# CURRENCY EXCHANGE INTERNATIONAL, CORP.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# FOR THE THREE-AND NINE-MONTH PERIODS ENDED JULY 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-and nine-months ended July 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 September 9, 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-and nine- month periods ended July 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 19. 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), and is a reporting issuer in the provinces of British Columbia, Alberta, and Ontario. It specializes 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. Including 39 on furlough, CXI had 320 employees at July 31, 2020, of which 162 were part-time.

*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 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.

*Background*

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:

i. Fees generated at the Company's branch locations and certain inventory on consignment locations from foreign currency (bank note) exchange, traveler's cheques, currency price protection and fees collected on payroll cheque cashing; and

ii. 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:

i. 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;

ii. 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;

iii. 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 July 31, 2020, the Company had inventory on consignment in 718 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

iv. The Company operates 43 branch locations that are located in high tourist traffic areas across the United States, staffed by CXI employees. 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. 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. On or around March 24, 2020 all of the retail branches were closed due to government-imposed shutdowns as a result of COVID-19. The majority of the retail employees were furloughed as a result. Beginning in May 2020, some of the branches have reopened as restrictions have been relaxed in some regions. As of September 9, 2020, 29 retail branch locations have reopened and 14 remain closed;

(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 43 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 |
| Cherry Creek | Denver | CO | 2014 | Riverwalk | New Orleans | LA | 2018 |
| Citadel Outlets | Los Angeles | CA | 2014 | San Francisco City Center | San Francisco | CA | 2011 |
| Copley Place Mall | Boston | MA | 2009 | San Jose Great Mall | San Jose | CA | 2011 |
| Dadeland Mall | Miami | FL | 2009 | Santa Monica Place | Santa Monica | CA | 2012 |
| Dolphin Mall | Miami | FL | 2009 | Sawgrass Mills Mall Booth #1 | Sunrise | FL | 2007 |
| Fashion District | Philadelphia | PA | 2019 | Sawgrass Mills Mall Booth #2 | Sunrise | FL | 2010 |
| Florida Mall Booth #1 | Orlando | FL | 2007 | Shops at Northbridge | Chicago | IL | 2013 |
| Florida Mall Booth #2 | Orlando | FL | 2014 | SouthCenter | Tukwila | WA | 2012 |
| Garden State Plaza | Paramus | NJ | 2015 | Stamford Town Center | Stamford | CN | 2018 |
| Glendale Galleria | Glendale | CA | 2016 | Sunvalley Shopping Center | Concord | CA | 2015 |
| International Market Place | Honolulu | HI | 2016 | The Galleria at Fort Lauderdale | Ft. Lauderdale | FL | 2013 |
| MacArthur Mall | Norfolk | VA | 2009 | The Orlando Eye | Orlando | FL | 2015 |
| Mainplace at Santa Ana | Santa Ana | CA | 2013 | Tyson's Corner Center | Tyson's Corner | VA | 2014 |
| Washington Square Mall | Portland | OR | 2017 | | | | |

| | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | Q1 2020 | Q2 2020 | Q3 2020 |
|---|---|---|---|---|---|---|---|---|
| Company owned branch locations | 36 | 38 | 41 | 43 | 46 | 46 | 46 | 43 |
| Wholesale company relationships* | 556 | 927 | 954 | 1,267 | 1,878 | 1,511 | 1,503 | 2,053 |
| Number of transacting locations* | 9,494 | 11,975 | 14,587 | 17,017 | 21,595 | 14,068 | 12,499 | 6,157 |

*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. The counterparty risk is generally low, 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. However, on April 29, 2020 one of the Company's wholesale customers filed for bankruptcy, resulting in a provision for loss in the amount of $1,012,946. The Company has filed a claim and expects to recover a portion of the debt but has chosen to reserve for the entire amount until such time as a recovery becomes probable.

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

*Overview (continued)*

The Company has also reduced its settlement exposure for all clients given the current economic environment.

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.

## *SELECTED FINANCIAL DATA*

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

| Three-months ending | Revenue<br>$ | Net operating income (loss)<br>$ | Net income (loss)<br>$ | Total assets<br>$ | Total equity<br>$ | Earnings (loss) per share (diluted)<br>$ |
|---|---|---|---|---|---|---|
| 7/31/2020 | 3,879,873 | (1,993,117) | (2,274,720) | 96,105,961 | 61,462,798 | (0.35) |
| 4/30/2020 | 6,323,344 | (2,316,356) | (2,942,948) | 99,263,039 | 62,965,874 | (0.46) |
| 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 |

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 through September and lower revenues from October through February. This coincides with peak tourism seasons in North America when there are generally more travelers entering and leaving the United States and Canada.

On March 11, 2020 the World Health Organization (WHO) officially declared COVID-19, the disease caused by a novel coronavirus, a pandemic. The spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada and the United States of America, businesses have been forced to cease or limit operations for long or indefinite periods of time. Measures have been taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of nonessential services. These measures have triggered significant disruptions to business worldwide, resulting in reduced economic activity. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The Company closed all of its retail locations on or around March 24, 2020, re-opening a number of them over the course of the third quarter. At July 31, 2020 13 locations remained closed. In addition, many of its commercial customers have been impacted by the pandemic, resulting in reduced demand for banknotes. The Company has also closed one vault temporarily due to the low volume of activity. While the Company continues to operate, it is not possible to reliably estimate the duration and severity of these consequences as well as their impact on the financial position and results of future periods.

