



## **Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and nine months ended September 30, 2011**

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements and the accompanying notes of DirectCash Payments Inc. ("DCPayments") for the nine months ended September 30, 2011 (the "2011 Q3 Financial Statements"), along with Management's Discussion and Analysis and consolidated financial statements for the year ended December 31, 2010 (the "2010 Year End Financial Statements"). Results are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the nine months ended September 30, 2011.

DCPayments is a public corporation which acquired and assumed, directly or indirectly, 100% of the assets and liabilities previously held in the DirectCash Income Fund (the "**Fund**") and the DirectCash Commercial Trust ("**DCCT**") pursuant to a plan of arrangement (the "**Arrangement**") under the *Business Corporations Act* (Alberta). The Arrangement was completed in a number of sequential steps timed from 4:58 p.m. on December 31, 2010 to 12:01 a.m. on January 1, 2011 and involved DCPayments, the Fund, the Fund's subsidiaries and the securityholders of the Fund. The Fund was dissolved pursuant to the Arrangement effective January 1, 2011. The 2011 Q3 Financial Statements follow the continuity of interest basis of accounting whereby DCPayments is considered a continuation of the Fund. As a result, the comparative balance sheet, statement of comprehensive income and cash flows include the Fund's results of operations for the period up to and including December 31, 2010. All references to shares, dividends and shareholders in the 2011 Q3 Financial Statements and MD&A pertain to common shares and common shareholders subsequent to the Arrangement and units, distributions and unitholders prior to the Arrangement.

DCPayments now holds all of the issued and outstanding shares of DirectCash Management Inc. and 99.9% of the limited partnership units of DirectCash Limited Partnership ("**DirectCash LP**"), established under the laws of Alberta. DirectCash LP, in turn, holds 100% of the outstanding partnership units of the DirectCash ATM Processing Partnership (the "**Processing Partnership**") and DirectCash ATM Management Partnership (the "**Management Partnership**"), two general partnerships established under the laws of Alberta. Pursuant to one of the steps of the Arrangement, the 2 corporations who previously held exchangeable units of DirectCash LP exchanged all of those units into Common Shares of DCPayments – with the result that all of the subsidiaries of DCPayments are 100% controlled (directly or indirectly) by DCPayments with no outside third party minority interests held in any of the subsidiaries.

### **Definitions**

In this MD&A:

"**DirectCash**" means, collectively, DirectCash Management Inc., DirectCash Limited Partnership, the Management Partnership, the Processing Partnership, DirectCash Acquisition Corp., DirectCash USA, Inc., DirectCash México S.A. De

C.V., DSM Services S.A. De C.V., DirectCash Management Australia Pty. Ltd., DirectCash Management UK Limited and any of their controlled affiliates (i.e. the entities involved in the actual operation of the businesses being carried on).

"**DirectCash Group**" means, collectively, DCPayments and the entities comprised in the definition of "DirectCash".

### **Forward-looking Statements**

This MD&A contains certain forward-looking statements relating to future events. Forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond DirectCash Group's ability to control, including the impact to DirectCash Group's business, general economic conditions, consumer spending, borrowing trends and regulatory changes to name a few. Certain statements that contain words such as "could", "believe", "expects", "expected", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words relating to matters that are not historical facts constitute "forward-looking information" within the meaning of applicable Canadian securities legislation. In particular, forward-looking information and statements contained in this MD&A include statements related to DirectCash's projected growth in Canada and Mexico in the ATM business, projected growth in the prepaid and debit terminal business, accretive acquisitions on a go forward basis, expansion of DirectCash's merchant base through new and innovative products, entry into new geographic markets, ability to continue to acquire long-term recurring services contracts and expected increase in capital expenditures due to regulatory mandated security upgrade changes are all statements that have been stated or referred to throughout this MD&A. Readers are cautioned that actual results may vary from the forward-looking information provided.

### **Business Strategy**

#### ***ATM business - Canada***

DirectCash's growth in the ATM business is focused on adding ATM assets through acquisitions of competitors and maintaining existing customer relationships through offering best in class customer service and support. In addition, new industry upgrades to ATMs present DirectCash with the opportunity to incent customers to switch to DirectCash from alternate suppliers by providing new upgraded ATMs. Historically, DirectCash has been able to make acquisitions at reasonable valuations, providing accretive returns to DirectCash's Shareholders and DirectCash believes this will continue to be the case going forward.

DirectCash intends to continue to manage its cost structure efficiently in this stable cash flow business in which customers execute long term contracts.

#### ***ATM business – Mexico***

Mexico continues to provide a growth opportunity for DirectCash. DirectCash's focus in this market is to use its sales force to drive organic growth, focusing on new ATM sales and placements in tourist locations.

#### ***Prepaid products business***

The prepaid products business has been DirectCash's highest organic growth line of business in recent years, largely resulting from the bank account product offered through

DirectCash's strategic alliance with DirectCash Bank, as well as growth within DirectCash's existing customers' businesses.

DirectCash offers prepaid card products for both the MasterCard (a credit card product) and Interac (a debit card product) networks. A prepaid Visa product is also being introduced in DirectCash's Australia operations. DirectCash's focus in this line of business is the development of new products and the diversification of the customer base. DirectCash expects to see continued growth through DirectCash's existing customer base as customers expand their site locations both domestically and internationally.

To this end, DirectCash has developed and expanded products such as the sale of prepaid telephone cards, virtual voucher telephone cards and electronic fund transfer services.

Through DirectCash's strategic alliance with DirectCash Bank, DirectCash can now arrange for bank accounts and related financial services to be offered to customers of DirectCash's prepaid card products.

DirectCash's strategy is to continue to develop and offer new products and expand merchant relationships including expansion into new geographic locations, such as Australia and the United Kingdom in order to continue to diversify this line of business. DirectCash also intends to continue to arrange for other banking products and services to be offered through its strategic alliance with DirectCash Bank. Acquisition opportunities will be pursued in this line of business where feasible.

#### ***Debit terminal business***

Historically, the debit terminal business has been DirectCash's smallest business segment in terms of gross profit contribution. DirectCash's growth strategy is to continue to offer unique products and services through DirectCash debit terminals which the larger banks traditionally do not offer. As with the ATM business, industry upgrades to debit terminals provides the opportunity for DirectCash to attract new customers that already have a debit terminal by providing new upgraded devices.

