fiscal 2009; \$1.7 million in the second quarter of fiscal 2010 and \$4.0 million in the first six months of fiscal 2010. On January 27, 2010, we declared a quarterly dividend of \$0.10 per common share, up \$0.035 or 54% from the same quarter last year. The dividend is payable on February 25, 2010 to shareholders of record on February 10, 2010.

Our current dividend policy is to declare and pay quarterly cash dividends at the discretion of the Board of Directors, as circumstances permit, in an aggregate annual amount equal to approximately 30% of the prior year's net income. Our dividend policy and practice will be reviewed from time to time in the context of our earnings, financial condition, the need to retain earnings to fund future growth of our business and other relevant factors, and the declaration of a dividend will always be at the discretion of the Board of Directors.

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.

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>(thousands of dollars, except for per share amounts and branch figures)</i>								
Consolidated Results								
No. of branches	469	451	424	423	415	391	384	378
Brokerage	\$ 42,281	\$ 41,624	\$ 39,700	\$ 36,294	\$ 36,966	\$ 37,293	\$ 34,490	\$ 31,305
Corporate	5	14	31	12	83	126	52	41
	42,286	41,638	39,731	36,306	37,049	37,419	34,542	31,345
Branch expenses	21,509	20,781	20,299	20,110	18,935	18,537	18,635	17,724
Retention payments	5,000	5,100	4,600	4,537	4,600	4,251	4,229	4,800
Branch operating income	15,777	15,757	14,832	11,659	13,514	14,631	11,678	8,821
Regional expenses	2,850	2,357	2,850	2,140	2,024	1,721	1,985	1,730
Corporate expenses	3,751	4,141	5,038	4,523	3,691	3,404	3,524	2,827
Other amortization	787	571	527	311	281	214	244	234
Net income before income taxes, class action settlement and discontinued operations	8,389	8,688	6,417	4,685	7,518	9,292	5,925	4,030
Class action settlements	100	-	5,000	-	1,910	-	-	-
EBITA from continuing operations	10,643	10,723	3,891	6,460	7,303	10,929	7,614	5,433
Net income from continuing operations	5,467	5,640	1,232	3,067	4,292	6,056	3,190	2,706
Loss from discontinued operations	-	-	-	-	-	-	-	(650)
Net income and comprehensive income	\$ 5,467	\$ 5,640	\$ 1,232	\$ 3,067	\$ 4,292	\$ 6,056	\$ 3,190	\$ 2,056
Basic earnings per share								
Income from continuing operations	\$ 0.33	\$ 0.34	\$ 0.07	\$ 0.18	\$ 0.23	\$ 0.31	\$ 0.16	\$ 0.14
Loss from discontinued operations	-	-	-	-	-	-	-	(0.04)
Net income and comprehensive income	0.33	0.34	0.07	0.18	0.23	0.31	0.16	0.10
Diluted earnings per share								
Income from continuing operations	0.32	0.33	0.07	0.18	0.23	0.31	0.16	0.13
Loss from discontinued operations	-	-	-	-	-	-	-	(0.03)
Net income and comprehensive income	\$ 0.32	\$ 0.33	\$ 0.07	\$ 0.18	\$ 0.23	\$ 0.31	\$ 0.16	\$ 0.10



OTHER

Cautionary Statement Regarding Forward-looking Information

This MD&A contains “forward-looking information” within the meaning of applicable Canadian and United States securities legislation. Forward-looking information includes, but is not limited to, information with respect to our objectives, strategies, operations and financial results, competition as well initiatives to grow revenue or reduce retention payments. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". Forward-looking information are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company, to be materially different from those expressed or implied by such forward-looking information, including, but not limited to, changes in economic and political conditions, legislative or regulatory developments, technological developments, third-party arrangements, competition, litigation, risks associated with but not limited to, market conditions, the availability of alternative transactions, shareholder, legal, regulatory and court approvals and third party consents and other factors described in the our latest Annual Information Form filed on SEDAR at www.sedar.com under the heading “Risk Factors”. Although we have attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. We do not undertake to update any forward-looking information, except in accordance with applicable securities laws.

Non-GAAP Measures

This MD&A refers to certain financial measures that are not determined in accordance with GAAP in Canada. These measures do not have standardized meanings and may not be comparable to similar measures presented by other companies. Although a measure such as ‘*Earnings Before Interest, Income Taxes, Extraordinary Items, Stock-based Compensation, Amortization of Capital and Intangible Assets*’ (“EBITA”) do not have standardized meanings prescribed by GAAP, these measures are used herein or can be determined by reference to our financial statements. “*Same branch revenues*” is a non-GAAP measure tracked and reported by us and is generally used to compare the average revenue for a particular group of branches in a current period to that same particular group of branches in a prior period. This non-GAAP measure is a way to gauge the performance of a particular group of branches and is directly related to and helps explain changes in total revenue. Average revenue is defined as revenue for the period divided by the number branches. “*Branch operating income*” (“BOI”) is a non-GAAP measure tracked and reported by us and is generally used to compare the performance at branch level and includes expenses which primarily relate to the operations of the branch network. “*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 of its operational and financial position.

The following table provides a reconciliation of net income in accordance with GAAP to EBITA for the past eight quarters.

EBITA Reconciliation

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Consolidated Results								
Income from continuing operations	\$ 5,467	\$ 5,640	\$ 1,232	\$ 3,067	\$ 4,292	\$ 6,056	\$ 3,190	\$ 2,706
Interest	29	27	41	12	10	14	3	1
Income tax	2,822	3,048	700	1,618	1,316	3,237	2,734	1,323
Stock-based compensation	204	181	174	240	264	298	331	106
Amortization of capital and intangible assets	2,121	1,827	1,744	1,523	1,421	1,324	1,356	1,297
EBITA from continuing operations	10,643	10,723	3,891	6,460	7,303	10,929	7,614	5,433
EBITA from continuing operations adjusted for class action settlements	10,743	10,723	8,891	6,460	9,213	10,929	7,614	5,433
EBITA from discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (560)