

CURRENCY EXCHANGE INTERNATIONAL, CORP.

**MANAGEMENT'S DISCUSSION AND
ANALYSIS**

**FOR THE THREE AND NINE MONTH
PERIODS ENDED JULY 31, 2016
AND 2015**



CURRENCY EXCHANGE
INTERNATIONAL

Management Discussion and Analysis
(All amounts expressed in U.S. Dollars unless otherwise noted)
For the three and nine month periods ended July 31, 2016 and 2015

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 and nine month periods ended July 31, 2016 and 2015, 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 September 7, 2016 in accordance with International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board (“**IASB**”) and interpretations of the International Financial Reporting Interpretations Committee (“**IFRIC**”) and should be read in conjunction with the condensed interim consolidated financial statements of the Company for the three and nine month periods ended July 31, 2016 and 2015 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, 2015. The functional currency of the Company and its U.S. subsidiary, Currency Exchange International America Corp. (“**CXIA**”), is the U.S. Dollar. The functional currency of the Company's Canadian subsidiary, Currency Exchange International of Canada Corp. (“**CXIC**”), 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 subsidiaries, CXIC and CXIA.

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
Status of CXI’s application to continue CXIC as a Canadian Schedule I bank, and the objectives for such bank	Regulatory and governmental approval for the establishment of the bank will be received on a timely basis upon terms favorable to CXI; the bank will be able to attract and retain clients	Approvals are made at the discretion of governmental bodies and may not be granted on terms favorable to CXI or at all; the bank has no history of operations
Sensitivity analyses relating to foreign currencies and interest rates	All factors other than the variable in question remain unchanged; CXI’s entire unhedged balance of foreign currency holdings is affected uniformly by changes in exchange rates; CXI’s interest-bearing instruments and obligations were constant during the period	Exchange rate and interest rate fluctuations

Inherent in forward-looking information are risks, uncertainties and other factors beyond the Company’s ability to predict or control. Please also make reference to those risk factors referenced in the “Risk Factors” section in the Company’s MD&A for the year ended October 31, 2015. 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 banks, money service businesses, travel companies, and to clients through its company owned branches and inventory on consignment locations, throughout the United States and Canada, by utilizing the Company's proprietary online software system, CEIFX. The Company has developed CEIFX, its proprietary customizable web-based software, as an integral part of its business and believes that it represents an important competitive advantage. CEIFX is also an on-line compliance and risk management tool. The trade secrets associated with CEIFX are protected via copyright, restricted access to both the software and its source code, and secure maintenance of source code by the head office. CEIFX is updated regularly and on-going system development and enhancement is a core activity of the Company.

On November 23, 2012, CXI submitted its application to continue its wholly-owned Canadian subsidiary, CXIC, as a new Canadian Schedule I bank. Subject to review and approval of the application by the Office of the Superintendent of Financial Institutions (Canada and the Minister of Finance (Canada), the new bank will be called "Exchange Bank of Canada" and will have its head office in Toronto.

The objective of the Exchange Bank of Canada 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 banks 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, collateral reductions with corresponding banks, and enhancing existing bank relationships.

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

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

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

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

Overview (continued)

- The Company operates three 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 banks, 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 37 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 currently maintains inventory in the form of domestic and foreign bank notes in banks 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 July 31, 2016, the Company had inventory on consignment in 629 locations, primarily located inside banks 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's bank and non-bank clients generally act as a net seller. Excess currency collected via the branch network can be redeployed to banks and non-bank clients which reduces the need to source currency through wholesale sources at a greater cost, thus increasing currency margins.

The Company has aggressively 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 37 branch locations:

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Overview (continued)

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

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Q3 2016
Company owned branch locations	14	15	18	23	26	32	36	37
Wholesale company relationships	61	70	123	245	364	469	521	920
Number of transacting locations	190	267	1,983	2,455	5,741	8,274	10,157	12,559

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 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 banks, money service business customers and other financial institutions. 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.

Overview (continued)

Bought deal private placement

On March 12, 2015 the Company entered into an agreement with a syndicate of underwriters who purchased 540,000 common shares of the Company on a bought deal private placement offering (“**Offering**”), at a price of \$21.06 (Cdn\$26.75) per Common Share for aggregate gross proceeds of \$11,371,104 (Cdn\$14,445,000). In connection with the Offering, the Company paid commission to the agents in the amount of \$596,983 and incurred other professional fees and expenses of \$108,516 for a total cost of \$705,499. \$650,715 of the fees were deducted from the gross proceeds resulting in net proceeds of \$10,720,389 from the Offering. \$58,720 related to the listing of the common shares were expensed.

