

CURRENCY EXCHANGE INTERNATIONAL, CORP.

**MANAGEMENT'S DISCUSSION AND
ANALYSIS**

**FOR THE THREE AND SIX MONTH
PERIODS ENDED APRIL 30, 2019
AND 2018**



***CURRENCY EXCHANGE
INTERNATIONAL***

Management Discussion and Analysis
(All amounts expressed in U.S. Dollars unless otherwise noted)
For the three and six months ended April 30, 2019 and 2018

Scope of Analysis

This Management Discussion and Analysis ("**MD&A**") covers the results of operations, and financial condition of Currency Exchange International, Corp. and its subsidiary (the "**Company**," or "**CXI**") for the three-and six-month periods ended April 30, 2019 and 2018, including the notes thereto. This document is intended to assist the reader in better understanding and assessing operations and the financial results of the Company.

This MD&A has been prepared as at June 4, 2019 in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**") and interpretations of the International Financial Reporting Interpretations Committee ("**IFRIC**") and should be read in conjunction with the condensed interim consolidated financial statements of the Company for the three-and six-month periods ended April 30, 2019 and 2018 and the notes thereto. A detailed summary of the Company's significant accounting policies is included in Note 2 of the Company's audited consolidated financial statements for the year ended October 31, 2018. The functional currency of the Company is the U.S. Dollar. The functional currency of the Company's Canadian subsidiary, Exchange Bank of Canada ("**EBC**"), is the Canadian Dollar. The Company's presentation currency is the U.S. Dollar. Unless otherwise noted, all references to currency in this MD&A refer to U.S. Dollars. The consolidated financial statements and the MD&A have been reviewed by the Company's Audit Committee and approved by its Board of Directors.

In this document, "our", "Company" and "CXI" refer to Currency Exchange International, Corp. collectively with its subsidiary, EBC.

Additional Information

Additional information relating to the Company, including annual financial statements, is available on the Company's SEDAR profile at www.sedar.com and on the Company's website at www.ceifx.com ("**CEIFX**").

Forward Looking Statements

This MD&A contains certain “forward-looking information” as defined in applicable securities laws. These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact are forward-looking information. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects”, “budgeted”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. The forward-looking information in this MD&A speaks only as of the date of this MD&A or as of the date specified in such statements. The following table outlines certain significant forward-looking information contained in this MD&A and provides the material assumptions used to develop such forward-looking information and material risk factors that could cause actual results to differ materially from the forward-looking information.

Forward-looking information	Assumptions	Risk factors
Sensitivity analyses relating to foreign currencies and interest rates	All factors other than the variable in question remain unchanged; CXI’s entire unhedged balance of foreign currency holdings is affected uniformly by changes in exchange rates; CXI’s interest-bearing instruments and obligations were constant during the period	Exchange rate and interest rate fluctuations

Inherent in forward-looking information are risks, uncertainties and other factors beyond the Company’s ability to predict or control. Please also make reference to those risk factors referenced in the “Risk Factors” section in the Company’s MD&A for the year ended October 31, 2018. Readers are cautioned that the above chart does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking information in this MD&A, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking information contained in this MD&A.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause the Company’s actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking information. All forward-looking information herein is qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information or future events or otherwise, except as may be required by applicable securities laws. If the Company does update any forward-looking information, no inference should be drawn that it will make additional updates with respect to that or other forward-looking information, unless required by applicable securities laws.

Overview

CXI is a publicly traded company (TSX:CXI;OTCBB:CURN) specializing in providing currency exchange and related products to financial institutions, money service businesses, travel companies, and commercial clients through its payment platform, company owned branches and vaults, and inventory on consignment locations, throughout the United States and Canada, by utilizing the Company's proprietary online software system, CEIFX. The Company has developed CEIFX, its proprietary customizable web-based software, as an integral part of its business and believes that it represents an important competitive advantage. CEIFX is also an on-line compliance and risk management tool. The trade secrets associated with CEIFX are protected via copyright, restricted access to both the software and its source code, and secure maintenance of source code by the head office. CEIFX is updated regularly and on-going system development and enhancement is a core activity of the Company.

Issuance of banking license

On November 23, 2012, the Company submitted its application to continue its wholly-owned Canadian subsidiary, Currency Exchange International of Canada Corp ("**CXIC**"), as a new Canadian Schedule I bank. In September of 2016, the Office of the Superintendent of Financial Institutions ("**OSFI**") and the Minister of Finance issued letters patent for the bank and CXIC is now Exchange Bank of Canada ("**EBC**"). The head office of EBC is located in Toronto, Ontario, Canada.

The objective of EBC is to continue to expand current and future business opportunities and become a leading "banker's bank" for foreign exchange products and services. Obtaining a Canadian bank charter benefits the Canadian banking system by providing a domestic alternative for foreign exchange services to financial institutions and commercial entities in Canada. The foreign currency bank note market for financial institutions in Canada is primarily serviced by foreign financial institutions. A Canadian bank charter affords the Company numerous advantages including the opportunity to bank with Central Banks, thereby obtaining a source of stable, cost-effective funds, as well as collateral reductions with correspondent banks, and enhancing existing financial institution relationships.

The Company is a reporting issuer in the provinces of British Columbia, Alberta, and Ontario.

The Company has the following sources of revenues which are reported as commissions and fees:

- Commission revenue is comprised of the spread between the cost and selling price of foreign currency products, including bank notes, wire transmissions, cheque collections and draft issuances and the revaluation of foreign exchange positions to market value, combined with the net gain or loss from foreign currency forward contracts used to offset the revaluation of inventory positions and commissions paid to bank and non-bank financial institutions on the sale and purchase of currency products. The amount of this spread is based on competitive conditions and the convenience and value-added services offered; and
- Fee revenue is comprised of the following:
 - Fees generated at the Company's branch locations and certain inventory on consignment locations from foreign currency (bank note) exchange, foreign traveler's cheques, and fees collected on payroll cheque cashing; and
 - Fees collected on foreign wire transfers, foreign drafts, and foreign cheque collection transactions.

