# CURRENCY EXCHANGE INTERNATIONAL, CORP.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# FOR THE THREE-MONTH PERIODS ENDED JANUARY 31, 2020 AND 2019

*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 subsidiaries (the "**Company,**" or "**CXI**") for the three-months ended January 31, 2020, 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 March 11, 2020 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 audited consolidated financial statements of the Company for three-month periods ended January 31, 2020 and 2019 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, 2019. The functional currency of the Company and its wholly-owned subsidiary eZforex.com, Inc ("eZforex") is the U.S. Dollar. The functional currency of the Company's wholly-owned 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 condensed interim 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 wholly-owned subsidiaries, eZforex and 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 beginning on page 15. 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 other commercial clients through its proprietary payments platform, company owned branches and vaults, and inventory on consignment locations, throughout the United States and Canada, by utilizing the Company's sophisticated software application, 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 ongoing 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, which continued operations as 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 open foreign exchange positions to market value, together with the net gain or loss from foreign currency forward and option 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 46 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 January 31, 2020, the Company had inventory on consignment in 741 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.

(All amounts expressed in U.S. Dollars unless otherwise noted)

*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 46 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 | Pearl Ridge | Aiea | HA | 2019 |
| Aventura Mall | Aventura | FL | 2008 | Potomac Mills Mall | Woodbridge | VA | 2007 |
| Beverly Center | Los Angeles | CA | 2018 | Queens Center | New York | NY | 2017 |
| Century City Mall | Los Angeles | CA | 2009 | Riverwalk | New Orleans | LA | 2018 |
| Cherry Creek | Denver | CO | 2014 | San Francisco City Center | San Francisco | CA | 2011 |
| Citadel Outlets | Los Angeles | CA | 2014 | San Jose Great Mall | San Jose | CA | 2011 |
| Copley Place Mall | Boston | MA | 2009 | Santa Monica Place | Santa Monica | CA | 2012 |
| Dadeland Mall | Miami | FL | 2009 | Sawgrass Mills Mall Booth #1 | Sunrise | FL | 2007 |
| Dolphin Mall | Miami | FL | 2009 | Sawgrass Mills Mall Booth #2 | Sunrise | FL | 2010 |
| Fashion District | Philadelphia | PA | 2019 | 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 Plaza | 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 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | Q1 2019 | Q1 2020 |
|---|---|---|---|---|---|---|---|
| Company owned branch locations | 36 | 38 | 41 | 43 | 46 | 44 | 46 |
| Wholesale company relationships* | 556 | 927 | 954 | 1,267 | 1,878 | 921 | 1,511 |
| Number of transacting locations* | 9,494 | 11,975 | 14,587 | 17,017 | 21,595 | 11,527 | 14,068 |

*These numbers show the companies and locations that transacted within the period specified.

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.

(All amounts expressed in U.S. Dollars unless otherwise noted)

## *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) $ |
|---|---|---|---|---|---|---|
| 1/31/2020 | 9,874,289 | 1,162,930 | 159,274 | 108,319,219 | 66,323,630 | 0.02 |
| 10/31/2019 | 11,469,079 | 1,863,442 | 769,393 | 82,729,714 | 66,329,035 | 0.13 |
| 7/31/2019 | 12,402,484 | 2,935,899 | 1,820,768 | 81,719,233 | 65,447,949 | 0.28 |
| 4/30/2019 | 9,460,809 | 1,081,292 | 507,370 | 82,267,884 | 63,022,825 | 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 |

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-months ended January 31, 2020 and 2019*

The Company had a strong start to its fiscal year, with 16% growth in revenue. The Canadian region had growth of 30% as EBC continued to grow its trading volume and customer base. The USA region increased 13%, in part as a result of the eZforex.com acquisition that occurred on September 6, 2019. Since January 31, 2019, the Company has added 580 new customer relationships comprising 2,005 locations, of which 551 relationships representing 1,948 transacting locations were added in the United States and 29 relationships representing 57 locations were added in Canada. During the three-month period ended January 31, 2020, the number of transactions between the Company and its customers increased 16% to 264,000 transactions from 227,000 for the same period in the previous year. By line of business, Payments increased 49% or $276,907 over the prior year, and banknotes by 14% or $1,088,166. CXI is well-positioned in the market with a strong capital base to support additional growth initiatives, including prospective merger and acquisition opportunities.