#### **Use of Estimates and Judgments**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. For a detailed discussion of the key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements see the notes to Q3 2011 Financial Statements available for download from [www.SEDAR.com](http://www.SEDAR.com).

#### **Non-IFRS Measures**

There are a number of financial calculations that are not defined performance measurements under IFRS but which DCPayments believes are useful and accepted performance measurements utilized by the investing public in assessing the overall financial performance of corporations.

***Earnings before interest, taxes, depreciation and amortization (“EBITDA”)***

EBITDA represents gross profits less selling, general and administrative expenses (“SG&A”) and long-term incentive plan expenses, and is not a defined performance measure under IFRS. DCPayments believes that EBITDA is a useful supplementary disclosure commonly used by the investing community to assess and compare cash flows between entities. EBITDA specifically excludes depreciation, amortization, income taxes, purchase gain on acquisition, finance expense and IFRS changes related to exchangeable partnership units. DCPayments EBITDA may differ from similar computations as reported by other issuers and, accordingly, may not be comparable to EBITDA as reported by such issuers. The most directly comparable IFRS measure is Net Income. A reconciliation between EBITDA and Net Income is disclosed in the “Financial Highlights” schedule later on.

***Funds from operations and funds from operations per share***

Funds from operations and funds from operations per unit are non-IFRS measures used by DCPayments as an indicator of financial performance. Readers are cautioned that funds from operations is not a defined performance measure under IFRS and that funds from operations cannot be assured to continue at equivalent levels in the future. DCPayments calculates funds from operations as equal to the net cash from operating activities before changes in non-cash working capital, after provision for productive capital maintenance capital expenditures (see discussion below). DCPayments’ funds from operations and funds from operations per share may differ from similar computations as reported by other issuers and, accordingly, may not be comparable to funds from operations and funds from operations per common share as reported by such issuers.

Up until January 1, 2011, Unitholders of the Fund received cash distributions sourced from distributions made by DirectCash LP indirectly to the Fund. The Fund’s policy was to distribute, to the maximum extent possible, the cash earned from operations to Fund Unitholders, less amounts estimated to be required for expenses, productive capital maintenance, cash redemptions or repurchases of Units, any current tax liability, or other obligations, debt repayments and any reasonable reserves established. The Fund made monthly cash distributions to Unitholders on the last business day of each month to Unitholders of record on the last business day of the preceding month.

From August 2006 to January 1, 2011, monthly distributions were paid at \$0.115 per Unit per month (\$1.38 per Unit annualized) and special distributions of \$0.120 per Unit, \$0.100 per Unit and \$0.250 per Unit were paid December 31, 2009, June 30, 2010 and February 28, 2011 respectively.

Beginning after January 1, 2011 (starting with the January 31, 2011 record date), Shareholders of DCPayments have received monthly payments in the form of dividends, with the initial monthly dividend set at \$0.115 per Common Share. All dividends are eligible dividends for the purpose of the *Income Tax Act* (Canada) unless indicated otherwise. Dividends are funded from cash flows generated by the operation of the business. As of January 1, 2011, all of the income generated at the level of the various subsidiaries within the DirectCash Group income is taxable by applicable government authorities with the remaining after-tax funds either being retained by the subsidiary or distributed/dividended up to DCPayments (where it can be made available for payment of dividends by DCPayments). Continued future distribution of dividends (and the amount of any dividends) is subject to DCPayments’ Board of Directors approval.

DCPayments' Board of Directors is not obligated to distribute all net available cash as dividends to shareholders.

***Productive capital maintenance expenditures***

DCPayments differentiates capital expenditures between growth and productive capital maintenance ("Maintenance Capital"). There is no such distinction under IFRS. However, DCPayments believes it is important to differentiate between them as maintenance capital expenditures represent a discretionary adjustment to distributable cash flow while growth capital does not.

Maintenance capital expenditures are defined as expenditures required to service and maintain DirectCash's existing productive capacity, while growth capital is expended to increase DirectCash's productive capacity by adding additional sources of revenue not currently in existence. Current measures of productive capacity that DCPayments utilizes include ATMs and debit terminals under contract (see "Operational Highlights"), software and hardware upgrades to existing infrastructure, ATM and debit terminal equipment upgrades necessary to meet changing regulatory requirements, contract extension incentives, and fleet vehicle purchases and upgrades, are some examples of maintenance capital expenditures. Examples of growth capital expenditures include the acquisition of a competitor's assets, the cost of an ATM in a new location, or technology costs related to new sources of revenue.

Readers are cautioned that productive capital maintenance expenditure is not a defined performance measure under IFRS. DCPayments computation of productive maintenance capital expenditure may differ from similar computations as reported by other issuers and, accordingly, may not be comparable to maintenance capital expenditures as reported by such issuers.

***Non-cash working capital***

Non-cash working capital is not a defined IFRS measure. DCPayments calculates non-cash working capital as current assets less current liabilities, but excluding cash and credit facilities. A summary of this calculation is provided later in the MD&A.

## Summary of Quarterly Results

The following table presents a summary of DCPayments' selected consolidated financial information for the eight quarters ended September 30, 2011:

Quarterly information	IFRS							GAAP
	2011			2010				2009
<i>(thousands)</i>	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Revenues</b>								
ATM business	\$ 13,660	\$ 13,213	\$ 13,081	\$ 12,942	\$ 12,376	\$ 10,814	\$ 9,802	\$ 10,344
Prepaid products business	14,334	14,400	16,274	15,809	16,363	15,973	15,836	13,375
Debit terminal business	472	521	504	543	534	600	478	498
	\$ 28,466	\$ 28,134	\$ 29,859	\$ 29,294	\$ 29,273	\$ 27,387	\$ 26,116	\$ 24,217
<b>Gross Profit</b>								
ATM business	\$ 7,753	\$ 7,185	\$ 7,189	\$ 6,600	\$ 7,047	\$ 6,248	\$ 5,602	\$ 6,027
	56.8%	54.4%	55.0%	51.0%	56.9%	57.8%	57.2%	58.3%
Prepaid products business	6,840	6,447	6,502	6,363	6,180	6,154	5,845	4,665
	47.7%	44.8%	40.0%	40.2%	37.8%	38.5%	36.9%	34.9%
Debit terminal business	367	405	397	414	428	470	358	375
	77.7%	77.7%	78.8%	76.2%	80.2%	78.3%	74.9%	75.3%
<b>Total Gross Profit</b>	\$ 14,960	\$ 14,037	\$ 14,088	\$ 13,377	\$ 13,655	\$ 12,872	\$ 11,805	\$ 11,067
	52.6%	49.9%	47.2%	45.7%	46.6%	47.0%	45.2%	45.7%
<b>EBITDA</b>	\$ 9,935	\$ 9,516	\$ 9,187	\$ 8,469	\$ 9,387	\$ 9,071	\$ 8,015	\$ 7,089
<i>EBITDA margin</i>	34.9%	33.8%	30.8%	28.9%	32.1%	33.1%	30.7%	29.3%
<i>EBITDA per share</i>	0.72	0.69	0.66	0.61	0.74	0.73	0.64	0.57
<b>Net Income/(loss)</b>	\$ 4,379	\$ 3,892	\$ 3,501	\$ (8,387)	\$ (9,623)	\$ (2,685)	\$ 11,387	\$ 4,868
<b>Net Income per share,</b>								
basic	\$ 0.32	\$ 0.28	\$ 0.26	\$ (0.88)	\$ (1.14)	\$ (0.34)	\$ 1.46	\$ 0.39
diluted	\$ 0.32	\$ 0.28	\$ 0.25	\$ (0.88)	\$ (1.14)	\$ (0.34)	\$ 1.44	\$ 0.39
<b>Dividends declared</b>	\$ 4,775	\$ 4,775	\$ 4,775	\$ 8,235	\$ 4,459	\$ 5,549	\$ 4,302	\$ 5,798
<b>Dividends declared per share,</b>								
basic and diluted	\$ 0.345	\$ 0.345	\$ 0.345	\$ 0.595	\$ 0.345	\$ 0.445	\$ 0.345	\$ 0.465

Consolidated financial information prior to January 1, 2010 is reported in accordance with Canadian generally accepted accounting principles ("GAAP"). For reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous Canadian GAAP to those reported for those periods and at the date of transition under IFRS see the notes to the Q1 2011 and Q2 2011 Financial Statements available for download from [www.SEDAR.com](http://www.SEDAR.com).

## Results of Operations for the three and nine months ended September 30, 2011:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
<b>Number of machines</b>				
ATM terminals - active <sup>1</sup>	7,848	7,386	7,848	7,386
Debit terminals - active <sup>1</sup>	3,410	3,293	3,410	3,293
<b>Number of transactions</b>				
ATM transactions	9,013,934	8,694,286	25,998,143	23,642,596
Debit terminal transactions	3,030,270	2,995,133	8,543,080	8,492,075
Prepaid cash card activations	746,505	783,236	2,299,459	2,429,012
Prepaid cash card transactions	1,811,943	1,822,668	5,876,364	5,660,808

<sup>1</sup>DirectCash has included statistics only for sites that recorded a transaction in the last calendar month of the period indicated.

Compared to the prior year period, the number of active ATMs increased by 462. The net increase is primarily a result of an acquisition which occurred during the fourth quarter of 2010. Additional growth can be attributed to some organic growth in Canada and additional ATMs placed in Mexico.

ATM transactions increased during the three and nine months ended September 30, 2011 compared to the prior year due to the increased number of ATMs deployed. Based on statistics provided by Interac, ATM transactions in the Canadian industry as a whole continued their historical decline on a per ATM basis (this results from a combination of a decrease in total transactions and an increase in the number of ATMs that the total transactions are spread among). On an industry wide basis, as more ATMs have been added to the Canadian marketplace there has been no corresponding increase in overall industry transactions. DirectCash's prepaid products business and entrance into new geographic markets are offsetting this effect on DirectCash's business.

DirectCash's goal in the ATM business is to continue to maintain existing customer relationships, add sites and grow aggregate transactions through accretive acquisitions and to maximize site profitability through cost and quality control. In addition, DirectCash is considering new geographic markets, to add to recurring services revenue growth and gross profit margins.

On a year over year basis, the number of active debit terminals has increased by 117 due primarily to organic growth. Debit terminal transactions are relatively flat for the three and nine months ended September 30, 2011. DirectCash continues to pursue organic growth in this business segment and to grow market share by providing retailers with unique products and services to enhance the business viability of the debit terminal for the retailer.

Prepaid card activations declined by 5% for the three and nine months ended September 30, 2011 compared to the prior year period. Notwithstanding the decline in activations, gross profit increased in this line of business due to the addition of new products, including the bank account product offered through DirectCash's strategic alliance with DC Bank and one of DirectCash's significant customers. The MasterCard prepaid card program continues to find traction and displace some debit card activations.

The decline in prepaid card transaction for the three months ended September 30, 2011 is due to a promotion held by one of DirectCash's significant customers during the prior year period. The increase in prepaid card transactions for the nine months ended September 30, 2011 is due to growth within existing customer relationships, as prepaid products continue to gain customer acceptance and confidence. Activation and transaction volume figures include both prepaid debit and prepaid credit cards.

The following table presents a summary of the DCPayments' selected consolidated financial information for the three and nine months ended September 30, 2011 and 2010:

### Financial Highlights

<i>(thousands)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
<b>Revenues</b>				
Recurring services revenue	23,936	23,764	71,254	67,059
Products revenue	4,483	5,465	15,040	15,653
Interest income	47	44	165	64
<b>Total revenue</b>	<b>28,466</b>	<b>29,273</b>	<b>86,459</b>	<b>82,776</b>
<b>Gross Profit</b>				
Recurring services and interest	\$ 14,368	\$ 13,134	\$ 41,279	\$ 37,067
<i>Gross profit margin</i>	<i>59.9%</i>	<i>55.2%</i>	<i>57.8%</i>	<i>55.2%</i>
Products	592	521	1,806	1,265
<i>Gross profit margin</i>	<i>13.2%</i>	<i>9.5%</i>	<i>12.0%</i>	<i>8.1%</i>
<b>Total gross profit</b>	<b>\$ 14,960</b>	<b>\$ 13,655</b>	<b>\$ 43,085</b>	<b>\$ 38,332</b>
<i>Total gross profit margin</i>	<i>52.6%</i>	<i>46.6%</i>	<i>49.8%</i>	<i>46.3%</i>
<b>Operating Expenses &amp; Net Finance costs:</b>				
Personnel expenses	2,763	2,277	8,165	6,333
Long-term incentive plan	453	513	1,116	1,279
Other expenses	1,813	1,475	5,170	4,212
Purchase gain on acquisition	-	-	-	(4,238)
Depreciation of property and equipment	1,215	918	3,568	2,479
Amortization of intangible assets	2,741	2,538	8,359	6,704
Finance costs	430	499	1,244	1,076
Distributions on Exchangeable partnership units	-	1,431	-	5,008
Net change in fair value of exchangeable partnership units	-	13,251	-	16,873
Unrealized loss on foreign exchange	(4)	3	(3)	35
	9,411	22,905	27,619	39,763
<b>Net Income (loss) before Income taxes</b>	<b>\$ 5,549</b>	<b>\$ (9,250)</b>	<b>\$ 15,466</b>	<b>\$ (1,430)</b>
Income taxes - Current	723	54	795	160
Deferred income tax	447	319	2,898	(668)
<b>Net Income (loss)</b>	<b>\$ 4,379</b>	<b>\$ (9,623)</b>	<b>\$ 11,772</b>	<b>\$ (922)</b>
<i>Net income per share, basic</i>	<i>0.32</i>	<i>(1.14)</i>	<i>0.86</i>	<i>(0.12)</i>
<i>Net income per share, diluted</i>	<i>0.32</i>	<i>(1.13)</i>	<i>0.85</i>	<i>(0.11)</i>
<b>Add back:</b>				
Finance costs	430	499	1,244	1,076
Distributions on Exchangeable partnership units	-	1,431	-	5,008
Net change in fair value of exchangeable partnership units	-	13,251	-	16,873
Purchase gain on acquisition	-	-	-	(4,238)
Depreciation of equipment	1,215	918	3,568	2,479
Amortization of intangible assets	2,741	2,538	8,359	6,704
Income taxes - Current	723	54	795	160
Deferred income tax	447	319	2,898	(668)
<b>EBITDA</b>	<b>\$ 9,935</b>	<b>\$ 9,387</b>	<b>\$ 28,637</b>	<b>\$ 26,473</b>
<i>EBITDA margin</i>	<i>34.9%</i>	<i>32.1%</i>	<i>33.1%</i>	<i>32.0%</i>
Total assets	\$ 157,774	\$ 155,381	\$ 157,774	\$ 155,381
Total debt	41,703	38,290	41,703	38,290
Total debt net of cash	(7,048)	2,045	(7,048)	2,045

## Revenue

On an aggregate basis, revenues have increased by 4% for the nine months ended September 30, 2011, as compared to the prior year period. Revenue by line of business, which includes both recurring services and products revenue, is as follows:

<b>Revenue by Line of Business</b>				
(thousands)	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
ATM Business	\$ 13,660	\$ 12,376	\$ 39,954	\$ 32,992
Prepaid products business	14,334	16,363	45,008	48,172
Debit terminal business	472	534	1,497	1,612
<b>Total Revenue</b>	<b>\$ 28,466</b>	<b>\$ 29,273</b>	<b>\$ 86,459</b>	<b>\$ 82,776</b>

  

<b>Revenue by type</b>				
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Recurring services	\$ 23,936	\$ 23,764	\$ 71,254	\$ 67,059
Products	4,483	5,465	15,040	15,653
Interest	47	44	166	64
<b>Total Revenue</b>	<b>\$ 28,466</b>	<b>\$ 29,273</b>	<b>\$ 86,459</b>	<b>\$ 82,776</b>

### **Revenue – Recurring Services**

Recurring services revenue relates to revenue earned from transaction processing activities, including DirectCash's ATM, debit terminal and prepaid product lines of business.

The increase of 6% over 2010 in recurring services revenue is primarily attributable to the ATM line of business. The increase in ATM recurring services revenue can be attributed to the revenues generated from the increased number of ATMs deployed and acquisitions made throughout 2010.

The decrease in prepaid products revenue comes primarily from the sale of low margin prepaid cellular and long distance airtime products. Additionally contributing to the decrease was the decline in prepaid card activations, which can be attributed to regulations in the payday loan industry, in which DirectCash has a significant customer, that restrict the number of consecutive loans a customer can be issued. Notwithstanding the decline in activations, gross profit increased in this line of business due to the addition of new banking products and services offered through DirectCash's strategic alliance with DC Bank.

On a year over year basis, revenue in the ATM business has increased by 21%. ATM revenues include the revenue from the sale of ATM machines and parts, processing ATM transactions as well as miscellaneous revenues and interest received.

The 7% decrease in debit terminal revenue for the nine months ended September 30, 2011 is a result of higher per transaction revenues and one time contract fees collected during 2010.

There is historic seasonality in processing transaction volumes, with the highest ATM transaction activity in Canada typically occurring in the second and third quarters of the year. The first and fourth quarters are traditionally DirectCash's weakest quarters in terms of processing transactions and gross profitability. In Mexico, seasonality in the

ATM business is the opposite of what is seen from DirectCash's Canadian operations. DirectCash has eliminated the impact of seasonal fluctuations in cash flows to Shareholders by equalizing monthly cash dividends. This seasonality is considered when determining levels of available cash at the end of each reporting period.

***Revenue – Products***

Product revenue includes sales of ATM machines, debit terminals and related parts, as well as prepaid products, consisting of (a) prepaid cash cards (debit and credit) and (b) prepaid telephone cards (both physical (“hard cards”) and electronic (“virtual vouchers”)).

For the three and nine months ended September 30, 2011 revenue from product sales decreased by 18% and 4% respectively compared to the prior year period. The decrease is primarily due to a decline in the sale of prepaid cash cards and a decline in the sale of telephone cards offset by an increase in ATM products. The decrease in the sale of prepaid cash cards is a result of timing of sales, as customers order intermittently in large quantities to benefit from volume discounts.

ATM and debit terminal sales were up due to existing customer purchases of new terminals that meet industry standards.

***Interest Income***

During the nine months ended September 30, 2011 interest income increased significantly compared to the prior year period primarily as a result of the renegotiation of DirectCash's agreement with its bank in Mexico regarding funds held in relation to cash requirements for Mexican operations.