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

*Selected Financial Results for the three-and nine-month periods ended July 31, 2020 and 2019*

The Company successfully completed its acquisition of a payments business called Denarius Financial Group ("DFG") based in Montreal, Canada on July 29, 2020. The acquisition adds over 400 new corporate customers, significantly increasing the Company's payments segment in Canada. Despite a strong start to its fiscal year, the government-imposed shutdowns beginning in March related to COVID-19 have had a material impact. Consolidated revenue was 34% lower in the nine-months ended July 31, 2020 than in the same period a year ago. The growth experienced in the first quarter of 2020 was not enough to offset the extreme reduction in demand for foreign currency as a result of the restrictions on mobility that have affected travel and tourism during the pandemic. The decline in the Canadian region is lower than that of the United States (5% as compared to 39%), which is reflective of the impact of the retail locations, all of which were closed for some period during Q3 2020. As the acquisition of DFG occurred three days prior to the end of the third quarter, it did not have a meaningful impact on revenue. Since July 31, 2019, the Company has added 638 new customer relationships comprising 1,812 locations, of which 585 relationships representing 1,740 transacting locations were added in the United States and 54 relationships representing 72 locations were added in Canada.

During the nine-month period ended July 31, 2020, the number of transactions between the Company and its customers decreased 50% to 426,000 transactions from 859,000 for the same period in the previous year. During the three-month period ended July 31, 2020, the number of transactions between the Company and its customers decreased 92% to 30,000 transactions from 365,000 for the same period in the previous year. By line of business, Payments increased 21% or $408,487 over the prior year, and banknotes decreased by 38% or $10,645,944. In response to the significant decline in revenue, the Company has enacted a number of cost-saving initiatives that include reductions in spending, and the elimination of fifty-nine employment positions since March 15, 2020. In addition, due to the uncertain economic environment, the Company has reduced credit limits to limit its settlement exposure and increased more frequent credit monitoring of its customer base. CXI has a strong capital base and liquidity position to meet its financial obligations for at least the next twelve months, however, management is developing a new three-year plan with the objective of ensuring the Company's long-term sustainability.

| | **Nine-months ended July 31, 2020** | **Nine-months ended July 31, 2019** | **Three-months ended July 31, 2020** | **Three-months ended July 31, 2019** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| Revenue | 20,077,506 | 30,314,963 | 3,879,873 | 12,402,483 |
| Operating expenses | 23,224,049 | 26,026,363 | 5,872,990 | 9,466,585 |
| **Net Operating income** | **(3,146,543)** | **4,288,600** | **(1,993,117)** | **2,935,898** |
| Total other income | 9,382 | 15,454 | 500 | 7,734 |
| Government grants income | 417,715 | - | 417,715 | - |
| EBITDA* | (2,719,446) | 4,304,054 | (1,574,902) | 2,943,632 |
| **Net (loss) income** | **(5,058,397)** | **2,155,325** | **(2,274,719)** | **1,820,767** |
| Basic (loss) earnings per share | (0.79) | 0.34 | (0.35) | 0.28 |
| Diluted (loss)earnings per share | (0.79) | 0.34 | (0.35) | 0.28 |

* Earnings before interest, taxes, depreciation and amortization

| | **July 31, 2020** | **October 31, 2019** |
|---|---|---|
| Total assets | 96,105,961 | 82,729,716 |
| Total long-term financial liabilities | 4,447,849 | - |
| Total equity | 61,462,798 | 66,329,037 |

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

*Results of operations – nine-month periods ended July 31, 2020 and 2019*

A breakdown of revenue by geographic location is presented below:

| | Nine-months ended July 31, 2020 | Nine-months ended July 31, 2019 | Change | Change |
|---|---|---|---|---|
| | $ | $ | $ | % |
| | **Revenues by Geography** | | | |
| United States | 15,567,870 | 25,573,160 | (10,005,290) | -39% |
| Canada | 4,509,636 | 4,741,803 | (232,167) | -5% |
| **Total** | **20,077,506** | **30,314,963** | **(10,237,457)** | **-34%** |
| | **Revenues by Product Line** | | | |
| Banknotes | 17,734,639 | 28,380,583 | (10,645,944) | -38% |
| Payments | 2,342,867 | 1,934,380 | 408,487 | 21% |
| **Total** | **20,077,506** | **30,314,963** | **(10,237,457)** | **-34%** |

During the nine-month period ended July 31, 2020, operating expenses decreased 11% to $23,224,049 compared to 26,026.363 for the nine-month period ended July 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 decreased by 5% to $24,740,981. The major components of operating expenses are presented in the table below, with commentary for significant variances:

| | Nine-months ended July 31, 2020 | Nine-months ended July 31, 2019 | Change | Change |
|---|---|---|---|---|
| | $ | $ | $ | % |
| Salaries and benefits | 13,090,115 | 13,471,553 | (381,438) | -3% |
| Rent | 846,913 | 2,789,298 | (1,942,385) | -70% |
| Legal and professional | 1,911,541 | 2,093,240 | (181,699) | -9% |
| Postage and shipping | 2,025,197 | 3,637,933 | (1,612,736) | -44% |
| Stock based compensation | 830,564 | 548,074 | 282,490 | 52% |
| Travel and entertainment | 337,883 | 497,315 | (159,432) | -32% |
| Bank service charges | 909,314 | 608,754 | 300,560 | 49% |
| Software maintenance | 962,677 | 812,201 | 150,476 | 19% |
| Losses and shortages | 283,173 | 344,101 | (60,928) | -18% |
| Insurance | 352,445 | 337,076 | 15,369 | 5% |
| Bad Debt Expense | 1,012,946 | - | 1,012,946 | 100% |
| Other general and administrative | 661,281 | 886,818 | (225,537) | -25% |
| **Operating expenses** | **23,224,049** | **26,026,363** | **(2,802,314)** | **-11%** |