| | Three months ended January 31, 2020 $ | Three months ended January 31, 2019 $ |
|---|---|---|
| Revenue | 9,874,289 | 8,451,671 |
| Operating expenses | 8,711,359 | 8,180,261 |
| Net Operating income | 1,162,930 | 271,410 |
| Total other income | 5,869 | 3,436 |
| EBITDA* | 1,168,799 | 274,846 |
| Net (loss) income | 159,274 | (172,811) |
| Basic (loss) earnings per share | 0.02 | (0.03) |
| Diluted (loss)earnings per share | 0.02 | (0.03) |

* Earnings before interest, taxes, depreciation and amortization

(All amounts expressed in U.S. Dollars unless otherwise noted)

*Results of operations – three-month periods ended January 31, 2020 and 2019*

| | January 31, 2020 | October 31, 2019 |
|---|---|---|
| Total assets | 108,319,219 | 82,729,716 |
| Total long-term financial liabilities | 4,103,013 | - |
| Total equity | 66,323,630 | 66,329,037 |

A breakdown of revenue by geographic location is presented below:

| | Three months ended January 31, 2020 $ | Three months ended January 31, 2019 $ | Change $ | Change % |
|---|---|---|---|---|
| **Revenues by Geography** | | | | |
| United States | 8,001,040 | 7,012,450 | 988,590 | 14% |
| Canada | 1,873,249 | 1,439,221 | 434,028 | 30% |
| **Total** | 9,874,289 | 8,451,671 | 1,422,618 | 17% |
| **Revenues by Product Line** | | | | |
| Banknotes | 8,970,949 | 7,882,833 | 1,088,116 | 14% |
| Payments | 903,340 | 568,838 | 334,502 | 59% |
| **Total** | 9,874,289 | 8,451,671 | 1,422,618 | 17% |

During the three-month period ended January 31, 2020, operating expenses increased 6% to $8,711,359 compared to $8,180,261 for the three-month period ended January 31, 2019. Normalizing for the impact of IFRS 16, which was implemented on November 1, 2019 using the modified retrospective approach, operating expenses would have increased by 14% to $9,296,960. The major components of operating expenses are presented in the table below, with commentary for significant variances:

| | Three months ended January 31, 2020 $ | Three months ended January 31, 2019 $ | Change $ | Change % |
|---|---|---|---|---|
| Salaries and benefits | 4,898,521 | 4,568,520 | 330,001 | 7% |
| Rent | 405,493 | 885,649 | (480,156) | -54% |
| Legal and professional | 710,230 | 730,304 | (20,074) | -3% |
| Postage and shipping | 978,952 | 879,938 | 99,014 | 11% |
| Stock based compensation | 257,473 | 113,376 | 144,097 | 127% |
| Travel and entertainment | 194,829 | 182,902 | 11,927 | 7% |
| Bank service charges | 280,571 | 171,628 | 108,943 | 63% |
| Software maintenance | 316,989 | 286,992 | 29,997 | 10% |
| Insurance | 104,359 | 117,026 | (12,667) | -11% |
| Other general and administrative | 563,942 | 243,926 | 320,016 | 131% |
| Operating expenses | 8,711,359 | 8,180,261 | 531,098 | 6% |

- Salaries and benefits increased 7% to $4,898,521 from $4,568,520 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;

*Results of operations – three-month periods ended January 31, 2020 and 2019* (continued)

- Rent expense decreased 54% to $405,493 from $885,649. This decrease is attributable to the adoption of IFRS 16 on November 1, 2019. Had the new accounting standard not been implemented, rent expense would have increased 12% to $991,093 from $885,649 which is due to the addition of 2 new retail branch locations as well as general increases year over year;

- Postage and shipping increased 11% to $978,952 from $879,938 and is due to an increase in the frequency of inbound and outbound shipments, associated with increased transaction volume. The Company incurs shipping fees from couriers and armored carriers to transport currency between the Company's locations and customers. The Company added 199 new wholesale banknote customers representing 1,222 new transacting locations since January 31, 2019 which has led to a 16% 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 to $257,473 from $113,376 for the vested portion of stock options granted pursuant to the Company's stock option plan. The increase is due to the vesting of the 354,410 options granted on October 23, 2019. Of these options, 228,754 were made outside of the Company's stock option plan and are subject to shareholder approval. 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$22.93. There were 708,366 options outstanding at January 31, 2020 compared to 385,784 options outstanding at January 31, 2019;