## Gross Profits

In total, gross profits have increased by 10% and 12% respectively for the three and nine months ended September 30, 2011, as compared to the same period last year. Gross profit by line of business, which includes both recurring services and products revenue, is as follows:

### Gross profit by Line of Business

(thousands)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
ATM Business	\$ 7,753	\$ 7,047	\$ 22,127	\$ 18,897
<i>gross profit margin</i>	<i>56.8%</i>	<i>56.9%</i>	<i>55.4%</i>	<i>57.3%</i>
Prepaid products business	6,840	6,180	19,789	18,179
<i>gross profit margin</i>	<i>47.7%</i>	<i>37.8%</i>	<i>44.0%</i>	<i>37.7%</i>
Debit terminal business	367	428	1,169	1,256
<i>gross profit margin</i>	<i>77.7%</i>	<i>80.2%</i>	<i>78.1%</i>	<i>77.9%</i>
Total Gross Profit	\$ 14,960	\$ 13,655	\$ 43,085	\$ 38,332
<i>gross profit margin</i>	<i>52.6%</i>	<i>46.6%</i>	<i>49.8%</i>	<i>46.3%</i>

### Gross profit by type

Recurring services and interest	\$ 14,368	\$ 13,134	\$ 41,279	\$ 37,067
<i>gross profit margin</i>	<i>59.9%</i>	<i>55.2%</i>	<i>57.8%</i>	<i>55.2%</i>
Products	592	521	1,806	1,265
<i>gross profit margin</i>	<i>13.2%</i>	<i>9.5%</i>	<i>12.0%</i>	<i>8.1%</i>
Total Gross Profit	\$ 14,960	\$ 13,655	\$ 43,085	\$ 38,332
<i>gross profit margin</i>	<i>52.6%</i>	<i>46.6%</i>	<i>49.8%</i>	<i>46.3%</i>

### Gross Profitability – Recurring Services

Total gross profits from recurring services revenue and interest income for the three and nine months ended September 30, 2011 increased by 9% and 11% respectively over the prior year.

The increase in gross profits for recurring services can be attributed to the following factors:

- (a) fees associated with bank accounts and related products offered by DirectCash Bank to prepaid customers;
- (b) higher activity in prepaid credit card transactions, and;
- (c) the impact of the ATM acquisitions made during 2010.

On a year over year comparison, gross profit margins were higher during the three and nine months ended September 30, 2011.

The debit terminal recurring services gross margins declined during the nine months ended September 30, 2011 as compared to the prior year as a result of one time contract fees collected during 2010.

The introduction of bank accounts and associated products, as well as the increase in transaction levels and improved performance from the prepaid credit card product in the

prepaid products line of business resulted in the increase in contribution from the recurring services business segment.

### **Gross Profitability - Products**

Gross profit from the sale of products for the three and nine months ended September 30, 2011 increased by 14% and 43% respectively from 2010 levels. The increase can be explained primarily by higher margin contributions on the sale of prepaid cash cards and ATMs. The sale of ATMs has increased, as existing customers purchase new equipment that meets industry standards.

DirectCash has a strategic goal of keeping ATM and debit terminal purchase prices as low as possible for the DirectCash customer in order to maximize the number of machines that can be placed. DirectCash also introduced financing options that enables customers to pay for machines and security upgrades over a period of time. DirectCash believes that this strategy will result in additional long-term revenue generating services contracts.

### **Selling, General & Administrative Expenses (“SG&A”)**

SG&A is made up of personnel and other expenses. For the three and nine months ended September 30, 2011 SG&A expenses increased by 22% and 26% respectively from the prior year.

The increase is the result of higher salaries and benefits incurred from the addition of some key staff members brought on to assist in DirectCash’s growth and implementation of network upgrades, as well as additional fees associated with compliance related to Anti-Money Laundering and to the bank account product offered through DirectCash’s strategic alliance with DirectCash Bank.

As a percentage of gross profits, SG&A was 31% (YTD – 31%) during the three months ended September 30, 2011 compared to 27% (YTD – 28%) for the same period last year.

### **Long-term incentive plan (“LTIP”)**

Details of the Long-term incentive plan can be found in the notes to the financial statements.

The base threshold is \$1.99 per Common Share of “Distributable Cash Flow” as defined under the “LTIP Agreement”, effective from January 1, 2011.

### **Finance Costs**

For the nine months ended September 30, 2011 finance costs increased by 16% over the prior year period. The increase is primarily due to increased ATM vault cash requirements incurred as part of the acquisitions made during 2010 and additional ATMs deployed.

All DirectCash debt is currently on floating interest rates. A one percent change in interest rates would result in an approximate \$112 thousand change in finance costs for the period.

## **Net Income**

Net income for the three and nine months ended September 30, 2011 increased by 146% and 1377% respectively compared to the prior year period.

The increase in net income during the quarter ended September 30, 2011 compared to the prior year period is primarily attributable to improved gross profits and the additional effects of the transition to IFRS, including distributions on and the net change in fair value of exchangeable partnership units.

The increase in net income during the nine months ended September 30, 2011 can be attributed to the following factors:

- (a) \$2.9 million in deferred income tax during the nine months ended September 30, 2011;
- (b) \$4.2 million purchase gain on acquisition incurred during the first quarter of 2010, and;
- (c) the additional effects of the transition to IFRS, including distributions on and the net change in fair value of exchangeable partnership units.

The disparity between net income and cash dividends is primarily due to amortization of intangible assets related to ATM, debit terminal and prepaid product contracts. Typically, these contracts include automatic renewals for a further 5-7 year period, and a right of first refusal to match a competitor's bona fide offer on renewal unless the customer terminates the contract within a specified time period. Thus, while a contract acquired by DirectCash may have a fixed initial term (which is the time period over which amortization of this intangible asset occurs) DirectCash's experience is that DirectCash is usually able to keep the applicable ATMs attached to the DirectCash network with no or little capital expenditure. Also, any ATM added by organic growth (i.e. through the DirectCash sales force) has a much lower capital cost than ATM locations added through acquisition.

## **EBITDA**

For the three and nine months ended September 30, 2011, EBITDA increased by 6% and 8% respectively over prior year levels, which is lower than the respective 10% and 12% increases in gross profits. This reflects the higher gross profit contributions offset in part by the higher SG&A costs. As a percentage of revenue, EBITDA was 35% and 33% respectively during the three and nine months ended September 30, 2011 as compared to 32% during the prior year periods. The increase during the quarter ended September 30, 2011 as compared to the prior year is a result of improved gross profit margins in the prepaid products line of business partially offset by increased overhead expenses, as staff support has increased with respect to development and compliance associated with the bank account product offered through DirectCash's strategic alliance with DC Bank.