Overview (continued)

The following are some of the characteristics of the Company's revenue streams:

- The Company operates four main vaults that serve Canada and the United States as well as two small vaults that serve local markets on the West Coast and Northeast Regions of the United States and serve as distribution centers for its branch network as well as order fulfillment centers for its clients including financial institutions, money service businesses, and other corporate clients. Revenues generated from vaults have greater scale as the Company maintains a sales force to increase its geographic customer base. Exchange rate margins vary from customer to customer and are dependent on criteria such as exchange volumes and customer setup. On-boarding of new clients, specifically banking clients, normally requires an upfront investment, such as training, and currency signage, as well as additional one-time shipping costs to distribute start-up materials. The Company also normally absorbs information technology costs to customize the CEIFX software for specific client use during the customer implementation phase. There are two common customer setups:
 - Centralized setup - For customers with a high volume of foreign currency exchange who maintain and manage their own inventory in central vault facilities, the Company offers bulk wholesale bank note trading. Trades of this nature are generally executed at lower margins as the cost per transaction is low and the average value is high. The customer implementation phase is normally shorter and the costs of on-boarding clients is low;
 - Decentralized setup - Many customers have determined that it is advantageous to avoid a currency inventory and allow their locations to buy and sell directly from CXI. Transactions in a decentralized setup typically are executed at a higher margin as the average transaction is low and the cost to fulfill each trade is higher than that of a centralized setup. Several of the Company's financial institutions outsource their currency needs in return for a commission based upon exchange volume. When a client outsources their currency needs, the Company is granted access to the entire branch network thus immediately increasing its geographic footprint and expanding its customer base. The customer implementation phase is normally longer in a decentralized setup and the cost of client on-boarding is higher as these clients normally require additional training and support;
- The Company operates 44 branch locations which are located in high tourist traffic areas, staffed by CXI employees, and located across the United States. These locations hold domestic and foreign currencies to buy and sell on demand. The currency exchange margins associated with the transactions occurring at these locations are generally higher in order to recapture costs of deployed capital in the form of domestic and foreign currencies, rent, payroll, and other general and administrative costs;
- CXI and EBC currently maintain inventory in the form of domestic and foreign bank notes in financial institutions and other high traffic locations. These locations can be very profitable as there are no occupancy costs or payroll. Foreign exchange currency is placed in these locations on a consignment basis. At April 30, 2019, the Company had inventory on consignment in 682 locations, primarily located inside financial institutions across the United States and Canada. To encourage inventory turnover, the Company pays commissions as a percentage on volumes generated by these locations; and
- Company owned branch locations generally act as a net buyer of foreign currency whereas CXI is generally a net seller to its bank and non-bank clients. Excess currency collected via the branch network can be redeployed to financial institutions and non-bank clients which reduces the need to source currency through wholesale sources at a greater cost, thus increasing currency margins.

Management Discussion and Analysis
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Overview (continued)

The Company has steadily grown its branch network as well as the number of wholesale relationships over the years. Below is a summary of the Company's wholesale company relationships and transacting locations as well as a listing of its 44 branch locations:

Store	City	State	Start date	Store	City	State	Start date
Alderwood Mall	Lynnwood	WA	2019	Mechanics Bank - Berkeley	Berkeley	CA	2007
Apple Bank - Avenue of Americas	New York	NY	2011	Mechanics Bank - San Francisco	San Francisco	CA	2008
Apple Bank - Grand Central Station	New York	NY	2011	Mission Valley	San Diego	CA	2015
Apple Bank - Penn Station	New York	NY	2013	Montgomery at Bethesda	Bethesda	MD	2013
Apple Bank - Upper East Side	New York	NY	2014	North County	Escondido	CA	2017
Apple Bank - Union Square	New York	NY	2014	Ontario Mills Mall	Ontario	CA	2007
Arundel Mills Mall	Hanover	MD	2012	Potomac Mills Mall	Woodbridge	VA	2007
Aventura Mall	Aventura	FL	2008	Queens Center	New York	NY	2017
Beverly Center	Los Angeles	CA	2018	Riverwalk	New Orleans	LA	2018
Century City Mall	Los Angeles	CA	2009	San Francisco City Center	San Francisco	CA	2011
Cherry Creek	Denver	CO	2014	San Jose Great Mall	San Jose	CA	2011
Citadel Outlets	Los Angeles	CA	2014	Santa Monica Place	Santa Monica	CA	2012
Copley Place Mall	Boston	MA	2009	Sawgrass Mills Mall Booth #1	Sunrise	FL	2007
Dadeland Mall	Miami	FL	2009	Sawgrass Mills Mall Booth #2	Sunrise	FL	2010
Dolphin Mall	Miami	FL	2009	Shops at Northbridge	Chicago	IL	2013
Florida Mall Booth #1	Orlando	FL	2007	SouthCenter	Tukwila	WA	2012
Florida Mall Booth #2	Orlando	FL	2014	Stamford Town Center	Stamford	CN	2018
Garden State	Paramus	NJ	2015	Sunvalley Shopping Center	Concord	CA	2015
Glendale Galleria	Glendale	CA	2016	The Galleria at Fort Lauderdale	Ft. Lauderdale	FL	2013
International Market Place	Honolulu	HI	2016	The Orlando Eye	Orlando	FL	2015
MacArthur Mall	Norfolk	VA	2009	Tyson's Corner Center	Tyson's Corner	VA	2014
Mainplace at Santa Ana	Santa Ana	CA	2013	Washington Square Mall	Portland	OR	2017

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Q2 2019
Company owned branch locations	14	15	18	23	26	32	36	38	41	43	44
Wholesale company relationships	61	70	123	245	364	469	521	928	977	1337	1384
Number of transacting locations	190	267	1,983	2,455	5,741	8,274	10,157	13,603	15,026	17,482	18,242

The Company's largest asset is cash. The cash position consists of local currency notes, both in U.S. and Canadian Dollars, held in inventory at its branch and consignment locations to facilitate the buying and selling of foreign currency, as well as foreign currency notes held at the Company's vaults, branch locations, consignment locations, or cash inventory in transit between Company locations. The Company also has traditional bank deposits which act as reserves to maintain operations and as settlement accounts to facilitate currency transactions at various financial institutions.