Purchase of assets from U.S. Exchange House, Inc.

On March 28, 2014 the Company purchased certain assets of U.S. Exchange House, Inc. (“**USEH**”), pertaining to its bank note operations located in the United States and Canada. The Company acquired USEH’s customer trading relationships, certain prepaid and fixed assets and the USEH trading software used to operate the bank note business. CXI paid \$2,350,000 in cash on closing and had two additional contingent payments of up to a maximum of \$1,325,000 each and payable within sixty days of the first and second anniversary after closing. The Company made additional payments of \$767,684 subsequent to the first anniversary after closing and \$731,706 subsequent to the second anniversary after closing.

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	Total assets	Total equity	Earnings per share (diluted)
	\$	\$	\$	\$	\$	\$
31-Jul-16	7,708,332	2,603,843	1,484,257	71,027,241	50,246,391	0.24
30-Apr-16	5,854,925	1,160,181	479,540	57,198,857	49,232,843	0.08
31-Jan-16	5,572,055	894,364	298,377	50,546,441	46,940,287	0.05
31-Oct-15	6,882,336	2,330,425	505,780	52,241,996	47,436,566	0.08
31-Jul-15	6,688,467	2,231,642	2,087,038	50,835,334	46,922,010	0.33
31-Jul-15	5,311,102	1,333,013	661,818	49,633,902	44,582,384	0.11
31-Jan-15	5,193,869	1,242,367	353,574	38,859,547	32,456,426	0.06
31-Oct-14	6,552,184	2,279,682	1,045,192	39,709,302	33,025,175	0.19

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.

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Selected Financial Results for the three and nine month periods ended July 31, 2016 and July 31, 2015

	Nine months ended July 31, 2016 \$	Nine months ended July 31, 2015 \$	Three months ended July 31, 2016 \$	Three months ended July 31, 2015 \$
Revenue	19,135,312	17,193,438	7,708,332	6,688,467
Operating expenses	14,476,924	12,386,416	5,104,489	4,456,825
Net Operating income	4,658,388	4,807,022	2,603,843	2,231,642
Total other income/(expense), net	(121,615)	(39,778)	(17,159)	(70,071)
EBITDA*	4,536,773	4,767,244	2,586,684	2,161,571
Net income	2,262,174	3,102,430	1,484,257	2,087,038
Basic earnings per share	0.37	0.54	0.24	0.35
Diluted earnings per share	0.36	0.52	0.24	0.33

* Earnings before interest, taxes, depreciation and amortization

	July 31, 2016	October 31, 2015
Total assets	\$71,027,241	\$52,241,996
Total long term financial liabilities	-	-
Total equity	\$50,246,391	\$47,436,566

Results of operations – nine month periods ended July 31, 2016 and 2015

A breakdown of revenues by geographic location is presented below:

	Total revenues	
	Nine months ended July 31, 2016 \$	Nine months ended July 31, 2015 \$
United States	15,543,595	11,522,250
Canada	3,591,716	5,671,188
Total	19,135,312	17,193,438

Beginning in May of 2015, the Company shifted away from utilizing an intercompany inventory on consignment model resulting in a shift in income from Canada to the United States. During the nine month period ended July 31, 2016 total commission revenues increased by 11% to \$19,135,312 compared to \$17,193,438 for the nine month period ended July 31, 2015. Since July 31, 2015, the Company has added 408 new wholesale relationships comprising 2,483 transacting locations, of which 58 wholesale relationships representing 1,190 transacting locations were added in the United States and 350 wholesale relationships representing 1,293 transacting locations were added in Canada. During the nine month period ended July 31, 2016, the number of transactions between the Company and its customers increased 16% to 493,222 transactions from 425,509 from the same period of the previous year.