- Bank service charges increased 63% to $280,571 from $171,628. 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 10% to $316,989 from $286,992 due to expanded usage of software applications purchased to support Sales, Operations, Payments, IT, and Finance functions in the Company;

- Other general and administrative expenses increased to $563,942 from $243,926. Other expenses are comprised of losses and shortages, licenses and fees, utilities, office supplies, foreign exchange gain and losses through profit and loss, and other general and administrative expenses. The principal reasons for the increase of $320,018 was a $99,757 increase in foreign exchange gain and loss though profit and loss and a $108,766 increase in losses and shortages.

The ratio of operating expenses to total revenue for three-month period ended January 31, 2020 was 88% (excluding the reduction in operating expenses related to the adoption of IFRS 16, this ratio would have been 94%) compared to 97% for the three-month period ended January 31, 2019, reflecting continued improvement in operating leverage. 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.

(All amounts expressed in U.S. Dollars unless otherwise noted)

*Selected Financial Results for the three-months ended January 31, 2020 and 2019*

Other income and expenses are comprised of the following:

| | Three months ended January 31, 2020 $ | Three months ended January 31, 2019 $ |
|---|---|---|
| Other income | 5,869 | 3,436 |
| Interest expense | (212,158) | (119,778) |
| Depreciation and amortization | (904,899) | (380,919) |
| Income tax benefit | 107,532 | 53,040 |
| Total other expense | (1,003,656) | (444,221) |

- Other income increased to $5,869 from $3,436 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 in the three-month period ending January 31, 2019;

- Interest and accretion expense increased to $212,158 from $119,778 and relates to interest payments on credit lines. It also includes an incremental amount of $73,956 from the adoption of IFRS 16 in the three-months ended January 31, 2020;

- Depreciation and amortization increased to $904,899 from $380,919, primarily driven by the adoption of IFRS 16 that generated an incremental depreciation amount of $518,017 related to the Right of Use asset associated with leases that were recorded in conjunction with the adoption of IFRS 16 during the three-months ended January 31, 2020; and

- Income tax benefit increased to $107,532 compared to a benefit of $53,040 for the three-month period ended January 31, 2019 and is a total of federal income tax in both the United States and Canada, as well as various state and provincial taxes for the jurisdictions in which the Company operates. The main driver of the increased income tax benefit is the initial recognition of a deferred tax asset of $157,016 arising from the adoption of IFRS 16. This is offset by other temporary differences related to property, plant and equipment and intangibles of $49,484.

To assist in understanding the impact of IFRS 16 on the financial statements, and for comparability purposes, the following table depicts the adjustments necessary to present select financial information for the three-month period ended January 31, 2020 on a proforma basis as if the Company had accounted for its leases in all material respects under the previous accounting standard, IAS 17, as follows:

(All amounts expressed in U.S. Dollars unless otherwise noted)

| *Select data from the Statement of Financial Position:* | As Reported (IFRS 16) | IFRS 16 Adjustments | Proforma (IAS 17) |
|---|---|---|---|
| Right-of-use assets, net | 5,236,696 | (5,236,696) | - |
| Deferred Tax Asset | 697,676 | (157,016) | 540,660 |
| **Total Assets** | **108,319,219** | **(5,393,712)** | **102,925,507** |
| Accrued Expenses *(relates to deferred rent)* | 1,875,223 | 259,323 | 2,134,546 |
| Current Lease Liabilities | 1,741,083 | (1,741,083) | - |
| Long-Term Lease Liabilities | 4,103,013 | (4,103,013) | - |
| **Total Lease Liabilities** | 5,844,095 | (5,844,095) | - |
| **Total Liabilities** | 41,995,589 | (5,584,772) | 36,410,817 |
| Retained Earnings | 30,527,092 | 191,060 | 30,718,152 |
| **Total Equity** | 66,323,630 | 191,060 | 66,514,690 |
| **Total Liabilities and Equity** | **108,319,219** | **(5,393,712)** | **102,925,507** |