Accounts receivable consist primarily of bulk wholesale transactions where the Company is awaiting payment. The credit risk associated with accounts receivable is limited, as the Company's receivables consist primarily of bulk currency trades with a settlement cycle of 24 to 48 hours. There is minimal counterparty risk as the majority of the Company's receivables reside with financial institutions and money service business customers. The company has longstanding relationships with most of its customers and has a strong repayment history.

Accounts payable consist mainly of foreign currency transactions and commissions payable at period end where the Company receives currency from a customer and then remits payment at a later date.

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SELECTED FINANCIAL DATA

The below chart summarizes the performance of the Company over the last eight fiscal quarters.

Three-months ending	Revenue \$	Net operating income \$	Net income (loss) \$	Total assets \$	Total equity \$	Earnings (loss) per share (diluted) \$
4/30/2019	9,460,809	1,081,292	507,370	82,267,882	63,022,826	0.08
1/31/2019	8,451,671	271,410	(172,811)	82,045,951	62,678,990	(0.03)
10/31/2018	10,270,234	1,724,576	995,967	73,267,274	62,721,937	0.17
7/31/2018	11,537,280	3,533,642	2,407,522	86,860,274	61,629,104	0.37
4/30/2018	8,887,772	1,115,289	507,606	84,714,970	57,789,679	0.08
1/31/2018	8,402,855	1,764,296	316,148	79,794,495	57,809,076	0.05
10/31/2017	9,355,315	2,609,517	1,337,947	63,968,227	56,492,618	0.21
7/31/2017	9,862,335	3,597,678	1,944,247	71,348,901	55,545,083	0.31

Seasonality is reflected in the timing of when foreign currencies are in greater or lower demand. In a normal operating year there is seasonality to the Company's operations with higher revenues generally from March until September and lower revenues from October to February. This coincides with peak tourism seasons in North America when there are generally more travelers entering and leaving the United States and Canada.

Selected Financial Results for the three-and six-month periods ended April 30, 2019 and 2018

In 2018, the Company invested significant resources in growing its core bank note business in both Canada and the U.S., started to diversify its revenue streams by expanding its capability to offer global foreign currency exchange payments, and agreed to acquire a longstanding payments company in Montreal, Canada. CXI successfully launched a payments platform that will support the Company's Payments business goals. The new system enhances compliance, treasury risk oversight, and mark-to-market processes, and positions the Company to offer additional FX payments products such as currency hedging. CXI is well positioned in the market with a strong capital base from which to capitalize on potential growth opportunities.

	Six months ended April 30, 2019 \$	Six months ended April 30, 2018 \$	Three months ended April 30, 2019 \$	Three months ended April 30, 2018 \$
Revenue	17,912,480	17,290,628	9,460,809	8,887,772
Operating expenses	16,559,778	14,411,042	8,379,517	7,772,483
Net Operating income	1,352,702	2,879,586	1,081,292	1,115,289
Total other income	7,720	6,506	4,285	3,570
EBITDA*	1,360,422	2,886,092	1,085,577	1,118,859
Net income	334,557	823,755	507,370	507,606
Basic earnings per share	0.05	0.13	0.08	0.08
Diluted earnings per share	0.05	0.13	0.08	0.08

* Earnings before interest, taxes, depreciation and amortization

	April 30, 2019	October 31, 2018
Total assets	82,267,882	73,267,274
Total long term financial liabilities	-	-
Total equity	63,022,826	62,721,937

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Results of operations – six-month periods ended April 30, 2019 and 2018

A breakdown of revenues by geographic location is presented below:

	Total revenues	
	Six months ended April 30, 2019	Six months ended April 30, 2018
	\$	\$
United States	14,953,258	14,767,777
Canada	2,959,222	2,522,851
Total	17,912,480	17,290,628

During the six-month period ended April 30, 2019, total commission and fee revenues increased by 4% to \$17,912.480 compared to \$17,290,628 for the six-month period ended April 30, 2018. Revenue generated from the purchase and sale of exotic currencies was \$1,129,400 lower in the period ended April 30, 2019 than in the six-month period ending April 30, 2018; excluding the effect of transactions related to these currencies, which fluctuate significantly, revenues increased 10% between the two periods. Since April 30, 2018, the Company has added 375 new customer relationships comprising 1,098 locations, of which 335 relationships representing 979 transacting locations were added in the United States and 40 relationships representing 119 locations were added in Canada. During the six-month period ended April 30, 2019, the number of transactions between the Company and its customers increased 9% to 494,000 transactions from 455,000 for the same period in the previous year.

During the six-month period ended April 30, 2019, operating expenses increased 15% to \$16,559,778 compared to \$14,411,042 for the six-month period ended April 30, 2018, the major components of which are presented below:

	Six months ended April 30, 2019	Six months ended April 30, 2018	Change	Change
	\$	\$	\$	%
Salaries and benefits	8,901,073	7,588,167	1,312,906	17%
Rent	1,814,417	1,687,925	126,492	7%
Legal and professional	1,370,173	1,319,170	51,003	4%
Postage and shipping	2,100,630	1,746,983	353,647	20%
Stock based compensation	314,339	387,768	(73,429)	-19%
Travel and entertainment	332,279	333,292	(1,013)	0%
Bank service charges	372,698	254,935	117,763	46%
Software maintenance	533,787	289,902	243,885	84%
Losses and shortages	101,373	265,721	(164,348)	-62%
Insurance	226,437	179,330	47,108	26%
Other general and administrative	492,572	357,849	134,723	38%
Operating expenses	16,559,778	14,411,042	2,148,736	15%

- Salaries and benefits increased 17% to \$8,901,073 from \$7,588,167 which is attributed to increases in the Company's employment base for the period. The increase in staffing is a result of the hiring of employees engaged in the areas of compliance, risk management, information technology, payments, operations, vault operations and sales as well as adding 2 company owned branch locations;
- Rent increased 7% to \$1,814,417 from \$1,687,925. The Company has opened 2 new branch locations and a Montreal vault as well as expanded the Toronto and Orlando locations since April 30, 2018;