Salaries and benefits decreased 3% to $13,090,115 from $13,471,553 which reflects the impact of the elimination of 59 positions since the beginning of the pandemic, the furlough of up to 39 employees during Q3 2020, and temporary salary reductions by certain officers, partially offset by an increase in the employment base between July 31, 2019 and March 15, 2020;

Rent expense decreased 70% to $846,913 from $2,789,298. This decrease is primarily attributable to the adoption of IFRS 16 on November 1, 2019. Had the new accounting standard not been implemented, rent expense would have decreased only 15% to $2,363,845 from $2,789,298 which is reflective of $288,850 in rent abatements received from landlords related to certain retail locations that were required to close in response to state or local orders during the pandemic.

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

Legal and professional fees decreased 9% to $1,911,541 from $2,093,240. The fees include $166,816 in costs incurred related to the acquisition of DFG that were expensed in Q3 2020. Excluding the acquisition-related costs, the decrease would have been 16.6%. The decrease reflects a conscious effort to reduce the use of external advisors;

Postage and shipping decreased 44% to $2,025,197 from $3,637,933 and is primarily a result of decreased revenue associated with the banknotes segment since the beginning of the pandemic;

Stock based compensation increased 52% to $830,564 from $548,074 as there were a higher number of stock options outstanding compared to the prior year (505,711 at July 31, 2020 versus 403,130 at July 31, 2019). The increase is due to three factors. Firstly, the Company recorded an expense of $41,872 for 22,369 options granted on June 24, 2020 to certain officers that voluntarily agreed to a temporary salary reduction. Secondly, the annual grant associated with the Company's long-term incentive plan for officers and directors on October 23, 2019 consisted of 354,410 options, which was significantly higher than the previous year. Of these options, 228,754 were granted outside of the Company's stock option plan and approved by the shareholders on March 25, 2020. 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. Lastly, on July 28, 2020, the Company offered an option exchange program whereby holders of certain "underwater" options were given a limited opportunity to exchange such options for a significantly lower number of new options "the Option Exchange." The Option Exchange only applied to options granted to officers and directors on October 26, 2016, October 26, 2017, August 9, 2018 and October 23, 2018 who remained employed by the Company on the date that the Option Exchange was offered. Those who participated in the Option Exchange will receive one new option in exchange for every eight tendered. All of the eligible option holders elected to participate in the Option Exchange. As a result, 241,463 options to purchase common shares were cancelled on July 31, 2020. The replacement options may not be granted until 90 days has passed since the cancellation of the options exchanged and must have an exercise price equivalent to the fair market value of the common shares at the date of grant. On July 31, 2020, the Company recorded stock-based compensation expense of $111,231 that related to the unvested portion of the cancelled options;

Bank service charges increased 49% to $909,314 from $608,754. The increase is related primarily to increased volumes for payments related activity. These charges are offset partially by fees collected on wire payments, which are captured in revenues;

Software maintenance expense increased 19% to $962,677 from $812,201, reflecting the adoption of additional technology platforms over the past year to support various functions, including treasury, compliance, finance, and payments, as well as the eZforex platform that was acquired on September 6, 2019. It also includes additional investment in cyber security technology in addition to collaboration and communication tools, such as Zoom, to facilitate remote work during the pandemic;

Losses and shortages decreased 18% to $283,173 from $344,101. This represents amounts that are lost in transit, theft or errors in processing by the vaults. Normalizing for one particular adjustment in the amount of $67,017, the losses have declined 37%, reflective of the reduced sales volume, and within acceptable tolerances.

Bad debt expense of $1,012,946 represents a provision recorded against a receivable from a wholesale customer that filed for bankruptcy protection on April 29, 2020. The Company has filed a claim and expects to recover at least a portion of the debt but has chosen to reserve all of it until a recovery becomes probable.

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

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

Other general and administrative expenses decreased 25% to $661,281 from $886,818. Other expenses are comprised of licenses and fees, utilities, office supplies, foreign exchange gain and losses, and other general and administrative expenses. The principal reasons for the decrease of $225,537 was a $293,971 increase in foreign exchange gains on the translation of foreign denominated balances. This was partially offset by an increase of $64,363 in license and fees as the Company changed its capitalization policy to expense all items below $3,000 effective November 1, 2019.

Previously, any amount over $500 was capitalized and amortized. As most license renewals for the retail locations occur early in the calendar year, the variance is expected to diminish over the remainder of the fiscal year.

The ratio of operating expenses to total revenue for nine-month period ended July 31, 2020 was 115% (excluding the reduction in operating expenses related to the adoption of IFRS 16, this ratio would have been 122%) compared to 86% for the nine-month period ended July 31, 2019, reflecting the significant reduction in revenue due to the COVID-19 pandemic. As result, the Company expects to increase its operating leverage through a two-pronged approach of growing the payments business, and identifying additional cost reduction opportunities as banknote revenue is expected to recover slowly until such time as the ongoing risk of virus transmission is significantly reduced to enable the removal of international travel restrictions.