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Results of operations – nine month periods ended July 31, 2016 and 2015 (continued)

During the nine month period ended July 31, 2016, operating expenses increased 17% to \$14,476,924 compared to \$12,386,416 for the nine month period ended July 31, 2015, the major components of which are presented below:

	Nine months ended July 31, 2016 \$	Nine months ended July 31, 2015 \$	Change	Change %
Salaries and benefits	7,939,389	6,840,626	1,098,763	16%
Rent	1,943,440	1,774,108	169,332	10%
Legal, professional and director's fees	840,099	641,540	198,559	31%
Postage and shipping	1,778,909	1,371,717	407,192	30%
Stock based compensation	476,159	442,372	33,787	8%
Other general and administrative	1,498,928	1,316,053	185,344	14%
Total operating expenses	14,476,924	12,386,416	2,092,977	17%

- Salaries and benefits increased 16% to \$7,939,389 from \$6,840,626 which is attributed to increases in the Company's employment base for the period. As of July 31, 2016, the Company employed 261 full and part-time employees in the United States and Canada compared to 235 full and part-time employees at July 31, 2015. The increase in staffing is a result of adding a company owned branch location as well as the hiring of two senior executives in the areas of sales and compliance and other hires of employees engaged in the areas of compliance, information technology, finance, operations, vault operations and sales;
- Rent increased 10% to \$1,943,440 from \$1,774,108. The Company has opened 1 new branch location since July 31, 2015 and 5 new locations since the start of 2015 fiscal year;
- Legal, professional and director's fees increased 31% to \$840,099 from \$641,540. The increase is related primarily to one-time costs for executive search fees;
- Postage and shipping increased 30% to \$1,778,909 from \$1,371,717 and is due to an increase in the frequency of inbound and outbound shipments. The Company incurs shipping fees from couriers and armored carriers to transport currency between the Company's stores and customers. The Company added 408 new customers representing 2,483 new transacting locations since July 31, 2015 which has led to increased 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 8% to \$476,159 from \$442,372 for the vested portion of stock options granted pursuant to the Company's stock option plan. The options have an expiry date of 5 years from the date of the grant, unless otherwise stated by the Board of Directors, and have a weighted average exercise price of Cdn\$15.89. There were 435,015 options outstanding at July 31, 2016 compared to 306,459 options outstanding at July 31, 2015; and

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Results of operations – nine month periods ended July 31, 2016 and 2015 (continued)

- Other general and administrative expenses increased 14% to \$1,498,928 from \$1,316,053. Other expenses are comprised of insurance, travel and lodging, software maintenance, utilities, bank service charges, foreign exchange gains and losses through profit and loss, and other general and administrative expenses. The increase is a result of additions to insurance policies, non-capitalized costs to support the Company's software, CEIFX.com, bank service charges, and increases in costs to support new transacting locations.

The ratio of operating expenses to total revenue for the nine month period ended July 31, 2016 was 76% compared to 72% for the nine month period ended July 31, 2015. 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 more 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 bank and non-bank customers, thus bypassing currency wholesalers and widening its gross margins. The Company expects this ratio to remain steady in the short term. In time, the Company can increase its operating efficiency by the addition of new bank and non-bank financial institutions in Canada and the United States to redeploy excess currency purchased by its branches, affiliate partners, and other clientele.

Other income and expenses are comprised of the following:

	Nine months ended July 31, 2016 \$	Nine months ended July 31, 2015 \$
Other income	13,601	15,977
Revaluation of contingent consideration	(96,359)	125,039
Expenses related to bought deal	-	(54,784)
Interest and accretion expense	(57,891)	(16,009)
Expenses related to bank application	(38,857)	(126,010)
Depreciation and amortization	(1,002,662)	(1,010,410)
Income tax expense	(1,214,045)	(638,395)
Total other expense	(2,396,214)	(1,704,592)

- Other income decreased to \$13,601 from \$15,977 and relates to interest collected for surplus cash deposits held at various financial institutions in Canada and the United States as well as other miscellaneous income;
- Revaluation of contingent consideration relates to the change in contingent consideration from customer trading relationships acquired from the USEH acquisition. During the nine month period ended July 31, 2016 contingent consideration was reassessed with final payment being made and the Company recorded a revaluation of contingent consideration of \$96,359;
- Expenses related to bought deal consist of legal and professional fees resulting from the listing of 540,000 Common Shares on a bought deal private placement at a price of Cdn\$26.75 for aggregate proceeds of Cdn\$14,445,000 in March of 2015;
- Interest and accretion expense increased to \$57,891 from \$16,009 and relates to interest payments on credit lines and tax accounts;
- Expenses pertaining to completing the bank license application decreased to \$38,857 from \$126,010;