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Results of operations – six-month periods ended April 30, 2019 and 2018 (continued)

- Legal and professional fees increased 4% to \$1,370,173 from \$1,319,170. The increase is related primarily to consulting, legal and accounting fees incurred in support of operational and strategic initiatives of the Company;
- Postage and shipping increased 20% to \$2,100,630 from \$1,746,983 and is due to an increase in the frequency of inbound and outbound shipments. The Company incurs shipping fees from couriers and armored carriers to transport currency between the Company's locations and customers. The Company added 375 new wholesale banknote customers representing 1,098 new transacting locations since April 30, 2018 which has led to a 9% increase in transactional activity thus increasing shipping costs. Additionally, the Company has increased the frequency of inbound and outbound armored shipments due to an increase in high value, bulk shipments to centralized clients. Shipping fees collected by the Company are netted against shipping charges charged to the Company;
- Stock based compensation decreased 19% to \$314,339 from \$387,768 for the vested portion of stock options granted pursuant to the Company's stock option plan. The decrease is due to the forfeiting of 26,088 options during the period. The options have an expiry date of 5 years from the date of the grant, unless otherwise stated by the Board of Directors, and have a weighted average exercise price of Cdn\$27.50. There were 399,100 options outstanding at April 30, 2019 compared to 442,223 options outstanding at April 30, 2018;
- Travel and entertainment remained constant at \$332,279 from \$333,292;
- Bank service charges increased 46% to \$372,698 from \$254,935. The increase is related primarily to increased volumes for payments related activity, and its growth rate is expected to reduce as increased volumes will generate improved efficiencies. These charges are offset partially by fees collected on wire payments, which are captured in revenues;
- Software maintenance expense increased 84% to \$533,787 from \$289,902 due to expanded usage of software applications purchased to support Sales, Operations, Payments, IT, and Finance functions in the Company;
- Losses and shortages expense decreased 62% to \$101,373 from \$265,721. Losses typically range from 0.5-1% of revenues;
- Insurance expense increased 26% to \$226,437 from \$179,330 due to the opening of the Montreal vault location as well as annual increases to various policies; and
- Other general and administrative expenses increased 38% to \$492,572 from \$357,849. Other expenses are comprised of licenses and fees, utilities, office supplies, foreign exchange gains and losses through profit and loss, and other general and administrative expenses.

The ratio of operating expenses to total revenue for the six-month period ended April 30, 2019 was 92% compared to 83% for the six-month period ended April 30, 2018. The ratio traditionally is higher during the winter months and decreases as the fiscal year progresses. This is due to the cyclical nature of the business as the Company has higher exchange volumes from March to September and the Company is able to redeploy the currency it purchases in the summer months from its branch locations and resell it to other financial institutions and non-financial institution customers, thus bypassing currency wholesalers and widening its gross margins. The Company expects this ratio to remain consistent with the seasonality of the business in the short term. Over time, the Company will endeavor to increase its operating efficiency by the addition of new bank and non-bank financial institutions in Canada and the United States to redeploy currency purchased by its branches, affiliate partners, and other clientele.

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Results of operations – six-month periods ended April 30, 2019 and 2018 (continued)

Other income and expenses are comprised of the following:

	Six months ended April 30, 2019 \$	Six months ended April 30, 2018 \$
Other income	7,720	6,506
Interest expense	(186,875)	(180,814)
Depreciation and amortization	(735,455)	(673,212)
Income tax expense	(103,535)	(1,208,311)
Total other expense	(1,018,145)	(2,055,831)

- Other income increased to \$7,720 from \$6,506 and relates to interest collected for surplus cash deposits held at various financial institutions in Canada and the United States as well as a small gain from the sale of an asset;
- Interest and accretion expense increased to \$186,875 from \$180,814 and relates to interest payments on credit lines;
- Depreciation and amortization increased to \$735,455 from \$673,212 and relates to amortization of the Company's intangible assets and depreciation of fixed assets over their estimated economic life; and

For the six-month period ended April 30, 2019, income tax expense decreased to \$103,535 compared to an expense of \$1,208,311 for the six-month period ended April 30, 2018 and is a total of federal income tax as well as various state and provincial taxes for the jurisdictions in which the Company operates. The decrease is attributable to three factors. The first is decreased profitability in 2019 compared to 2018, which decreases income tax expense by \$716,776. The other two factors are one-time adjustments related to the Tax Cuts and Jobs Act of 2017 that increased income tax expense for the six-month period ended April 30, 2018. On December 22, 2017, the President of the United States signed tax reform legislation, which included a broad range of tax reform proposals affecting businesses, including corporate tax rates, business deductions, and international tax provisions. Many of these provisions significantly differ from previous US tax law, resulting in pervasive financial reporting implications. The January 2018 income tax expense included a one-time increase in deferred tax expense of \$308,000 which arose from a reduction in deferred tax assets of an identical amount. The deferred tax asset was generated on the basis of the former higher tax rate and will be liquidated over time at the lower rate now in effect. This change represents an estimated reduction in the statutory tax rate in the United States from 38.5% to 26.7%. The second factor caused by tax changes in the United States was a one-time expense related to a "repatriation" tax on earnings generated outside of the United States since 2011; this expense was \$80,000 related to retained earnings in EBC and its predecessor company CXIC.

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Results of operations – three-month periods ended April 30, 2019 and 2018

A breakdown of revenues by geographic location is presented below:

	Total revenues	
	Three-months ended April 30, 2019	Three-months ended April 30, 2018
	\$	\$
United States	7,940,808	7,414,844
Canada	1,520,001	1,472,928
Total	9,460,809	8,887,772

During the three-month period ended April 30, 2019, total commission and fee revenues increased by 6% to \$9,460,809 compared to \$8,887,772 for the three-month period ended April 30, 2018. Revenue generated from the purchase and sale of exotic currencies was \$505,500 lower in the period ended April 30, 2019 than in the three-month period ending April 30, 2018; excluding the effect of transactions related to these currencies, which fluctuate significantly, revenues increased 12% between the two periods. Since April 30, 2018, the Company has added 375 new customer relationships comprising 1,098 locations, of which 335 relationships representing 979 transacting locations were added in the United States and 40 relationships representing 119 locations were added in Canada. During the three-month period ended April 30, 2019, the number of transactions between the Company and its customers increased 9% to 267,000 transactions from 245,000 for the same period in the previous year.