For comparative purposes, the \$4.2 million purchase gain was eliminated from DCPayments' EBITDA calculations due to its non-recurring nature.

## Funds from operations

(thousands, except for per share amounts)	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
<b>Per consolidated financial statements:</b>				
<b>Net income</b>	\$ 4,379	\$ (9,623)	\$ 11,772	\$ (921)
Add/(Deduct):				
Deferred income tax expense	447	319	2,898	(668)
Gain on acquisition	-	-	-	(4,238)
LTIP expense	453	513	116	1,279
Unrealized loss on foreign exchange	(4)	3	(3)	35
Net change in fair value of exchangeable partnership units	-	13,251	-	16,873
Depreciation of property and equipment	1,215	918	3,568	2,479
Amortization of intangible and other assets	2,741	2,538	8,358	6,704
Changes in non-cash working capital	1,844	858	3,895	(5)
	11,075	8,777	30,605	21,539
Productive capacity maintenance	(377)	(614)	(1,548)	(1,782)
<b>Net cash from operating activities</b>	\$ 10,698	\$ 8,163	\$ 29,057	\$ 19,757
<i>Net cash from operating activities per share</i>	\$ 0.77	\$ 0.65	\$ 2.10	\$ 1.58
Changes in non-cash working capital	(1,844)	(858)	(3,895)	5
<b>Funds from operations</b>	\$ 8,854	\$ 7,305	\$ 25,162	\$ 19,763
<i>Funds from operations per share</i>	\$ 0.64	\$ 0.59	\$ 1.82	\$ 1.58
<b>Dividends declared</b>	\$ 4,775	\$ 4,459	\$ 14,324	\$ 14,310
<i>Dividends declared per share</i>	\$ 0.34	\$ 0.36	\$ 1.04	\$ 1.15
<b>Funds from operations payout ratio (before special dividends)</b>	53.9%	58.9%	56.9%	43.5%
<b>Funds from operations payout ratio (after special dividends)</b>	53.9%	61.0%	56.9%	72.4%

In previous years, distributions by the Fund typically exceeded net earnings as a result of non-cash expenses, such as depreciation of equipment and amortization of intangible assets. These non-cash expenses result in a reduction to net earnings, with no impact on cash flow from operating activities. The Fund's policy was to distribute all available cash from operations after cash required to maintain productive capacity, debt repayments, growth opportunities, working capital reserves and other reserves as considered advisable by the board, which reflected the difference between distributions declared and distributable cash flow.

Certain reclassifications of prior period amounts have been made to conform to current year presentations.

Cash dividends and productive maintenance capital programs have been historically funded via cash from operations, while growth capital expenditures have primarily been funded with debt. Over time, additional borrowing and equity issues may be required to increase productive capacity.

Neither net cash from operating activities nor funds from operations can be assured to continue at historical levels. See "Key Business Risks" for a list of factors which could

negatively impact cash flows. DirectCash intends to utilize DirectCash's credit facilities as part of its capital structure in order to fund future capital growth, operating within the covenants of DirectCash's credit facility, thus enhancing distributable cash flow from operations.

Since inception and prior to January 1, 2011, 100% of the Fund's distributions declared were considered "other income" by Fund Unitholders.

Beginning with the January 31, 2011 record date, Shareholders of DCPayments are entitled to receive monthly payments in the form of dividends, with the initial monthly dividend to remain at \$0.115 per Common Share. Continued future distribution of dividends (and the amount of any dividend) is subject to DCPayments' Board of Directors approval. Dividends are funded from cash flows generated by the operation of the business.

### **Changes in Non-Cash Working Capital**

The changes in non-cash working capital, as disclosed in the Consolidated Statements of Cash Flows, is calculated as follows:

<b>Changes in Non-Cash Working Capital</b>			
<i>(thousands)</i>	<b>September</b>	<b>December</b>	
	<b>2011</b>	<b>2010</b>	<b>Change</b>
Trade and other receivables	\$ 4,534	\$ 3,196	\$ (1,338)
Inventories	3,006	4,148	1,142
Prepaid expenses	1,153	526	(627)
Trade and other payables	(14,191)	(9,417)	4,774
	(5,498)	(1,546)	3,952
Other			(57)
<b>Change in non-cash working capital</b>			<b>\$ 3,895</b>

Non-cash working capital fluctuates between periods and is dependent upon factors such as short term inventory requirements, the timing of bulk inventory shipments, and the timing of accounts receivable collections and payment of liabilities.

Accounts payable increased due to normal course fluctuations in the timing of payments. The increase in prepaid expenses is primarily related to DirectCash's insurance renewal cycle, as well as marketing expenses.

Fluctuations in DirectCash's non-cash working capital requirements are funded with DirectCash's revolving credit facility.

### Contractual Obligations

DirectCash has entered into various office and warehouse leases across Canada, as well as equipment leases that require aggregate minimum annual payments as follows:

<b>Contractual Obligations</b>	
	<b>Year ended September 30</b>
2012	\$ 583,570
2013	578,192
2014	515,113
2015	477,838
2016	368,903
Thereafter	733,969

### Capital Expenditures

DirectCash incurred the following expenditures of a capital nature:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Per consolidated financial statements:</b>				
Equipment	\$ 641	\$ 1,117	\$ 3,765	\$ 3,214
Intangible assets	61	255	121	2,935
Acquisitions	-	15,918	-	16,668
	<b>\$ 702</b>	<b>\$ 17,290</b>	<b>\$ 3,886</b>	<b>\$ 22,817</b>
<b>Split between growth and maintenance:</b>				
Growth capital	\$ 325	\$ 16,676	\$ 2,337	\$ 21,035
Maintenance capital	377	614	1,549	1,782
	<b>\$ 702</b>	<b>\$ 17,290</b>	<b>\$ 3,886</b>	<b>\$ 22,817</b>

Growth capital expenditures relate to acquisitions and other expenditures that increase DirectCash's productive capacity, while maintenance capital expenditures maintain productive capacity at existing levels.

Productive capital maintenance expenditures for the nine months ended September 30, 2011 are relatively flat as compared to the prior year period. Growth capital expenditures can vary widely between reporting periods due to the intermittent nature and varying size of acquisitions.

### Related party transactions

In previous years DirectCash LP made distributions to the holders of Exchangeable Partnership Units. The holders of these units were related parties by virtue of their significant ownership interest in the business. Pursuant to the Arrangement, previous holders of Exchangeable Partnership Units received an equal number of Common Shares of DCPayments.