Other income and expenses are comprised of the following:

| | Nine-months ended July 31, 2020 $ | Nine-months ended July 31, 2019 $ |
|---|---|---|
| Other income | 9,382 | 15,454 |
| Government grant income | 417,715 | |
| Interest expense | (427,734) | (257,212) |
| Interest on lease liabilities | (210,540) | - |
| Depreciation and amortization | (1,141,340) | (995,416) |
| Depreciation of right-of-use-assets | (1,506,979) | - |
| Income tax benefit (expense) | 947,642 | (896,101) |
| **Total other income and expenses** | **(1,911,854)** | **(2,133,275)** |

The Canada Emergency Wage Subsidy (CEWS) was announced on March 27, 2020 to support organizations that have been significantly impacted by the coronavirus pandemic. Under this program, EBC can receive a subsidy for up to 75% of qualified employees' wages provided that it meets certain tests for revenue reduction during each qualifying four-week period. Through July 31, 2020 EBC qualified for $417,715 in grants under the program, of which $108,700 was a receivable at July 31, 2020. There are no obligations, commitments or conditions associated with the grant that could create a requirement to repay all or a part of the grant. The Company has elected to recognize this subsidy in profit or loss within 'Other Income.'

Interest expense increased to $427,734 from $257,212, primarily as a result of a higher borrowing base over the prior year. The Company increased its borrowing on credit facilities in March 2020 in response to the pandemic, to ensure a high amount of liquidity;

Interest on lease liabilities reflects the notional interest expense associated with real estate lease payments made during the period. There was no amount for the comparative period as the adoption of IFRS 16 was made on a modified retrospective basis as of November 1, 2019;

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

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

Depreciation and amortization increased to $1,141,340 from $995,416 primarily driven by the addition of new assets acquired in the nine-month period ending July 31, 2020, the most significant of which are $2,670,000 in identifiable intangible assets related to the acquisition of eZForex.com on September 6, 2019 (*see note 5 in the financial statements*). The incremental expense associated with the additions is partially offset by the elimination of depreciation and amortization on assets that became fully depreciated after April 30, 2019.

Depreciation on right-of-use assets reflects the amortization of amounts related to the real estate assets used during the period in accordance with IFRS 16. There is no amount for the comparative period as the standard was adopted on November 1, 2019 using a modified retrospective approach.

Income tax benefit of $947,642 compares to an expense of $896,101 for the nine-month period ended July 31, 2019 and is reflective of the change from a profit to a loss position. The income tax benefit would have been higher by $658,846 but for the fact that the Company has not recorded a benefit related to losses in its Canadian subsidiary, as those losses will require future taxable income in order for a benefit to be realized, the probability of which is difficult to ascertain at July 31, 2020. The income tax benefit also includes the initial recognition of a deferred tax asset of $133,710 arising from the adoption of IFRS 16.

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 nine-month period ended July 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:

| | **As Reported (IFRS 16)** | **IFRS 16 Adjustments** | **Proforma (IAS 17)** |
|---|---|---|---|
| ***Select data from the Statement of Financial Position:*** | | | |
| Right-of-use assets, net | 4 991,843 | (4,991,843) | - |
| Deferred Tax Asset | 1,554,178 | (133,710) | 1,420,468 |
| **Total Assets** | **96,105,961** | **(5,125,553)** | **90,980,408** |
| Accrued Expenses *(relates to deferred rent)* | 1,655,158 | 185,660 | 1,840,817 |
| Current Lease Liabilities | 1,724,852 | (1,724,852) | - |
| Long-Term Lease Liabilities | 3,946,956 | (3,946,956) | - |
| **Total Lease Liabilities** | 5,671,808 | (5,671,808) | - |
| **Total Liabilities** | 34,643,163 | (5,486,149) | 29,157,014 |
| Retained Earnings | 25,312,751 | 405,248 | 25,717,999 |
| **Total Equity** | 61,462,798 | 405,248 | 61,868,046 |
| **Total Liabilities and Equity** | **96,105,961** | **(5,080,901)** | **91,025,060** |

| | **As Reported (IFRS 16)** | **IFRS 16 Adjustments** | **Proforma (IAS 17)** |
|---|---|---|---|
| ***Select data from the Statement of Operations:*** | | | |
| **Total Revenue** | **20,077,506** | **-** | **20,077,506** |
| Rent Expense | 846,913 | 1,516,932 | 2,363,845 |
| Total Operating Expenses | 3,224,049 | ,516,932 | 24,740,981 |
| **EBITDA** | **(2,719,446)** | **(1,516,932)** | **(4,236,378)** |
| Interest on lease liabilities | 210,540 | (210,540) | - |
| Depreciation on right-of-use assets | 1,506,979 | (1,506,979) | - |
| **(Loss) Income before tax** | **(6,006,038)** | **200,587** | **(5,805,452)** |
| Income Tax Expense (Benefit) | (947,642) | 133,710 | (813,932) |
| **Net (Loss) Income** | **(5,058,396)** | **66,876** | **(4,991,520)** |

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

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

Revenue for the three-month period ended July 31, 2020 declined by 69% over the same period in the prior year. The declines were similar in both Canada and the U.S., reflecting the significant impact that pandemic-related travel restrictions have had on consumer demand for banknotes. All of the Company's retail locations were closed for at least part of Q3 2020, with 13 still closed at the end of the quarter. In addition, many of the Company's financial institution clients were operating at reduced capacity during the quarter. While the number of banknote transactions has declined by approximately 90% over the same quarter in 2019, the Company managed to partially offset this from growth in its customer base and increasing margins, such that revenue declined by 73% over the prior year. The Company expects consumer demand to be soft until such time as the risk of transmission from the coronavirus is virtually eliminated. As a result, it is focused on growing its payment business, which increased by 13% in Q3 2020 as compared to Q3 2019, as the increase in the customer base more than offset weakness from the economic contraction as a result of pandemic related actions.