During the three-month period ended April 30, 2019, operating expenses increased 9% to \$8,379,517 compared to \$7,772,483 for the three-month period ended April 30, 2018, the major components of which are presented below:

	Three months ended April 30, 2019	Three months ended April 30, 2018	Change	Change
	\$	\$	\$	%
Salaries and benefits	4,332,553	3,872,761	459,792	12%
Rent	928,768	840,405	88,363	11%
Legal and professional	639,869	652,758	(12,889)	-2%
Postage and shipping	1,220,692	999,954	220,738	22%
Stock based compensation	200,963	191,440	9,523	5%
Travel and entertainment	149,377	190,524	(41,148)	-22%
Bank service charges	201,069	166,493	34,575	21%
Software maintenance	246,795	157,865	88,930	56%
Losses and shortages	72,567	191,981	(119,414)	-62%
Insurance	109,411	82,749	26,662	32%
Other general and administrative	277,453	425,552	(148,099)	-35%
Operating expenses	8,379,517	7,772,483	607,034	8%

- Salaries and benefits increased 12% to \$4,332,553 from \$3,872,761 which is attributed to increases in the Company's employment base for the period. The increase in staffing is a result of the hiring of employees engaged in the areas of compliance, information technology, payments, operations, vault operations and sales as well as adding 2 company owned branch locations;
- Rent increased 11% to \$928,768 from \$840,405. The Company has opened 2 new branch locations and a Montreal vault as well as expanded the Toronto and Orlando locations since April 30, 2018;

Results of operations – three-month periods ended April 30, 2019 and 2018 (continued)

- Legal and professional fees decreased 2% to \$639,869 from \$652,758. Legal consulting, and accounting fees are incurred in support of operational and strategic initiatives of the Company;
- Postage and shipping increased 22% to \$1,220,692 from \$999,954 and is due to an increase in the frequency of inbound and outbound shipments. The Company incurs shipping fees from couriers and armored carriers to transport currency between the Company's stores and customers. The Company added 375 new wholesale banknote customers representing 1,098 new transacting locations since April 30, 2018 which has led to an 9% increase in transactional activity thus increasing shipping costs. Additionally, the Company has increased the frequency of inbound and outbound armored shipments due to an increase in high value, bulk shipments to centralized clients. Shipping fees collected by the Company are netted against shipping charges charged to the Company;
- Stock based compensation increased 5% to \$200,963 from \$191,440 for the vested portion of stock options granted pursuant to the Company's stock option plan. The options have an expiry date of 5 years from the date of the grant, unless otherwise stated by the Board of Directors, and have a weighted average exercise price of Cdn\$27.50. There were 399,100 options outstanding at April 30, 2019 compared to 442,223 options outstanding at April 30, 2018;
- Travel and entertainment decreased 22% to \$149,377 from \$190,524;
- Bank service charges increased 21% to \$201,069 from \$166,493. The increase is related primarily to increased volumes for payments related activity, and its growth rate is expected to reduce as increased volumes will generate improved efficiencies. These charges are offset partially by fees collected on wire payments, which are captured in revenues;
- Software maintenance expense increased 56% to \$246,795 from \$157,865 due to expanded usage of software applications purchased to support Sales, Operations, Payments, IT, and Finance functions in the Company;
- Losses and shortages expense decreased 62% to \$72,567 from \$191,981 Losses typically range from 0.5-1% of revenues;
- Insurance expenses increased 32% to \$109,411 from \$82,749 due to the opening of the Montreal vault location; and
- Other general and administrative expenses decreased 35% to \$277,453 from \$425,552. Other expenses are comprised of licenses and fees, utilities, office supplies, foreign exchange gains and losses through profit and loss, and other general and administrative expenses.

The ratio of operating expenses to total revenue for three-month period ended April 30, 2019 was 89% compared to 87% for three-month period ended April 30, 2018. The ratio traditionally is higher during the winter months and decreases as the fiscal year progresses. This is due to the cyclical nature of the business as the Company has higher exchange volumes from March to September and the Company is able to redeploy the currency it purchases in the summer months from its branch locations and resell it to other financial institutions and non-financial institution customers, thus bypassing currency wholesalers and widening its gross margins. The Company expects this ratio to remain consistent with the seasonality of the business in the short term. Over time, the Company will endeavor to increase its operating efficiency by the addition of new bank and non-bank financial institutions in Canada and the United States to redeploy currency purchased by its branches, affiliate partners, and other clientele.

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Results of operations – three-month periods ended April 30, 2019 and 2018 (continued)

Other income and expenses are comprised of the following:

	Three-months ended April 30, 2019 \$	Three-months ended April 30, 2018 \$
Other income	4,285	3,570
Interest expense	(67,097)	(115,995)
Depreciation and amortization	(354,536)	(337,355)
Income tax expense	(156,574)	(157,903)
Total other expense	(573,922)	(607,683)

- Other income increased to \$4,285 from \$3,570 and relates to interest collected for surplus cash deposits held at various financial institutions in Canada and the United States as well as a small gain from the sale of an asset;
- Interest and accretion expense decreased to \$67,097 from \$115,995 and relates to interest payments on credit lines;
- Depreciation and amortization increased to \$354,536 from \$337,355 and relates to amortization of the Company's intangible assets and depreciation of fixed assets over their estimated economic life; and
- Income tax expense remained constant at \$156,574 compared to an expense of \$157,903 for the three-month period ended April 30, 2018 and is a total of federal income tax as well as various state and provincial taxes for the jurisdictions in which the Company operates and reflects the new US rate of 22%.

