

# Cortex Business Solutions Inc.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED OCTOBER 31, 2017 AND 2016

**DATED:** December 5, 2017

# Cortex Business Solutions Inc.

## Condensed Consolidated Interim Statements of Financial Position

(Prepared in Canadian Dollars)

(Unaudited)

	October 31 2017	July 31 2017
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 6,592,998	\$ 6,248,176
Short-term investments	60,000	60,000
Accounts receivable (note 8(c))	1,445,604	1,220,442
Prepaid expenses	178,521	180,710
	<u>8,277,123</u>	<u>7,709,328</u>
Long-term receivable	124,735	98,761
Deposits	99,978	35,061
Property and equipment	113,112	178,118
Intangible assets	27,766	30,018
	<u>\$ 8,642,714</u>	<u>\$ 8,051,286</u>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,805,570	\$ 1,834,471
Deferred revenue	495,200	423,734
Current income tax payable	11,734	9,203
Current portion of obligations under finance lease (note 3)	22,812	-
	<u>2,335,316</u>	<u>2,267,408</u>
Deferred rent (note 4)	79,923	-
Obligations under finance lease (note 3)	31,000	-
	<u>2,446,239</u>	<u>2,267,408</u>
<b>Shareholders' Equity</b>		
Share capital (note 5)	60,632,576	60,562,286
Accumulated other comprehensive income	605,688	591,752
Contributed surplus	9,568,248	9,526,341
Deficit	(64,610,037)	(64,896,501)
	<u>6,196,475</u>	<u>5,783,878</u>
	<u>\$ 8,642,714</u>	<u>\$ 8,051,286</u>

Commitments (note 7)

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Approved by the Board:

(Signed) "Joel Leetzow", Director

(Signed) "Grant Billing", Director

# Cortex Business Solutions Inc.

## Condensed Consolidated Interim Statement of Income (Loss) and Comprehensive Income (Loss) For the three months ended October 31, 2017 and 2016

(Prepared in Canadian Dollars)

(Unaudited)

	Three months ended	
	October 31 2017	October 31 2016
<b>Revenue</b>		
Access and usage fees	\$ 2,809,912	\$ 2,337,660
Integration fees	86,561	18,124
Project management and other revenue	338,200	113,284
	<u>3,234,673</u>	<u>2,469,068</u>
<b>Cost of Sales</b>	<u>832,300</u>	<u>823,538</u>
<b>Gross Profit</b>	<u>2,402,373</u>	<u>1,645,530</u>
<b>Expenses</b>		
Sales and marketing	689,969	459,909
Research and development	477,587	440,531
General and administrative	797,419	801,857
Severance and termination charges	155,922	21,388
	<u>2,120,897</u>	<u>1,723,685</u>
Income (loss) before finance income	281,476	(78,155)
Finance income	7,096	9
Income tax expense	(2,108)	(14,641)
Net income (loss)	<u>\$ 286,464</u>	<u>\$ (92,787)</u>
<b>Other comprehensive earnings</b>		
Items that may be reclassified subsequently to net income (loss):		
Foreign exchange gain on foreign operations	<u>13,936</u>	<u>73,377</u>
Comprehensive income (loss)	<u>\$ 300,400</u>	<u>\$ (19,410)</u>
Net income (loss) per share - basic and diluted (note 5(d))	<u>\$ 0.03</u>	<u>\$ (0.01)</u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements

# Cortex Business Solutions Inc.

## Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

(Prepared in Canadian Dollars)

(Unaudited)

	Number of Common Shares	Share Capital	Accumulated Other Comprehensive Income	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance - July 31, 2016	8,984,704	\$ 60,291,515	\$ 640,232	\$ 9,126,948	\$ (64,481,187)	\$ 5,577,508
Net loss	-	-	-	-	(92,787)	(92,787)
Translation of foreign operations	-	-	73,377	-	-	73,377
Stock based compensation	-	-	-	75,566	-	75,566
Balance - October 31, 2016	8,984,704	60,291,515	713,609	9,202,514	(64,573,974)	5,633,664
Balance - July 31, 2017	9,069,983	60,562,286	591,752	9,526,341	(64,896,501)	5,783,878
Net income	-	-	-	-	286,464	286,464
Translation of foreign operations	-	-	13,936	-	-	13,936
Compensation units & stock options exercised	21,158	70,290	-	(24,040)	-	46,250
Stock based compensation	-	-	-	65,947	-	65,947
Balance - October 31, 2017	9,091,141	\$ 60,632,576	\$ 605,688	\$ 9,568,248	\$ (64,610,037)	\$ 6,196,475

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Cortex Business Solutions Inc.  
**Condensed Consolidated Interim Statement of Cash Flows**  
**For the three months ended October 31, 2017 and 2016**  
(Prepared in Canadian Dollars)  
(unaudited)