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Results of operations – nine month periods ended July 31, 2016 and 2015 (continued)

- Depreciation and amortization decreased to \$1,002,662 from \$1,010,410 and relates to amortization of the Company's intangible assets and depreciation of fixed assets over their estimated economic life. The software acquired from the purchase of assets from USEH has been fully amortized; and
- Income tax expense increased to \$1,214,045 from \$638,395 and is a total of federal income tax as well as various state and provincial taxes for the jurisdictions in which the Company operates. The prior year income tax expense included a one-time increase in income tax of \$190,000 resulting from a reorganization of the corporate structure. In June of 2015, 176,174 employee and director stock options were exercised for proceeds of \$1,197,028 (Cdn\$1,495,164). Upon exercise of the options, the Company deducted the difference between the fair market value of the options and the option strike price from taxable income resulting in a reduction in income tax payable and income tax expense of \$990,000 during the three month period ended July 31, 2015.

Results of operations – three month periods ended July 31, 2016 and July 31, 2015

A breakdown of revenues by geographic location is presented below:

	Total revenues	
	Three months ended July 31, 2016 \$	Three months ended July 31, 2015 \$
United States	6,387,986	5,923,877
Canada	1,320,345	764,590
Total	7,708,332	6,688,467

Beginning in May of 2015, the Company shifted away from utilizing an intercompany inventory on consignment model resulting in a shift in income from Canada to the United States. During the three month period ended July 31, 2016, total commission revenues increased by 15% to \$7,708,332 compared to \$6,688,467 for the three month period ended July 31, 2015. Since July 31, 2015, the Company has added 408 new wholesale relationships comprising 2,483 locations, of which 58 wholesale relationships representing 1,190 transacting locations were added in the United States and 350 wholesale relationships representing 1,293 transacting locations were added in Canada. During the three month period ended July 31, 2016, the number of transactions between the Company and its customers increased 24% to 208,160 transactions from 167,853 from the same period of the previous year.

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Results of operations – three month periods ended July 31, 2016 and July 31, 2015 (continued)

During the three month period ended July 31, 2016, operating expenses increased 15% to \$5,104,489 compared to \$4,456,825 for the three month period ended July 31, 2015, the major components of which are presented below:

	Three months ended July 31, 2016 \$	Three months ended July 31, 2015 \$	Change	Change %
Salaries and benefits	2,738,728	2,352,788	385,940	16%
Rent	677,598	636,195	41,403	7%
Legal, professional and director's fees	270,717	149,474	121,243	81%
Postage and shipping	745,141	596,438	148,703	25%
Stock based compensation	170,577	149,065	21,512	14%
Other general and administrative	501,728	572,865	(68,669)	-12%
Total operating expenses	5,104,489	4,456,825	650,132	15%

- Salaries and benefits increased 16% to \$2,738,728 from \$2,352,788 which is attributed to increases in the Company's employment base for the period. As of July 31, 2016, the Company employed 261 full and part-time employees in the United States and Canada compared to 210 full and part-time employees at July 31, 2015. The increase in staffing is a result of adding a company owned branch location as well as the hiring of two senior executives in the areas of sales and compliance and other hires of employees engaged in the areas of compliance, information technology, operations, finance, vault operations and sales;
- Rent increased 7% to \$677,598 from \$636,195. The Company has opened 1 new branch location since July 31, 2015;
- Legal, professional and director's fees increased 81% to \$270,717 from \$149,474. The increase is related primarily to one-time costs for executive search fees and consultants;
- Postage and shipping increased 25% to \$745,141 from \$596,438 and is due to an increase in the frequency of inbound and outbound shipments. The Company incurs shipping fees from couriers and armored carriers to transport currency between the Company's stores and customers. The Company added 408 new customers representing 2,483 new transacting locations since July 31, 2015 which has led to increased 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 14% to \$170,577 from \$149,065 for the vested portion of stock options granted pursuant to the Company's stock option plan. The options have an expiry date of 5 years from the date of the grant, unless otherwise stated by the Board of Directors, and have a weighted average exercise price of Cdn\$15.89. There were 435,015 options outstanding at July 31, 2016 compared to 306,459 options outstanding at July 31, 2015; and
- Other general and administrative expenses decreased 12% to \$501,728 from \$572,865. Other expenses are comprised of insurance, travel and lodging, software maintenance, utilities, bank service charges, foreign exchange gains and losses through profit and loss, and other general and administrative expenses.