Cash flows

Cash flows from operating activities during the six-month period ended April 30, 2019 resulted in an inflow of \$2,812,957 compared to an outflow of \$2,248,287 during the six-month period ended April 30, 2018. The principal reason for the increase in operating cash was due to a significant decrease in accounts receivable. The actual amount of accounts receivable and accounts payable fluctuate from period to period due to the volume of activity and timing differences. In most instances accounts receivable and accounts payable have a settlement cycle of 24 to 48 hours. Operating cash flow is generated by commission and fee income, and is offset by operating expenses.

Cash used in investing activities during the six-month period ended April 30, 2019 resulted in an outflow of \$1,059,533 compared to an outflow of \$262,884 during the six-month period ended April 30, 2018. This represents additions to property and equipment from the opening of the Montreal vault location and to internally developed software as well as proceeds of \$15,012 from the sale of an asset.

Cash provided by financing activities during the six-month period ended April 30, 2019 was \$2,671,277 compared to \$12,268,208 during the six-month period ended April 30, 2018. The Company was accessing its line of credit at \$2,605,821 on April 30, 2019, compared to a balance of \$Nil on April 30, 2018.

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Liquidity and capital resources

At April 30, 2019, the Company had working capital of \$59,303,626 (October 31, 2018 - \$59,483,137).

The Company maintains a line of credit to meet borrowing needs during peak business periods. The Company has a revolving line of credit with BMO Harris Bank, N.A. which was increased in July of 2018 to \$20,000,000. The credit line is secured against the Company's cash and other non-cash assets. The line of credit bears interest at Libor plus 2.0% (at April 30, 2019 – 2.48% (2018 – 2.3%)). At April 30, 2019, the balance outstanding was \$Nil (October 31, 2018 - \$Nil).

In April of 2017, the Company's wholly-owned Canadian subsidiary, EBC, established a CDN\$3,000,000 revolving line of credit with Bank of Montreal which was increased in June of 2018 to CDN\$6,000,000 (\$4,469,940) being secured against cash assets held in its vaults. The line of credit bears interest at CDN prime plus 0.5% [at April 30, 2019 – 3.95% (2018 – 3.95%)]. At April 30, 2019, the balance outstanding was \$2,605,821 (October 31, 2018 - \$Nil).

The Company had a total available balance of unused lines of credit of \$21,864,118 at April 30, 2019 (October 31, 2018 - \$24,565,515).

Selected annual financial information

The following tables set out selected consolidated financial information of the Company for the periods indicated. Each investor should read the following information in conjunction with those financial statements for the relevant period and notes related thereto. The operating results for any past period are not necessarily indicative of results for any future period. The selected financial information set out below has been derived from the consolidated financial statements of the Company.

	Year ended October 31, 2018 \$	Year ended October 31, 2017 \$	Year ended October 31, 2016 \$	Year ended October 31, 2015 \$
Revenues	39,098,141	32,477,220	26,827,456	24,075,775
Net operating income	8,137,804	7,921,509	6,877,489	7,137,444
Net income	4,227,243	3,821,469	3,642,111	4,665,985
Basic earnings per share	\$0.67	\$0.62	\$0.59	0.80
Diluted earnings per share	\$0.67	\$0.61	\$0.58	0.77
Total assets	73,267,274	63,968,227	62,196,008	52,112,593
Total liabilities	10,545,337	7,475,609	11,443,657	5,352,490
Total non-current financial liabilities	-	-	-	-
Working capital	58,642,924	52,778,077	47,016,377	42,674,895

Commitments and contingencies

On October 1, 2011, the Company entered into an employment agreement with the President and CEO of the Company. Such agreement contains clauses requiring additional payments of a minimum of \$450,000 to be made upon the occurrence of certain events such as a change of control of the Company or termination for reasons other than cause. As the likelihood of a change of control of the Company is not determinable, the contingent payments have not been reflected in the consolidated financial statements.

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Off-balance sheet arrangements

There are currently no off-balance sheet arrangements which could have an effect on current or future results or operations, or on the financial condition of the Company.

Hedging activity

The Company enters into non-deliverable foreign currency forward contracts on a daily basis to mitigate the risk of fluctuations in the exchange rates of its holdings of major currencies. Changes in the fair value of the contracts and the corresponding gains or losses are recorded daily and are included in commissions from trading on the consolidated statements of income and comprehensive income. The Company's management strategy is to reduce the risk of fluctuations associated with foreign exchange rate changes. The foreign currency forward contracts can be closed immediately resulting in the collateral being liquidated.

The fair value of forward contracts, which represents the amount that would be (paid) received by the Company if the forward contracts were terminated at April 30, 2019 was (\$51,616) (October 31, 2018 - \$10,857).

At April 30, 2019 and October 31, 2018 approximately \$1,888,243 and \$1,998,942, respectively, were being held as collateral on these contracts and are reflected as restricted cash held in escrow in the consolidated statements of financial position.

Transactions with related parties

The remuneration of directors and key management personnel during the three-and six-month periods ended April 30, 2019 and 2018 were as follows:

	Six months ended		Three months ended	
	April 30, 2019	April 30, 2018	April 30, 2019	April 30, 2018
	\$	\$	\$	\$
Short-term benefits	1,236,059	1,402,224	611,970	503,678
Post-employment benefits	36,472	31,423	18,728	9,908
Stock based compensation	297,586	353,271	190,690	175,602
	<u>1,570,117</u>	<u>1,786,918</u>	<u>821,388</u>	<u>689,188</u>

The Company incurred legal and professional fees in the aggregate of \$90,922 and \$175,822 for the three-and six-month periods ended April 30, 2019 (2018 - \$110,170 and \$129,651) charged by entities controlled by directors or officers of the Company.

The Company has clients that are considered related parties through two of its directors. The Company generated \$13,035 and \$34,690 in revenue from these clients' activities for the three-and six-month periods ended April 30, 2019 (April 30, 2018 – \$10,342 and 14,338). As at April 30, 2019, net accounts receivable included \$73,611 from related parties (October 31, 2018 - \$84,431).

