February 29, 2012

CURRENCY EXCHANGE INTERNATIONAL, CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Quarter Ended December 31, 2011

Management Discussion and Analysis of Operating Results and Financial Position
For the three months ended December 31, 2011

Scope of Analysis

This Management Discussion and Analysis ("**MD&A**") covers the results of operations, financial condition and cash flows of Currency Exchange International, Corp. (the "**Company**" or "**Currency Exchange**") for the first quarter ended December 31, 2011. This document is intended to assist the reader in better understanding operations and key financial results as they are, in our opinion, at the date of this report.

This MD&A has been prepared as at February 29, 2012 in accordance with National Instrument 51-102 – *Continuous Disclosure Obligations* adopted by the Canadian Securities Administrators. This information has been prepared by management of the Company in accordance with International Financial Reporting Standards ("**IFRS**") and should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the period ended December 31, 2011 and the notes thereto which are presented in 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 "Currency Exchange" refer to Currency Exchange International, Corp. collectively with its subsidiary.

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.

Forward Looking Statements

Certain information provided by Currency Exchange in this MD&A and in other documents publicly filed throughout the year that are not recitation of historical facts may constitute forward-looking statements. The words "may", "would", "could", "will", "likely", "estimate", "believe", "expect", "plan", "forecast" and similar expressions are intended to identify forward-looking statements. Readers are cautioned that such statements are only predictions and the actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements.

Such forward-looking information may involve important risks and uncertainties that could materially alter results in the future from those expressed or implied in any forward-looking statements made by, or on behalf of, Currency Exchange. Some of the factors and risks and uncertainties that cause results to differ from current expectations discussed in this MD&A include, but are not limited to, dependence upon growth in the market for the Company's products, delays in product launches, currency exposure, technology developments by Currency Exchange's competitors and changes in the competitive environment in which Currency Exchange operates.

The foregoing is not an exhaustive list of the factors that may affect Currency Exchange's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on Currency Exchange's forward-looking statements. Currency Exchange assumes no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those reflected in the forward-looking statements.

Overview

The Company specializes in providing retail and wholesale currency exchange and related products to banks as a third party vendor, to travel companies, and to retail clients through its 31 company owned or affiliate retail locations, throughout North America, by utilizing the Company's proprietary online software system, CEIFX, which is accessible through www.ceifx.com. 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 and maintenance of source code

by the head office only. CEIFX is updated regularly and system development and enhancement is a core activity at the Company
.
The Company has the following sources of revenues which are segmented into commissions and fees:

- commission revenue comprising the spread between the cost of foreign currency and the proceeds received from the sale of such currencies. The amount of this spread is based on competitive conditions and the convenience and value added services offered, particularly through CEIFX;
- fee revenue comprising the following:
  - international banking services fees, including foreign currency (banknote) exchange, foreign traveller's checks, foreign drafts, and foreign wire transfers;
  - licensing fees derived from licensing CEIFX; and
  - ancillary fees from the sale of telephone cards, attraction tickets, travel reservations and other travel related products and services through wholly owned and affiliate retail locations.

The sources of revenue are complementary and inter-dependent and, therefore, it is not practical or useful to consider them separately, particularly given the early stage of the business of the Company. The following are some of the characteristics of the Company's revenue streams:

- the retail business has higher margins but the wholesale business has greater scale and can be expanded more quickly. The retail businesses involve greater care in selection of locations and require comparatively more management time;
- the retail locations generally act as a net buyer of foreign currency whereas the wholesale business acts as a net seller. When the retail and wholesale businesses are in sufficiently close proximity, excess currency collected via retail customers can be redeployed to wholesale customers which eliminates the need to source currency through wholesale sources at a greater cost;
- exotic currencies have higher profit margins than other currencies;
- there has been a trend of increasing foreign currency purchases on a per customer basis, presumably in order to avoid currency fluctuation risks perceived to be associated with U.S. dollars;
- affiliated retail locations in high traffic locations can be lucrative as there are no occupancy costs or payroll. Essentially, foreign exchange currency is placed with retail locations on a consignment basis; and
- the sale of telephone cards, attraction tickets, travel reservations and other travel related products and services through wholly owned and affiliate retail locations is complementary to currency exchange, but also generates high profit margins.

The Company's largest assets are cash and inventory (i.e. foreign cash). The cash position consists of U.S. dollar inventory held at its retail and affiliate stores to facilitate the buying and selling of foreign currency. Inventory consists of highly liquid foreign currency held at the Company's vault, retail outlets, affiliate stores, or inventory in transit between the Company and its locations, available to trade on a retail or wholesale basis. The Company also has traditional foreign currency bank deposits which act as reserves to maintain operations and to facilitate currency transactions at various financial institutions.