A breakdown of revenues by geographic location is presented below:

| | Three-months ended July 31, 2020 | Three-months ended July 31, 2019 | Change | Change |
|---|---|---|---|---|
| | $ | $ | $ | % |
| | | **Revenues by Geography** | | |
| United States | 3,210,059 | 10,619,903 | (7,409,844) | -70% |
| Canada | 669,814 | 1,782,580 | (1,112,766) | -62% |
| **Total** | **3,879,873** | **12,402,483** | **(8,522,610)** | **-69%** |
| | | **Revenues by Product Line** | | |
| Banknotes | 3,169,501 | 11,771,540 | (8,602,039) | -73% |
| Payments | 710,372 | 630,943 | 79,429 | 13% |
| **Total** | **3,879,873** | **12,402,483** | **(8,522,610)** | **-69%** |

During the three-month period ended July 31, 2020, operating expenses decreased 40% to $5,705,815 compared to $9,466,585 for the three-month period ended July 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 decreased by 32% to $6,474,594.

The major components of operating expenses are presented in the table below, with commentary for significant variances:

| | Three months ended July 31, 2020 | Three months ended July 31, 2019 | Change | Change |
|---|---|---|---|---|
| | $ | $ | $ | % |
| Salaries and benefits | 3,488,996 | 4,570,480 | (1,081,484) | -24% |
| Rent | 86,927 | 974,881 | (887,954) | -91% |
| Legal and professional | 701,706 | 723,067 | (21,361) | -3% |
| Postage and shipping | 239,707 | 1,537,303 | (1,297,596) | -84% |
| Stock based compensation | 332,300 | 233,735 | 98,565 | 42% |
| Travel and entertainment | 33,533 | 165,036 | (131,503) | -80% |
| Bank service charges | 304,547 | 236,056 | 68,491 | 29% |
| Software maintenance | 265,897 | 278,414 | (12,517) | -4% |
| Losses and shortages | 87,481 | 242,728 | (155,247) | 100% |
| Insurance | 132,849 | 110,638 | 22,211 | 20% |
| Bad Debt Expense | - | - | - | 0% |
| Other general and administrative | 199,047 | 394,247 | (195,200) | -50% |
| **Operating expenses** | **5,872,990** | **9,466,585** | **(3,593,595)** | **-38%** |

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

Salaries and benefits decreased 24% to $3,488,996 from $4,570,480 which is attributed to the elimination of fifty-nine positions, the furlough of some thirty-nine employees during the course of the quarter, with 39 still furloughed at July 31, 2020, as well as temporary salary reductions of certain officers, partially offset by an increase in personnel between July 31, 2019 and March 15, 2020 to support the growth of the business prior to the pandemic;

Rent expense decreased 91% to $86,928 from $974,881. This decrease is primarily attributable to the adoption of IFRS 16 on November 1, 2019 using the modified retrospective approach. On a comparable basis under the previous standard, IAS 17, rent expense would have decreased 29% to $688,531 in the three-months ending July 31, 2020 from $974,881 in the prior year, which is a temporary reduction related to $288,850 in abatements received from landlords for retail locations that were closed for all or part of the quarter;

Legal and professional fees decreased 3% to $701,706 from $723,067. This includes $166,816 in fees incurred for the acquisition of DFG on July 29, 2020. Excluding the impact of the acquisition, professional fees decreased by 26%, reflective of a conscious effort to reduce the use of external advisors where possible;

Postage and shipping decreased 84% to $239,707 from $1,537,303 primarily driven by the decrease in banknote revenue associated with the impact of COVID-19 discussed above. Shipping fees recovered from customers are netted against shipping charges charged to the Company;

Stock based compensation increased 42% to $332,300 from $233,735 as there were a higher number of stock options outstanding compared to the prior year (505,711 at July 31, 2020 versus 403,130 at July 31, 2019). The increase is due to three factors. Firstly, the Company recorded an expense of $41,872 for 22,369 options granted on June 24, 2020 to certain officers that voluntarily agreed to a temporary salary reduction. Secondly, the annual grant associated with the Company's long-term incentive plan for officers and directors on October 23, 2019 consisted of 354,410 options, which was significantly higher than the previous year. Of these options, 228,754 were granted outside of the Company's stock option plan and approved by the shareholders on March 25, 2020. 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. Lastly, on July 28, 2020, the Company offered an option exchange program whereby holders of certain "underwater" options were given a limited opportunity to exchange such options for a significantly lower number of new options "the Option Exchange." The Option Exchange only applied to options granted to officers and directors on October 26, 2016, October 26, 2017, August 9, 2018 and October 23, 2018 who remained employed by the Company on the date that the Option Exchange was offered. Those who participated in the Option Exchange will receive one new option in exchange for every eight tendered. All of the eligible option holders elected to participate in the Option Exchange. As a result, 241,463 options to purchase common shares were cancelled on July 31, 2020. The replacement options may not be granted until 90 days has passed since the cancellation of the options exchanged and must have an exercise price equivalent to the fair market value of the common shares at the date of grant. On July 31, 2020, the Company recorded stock-based compensation expense of $111,231 that related to the unvested portion of the cancelled options;