DirectCash is party to various services and marketing agreements with DirectCash Bank ("DC Bank"), whereby DirectCash will provide transaction processing and technology services to DC Bank and DC Bank provides services and products to DirectCash or to DirectCash customers for a fee.

DC Bank is indirectly owned by two of the original principals of DirectCash, who continue to maintain significant ownership in DCPayments.

One of DC Bank's significant shareholders is also DirectCash's President and CEO. Another of DC Bank's significant shareholders is also a director of DCPayments. During the nine months ended September 30, 2011 DirectCash paid \$1,410 thousand (2010 - \$972 thousand) of fees to DC Bank associated with the various agreements with DC Bank.

All contracts with DC Bank are negotiated at market terms and rates and are approved by the independent members of DirectCash's board of directors.

DirectCash LP and Processing Partnership have provided limited guarantees to a financial institution relating to DC Bank. These guarantees were provided in connection with facilitating a prepaid card service offering by DC Bank that DirectCash views as beneficial for DirectCash's customers and is complementary to DirectCash's product and service offerings.

#### **Liquidity and Capital Resources**

DirectCash believes that the funds generated from operations will be sufficient to allow DirectCash to meet ongoing requirements for working capital, maintenance capital expenditures including investments in technology capital, interest expense, and cash dividends to Shareholders.

DirectCash's actual cash generated from operations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors.

As of September 30, 2011, DirectCash utilized approximately \$42 million of total available credit facilities of \$100 million. A summary of DirectCash's available credit at September 30, 2011 is as follows:

<b>Credit facilities</b>	<b>Utilized</b>	<b>Limit</b>	<b>Available</b>
<i>(thousands)</i>			
Revolving credit facility	\$ 10,331	\$ 60,000	\$ 49,669
Acquisition credit facility	31,373	40,000	8,627
	<b>\$ 41,704</b>	<b>\$ 100,000</b>	<b>\$ 58,296</b>

The revolving credit facility is used for ATM cash loading, working capital requirements and commercial letters of credit. In addition, DirectCash has an outstanding letter of credit in favour of MasterCard International of US\$ 2.5 million (CDN\$ 2.4 million) relating to DCPayments' prepaid MasterCard program. This credit facility is demand in nature and bears interest at the Bank's prime lending rate plus 0.375%.

The acquisition credit facility is demand in nature and is utilized for the acquisition of additional ATM and Debit Terminal network and Prepaid Product assets, and general corporate acquisitions in complimentary business lines. The facility bears interest at the Bank's prime lending rate plus 0.375% or at banker's acceptance rates plus 1.875% per annum.

Notwithstanding the demand nature of the facilities, there are no scheduled principal repayments.

DirectCash is subject to the following primary lending covenants:

<b>Lending covenants</b>		
	<b>September 30</b>	<b>Covenant Limit</b>
Funded Debt to Recurring Quarterly Revenue	<b>1.9:1</b>	< 10:1
Fixed Charge Cover Ratio	<b>23.7:1</b>	> 4:1
Senior Debt to EBITDA	<b>1.0:1</b>	< 2:1

DirectCash operated well within its loan covenant limits and anticipates continuing to do so in the future. Breach of DirectCash's bank loan covenants could result in the triggering of remedies by DirectCash's lenders, which could negatively impact distribution payments.

### **Changes in Capital Structure**

The Fund successfully completed a previously announced plan of arrangement under the *Business Corporations Act* (Alberta) pursuant to which the Fund was converted from an income trust to a dividend paying corporation operating under the name "DirectCash Payments Inc.". Pursuant to the Arrangement, DCPayments acquired and assumed, directly or indirectly, 100% of the assets and liabilities previously held in the Fund and the DirectCash Commercial Trust ("DCCT"). The Arrangement was completed in a number of sequential steps timed from 4:58 p.m. on December 31, 2010 to 12:01 a.m. on January 1, 2011 and involved DCPayments, the Fund, the Fund's subsidiaries and the securityholders of the Fund. The Fund was dissolved pursuant to the Arrangement effective January 1, 2011.

There were no changes in capital structure during the three and nine months ended September 30, 2011.

### **Significant Customers**

DirectCash had a customer which accounted for approximately 29% of DirectCash's overall revenues for the quarter ended September 30, 2011 (2010 – 27%). The revenues from this customer is spread across all lines of business. DirectCash has contractual agreements to provide services to this customer.

### **Off Balance Sheet Arrangements**

As at September 30, 2011 DirectCash has not entered into any off balance sheet arrangements.

### **Outlook**

DCPayments believes it is well positioned with a strong balance sheet and a steady cash flow stream based on long term contracts. DCPayments' focus for the balance of 2011 will be to continue to grow the business in a reasonable and sustainable manner

by maintaining current customer relationships and through accretive acquisitions as opportunities arise.

In the ATM business emphasis continues to be on the streamlining of DirectCash's operations as well as continuing to pursue quality accretive acquisitions, additional organic growth within Mexico and geographic expansion outside of Canada. As at September 30, 2011, DirectCash had 299 ATMs operating in Mexico. DirectCash's goal is to continue to add to the growth of DirectCash's ATM business in Mexico.

In the prepaid products line of business DirectCash will strive to increase diversification, both in terms of product offerings such as MasterCard prepaid cards, bank accounts and related financial services through DirectCash's strategic alliance with DirectCash Bank, and in terms of the number of customers DirectCash serves in order to reduce DirectCash's dependence on a small group of large volume customers.

DirectCash will continue to organically grow the Debit terminal business via cross selling to existing customers and through the pursuit of new customer relationships. Quality accretive acquisitions will be pursued as opportunities arise.

Subsequent to the quarter, DCPayments acquired the shares of a corporation for \$2,000,000. This corporation holds contracts in the prepaid line of business, in addition to other assets.

#### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior DirectCash Group management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at the end of 2010, DirectCash Group management evaluated the effectiveness of the design and operation of DirectCash Group's disclosure controls and procedures and concluded that DirectCash Group's disclosure controls and procedures, as defined in Multilateral Instrument 52-109, "Certification of Disclosure in Issuers Annual and Interim Filings" are not effective to ensure that material information relating to DirectCash Group is made known to management of DirectCash Group on a timely basis and is included in DirectCash Group's public disclosures, due to the weaknesses in internal control identified below in the "Report on Internal Control" section.