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Results of operations – three month periods ended July 31, 2016 and July 31, 2015 (continued)

The ratio of operating expenses to total revenue for the three month period ended July 31, 2016 was 66% compared to 67% for the three month period ended July 31, 2015. 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 more 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 bank and non-bank customers, thus bypassing currency wholesalers and widening its gross margins. The Company expects this ratio to remain steady in the short term. In time, the Company can increase its operating efficiency by the addition of new bank and non-bank financial institutions in Canada and the United States to redeploy excess currency purchased by its branches, affiliate partners, and other clientele.

Other income and expenses are comprised of the following:

	Three months ended July 31, 2016	Three months ended July 31, 2015
Other income	4,602	4,961
Interest and accretion expense	(32,288)	(3,679)
Expenses related to bank application	(21,761)	(75,032)
Depreciation and amortization	(304,628)	(340,303)
Income tax expense	(765,510)	269,449
Total other expense	(1,119,585)	(144,604)

- Other income decreased to \$4,602 from \$4,961 and relates to interest collected for surplus cash deposits held at various financial institutions in Canada and the United States as well as other miscellaneous income;
- Interest and accretion expense increased to \$(32,288) from \$(3,679) and relates to interest payments on credit lines and tax accounts;
- Expenses pertaining to completing the bank license application decreased to \$21,761 from \$75,032;
- Depreciation and amortization decreased to \$304,628 from \$340,303 and relates to amortization of the Company's intangible assets and depreciation of fixed assets over their estimated economic life; and
- Income tax expense increased to \$765,510 compared to an income tax benefit of \$269,449 during the three month period ended July 31, 2015. Income taxes are a total of federal income tax as well as various state and provincial taxes for the jurisdictions in which the Company operates. In June of 2015, 176,174 employee and director stock options were exercised for proceeds of \$1,197,028 (Cdn\$1,495,164). Upon exercise of the options, the Company deducted the difference between the fair market value of the options and the option strike price from taxable income resulting in a reduction in income tax payable and income tax expense of \$990,000 during the three month period ended July 31, 2015.

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Cash flows

Cash flows from operating activities during the nine month period ended July 31, 2016 resulted in an inflow of \$8,278,743 compared to an outflow of \$3,605,262 during the nine month period ended July 31, 2015. The reason for the increase in operating cash was due to an increase in accounts payable, accrued expenses, and income taxes payable offset by increases in accounts receivable, restricted cash held in escrow, and increases in other assets. 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 nine month period ended July 31, 2016 resulted in an outflow of \$441,433 compared to an outflow of 482,973 during the nine month period ended July 31, 2015. This represents additions to property and equipment and to the internally developed software, CEIFX.

Cash provided by financing activities during the nine month period ended July 31, 2016 was \$6,203,474 related primarily to borrowing on the Company's credit line to meet season compared to net inflows of \$11,962,606 resulting from employee stock options exercised as well as financing from the bought deal offering during the nine month period ended July 31, 2015.

Liquidity and capital resources

At July 31, 2016, the Company had working capital of \$46,462,183 (October 31, 2015 - \$43,351,358).

The Company maintains a revolving line of credit with BMO Harris Bank, N.A. for up to \$10,000,000 to assist with its short-term cash flow needs.

In June of 2016, its wholly-owned Canadian subsidiary, CXIC entered in to an unsecured Master Purchasing Agreement with a shareholder of the Company. The Company has available credit of Cdn\$3,000,000 (\$2,297,794) under the agreement. Specific payment terms and interest rates are negotiated when drawings are made. At July 31, 2016, the balance outstanding was \$Nil (October 31, 2016 - \$Nil)

The Company had a total available balance of unused lines of credit of \$6,189,006 at July 31, 2016.