Travel and entertainment decreased 80% to $33,533 from $165,036 as business travel virtually ceased due to the pandemic;

Bank service charges increased 29% to $304,547 from $236,056. The increase is related primarily to increased volumes for payments related activity. These charges are offset partially by fees collected on wire payments, which are captured in revenues;

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

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

Other general and administrative expenses decreased 50% to $199,047 from $394,247. Other expenses are comprised of licenses and fees, utilities, office supplies, foreign exchange gain and losses, and other general and administrative expenses. There were declines in all categories, but the larger variances included an increase of $109,896 in foreign exchange gains on the translation of foreign denominated balances during the quarter, $43,290 decrease in signage for retail stores, and a $22,477 decrease in license and fees as the Company changed its capitalization policy to expense all items below $3,000 effective November 1, 2019. Previously, any amount over $500 was capitalized and amortized. As most license renewals occur early in the fiscal year the variance will diminish by the end of the fiscal year.

The ratio of operating expenses to total revenue for three-month period ended July 31, 2020 was 151% (excluding the reduction in operating expenses related to the adoption of IFRS 16, this ratio would have been 163%) compared to 76% for the three-month period ended July 31, 2019, reflecting the significant reduction in revenue as a result of COVID-19. The Company expects this ratio to improve as it continues to identify additional cost reduction opportunities while growing the payments business segment. It is anticipated that wholesale banknote revenue will recover slowly until the risk of transmission from the coronavirus is reduced to an acceptably low level to enable the resumption of international travel.

Other income and expenses are comprised of the following:

| | **Three months ended July 31, 2020 $** | **Three months ended July 31, 2019 $** |
|---|---|---|
| Other income | 500 | 7,734 |
| Government grant income | 417,715 | |
| Interest expense | (140,429) | (70,336) |
| Interest on lease liabilities | (65,780) | - |
| Depreciation and amortization | (370,858) | (259,962) |
| Depreciation of right-of-use-assets | (470,523) | - |
| Income tax expense | 347,772 | (792,567) |
| **Total other income and expense** | **(281,603)** | **(1,115,131)** |

The Canada Emergency Wage Subsidy (CEWS) was announced on March 27, 2020 to support organizations that have been significantly impacted by the coronavirus pandemic. Under this program, EBC can receive a subsidy for up to 75% of qualified employees' wages provided that it meets certain tests for revenue reduction during each qualifying four-week period. EBC qualified for $417,715 in grants under the program, of which $108,700 was a receivable at July 31, 2020. There are no obligations, commitments or conditions associated with the grant that could create a requirement to repay all or a part of the grant. The Company has elected to recognize this subsidy in a profit or loss as Other Income.

Interest expense increased to $140,430 from $70,336, primarily as a result of a higher borrowing base over the prior year. The Company increased its borrowing on credit facilities in mid-March 2020 in response to the pandemic, to ensure a high amount of liquidity;

Interest on lease liabilities reflects the notional interest expense associated with real estate lease payments made during the period. There was no amount for the comparative period as the adoption of IFRS 16 was made on a modified retrospective basis as of November 1, 2019;

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

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

Depreciation and amortization increased to $370,859 from $259,962 primarily driven by the addition of new assets acquired in the twelve-month period ending April 30, 2020, the most significant of which are $2,670,000 in identifiable intangible assets related to the acquisition of eZForex.com on September 6, 2019 (*see note 5 in the financial statements*). The incremental expense associated with the additions is partially offset by the elimination of depreciation and amortization on assets that became fully depreciated after April 30, 2019.

Depreciation on right-of-use assets reflects the amortization of amounts related to the real estate assets used during the period in accordance with IFRS 16. There is no amount for the comparative period as the standard was adopted on November 1, 2019 using a modified retrospective approach; and

Income tax changed to a benefit of $347,772 from an expense of $792,567 for the three-month period ended July 31, 2019 and is reflective of the loss position. The benefit would have been higher by $261,987 but for the fact that the Company is no longer recording a future income tax benefit on losses incurred in its Canadian subsidiary as they require future taxable income in order to be realized through offset.

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 July 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:

| ***Select data from the Statement of Financial Position:*** | **As Reported (IFRS 16)** | **IFRS 16 Adjustments** | **Proforma (IAS 17)** |
|---|---|---|---|
| Right-of-use assets, net | 4,991,843 | (4,991,843) | - |
| Deferred Tax Asset | 1,539,567 | (133,710) | 1,405,857 |
| **Total Assets** | **96,105,961** | **(5,125,553)** | **90,980,408** |
| Accrued Expenses *(relates to deferred rent)* | 1,655,158 | 8,786 | 1,663,944 |
| Current Lease Liabilities | 1,724,852 | (1,724,852) | - |
| Long-Term Lease Liabilities | 3,946,956 | (3,946,956) | - |
| **Total Lease Liabilities** | 5,671,808 | (5,671,808) | - |
| **Total Liabilities** | 34,643,163 | (5,663,022) | 28,980,140 |
| Retained Earnings | 25,312,751 | 139,360 | 25,452,112 |
| **Total Equity** | 61,462,798 | 139,360 | 61,602,159 |
| **Total Liabilities and Equity** | **96,105,961** | **(5,523,662)** | **90,582,299** |