Accounts receivable consist primarily of bulk wholesale transactions where the Company is awaiting payment. Receivables are highly liquid and typically have a settlement time of two business days with most buyers being banks.

Accounts payable consist mainly of wholesale currency transactions where the Company receives currency from a wholesale supplier and then remits payment at a later date.

Currency Exchange is a reporting issuer in the provinces of British Columbia, Alberta and Ontario.

Initial Public Offering

On February 16, 2012, the Company obtained a receipt for its final long-form prospectus dated February 15, 2012 (the "**Prospectus**") from the securities regulatory authorities in the Provinces of British Columbia, Alberta, and Ontario in respect of an initial public offering ("**IPO**") of units ("**Units**"). Each Unit will be comprised of one common share in the capital stock of the Company ("**Common Share**") and one Common Share Purchase Warrant ("**Warrant**"). Upon successful completion of the proposed IPO, the Company anticipates it will raise aggregate gross of proceeds of up to Cdn$9,177,000 and list its Common Shares and Warrants on the Toronto Stock Exchange ("**TSX**"). A copy of the Prospectus is available on the Company's SEDAR profile at www.sedar.com.

Selected Annual Information

The following table sets out selected consolidated financial information of Currency Exchange for the periods indicated. Each investor should read the following information in conjunction with those financial statements and the notes 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 September 30, 2011 (Audited) (US$)	Nine Months Ended September 30, 2010 (1) (Audited) (US$)	Year Ended December 31, 2009 (Audited) (US$)
Revenue	8,683,705	3,407,289	3,747,899
Net Operating Income	2,796,779	269,298	385,189
Net Income & Comprehensive Income	1,489,686	129,098	215,486
Earnings Per Share (2)	0.66	0.07	0.12
Total Assets	9,914,292	5,007,511	3,928,493
Total Long Term Financial Liabilities	110,924	721,284	516,671

Notes:
(1) The Company changed its year-end to September 30, and reported on the nine months ended September 30, 2010 as a transition year.
(2) Adjusted for a 2:1 share split effective June 28, 2011.

Current Period Operating Results

The Company's total revenue for the three month period ended December 31, 2011 was US$2,715,986 compared to US$1,429,866 for the three month period ended December 31, 2010. The commissions from trading increased to US$2,444,193 and the fee income increased to US$271,793, as compared to US$1,248,518 and US$181,348, respectively, for the three months ended December 31, 2010. The increase in trading commissions can be attributed to retaining new financial institution customers and the addition of four new retail stores during the period. Additional revenue was generated from increased trading volumes of exotic currencies that are executed at higher margins. For instance, the Company has noted increased purchases of Iraqi Dinars, apparently as small scale currency speculation, which activity is a source of high margin currency trades. The increase in fee income reflects the addition of new retail and wholesale customers. Fee income generally exhibits growth that correlates to the Company's increase in its customer base.

For the three months ended December 31, 2011, operating expenses were US$1,884,600 (three months ended December 31, 2010 – US$1,221,185), the main components of which were salary, rent, shipping, professional fees, insurance and other expenses. The ratio of operating expense to total revenue for the three months ended December 31, 2011 was 69% (three months ended December 31, 2010 - 85%) the improvement in which is due to productivity gains in cash processing and back-office functions attributable to enhancements in the CEIFX proprietary foreign exchange software. The Company expects this ratio to decline slightly in the next nine to twelve months as the Company absorbs start-up costs associated with its Canadian operations. After that time, additional revenue from the Canadian operations is expected to improve the ratio of operating expense to total revenue. Net operating income was US$831,386 for the three months ended December 31, 2011 (three months ended December 31, 2010 – US$208,681).