| *Select data from the Statement of Operations:* | As Reported (IFRS 16) | IFRS 16 Adjustments | Proforma (IAS 17) |
|---|---|---|---|
| **Total Revenue** | **9,874,289** | **-** | **9,874,289** |
| Rent Expense | 405,493 | 585,600 | 991,093 |
| Total Operating Expenses | 8,711,359 | 585,600 | 9,296,959 |
| **EBITDA** | **1,168,799** | **(585,600)** | **583,199** |
| Interest on lease liabilities | 73,956 | (73,956) | - |
| Depreciation on right-of-use as | 518,017 | (518,017) | - |
| **Income before tax** | **51,742** | **6,373** | **58,115** |
| Income Tax Expense (Benefit) | (107,532) | 157,016 | 49,484 |
| **Net Income** | **159,274** | **(150,643)** | **8,631** |

*Cash flows*

Cash flows from operating activities during the three-month period ended January 31, 2020 resulted in an outflow of $1,174,111, compared to an outflow of $8,452,481 during the three-month period ended January 31, 2019. The principal reason for the increase in operating cash was due to a significant increase in accounts payable. 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 three-month period ended January 31, 2020 resulted in an outflow of $176,757 compared to an outflow of $526,564 during the three-month period ended January 31, 2019. In 2019, this represented additions to property and equipment from the opening of the Montreal vault location and to internally developed software as well as proceeds of $18,812 from the sale of assets.

Cash provided by financing activities during the three-month period ended January 31, 2020 was $9,863,580 compared to $8,464,539 during the three-month period ended January 31, 2019. The Company increased usage of its line of credit to $10,858,621 on January 31, 2020, compared to a balance of $8,460,455 on January 31, 2019.

*Liquidity and capital resources*

At January 31, 2020, the Company had working capital of $57,900,699 (October 31, 2019 - $58,932,941).

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 January 31, 2019 – 1.67% (2019 – 2.3%)). At January 31, 2019, the balance outstanding was $10,103,997 (October 31, 2019 - $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 ($4,534,119) being secured against cash assets held in its vaults. The line of credit bears interest at

(All amounts expressed in U.S. Dollars unless otherwise noted)

CDN prime plus 0.5% [at January 31, 2019 – 3.95% (2019 – 3.95%)]. At January 31, 2020, the balance outstanding was $754,625 (October 31, 2019 - $472,736).

The Company had a total available balance of unused lines of credit of $13,675,498 at January 31, 2020 (October 31, 2019 - $24,086,534).

*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, 2019 $** | **Year ended October 31, 2018 $** | **Year ended October 31, 2017 $** | **Year ended October 31, 2016 $** |
|---|---|---|---|---|
| Revenues | 41,784,043 | 39,098,141 | 32,477,220 | 26,827,456 |
| Net operating income | 6,152,042 | 8,137,804 | 7,921,509 | 6,877,489 |
| Net income | 2,924,720 | 4,227,243 | 3,821,469 | 3,642,111 |
| Basic earnings per share | $0.46 | $0.67 | $0.62 | $0.59 |
| Diluted earnings per share | $0.46 | $0.67 | $0.61 | $0.58 |
| Total assets | 82,729,716 | 73,267,274 | 63,968,227 | 62,196,008 |
| Total liabilities | 16,400,679 | 10,545,337 | 7,475,609 | 11,443,657 |
| Total non-current financial liabilities | - | - | - | - |
| Working capital | 58,932,941 | 59,483,137 | 52,778,077 | 47,016,377 |

*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.

*Forward and option contract activity*

The Company enters into non-deliverable foreign currency forward and option 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 and option contracts, which represents the amount that would be (paid) received by the Company if the forward contracts were terminated at January 31, 2020 was $147,562 (October 31, 2019 - $1,735).

(All amounts expressed in U.S. Dollars unless otherwise noted)

At January 31, 2020 and October 31, 2019 approximately $614,465 and $644,657, 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-month periods ended January 31, 2020 and 2019 were as follows:

| | **Three months ended** | |
|---|---|---|
| | **January 31, 2020** | **January 31, 2019** |
| | $ | $ |
| Short-term benefits | 649,920 | 654,951 |
| Post-employment benefits | 32,305 | 23,444 |
| Stock based compensation | 256,913 | 106,896 |
| | 939,138 | 785,291 |

The Company incurred legal and professional fees in the aggregate of $45,900 for the three-month period ended January 31, 2020 (2019 - $84,900) 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 $38,274 in revenue from these clients' activities for the three-month period ended January 31, 2020 (2019 – $16,473). As at January 31, 2020, net accounts receivable included $176,736 from related parties (2019 - $53,674).