| ***Select data from the Statement of Operations:*** | **As Reported (IFRS 16)** | **IFRS 16 Adjustments** | **Proforma (IAS 17)** |
|---|---|---|---|
| **Total Revenue** | **3,879,873** | **-** | **3,879,873** |
| Rent Expense | 86,927 | 601,604 | 688,531 |
| Total Operating Expenses | 5,872,990 | 601,604 | 6,474,594 |
| **EBITDA** | **(1,574,902)** | **(601,604)** | **(2,176,506)** |
| Interest on lease liabilities | 65,780 | (65,780) | - |
| Depreciation on right-of-use assets | 470,523 | (470,523) | - |
| **(Loss) Income before tax** | **(2,622,492)** | **(65,300)** | **(2,687,792)** |
| (Loss) Income Tax Expense (Benefit) | (347,772) | 133,710 | (214,062) |
| **Net (Loss) Income** | **(2,274,720)** | **(199,011)** | **(2,473,730)** |

*Cash flows*

Cash flows from operating activities during the nine-month period ended July 31, 2020 resulted in an outflow of $5,574,301, compared to an inflow of $6,161,010 during the nine-month period ended July 31, 2019. Approximately one-quarter of the decrease in operating cash flow was due to the impact of the net loss adjusted for non-cash items, while the remainder was due to changes in working capital, as sales volume declined significantly.

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, 2020 resulted in an outflow of $3,249,299 compared to an outflow of $1,312,157 during the nine-month period ended July 31, 2019. The primary reason for the outflow was the $3,452,708 in cash consideration paid to acquire the assets of DFG. In 2019, the outflows represented additions to property and equipment, largely related to the opening of the Montreal vault location and internally developed software as well as proceeds.

Cash provided by financing activities during the nine-month period ended July 31, 2020 was $16,646,602 compared to $3,065,161 during the nine-month period ended July 31, 2019. The Company increased usage of its line of credit to $18,154,844 on July 31, 2020 to ensure a high amount of liquidity, compared to a balance of $3,021,427 on July 31, 2019.

*Liquidity and capital resources*

At July 31, 2020, the Company had working capital of $49,745,398 (October 31, 2019 - $58,932,941).

On April 21, 2020 the Company received a loan in the amount of $2,397,000 from the Small Business Administration (SBA) under the CARES Act. The loan bears interest at 1% per annum and matures two years from the date of receipt, with no penalty for early payment. The loan may be forgiven if certain criteria are met. On May 14, 2020 the Company elected to make early repayment of the entire principal amount of the SBA loan for $2,398,506.31, including interest, thereby extinguishing all of its obligations under the CARES Act in respect of this loan

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 July 31, 2020 – 2.172% (2019 – 2.38%)). At July 31, 2020, the balance outstanding was $15,963,934 (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 CDN prime plus 0.5% [at July 31, 2020 – 2.95% (2019 – 4.45%)]. At July 31, 2020, the balance outstanding was $2,675,332 (October 31, 2019 - $472,736).

The Company had a total available balance of unused lines of credit of $5,837,010 at July 31, 2020 (October 31, 2019 - $24,086,534).

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

*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.

*Selected annual financial information (continued)*

| | 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 July 31, 2020 was $68,602 (October 31, 2019 - $1,735).

At July 31, 2020 and October 31, 2019 approximately $705,951 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.

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

*Transactions with related parties*

The remuneration of directors and key management personnel during the three-and nine-month periods ended July 31, 2020 and 2019 were as follows:

| | Nine-months ended | | Three-months ended | |
|---|---|---|---|---|
| | **July 31, 2020** | **July 31, 2019** | **July 31, 2020** | **July 31, 2019** |
| | $ | $ | $ | $ |
| Short-term benefits | 2,183,673 | 1,846,295 | 713,749 | 607,861 |
| Post-employment benefits | 65,166 | 52,489 | 15,741 | 18,652 |
| Stock based compensation | 830,568 | 520,695 | 333,412 | 190,690 |
| | **3,079,407** | **2,419,479** | **1,062,903** | **817,203** |

The Company incurred legal and professional fees in the aggregate of $58,172 and $161,192 for the three- and nine-month period ended July 31, 2020 (2019 - $54,632 and $230,455) 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 $1,211 and $54,491 in revenue from these clients' activities for the three-and nine-month period ended July 31, 2020 (July 31, 2019 – $92,627 and $116,958). As at July 31, 2020, net accounts receivable included $57,714 from related parties (2019 - $105,197).

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 July 31, 2020, the intercompany loan balance was $8,787,000 (October 31, 2019 - $11,250,000) and was eliminated upon consolidation.

Key management personnel and directors occasionally conduct transactions with the Company as individuals. Such transactions are immaterial individually and in total, including for the three-and nine-month periods ending July 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 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.