Other income and expenses were comprised of interest income, accretion expense, unrealized loss on a forward contract, interest expense and loss on disposal of equipment. Interest income of US$33 for the three months ended December 31, 2011 (three months ended December 31, 2010 - US$149) relates to interest income on surplus cash balances and such income was minimal during the period as surplus cash was deployed in the business and prevailing interest rates were relatively low. Accretion expense of US$42,873 for the three months ended December 31, 2011 (three months ended December 31, 2010 - US$7,925) relates to the currency exchange expense arising from the net present value of a $2,000,000 senior promissory note. Unrealized Gain (loss) on a forward contract of US$55,074 for the three months ended December 31, 2011 (three months ended December 31, 2010 - US$18,857) relates to a gain on a US dollar forward contract purchased to establish a currency exchange rate to pay a $2,000,000 senior promissory note. This gain is entirely offset by a recorded foreign exchange loss on this loan of US$58,516 (December 31, 2010 - 23,500). Interest expense of US$25,253 for the three months ended December 31, 2011 (three months ended December 31, 2011 - US$24,942) has increased as a result of increased business activity and the need to rely on external borrowings to fund the increased currency inventory. Income tax expense for the three months ended December 31, 2011 of US$281,921 (three months ended December 31, 2010 - US$74,326) is a total of U.S. federal income tax as well as various state and municipal taxes for the jurisdictions in which the Company operates. Net income for the three months ended December 31, 2011 was US$536,446 (three months ended December 31, 2010 – US$120,494). Other comprehensive items consisted of a gain (loss) on foreign currency translation. The adjustment for the period ending December 31, 2011 amounted to US$177 (Three months ended December 31, 2010 - US$Nil). Total comprehensive income (loss) for the three months ending December 31, 2011 was US$ 536,269 (three months ending December 31, 2010- US$120,494).

Hedging Activity

Other than as noted below, the Company does not engage in any form of hedged, derivative or leveraged trading. Furthermore, the Company does not extend margin or leverage to any of its customers.

The Company enters into foreign currency forward contracts on a daily basis to mitigate the risk of fluctuations in the exchange rates of their major currencies. The forward contracts are recognized at the fair value and the gain or loss is recorded daily and is included in commissions, net on the 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 within a 24 hour period resulting in the collateral being liquidated. For the three months ended December 31, 2011, the change in foreign currency value was a net gain (loss) of US$(59,989) (three months ended December 31, 2010 – US$(21,005), and the net gain (loss) from foreign currency forward contracts was US$54,283 (three months ended December 31, 2010 - US$ 21,337). As at December 31, 2011 and December 31, 2010, management has assessed the fair value of the foreign currency forward contracts at a nominal amount, given their short term nature. In addition, the Company had an unrealized gain on a forward contract of US$ 55,074 for the three months ended December 31, 2011 (three months ended December 30, 2010 - US$18,857) relating to a gain on a US dollar forward contract purchased to establish a currency exchange rate to pay a $2,000,000 senior promissory note. This gain was entirely offset by an unrecorded loss on this loan of US$ 58,516 (December 31, 2010 - US$ 23,500.)

Summary of Quarterly Results

The following selected financial data are derived from the unaudited condensed consolidated interim financial statements of the Company as at December 31, 2011.

	Q1 Dec 31, 2011 ($)
Revenue	2,715,987
Net Operating Income	831,386
Net Income & Comprehensive Income	536,446
Earnings Per Share	0.22
Total Assets	10,391,386
Total Long Term Financial Liabilities	3,695,779

The net comprehensive income of $536,269 for the period ended December 31, 2011, consisted of commissions from trading of $2,444,193; fee income of $271,793; operating expenses of $1,884,600; other expenses totaling $13,019; income tax expense of $281,921; and a currency translation adjustment of $177.

The Company experiences seasonality from its tourism related customer base arising in peak travel times during the winter and summer months. The Company experiences higher volumes during these times, but there are no particular changes in the nature of the business it undertakes. The Company accommodates these heightened levels of activity through hiring additional staff and ensuring sufficient liquidity to maintain extra currency inventories. The Company has not been constrained to date for any reason in meeting extra demand during these peak times.

Liquidity

Three months ended December 31, 2011, three months ended December 31, 2010 and year ended September 30, 2011

As at December 31, 2011, the Company had a working capital balance of US$6,327,246 (September 30, 2011 – US$5,861,804; December 31, 2010 – US$4,761,672;), and cash and cash equivalents of US$8,772,939 (September 30, 2011 – US$8,588,662; December 31, 2010 – US$5,669,153;). Cash and cash equivalents are mainly an inventory of U.S. and foreign currencies that the Company has on hand for resale, as well as U.S. dollar deposits at regulated financial institutions. These balances have increased due to the increased volume of activity during the period.

The Company has been able to generate sufficient amounts of cash and cash equivalents to maintain current levels of growth. It is the view of management of the Company that additional capital resources are required to expand the business.