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.

Advances between CXI and EBC are provided under a Revolving Line of Credit, renewed May 31, 2018; loans attract interest at LIBOR + 2%, are repayable on demand, and are unsecured. At January 31, 2020, the intercompany loan balance was $18,544,000 (October 31, 2019 - $11,250,000) and was eliminated upon consolidation.

*Transactions with related parties (continued)*

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 January 31, 2020 and 2019, 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 offers an incentive stock option plan which was established on April 28, 2011, and was amended most recently October 20, 2017 (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

(All amounts expressed in U.S. Dollars unless otherwise noted)

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. Under the terms of the Plan, 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, and 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-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 | 25,039 | 2.07% | 36% | 25.52 | 7.69 |
| 26-Oct-17 | 26-Oct-22 | 26.84 | 76,981 | 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 |
| 4-Mar-19 | 4-Mar-24 | 17.03 | 30,000 | 1.58% | 24% | 17.36 | 3.07 |
| 4-Jun-19 | 4-Jun-24 | 17.03 | 5,837 | 1.58% | 24% | 17.36 | 3.07 |
| 23-Oct-19 | 23-Oct-24 | 17.03 | 72,376 | 1.58% | 24% | 17.36 | 3.07 |
| 23-Oct-19 | 23-Oct-24 | 17.03 | 228,754 | 1.58% | 24% | 17.36 | 3.07 |

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

The outstanding options at January 31, 2020 and the respective changes during the periods are summarized as follows:

| | Number of options # | Weighted average price CDN$ |
|---|---|---|
| **Outstanding at October 31, 2018** | 424,495 | 27.42 |
| Granted | 354,410 | 17.80 |
| Exercised | (7,269) | 21.47 |
| Cancelled through cashless exercise | (27,500) | 17.19 |
| Forfeited | (35,770) | 30.08 |
| **Outstanding at October 31, 2019** | 708,366 | 22.93 |
| **Outstanding at January 31, 2020** | 708,366 | 22.93 |

*Option grants (continued)*

The following options are outstanding and exercisable at January 31, 2020:

| Grant Date | Exercise price (Cdn$) | Number outstanding | Average remaining contractual life (years) | Number exercisable |
|---|---|---|---|---|
| 30-Oct-15 | 24.64 | 20,148 | 1.00 | 20,148 |
| 30-Oct-15 | 24.64 | 55,662 | 1.00 | 55,662 |
| 11-Mar-16 | 22.78 | 4,182 | 1.36 | 4,182 |
| 26-Oct-16 | 30.75 | 13,004 | 1.99 | 13,004 |
| 26-Oct-16 | 30.75 | 42,928 | 1.99 | 42,928 |
| 6-Jun-17 | 21.53 | 5,586 | 2.60 | 3,724 |
| 26-Oct-17 | 25.52 | 14,308 | 2.99 | 14,308 |

(All amounts expressed in U.S. Dollars unless otherwise noted)

| | | | | |
|---|---|---|---|---|
| 26-Oct-17 | 25.52 | 62,893 | 2.99 | 41,929 |
| 9-Aug-18 | 30.69 | 9,084 | 3.78 | 3,028 |
| 9-Aug-18 | 30.69 | 1,116 | 3.98 | 1,116 |
| 23-Oct-18 | 30.77 | 27,858 | 3.98 | 27,858 |
| 23-Oct-18 | 30.77 | 97,187 | 3.98 | 32,397 |
| 23-Jan-19 | 28.23 | 4,127 | 4.23 | 1,375 |
| 4-Mar-19 | 25.83 | 13,316 | 4.35 | - |
| 23-Oct-19 | 17.36 | 30,000 | 4.35 | - |
| 23-Oct-19 | 17.36 | 5,837 | 4.60 | 2,919 |
| 23-Oct-19 | 17.36 | 72,376 | 4.98 | 18,094 |
| 23-Oct-19 | 17.36 | 228,754 | 4.98 | - |
| Total | | 708,366 | | 282,672 |

The October 23, 2019 grant of 228,754 options was made outside of the Company's stock option plan, and in accordance with the policies of TSX is subject to approval by the shareholders and regulatory approval. The options granted pursuant to the October 23, 2019 grant of 228,754 options to employees of the Company cannot be exercised prior to receipt of such approvals. The shareholders of the Company will be asked to approve and ratify the October 23, 2019 grant of 228,754 options at the next meeting of shareholders called for March 25, 2020.