#### **Report on Internal Control**

DirectCash Group's management is responsible for establishing and maintaining adequate internal control over financial reporting of DirectCash Group. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS").

DirectCash Group's internal control over financial reporting includes those policies and procedures that

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of DirectCash

- Group;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of DirectCash Group are being made only in accordance with authorizations of management and directors of DirectCash Group; and
  - (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of DirectCash Group's assets that could have a material effect on the financial statements.

A material weakness in internal controls is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected on a timely basis by DirectCash Group.

Internal control over financial reporting, no matter how well designed has inherent limitations and cannot provide absolute assurance that the objectives of the control system will be met. Therefore internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Management of DirectCash Group conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework from "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)

Based on this evaluation, DirectCash Group's management concluded that DirectCash Group's internal control over financial reporting was not effective as at the reporting date, due to the following material weaknesses:

- Due to the small size of DirectCash Group, it did not maintain effective segregation of duties over certain transactions which can lead to ineffective monitoring, supervision and potential misappropriation of assets.
- Due to the limited number of people employed, DirectCash Group does not have in-house expertise to deal with complex legal, IT, taxation, accounting and reporting issues.

*Impact of Material Weaknesses*

Due to their nature, the potential impact of these material weaknesses cannot be assessed or predicted with any degree of accuracy.

*Remediation to Address Material Weakness*

DirectCash Group does not plan to remediate the above mentioned weaknesses as the cost would outweigh the benefits. DirectCash Group engages outside expertise to assist with complex issues when deemed necessary.

*Changes in Internal Control over Financial Reporting*

There were no significant changes in DirectCash Group's Internal Control over Financial Reporting that have or are expected to materially affect DirectCash Group's internal control over financial reporting.

## **Key Business Risks**

### ***Regulatory Regime***

DirectCash is dependent upon the continuation of a favourable regulatory regime with respect to the continuing operations and the future growth and development of independent ATM, Debit terminal and prepaid card operators.

Should the regulatory regime or the interpretation of the legislation in an applicable jurisdiction be modified in a manner which adversely affects these businesses, including increases in taxes or increased regulatory burdens and security requirements (including burdens imposed by Interac, Cirrus, Maestro, Canadian Payments Association, MasterCard, Visa, Plus, and other government agencies tasked with preventing money laundering, terrorism, and corruption), DirectCash's distributable cash flow may be adversely affected. The failure to obtain all necessary licenses or permits, including renewals thereof or modifications thereto, may adversely affect Distributable Cash.

Security upgrades are required under Interac, MasterCard, and Visa rules. These upgrades include the requirements to have: (a) EMV (Europay, MasterCard, Visa) certified chip card (the replacement technology for the historical magnetic stripe cards) software/readers, and (b) network approved encrypted PIN pad ("EPP") devices, installed on all ATMs and debit terminals thereby providing the ability to accept EMV chip card transactions. Complying with these security upgrades will also require upgrading the DirectCash Switch to process EMV chip card transactions and adding additional encryption methods to ATMs and Debit terminals which include Triple Des Encryption. If Interac, MasterCard or VISA mandate additional hardware or software security upgrades for ATMs, Debit terminals or the DirectCash Switch, or change the rules and regulations around approved devices, members or security, Distributable Cash may be adversely impacted.

The result of non-compliance is contractual penalties by the applicable Network(s) and ultimately disconnection of the ATM and Debit terminal device or card from the Network for failure to comply by the end dates. DirectCash has and will be investing maintenance capital and prioritizing DirectCash's IT department to meet these upgrade deadlines. Customers of DirectCash who own their own equipment are encouraged to make the necessary changes to their equipment and in some cases DirectCash has the contractual right to make the necessary changes for the customer (and charge the customer for the cost of the change).

### ***Payday Loan Companies***

The majority of the customers for DirectCash's prepaid cards are payday loan and cheque cashing companies, and this industry is currently subject to a number of class action lawsuits and regulatory inquiries which could adversely impact the volume of business that DirectCash realizes from these companies. Currently many of the provinces have enacted legislation which limits fees that may be collected on payday loans. DirectCash's customers in the payday loan industry have or are in the process of complying with this legislation.

DirectCash has a payday loan customer which accounts for over 29% of DirectCash's overall revenues.

**Network, Internal Fraud and Hardware Compromise**

If a fraud occurs on any of the networks DirectCash connects to or in the DirectCash network or any of DirectCash's ATMs, a cost could result to DirectCash if it is determined that the breach is a result of DirectCash's negligence or failure to follow network rules, regulations or that ATM software deployed by DirectCash allowed unauthorized access or configuration changes (or where the fault is not DirectCash's but the perpetrator of the fraud cannot be located or cannot be collected from). As new methods of intrusion and fraud emerge in the industry, DirectCash may have to incur significant additional costs to implement additional security precautions (which may be undertaken by DirectCash voluntarily or as a result of network rule changes). Furthermore, the occurrence of frauds can result in a loss of consumer and merchant confidence which may result in declining transaction volumes at ATMs and Debit Terminals. Any of these circumstances could lead to DirectCash's cash flow being adversely impacted.

**Disaster Recovery**

DirectCash has a limited Disaster Recovery Site in DirectCash's Toronto office, and it may not be possible to effectively transition on a timely basis all of DirectCash operations and functions to the Toronto facility in the event of disaster or equipment failure. DirectCash maintains redundancy in DirectCash's Calgary facility which includes a backup generator and UPS device.

**Software Viruses and Network Intrusion**

DirectCash maintains many different networks and management information systems (some of which are interconnected) and some of which are connected to the internet or to other external networks. DirectCash may be susceptible to viruses and network intrusions by third parties.

**Vault Cash**

DirectCash maintains cash in several ATMs, which is available through DirectCash's revolving credit facility. DirectCash may be at risk as the number of ATMs cash loaded by DirectCash and cash requirements increase bringing DirectCash closer to its limit on its revolving credit facility.

For a discussion of additional business risks, see "Risk Factors" detailed in the Annual Information Form dated March 20, 2011 available on SEDAR ([www.sedar.com](http://www.sedar.com)).

**Additional Information**

Additional information about DirectCash, including DirectCash's Annual Information Form and other public filings is available on SEDAR ([www.sedar.com](http://www.sedar.com)) and on DirectCash's website ([www.directcash.net](http://www.directcash.net)).

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