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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, 2015	Year ended October 31, 2014	Thirteen months ended October 31, 2013 (1)	Year ended September 30, 2012
	\$	\$	\$	\$
Revenues	24,075,775	22,005,953	15,990,434	12,314,473
Net operating income (2)	7,137,444	7,189,769	4,392,515	3,822,328
Net income	3,608,210	3,419,125	2,641,694	2,717,652
Basic earnings per share	0.62	0.63	0.64	0.83
Diluted earnings per share	0.59	0.62	0.64	0.83
Total assets	52,241,996	39,709,302	33,681,819	18,225,628
Total liabilities	4,805,430	6,684,127	3,917,843	1,998,654
Total non-current financial liabilities	-	585,144	-	-
Working capital	43,351,358	28,973,117	28,935,018	15,651,326

Notes:

1. The Company changed its year-end to October 31, and reported on the thirteen month period ended October 31, 2013.
2. Operating income for prior periods has been adjusted to exclude depreciation and amortization expense.

Commitments and contingencies

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

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.

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Hedging activity

Other than as noted below, the Company does not engage in any form of hedged, derivative or leveraged trading. The Company does not extend credit to any of its customers, other than through industry standard settlement terms.

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

The fair value of forward contracts, which represents the amount that would be (paid)/received by the Company if the forward contracts were terminated at July 31, 2016 was \$(167,014) - (October 31, 2015 \$210,367).

At July 31, 2016 and October 31, 2015 approximately \$1,525,574 and \$780,583, respectively, were being held as collateral on these contracts and are reflected as restricted cash held in escrow in the consolidated statements of financial position.

Transactions with related parties

The remuneration of directors and key management personnel during the three and nine month periods ended July 31, 2016 and July 31, 2015 were as follows:

	Nine months ended		Three months ended	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015
	\$	\$	\$	\$
Short-term benefits	1,188,612	939,768	306,776	251,797
Post-employment benefits	65,344	34,780	11,133	4,565
Stock based compensation	442,021	435,254	159,111	147,103
	1,695,977	1,409,802	477,020	403,465

The Company incurred legal and professional fees in the aggregate of \$9,013 and \$23,530 for the three and nine month periods ended July 31, 2016 (three and nine month periods ended July 31, 2015 \$4,549 and \$35,659, respectively) charged by entities controlled by directors or officers of the Company.

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Option grants

The Company adopted an incentive stock option plan dated April 28, 2011 (the "**Plan**"). The Plan is a rolling stock option plan, under which 10% of the outstanding shares at any given time are available for issuance thereunder. The purpose of the Plan is to promote the profitability and growth of the Company by facilitating the efforts of the Company to attract and retain directors, senior officers, employees and management. Vesting terms 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 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 (\$)
4-May-12	4-May-17	7.30	90,000	0.78%	45%	7.50	2.84
17-Dec-12	18-Dec-17	6.75	116,000	0.74%	49%	7.50	2.66
3-May-13	3-May-18	7.35	22,000	0.73%	38%	7.65	2.42
29-Oct-13	29-Oct-18	10.86	35,640	1.29%	35%	10.86	3.44
29-Oct-13	29-Oct-18	10.86	114,420	1.29%	35%	10.86	3.44
9-Jul-14	9-Jul-19	13.24	1,762	1.70%	29%	13.24	3.58
30-Oct-14	30-Oct-19	18.00	87,215	1.61%	27%	16.21*	4.97
30-Oct-14	30-Oct-19	18.00	24,144	1.61%	27%	16.21*	4.97
11-Mar-15	11-Mar-20	28.40	2,726	1.62%	25%	28.15*	5.75
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
16-Jan-16	16-Jan-21	17.89	17,600	1.46%	33%	17.79*	3.86
11-Mar-16	11-Mar-21	21.30	4,182	1.45%	34%	22.78*	4.78
28-Mar-16	28-Mar-21	23.15	2,261	1.37%	34%	22.45*	5.87

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

The outstanding options at July 31, 2016 and the respective changes during the periods are summarized as follows:

	Number of options #	Weighted average price Cdn\$
Outstanding at October 31, 2014	486,581	10.54
Granted	121,133	24.72
Exercised	(182,848)	8.49
Outstanding at October 31, 2015	424,866	15.49
Granted	24,043	18.98
Exercised	(13,894)	8.70
Outstanding at July 31, 2016	435,015	15.89

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Option grants (continued)

The following options are outstanding and exercisable at July 31, 2016:

Grant Date	Exercise price (Cdn\$)	Number outstanding	Average remaining contractual life (years)	Number exercisable
4-May-12	7.50	45,000	0.76	45,000
17-Dec-12	7.50	31,667	1.38	31,667
3-May-13	7.65	7,333	1.76	7,333
29-Oct-13	10.86	23,760	2.25	23,760
29-Oct-13	10.86	70,720	2.25	32,580
30-Oct-14	16.21	87,215	3.25	29,071
30-Oct-14	16.21	24,144	3.25	24,144
11-Mar-15	28.15	2,726	3.61	-
30-Oct-15	24.64	28,972	4.25	21,729
30-Oct-15	24.64	89,435	4.25	-
16-Jan-16	17.79	17,600	4.47	-
11-Mar-16	22.78	4,182	4.61	-
28-Mar-16	22.45	2,261	4.66	1,131
Total		435,015		216,415

Subsequent events

The Company evaluated subsequent events through September 7, 2016, 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, 2015 and 2014.

Risk factors

Credit Risk

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

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

The credit risk associated with accounts receivable is limited, as the Company's receivables consist primarily of bulk currency trades with a settlement cycle of 24 to 48 hours. There is minimal counterparty risk as the majority of the Company's receivables reside with banks, money service business customers and other financial institutions. 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 banks, 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. These limits are reviewed regularly by senior management. Due to seasonality, amounts in accounts receivable are usually at their highest during peak periods.

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Credit Risk (continued)

A breakdown of accounts receivable by category is below:

	At July 31, 2016	At October 31, 2015
Customer type	\$	\$
Domestic and international banks	4,251,085	1,217,511
Money service businesses	3,199,867	1,600,658
Other	60,248	19,520
Total	7,511,200	2,837,689

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

Foreign Currency Risk

The volatility of the Company's foreign currency holdings may increase as a result of the political and financial environment of the corresponding issuing country. Several currencies have limited exchange rate exposure as they are pegged to the U.S. Dollar, the reporting currency of the Company. Management believes its exposure to foreign currency fluctuations is mitigated by the short-term nature and rapid turnover of its foreign currency inventory, as well as the use in certain instances of forward contracts to offset these fluctuations. Due to their nature, some minor and exotic foreign currencies cannot be hedged or are too cost prohibitive to hedge. In order to mitigate the risks associated with holding these foreign currencies, the Company assigns wider bid/ask spreads and maintains specific inventory targets to minimize the impact of exchange rate fluctuations. These targets are reviewed regularly and are increased or decreased to accommodate demand within acceptable risk tolerances. The amount of unhedged inventory held in tills, vaults and in transit at July 31, 2016 was approximately \$7,355,000 (October 31, 2015 - \$5,475,000). The amount of currency that is unhedged and that is not pegged to the U.S. Dollar is approximately \$5,775,000 (October 31, 2015 - \$3,660,000). 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 +\$115,000/-\$115,000 (October 31, 2015 gain/loss of approximately +\$73,000/-\$73,000).

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.

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Interest Rate Risk

At July 31, 2016, the Company had access to interest bearing financial instruments in cash and short term accounts payable. 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 11.

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 July 31, 2016 would have been approximately +\$4,000/- \$4,000 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.

The following are non-derivative contractual financial liabilities:

At July 31 , 2016

Non-derivative financial liabilities	Carrying amount	Estimated contractual amount	This fiscal year	Future fiscal years
	\$	\$	\$	\$
Accounts payable	12,698,979	12,698,979	12,698,979	\$Nil
Accrued expenses	1,154,007	943,879	943,879	\$Nil
Line of credit	6,108,788	6,108,788	6,108,788	\$Nil

At October 31, 2015

Non-derivative financial liabilities	Carrying amount	Estimated contractual amount	This fiscal year	Future fiscal years
	\$	\$	\$	\$
Accounts payable	3,190,957	3,190,957	3,190,957	\$Nil
Accrued expenses	973,067	770,361	770,361	\$Nil
Contingent consideration	641,406	641,406	641,406	\$Nil

The Company had available unused lines of credit amounting to \$6,189,006 at July 31, 2016 (October 31, 2015 - \$10,000,000).

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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.

	July 31, 2016	October 31, 2015
Current assets	67,263,529	48,156,788
Current liabilities	<u>(20,780,850)</u>	<u>(4,805,430)</u>
Working capital	<u>46,482,679</u>	<u>43,351,358</u>

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