Accounts receivable as at December 31, 2011, were US$498,301 (September 30, 2011 – US$239,934; December 31, 2010 – US$1,022,079;). The accounts receivable balance consists primarily of outstanding wholesale currency transactions with a settlement cycle of 24 to 48 hours. There is minimal counter-party risk as the Company trades with institutional parties exclusively. The actual accounts receivable balance varies widely from period to period due to volume of activity and timing differences. There were no subscription receivables as at December 31, 2011 (September 30, 2011 – US$Nil; December 31, 2010 – US$Nil;). Restricted cash held in escrow as at December 31, 2011 of US$105,333 (September 30, 2011 – US$99,518; December 31, 2010 – US$44,429) comprises foreign currency balances which are subject to withdrawal restrictions pending normal deposit clearance periods at banks where the Company deposits excess cash balances. Other currents assets as at December 31, 2011 of US$477,131 (September 30, 2011 – US$480,025; December 31, 2010 – US$237,345) comprise banker acceptances and other instruments with short term maturities which are viewed as highly secure.

Accounts payable as at December 31, 2011 were US$705,488 (September 30, 2011 - US$775,372; December 31, 2010 – US$442,763). The accounts payable balance consists primarily of outstanding wholesale currency transactions with a settlement cycle of 24 to 48 hours. The actual accounts payable balance varies widely from period to period due to volume of activity and timing differences. Accrued expenses as at December 31, 2011 of US$324,593 (September 30, 2011 – US$288,970; December 31, 2010 – US$76,280.16) comprise customary general and administrative items. Income taxes payable as at December 31, 2011 were US$238,948 (September 30, 2011 – US$134,316; December 31, 2010 – US$73,719). Deferred rent as at December 31, 2011 of US$24,109 (September 30, 2011 – US$28,423; December 30, 2010 – US$28,424) comprises the accrued amount for rent owing as at the end of the period which is not yet due. Forward contract liabilities as at December 31, 2011 of US$Nil (September 30, 2011 – US$175,847; December, 2010 – US$Nil;) comprises a loss on a US dollar forward contract purchased to establish a currency exchange rate to pay a $2,000,000 senior promissory note.

During the period the Company financed its growth through retained earnings, lines of credit, stockholder loans, promissory notes and convertible debentures.

Capital Resources

The current levels of capital resources are sufficient for the Company’s current level of operations, and the Company does not have capital expenditures commitments at the present time. In order to expand the business, however, it is the view of management of the Company that additional capital resources are required.

Assuming the successful completion of the proposed IPO, proceeds from the proposed IPO will be applied to certain purposes with the objective of expanding the business and undertaking of the Company. Although the Company expects to repay all borrowed funds from the proceeds of the proposed IPO, it will retain its bank loan and line of credit facilities. These sources of debt will support further growth and be available to the Company during peak travel times of the winter and summer months when higher levels of currency inventories are required. There is no immediate need to resort to these debt facilities and, when the Company does incur such debt, it believes that it will be within levels of leverage which are prudent for the size and nature of its business. See: “Overview – Initial Public Offering”.

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 the financial condition of the Company.

Transactions with Related Parties

During the three months ended December 31, 2011, the Company entered into currency transactions with an individual who is both a director and officer totaling $Nil (Three months ended December 31st, 2011 - $7568). The Company also incurred legal and professional fees in the aggregate of $9,244 (Three months ending December 31, 2010 - $21,384) from companies controlled by directors or officers.

Lines of Credit

The Company had a $250,000 line of credit with RBC Bank (USA). The note issued against the line of credit had an interest rate at the greater of the bank's prime rate or 4%, payable monthly, and was due on July 1, 2010, and subsequently renewed to August 1st, 2011. The amounts drawn were subject to increases in interest rates if payments were in default.

The note is collateralized by a first lien position on all foreign cash and accounts receivables. The provisions of the line of credit agreement require that the Company comply with certain covenants. This line of credit was paid off in full and was closed on August 1st, 2011. The Company had a balance of December 31, 2010 of US$Nil.

On January 4, 2011, the Company entered into a "Master Purchasing Agreement" for up to Cdn$5,000,000 (5,157,000) with a company controlled by a shareholder of the Company. This line of credit is subordinate to all obligations of the Company. Specific repayment terms and interest rates are negotiated when drawings are made. On December 14, 2011, the Company amended the terms of the line of credit provided by the shareholder by reducing the principal amount from Cdn$5,000,000 (USD$5,157,000) to Cdn$2,000,000 (USD$2,062,800) upon completion of the offering.