On October 1, 2011, the Company entered into an employment agreement with the President and CEO of the Company. Such agreement contains clauses requiring additional payments of a minimum of \$450,000 to be made upon the occurrence of certain events such as a change of control of the Company or termination for reasons other than cause. As the likelihood of a change of control of the Company is not determinable, the contingent payments have not been reflected in the interim consolidated financial statements.

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Transactions with related parties

Advances between CXI and EBC are provided under a Revolving Line of Credit, renewed May 31, 2017; loans attract interest at LIBOR + 2%, are repayable on demand, and are unsecured. At April 30, 2019, the intercompany loan balance was \$7,212,000 (October 31, 2018 - \$5,660,000) and was eliminated upon consolidation.

Key management personnel and directors occasionally conduct transactions with the Company as individuals. Such transactions are immaterial individually and in total, including for the three-month periods ending April 30, 2019 and 2018, and are conducted pursuant to the Company's policies.

All transactions with related parties as noted above are carried out in the normal course of business and at prevailing market rates.

Option grants

The Company adopted an incentive stock option plan dated April 28, 2011 (the "**Plan**"). The Plan is a rolling stock option plan, under which 10% of the outstanding shares at any given time are available for issuance thereunder. The purpose of the Plan is to promote the profitability and growth of the Company by facilitating the efforts of the Company to attract and retain directors, senior officers, employees and management. Vesting under the Plan will occur 1/3 upon the first anniversary, 1/3 upon the second anniversary and 1/3 upon the third anniversary of the grant for employees, and for directors vesting occurs within one year of the grant at the rate of 25% of the grant in each quarter of the following year, unless otherwise specified by the Board of Directors. The options have a five-year term, unless otherwise specified by the Board of Directors.

Below is information related to each option grant:

Date of Grant	Expiry Date	Share price at grant date (Cdn\$)	Amount granted	Risk-free interest rate	Expected volatility	Exercise Price (Cdn\$)*	Fair value of option at grant date (\$)
30-Oct-14	30-Oct-19	18.00	87,215	1.61%	27%	16.21	4.97
30-Oct-14	30-Oct-19	18.00	24,144	1.61%	27%	16.21	4.97
30-Oct-15	30-Oct-20	23.50	28,972	1.47%	32%	24.64	5.10
30-Oct-15	30-Oct-20	23.50	89,435	1.47%	32%	24.64	5.10
11-Mar-16	11-Mar-21	21.30	4,182	1.45%	34%	22.78	4.78
26-Oct-16	25-Oct-21	32.96	22,757	1.30%	34%	30.75	8.46
26-Oct-16	25-Oct-21	32.96	66,820	1.30%	34%	30.75	8.46
6-Jun-17	6-Jun-22	20.79	9,865	1.71%	37%	21.53	5.27
26-Oct-17	26-Oct-22	26.84	16,096	2.07%	36%	25.52	7.69
26-Oct-17	26-Oct-22	26.84	62,893	2.07%	36%	25.52	7.69
9-Aug-18	9-Aug-23	30.93	10,200	2.80%	31%	30.69	7.74
23-Oct-18	23-Oct-23	28.01	32,501	3.10%	29%	30.77	5.92
23-Oct-18	23-Oct-23	28.01	111,111	3.10%	29%	30.77	5.92
23-Jan-19	23-Jan-24	30.14	4,127	2.60%	27%	28.23	7.18
4-Mar-19	4-Mar-24	25.98	13,316	2.50%	27%	25.83	5.65

*Exercise price determined by average share price for previous 20 trading days

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Option grants (continued)

The outstanding options at April 30, 2019 and the respective changes during the periods are summarized as follows:

	Number of options #	Weighted average price CDN\$
Outstanding at October 31, 2017	442,223	22.31
Granted	153,812	30.76
Exercised	(144,239)	15.61
Cancelled through cashless exercise	(1,991)	20.61
Forfeited	(25,310)	26.35
Outstanding at October 31, 2018	424,495	27.42
Granted	17,443	26.40
Exercised	(6,424)	22.16
Cancelled through cashless exercise	(10,326)	18.83
Forfeited	(26,088)	30.18
Outstanding at April 30, 2019	385,784	27.56

The following options are outstanding and exercisable at April 30, 2019:

Grant Date	Exercise price (Cdn\$)	Number outstanding	Average remaining contractual life (years)	Number exercisable
30-Oct-14	16.21	9,971	0.50	9,971
30-Oct-14	16.21	8,048	0.50	8,048
30-Oct-15	24.64	20,148	1.50	20,148
30-Oct-15	24.64	55,662	1.50	55,662
11-Mar-16	22.78	4,182	1.87	4,182
26-Oct-16	30.75	16,255	2.49	16,255
26-Oct-16	30.75	42,928	2.49	28,619
6-Jun-17	21.53	5,586	3.10	1,862
26-Oct-17	25.52	16,096	3.49	14,308
26-Oct-17	25.52	62,893	3.49	20,964
9-Aug-18	30.69	9,084	4.28	-
9-Aug-18	30.69	1,116	4.48	558
23-Oct-18	30.77	32,501	4.48	16,251
23-Oct-18	30.77	97,187	4.48	-
23-Jan-19	28.23	4,127	4.74	-
4-Mar-19	25.83	13,316	4.85	-
Total		399,100		196,828

Potential Transaction

On July 9, 2018 the Company announced its wholly-owned subsidiary EBC has entered into a definitive agreement to acquire the assets of a business operating 22 years primarily in the province of Quebec from the private family owners who were advised by Laurentian Bank Securities. These assets include a total of approximately 400 corporate customers that are engaged in international payments. It is expected that approximately 10 employees will be retained and employed in EBC's new Montreal Office. The transaction is subject to regulatory approval and will not close until all approvals have been obtained.

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Subsequent events

The Company evaluated subsequent events through June 4, 2019, the date these condensed interim consolidated financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in the financial statements.