*Potential Transaction*

On July 9, 2018 the Company announced its wholly-owned subsidiary, EBC, had 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.

*Subsequent events*

The Company evaluated subsequent events through March 11, 2020, 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, 2019 and 2018. On November 1, 2019, the Company adopted IFRS 16 *Leases* ("IFRS 16") which contained new guidance for the recognition of leases. The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adoption as at November 1, 2019 being recognized as a single adjustment to retained earnings. For a full breakdown of the impact of the adoption of IFRS, refer to Note 3 of the condensed interim consolidated financial statements.

*Financial Risk factors*

*Outbreak of Infectious Diseases*

The Company's banknote business, which represents a significant portion of commissions revenue, is highly correlated to international travel patterns by consumers. The Company's business will be adversely affected by the effects of a widespread outbreak of respiratory illness caused by a novel coronavirus ("COVID-19") in its primary North American market, as well as travel abroad to and from North America that is curtailed due to such disease outbreaks. The Company cannot accurately predict the impact COVID-19 will have on its revenue and business undertaking, due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. As a result, the Company cannot be assured that measures it is taking, or may take in the future, for business continuity and cost containment will be effective as it is not possible to predict how the Company may be affected if such an epidemic persists for an extended period of time.

(All amounts expressed in U.S. Dollars unless otherwise noted)

*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 and option 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 January 31, 2020 | At October 31, 2019 |
|---|---|---|
| **Customer type** | **$** | **$** |
| Domestic and international financial institutions | 9,767,098 | 2,575,497 |
| Money service businesses | 12,460,816 | 7,274,152 |
| Other | 454,200 | 693,603 |
| **Total** | 22,682,114 | 10,543,252 |

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 and option 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 vaults, tills and in transit at January 31, 2020 was approximately $8,585,000 (October 31, 2019 - $6,860,000). The amount of currency that is unhedged and that is not pegged to the U.S. Dollar is approximately $6,793,000 (2019 - $5,464,000). 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 +$136,000/-$136,000 (October 31, 2019 gain/loss of approximately +$109,000/-$109,000).

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 January 31, 2020, 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 13 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 January 31, 2020 would have been approximately +$10,700/-$10,700 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.

(All amounts expressed in U.S. Dollars unless otherwise noted)

*Liquidity Risk (continued)*

The following are non-derivative contractual financial liabilities:

**At January 31, 2020**

| Non-derivative financial liabilities | Carrying amount | Estimated contractual amount | This fiscal year | Future fiscal years |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Accounts payable | 22,805,842 | 22,805,842 | 22,805,842 | $Nil |
| Line of credit | 10,858,621 | 10,858,621 | 10,858,621 | $Nil |
| Accrued expenses | 1,938,815 | 1,938,815 | 1,938,815 | $Nil |
| Contract liability | 298,406 | 298,406 | $Nil | 298,406 |

**At October 31, 2019**

| Non-derivative financial liabilities | Carrying amount | Estimated contractual amount | Next fiscal year | Future fiscal years |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Accounts payable | 12,583,741 | 12,583,741 | 12,583,741 | $Nil |
| Line of credit | 472,736 | 472,736 | 472,736 | $Nil |
| Accrued expenses | 2,767,711 | 2,437,831 | 2,437,831 | $Nil |
| Contract liability | 266,392 | 266,392 | $Nil | 266,392 |

*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 January 31, 2020 | At October 31, 2019 |
|---|---|---|
| | $ | $ |
| Current assets | 95,793,275 | 75,333,620 |
| Current liabilities | (37,892,576) | (16,400,679) |
| Working capital | 57,900,699 | 58,932,941 |

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.