On May 9, 2011, the Company issued a "Senior Promissory Note" at a discount from its face amount to Felicia Ross, a family member of a principal of Jones, Gable. The Senior Promissory Note was in the amount of C$1,000,000 (US$1,035,090) and was issued in consideration for an advance of C$972,333.33 (US$1,037,691). The Senior Promissory Note was interest free, due on August 1, 2011, unsecured and subordinate in payment only to the term loan and line of credit with RBC Bank (USA). On July 29, 2011, the Company issued a further "Senior Promissory Note" to the same family member of a principal of Jones, Gable. The Senior Promissory Note provided for assumption of the existing outstanding indebtedness of Cdn$1,000,000 (US$1,035,090) and a further advance for a total aggregate principal amount of Cdn$2,000,000 (USD$2,103,934) The additional principal amount of C$1,000,000 (US$1,090,845,) was issued at a discount from its face amount in consideration for an advance of C$919,780 (US$1,003,336) and an extension of the original C$1,000,000 (US$1,090,845) in indebtedness due on August 1, 2011. The Senior Promissory Note is interest free, due on December 1, 2011, unsecured and subordinate in payment only to the term loan and line of credit with RBC Bank (USA). On November 16, 2011, the due date of the Senior Promissory Note was extended to February 1, 2012, in consideration for an interest payment of C$40,767.12 due on December 1, 2011. On January 27, 2011, the due date of the Senior Promissory Note was extended to March 1, 2012, in consideration for an interest payment of C$19,068.49 due on February 1, 2012. The Senior Promissory Note will be paid from the proceeds of the proposed IPO assuming its successful completion.

Convertible Debentures

On June 1, 2009, the Company entered into a convertible debenture agreement with a shareholder of the Company who is a family member of a principal of the Jones, Gable for US$500,004. This debenture is unsecured, bears interest at 8% per annum payable quarterly, and matures on June 30, 2014. In October 2010, the Company entered into a second convertible debenture agreement with this same individual for US$500,000. This debenture is unsecured, bears interest at 8% per annum payable quarterly, and matures on September 30, 2015.

During the three months ended December 31, 2011, the Company incurred interest costs related to these convertible debentures of US$Nil (three months ended December 31, 2010 - US$18,438). On June 23, 2011 these debentures were converted into 166,668 and 125,000 Common Shares of the Corporation.

Loan Transactions

On April 17, 2009, the company entered into a loan agreement with RBC Bank (USA). The Company borrowed $100,000 and is to repay the loan in 23 principal payments of approximately $4,000 and one final principal repayment. The Company is obligated to repay all of the accrued unpaid principal payment, accruing at the greater of the prime rate plus 1% and 4%, to a maximum of 18%.

On June 16, 2010, the Company amended this loan with RBC Bank (USA), increasing the face amount to $354,167. The amended note payable is due in monthly installments of $9,838 including interest at the greater of the prime rate plus 1% and 4%, with the final payment due on June 16, 2013. The note payable is subject to increase in interest rates upon default and is secured by the Company's foreign cash accounts, chattel paper, accounts receivable, equipment and intangibles. The provisions of this loan require that the

Company comply with certain covenants. As of December 31, 2011 the note had a balance of $US194,905 (September 30, 2011 - $US222,141; December 31, 2010 -US$302,059).This loan will be paid from the proceeds of the proposed IPO, assuming its successful completion. See "Overview – Initial Public Offering".

The Company has entered into several unsecured loans with Randolph W. Pinna, a director and the President and Chief Executive Officer of the Company. Interest is payable at 5.5% per annum and is paid on the 1st day of each month. At December 31, 2011, the Company owed Mr. Pinna US$158,367 (December 31, 2010 - US$248,729.57). The shareholder loan will be paid from the proceeds of the proposed IPO, assuming its successful completion. See "Overview – Initial Public Offering".

Proposed Transactions

Other than the completion of the proposed IPO, there are no proposed transactions currently contemplated by the Company. See: "Overview – Initial Public Offering".

Critical Accounting Estimates

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of amounts receivable that are included in the statements of financial position;
- management's amortization policy and impairment assessment for property and equipment and intangible assets;
- management's impairment assessments for other assets;
- valuation of the equity component of convertible debentures;
- estimates for provisions; and
- valuation of share-based payments;
- valuation of forward contract asset;
- Valuation of short-term note payable and all such related items;
- Accrued expense provisions;
- Valuation of share-based payments; and
- Management's position that there are no income tax considerations required within the three months ending December 31, 2011.

Changes In Accounting Policies Including Initial Adoption

There have been no changes in accounting policies other than as disclosed below.