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

*Option grants (continued)*

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 |
| 6-Jun-17 | 6-Jun-22 | 20.79 | 9,865 | 1.71% | 37% | 21.53 | 5.27 |
| 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 |
| 24-Jun-20 | 24-Jun-25 | 12.50 | 7,586 | 0.33% | 23% | 12.74 | 1.87 |
| 24-Jun-20 | 24-Jun-25 | 12.50 | 22,369 | 0.33% | 23% | 12.74 | 1.87 |
| 29-Jul-20 | 29-Jul-25 | 10.98 | 18,000 | 0.26% | 23% | 10.83 | 1.76 |

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

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

| | Number of options # | Weighted average price CDN$ |
|---|---|---|
| **Outstanding at October 31, 2019** | 708,366 | 22.52 |
| Granted | 47,955 | 12.02 |
| Exercised | - | - |
| Cancelled through cashless exercise | - | - |
| Forfeited/Cancelled | (250,610) | 29.33 |
| **Outstanding at July 31, 2020** | 505,711 | 18.79 |

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

*Option grants (continued)*

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

| Grant Date | Exercise price (Cdn$) | Number outstanding | Average remaining contractual life (years) | Number exercisable |
|---|---|---|---|---|
| 30-Oct-15 | 24.64 | 20,148 | 0.25 | 20,148 |
| 30-Oct-15 | 24.64 | 55,662 | 0.25 | 55,662 |
| 26-Oct-16 | 30.75 | 5,319 | 1.24 | 5,319 |
| 6-Jun-17 | 21.53 | 5,586 | 1.85 | 5,586 |
| 26-Oct-17 | 25.52 | 8,897 | 2.24 | (12,067) |
| 9-Aug-18 | 30.69 | 2,500 | 3.02 | (3,556) |
| 23-Oct-18 | 30.77 | 5,234 | 3.23 | (59,556) |
| 23-Jan-19 | 28.23 | 4,127 | 3.48 | 1,375 |
| 4-Mar-19 | 25.83 | 13,316 | 3.59 | 4,439 |
| 23-Oct-19 | 17.36 | 30,000 | 3.59 | 10,000 |
| 23-Oct-19 | 17.36 | 5,837 | 3.85 | 5,837 |
| 23-Oct-19 | 17.36 | 72,376 | 4.23 | 54,282 |
| 23-Oct-19 | 17.36 | 228,754 | 4.23 | - |
| 24-Jun-20 | 12.74 | 22,369 | 4.90 | - |
| 24-Jun-20 | 12.74 | 7,586 | 4.90 | - |
| 29-Jul-20 | 10.83 | 18,000 | 5.00 | - |
| Total | | 505,711 | | 87,469 |

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 was approved by the shareholders on March 25, 2020.

On June 24, 2020 grants totaling 40,369 options were made to several officers of the Company that voluntarily reduced their salaries from June 1, 2020 through August 31, 2020. The options were fully vested on the date of grant, and the amount of the stock-based compensation recorded is equivalent to the gross salary that was forfeited by the officers.

On July 28, 2020, the Company offered an option exchange program whereby holders of certain "underwater" options were given a limited opportunity to exchange such options for a significantly lower number of new options "the Option Exchange." The Option Exchange only applied to options granted to officers and directors on October 26, 2016, October 26, 2017, August 9, 2018 and October 23, 2018 who remained employed by the Company on the date that the Option Exchange was offered. Those who participated in the Option Exchange will receive one new option in exchange for every eight tendered. All of the eligible option holders elected to participate in the Option Exchange. As a result, 241,463 options to purchase common shares were cancelled on July 31, 2020. The replacement options may not be granted until 90 days has passed since the cancellation of the options exchanged and must have an exercise price equivalent to the fair market value of the common shares at the date of grant. On July 31, 2020, the Company recorded stock-based compensation expense of $111,231 that related to the unvested portion of the cancelled options.

*Subsequent events*

The Company evaluated subsequent events through September 9, 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.

*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. 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. However, one of the Company’s customers filed for bankruptcy protection on April 29, 2020, resulting in a provision for loss for the receivable amount of $1,012,946. The Company has filed a claim and believes that there is a reasonable chance that it will recover a portion of the outstanding receivable.

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

*Credit Risk (continued)*

Due to seasonality, amounts in accounts receivable are usually at their highest during peak periods. They are atypically low at July 31, 2020 due to the reduction in economic activity caused by COVID-19 related impacts. A breakdown of accounts receivable by category is below:

| | **At July 31, 2020** | **At October 31, 2019** |
|---|---|---|
| **Customer type** | **$** | **$** |
| Domestic and international financial institutions | 6,633,287 | 2,575,497 |
| Money service businesses | 257,803 | 7,274,152 |
| Other | 135,262 | 693,603 |
| **Total** | **7,026,352** | 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 July 31, 2020 was approximately $4,070,000 (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 $3,049,000 (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 +$61,000/-$61,000 (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.

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

*Interest Rate Risk (continued)*

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, 2020 would have been approximately +$16,400/-$16,400 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, 2020**

| **Non-derivative financial liabilities** | **Carrying amount** | **Estimated contractual amount** | **This fiscal year** | **Future fiscal years** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| Accounts payable | 7,670,391 | 7,670,391 | 7,670,391 | $Nil |
| Line of credit | 18,639,266 | 18,639,266 | 18,639,266 | $Nil |
| Accrued expenses | 1,655,158 | 1,599,650 | 1,599,650 | $Nil |
| Contingent consideration | 722,465 | 722,465 | $Nil | 722,465 |
| Contract liability | 79,687 | 79,687 | $Nil | 79,687 |

**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 July 31, 2020** | **At October 31, 2019** |
|---|---|---|
| | **$** | **$** |
| Current assets | 79,940,712 | 75,333,620 |
| Current liabilities | (30,195,314) | (16,400,679) |

| | | |
|---|---|---|
| Working capital | 49,745,398 | 58,932,941 |

*Capital Management (continued)*

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.