Accounting standards and policies

The Company's accounting policies are described in Note 2 to the Company's audited consolidated financial statements for the years ended October 31, 2018 and 2017 as well as in Note 3 of the Company's condensed interim consolidated financial statements for the three and six months ended April 30, 2019 and 2018.

Financial Risk factors

Credit Risk

Credit risk is the risk of financial loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash in bank accounts, accounts receivable and forward contracts from hedging counterparties.

All banking relationships are negotiated by senior management. The Company maintains accounts in high quality financial institutions. At various times, the Company's bank balances exceed insured limits.

The credit risk associated with accounts receivable is limited, as the Company's receivables consist primarily of bulk currency trades with a settlement cycle of 24 to 48 hours. There is minimal counterparty risk as the majority of the Company's receivables reside with financial institutions and money service business customers. The company has longstanding relationships with most of its money service business customers and has a strong repayment history. For the purpose of risk control, the customers are grouped as follows: domestic and international financial institutions, money service businesses, and other customers. Credit limits are established for each customer, whereby the credit limit represents the maximum open amount without requiring payments in advance. Levels of accounts receivable are a function of growth in transaction volumes with the Company's clients. These limits are reviewed regularly by senior management. Due to seasonality, amounts in accounts receivable are usually at their highest during peak periods.

A breakdown of accounts receivable by category is below:

	At April 30, 2019	At October 31, 2018
Customer type	\$	\$
Domestic and international financial institutions	3,942,199	4,883,305
Money service businesses	9,500,911	4,611,497
Other	19,687	145,095
Total	13,462,797	9,639,897

The maximum exposure to credit risk is represented by the carrying amount of each financial asset on the statement of financial position. There are no commitments that could increase this exposure to more than the carrying amount.

Foreign Currency Risk

The volatility of the Company's foreign currency holdings may increase as a result of the political and financial environment of the corresponding issuing country. Several currencies have limited exchange rate exposure as they are pegged to the U.S. Dollar, the reporting currency of the Company. Management believes its exposure to foreign currency fluctuations is mitigated by the short-term nature and rapid turnover of its foreign currency inventory, as well as the use in certain instances of forward contracts to offset these fluctuations. Due to their nature, some minor and exotic foreign currencies cannot be hedged or are too cost prohibitive to hedge. In order to mitigate the risks associated with holding these foreign currencies, the Company assigns wider bid/ask spreads and maintains specific inventory targets to minimize the impact of exchange rate fluctuations. These targets are reviewed regularly and are increased or decreased to accommodate demand within acceptable risk tolerances. The amount of unhedged inventory held in tills, vaults and in transit at April 30, 2019 was approximately \$7,100,000 (October 31, 2018 - \$7,440,000). The amount of currency that is unhedged and that is not pegged to the U.S. Dollar is approximately \$5,400,000 (October 31, 2018 - \$5,360,000). A 2% increase/reduction in the market price for the aggregate of the Company's unhedged/un-pegged foreign currencies would result in an exchange gain/loss of approximately +\$108,000/-\$108,000 (October 31, 2018 gain/loss of approximately +\$107,000/-\$107,000).

On a consolidated basis, the Company is also exposed to foreign currency fluctuations between the U.S. Dollar and the Canadian Dollar, being the functional currency of its Canadian subsidiary. The Company does not hedge its net investment in its Canadian subsidiary and the related foreign currency translation of its earnings.

Interest Rate Risk

At April 30, 2019, the Company had access to interest bearing financial instruments in cash, short term accounts payable and its line of credit. A significant amount of the Company's cash is held as foreign currency bank notes in tills and vaults. These amounts are not subject to interest rate risk. Cash held in some of the Company's accounts are interest bearing; however, since prevailing interest rates are low there is minimal interest rate risk. Borrowings bear interest at variable rates. Cash and borrowings issued at variable rates expose the Company to cash flow interest rate risk. For the interest rate profile of the Company's interest bearing financial liabilities, refer to Note 9 of the condensed interim consolidated financial statements.

The Company manages interest rate risk in order to reduce the volatility of the financial results as a consequence of interest rate movements. For the decision whether new borrowings shall be arranged at a variable or fixed interest rate, senior management focuses on an internal long-term benchmark interest rate and considers the amount of cash currently held at a variable interest rate. Currently the interest rate exposure is un-hedged.

If interest rates had been 50 basis points higher/lower with all other variables held constant, after tax profit for the three-month period ended April 30, 2019 would have been approximately +\$7,200/-\$7,200 higher/lower as a result of credit lines held at variable interest rates.

Liquidity Risk

Liquidity Risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The CFO informs the Chief Executive Officer, the Board of Directors, and the Audit Committee of capital and liquidity issues as they occur in accordance with established policies and guidelines. The Company targets to have a cash reserve or credit lines greater than 15% of the Company's prior year's revenues.

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Liquidity Risk (continued)

The following are non-derivative contractual financial liabilities:

Non-derivative financial liabilities	At April 30, 2019		This fiscal year	Future fiscal years
	Carrying amount	Estimated contractual amount		
	\$	\$	\$	\$
Accounts payable	14,389,332	14,389,332	14,389,332	\$Nil
Line of credit	2,605,821	2,605,821	2,605,821	\$Nil
Accrued expenses	2,198,287	1,873,222	1,873,222	\$Nil

Non-derivative financial liabilities	At October 31, 2018		Next fiscal year	Future fiscal years
	Carrying amount	Estimated contractual amount		
	\$	\$	\$	\$
Accounts payable	8,312,778	8,312,778	8,312,778	\$Nil
Accrued expenses	2,232,559	2,045,707	2,045,707	\$Nil

Capital Management

The Company manages capital through its financial and operational forecasting processes. The Company defines working capital as total current assets less current liabilities. The Company reviews its working capital and forecasts its cash flows based on operating expenditures, and other investing and financing activities related to its daily operations.

	At April 30, 2019	At October 31, 2018
	\$	\$
Current assets	78,548,682	70,028,474
Current liabilities	(19,245,056)	(10,545,337)
Working capital	<u>59,303,626</u>	<u>59,483,137</u>

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, obtaining loan financing, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.