The Company previously reported its financial statements under U.S. GAAP and adopted IFRS in anticipation of its proposed IPO. The only adjustment as a result of the transition to IFRS was due to the accounting for deferred taxes. Under U.S. GAAP, deferred tax assets and liabilities were determined to be current or long-term depending on the nature of the item giving rise to the temporary difference; however, under IFRS, all deferred tax assets and liabilities must be shown as non-current.

This difference resulted in an adjustment to decrease current assets by US$34,000 as at September 30, 2010 (December 31, 2009 - US$20,117; December 31, 2008 - US$7,458) and decrease non-current liabilities by US$34,000 (December 31, 2009 - US$20,117) and increase non-current assets at December 31, 2008 by US$7,458.

Financial Instruments and Other Instruments

Financial assets

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus directly attributable transaction costs. The Company's financial assets include cash, accounts receivable, subscription receivable, financial instruments included in other current assets and restricted cash held in escrow, and are all classified as loans and receivables. Cash equivalents are classified as at fair value through profit or loss.

Fair value through profit and loss

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through income. Cash equivalents are included in this category of financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs. The Company's financial liabilities include accounts payable, accrued expenses, line of credit, shareholder loan payable, notes payable, and convertible debentures and are all classified as other financial liabilities.

Other financial liabilities

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition. Other financial liabilities are derecognized when the obligations are discharged, cancelled or expired.

Financial instruments recorded at fair value

Financial instruments recorded at fair value in the condensed interim statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of December 31, 2011 cash equivalents are classified as Level 1 financial instruments. As of December 31, 2011 forward contract asset is classified as a Level 2 instrument. As of September 30, 2011 forward contract liability is classified as a Level 2 financial instrument.

Disclosure of Outstanding Share Data

The Company is authorized to issue 100,000,000 Common Shares with a par value of US$1.00 per Common Share, of which 2,492,068 Common Shares are issued and outstanding as fully paid and non-assessable as at date of this MD&A. See: "Overview – Initial Public Offering".

Risks and Uncertainties

The Company manages its capital to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities.

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 of the Company on an ongoing basis.

The Company considers its capital to be equity, which comprises share capital, equity reserves and retained earnings, which as at December 31, 2011, totaled US$6,695,606 (September 30, 2011 - US$6,159,338; December 31, 2010 – US$3,670,058). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on activities related to its daily operations. Selected information is provided to the board of directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the year ended September 30, 2011 and the three months ended December 31, 2011.

The Company is subject to various capital requirements imposed by lenders.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivable.

The Company maintains its cash and cash equivalent accounts in high quality financial institutions. At various times, the Company's cash in bank balances may exceed the federally insured limits.

The Company provides credit, in the normal course of business, to customers. The Company performs ongoing credit evaluations of its customers, generally does not require collateral and maintains allowances for potential credit losses, which when realized, have been within the range of management's expectations.

Foreign Currency Price Risk

The Company's foreign currency holdings may be volatile due to differences or changes in the political and financial environment of the corresponding issuing country. Management believes its exposure to foreign currency fluctuations is mitigated by the short-term nature and rapid turnover of foreign currency inventory, as well as their use of forward contracts to offset these fluctuations.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. Management does not feel that there is a significant risk with respect to liquidity given the nature of operations.

Interest Risk

The Company has cash and cash equivalent balances and debt that are subject to interest risk fluctuations. A significant portion of the Company's cash is held in foreign currencies and is not subject to interest risk. The Company's debt is subject to interest rate fluctuations as various lines of credits and loans are affected by the bank's prime rate. Management monitors the status of its loans on a consistent basis and will base financing decisions accordingly.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a three month period:

(i) Cash and cash equivalents are subject to floating interest rates. Sensitivity to a plus or minus one percentage point change in interest rates would affect the Company's reported net income and comprehensive income by approximately US$1,300.

(ii) The Company holds significant balances in various foreign currencies. The Company mitigates this risk through the usage of foreign currency forward contracts. Because most positions are covered by these forward contracts, management does not anticipate a material impact with respect to the fluctuation of foreign currencies.

Completion of the IPO and Listing on the TSX

The TSX has conditionally approved the listing of the Common Shares and Warrants. Listing is subject to the Company fulfilling all of the requirements of the TSX and the successful completion of the proposed IPO.

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Only investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment should undertake such investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position. Please refer to the section entitled "Risk Factors" in the Prospectus, available on SEDAR at www.sedar.com. There have been no significant changes to such risk factors since the date thereof.