	Three months ended	
	October 31 2017	October 31 2016
Cash provided by (used in)		
<b>Operating activities</b>		
Net income (loss)	\$ 286,464	\$ (92,787)
Items not affecting cash		
Stock-based compensation	65,947	75,566
Amortization	150,294	24,855
Deferred Rent	79,923	-
Accretion on rebate provision	-	2,153
Loss on disposal of equipment	-	-
Long term receivables	(25,974)	-
Changes in non-cash working capital	<u>(242,791)</u>	<u>(136,035)</u>
Net cash provided by (used in) operating activities	<u>313,863</u>	<u>(126,248)</u>
<b>Financing activities</b>		
Proceeds on exercise of compensation units & stock options	46,250	-
Finance lease payments	<u>(12,993)</u>	<u>-</u>
Net cash provided by financing activities	<u>33,257</u>	<u>-</u>
<b>Investing Activities</b>		
Acquisition of property and equipment	<u>(16,231)</u>	<u>-</u>
Net cash used in investing activities	<u>(16,231)</u>	<u>-</u>
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	<u>13,933</u>	<u>79,179</u>
Cash inflow (outflow)	344,822	(47,069)
Cash, beginning of period	<u>6,248,176</u>	<u>5,621,835</u>
Cash, end of period	<u>\$ 6,592,998</u>	<u>\$ 5,574,766</u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements

# Cortex Business Solutions Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended October 31, 2017 and 2016

(Prepared in Canadian Dollars)  
(unaudited)

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### 1. NATURE OF OPERATIONS

Cortex Business Solutions Inc. ("Cortex" or the "Company") is listed on the TSX Venture Exchange and its primary business is the supply of e-commerce products and services that improve efficiencies, reduce costs and streamline procurement and supply chain processes for its customers in both Canada and the United States of America ("U.S."). The head office and principal address of the Company is Suite 130 - 115 Quarry Park Road SE, Calgary, Alberta T2C 5G9.

These condensed consolidated interim financial statements were approved and authorized by the Board of Directors on December 4, 2017.

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

These condensed consolidated interim financial statements were prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements for the year ended July 31, 2017 including the below accounting policy. They were reported in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB). Accordingly, certain financial information and disclosure normally included in annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) has been omitted or condensed. The disclosure provided herein is incremental to the disclosure included in the audited annual consolidated financial statements.

The condensed consolidated financial statements should be read in conjunction with Cortex's annual audited consolidated financial statements for the year ended July 31, 2017.

#### (b) Accounting Policies and recent pronouncements

##### *Accounting Policies*

##### Leases

Leases are classified as either finance or operating leases. Finance leases are those that substantially transfer the benefits and risks of ownership of an asset to the lessee. All leases other than finance leases are operating leases.

At the inception of a finance lease, an asset and an obligation is recorded at the lesser of the present value of the minimum lease payments and the asset's fair value.

# Cortex Business Solutions Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

### Three months ended October 31, 2017 and 2016

(Prepared in Canadian Dollars)  
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Total payments under operating leases are expensed on a straight line basis over the term of the relevant lease. Any incentives received upon entry into an operating lease are recognized on a straight line basis over the term of the lease.

#### *Recent accounting pronouncements*

##### *IFRS 9 Financial Instruments*

IFRS 9 introduces a number of new principles including (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward looking ‘expected loss’ impairment model, and (iii) a substantially reformed approach to hedge accounting. Management has not yet determined that potential impact the adoption of IFRS 9 will have on the Company’s consolidated financial statements. The standard is effective for the Company for the first interim period beginning August 1, 2018.

##### *IFRS 15 Revenue from contracts with customers*

IFRS 15 provides a single, comprehensive revenue recognition model for all contracts with customers. The standard contains principles that the Company will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that Company expects to be entitled to in exchange for those goods or services. Management has not yet determined that potential impact the adoption of IFRS 15 will have on the Company’s consolidated financial statements. The standard is effective for the Company for the first interim period beginning August 1, 2018.

##### *IFRS 16 Leases*

IFRS 16 requires all leases, including financing and operating to be reported on a company’s balance sheet. The new standard will provide greater transparency on companies’ lease assets and liabilities. The standard will impact the Company and is effective for the first annual year ended July 31, 2020.

Cortex Business Solutions Inc.  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**Three months ended October 31, 2017 and 2016**  
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3. OBLIGATIONS UNDER FINANCE LEASE

The Company entered into finance leases during the period ended October 31, 2017. These finance leases have terms ranging from 24 to 60 months, with interest rates of 0% to 5.8%.

	<b>October 31 2017</b>
Opening balance	\$ -
Additions to finance lease during the period	66,805
Payments during the period	<u>(12,993)</u>
Ending balance	53,812
Less: current portion	<u>22,812</u>
Long term portion	<u>\$ 31,000</u>

4. DEFERRED RENT

On April 30, 2017, the Company entered into a new lease agreement for office space related to its new headquarters to begin August 1, 2017 through to April 29, 2022.

The Company received six months of free rent at the beginning of the lease as an inducement to enter into the new lease. As a result, a straight-line amount is calculated and charged to rent expenses over the life of the lease. Any differences is charged to deferred rent.

	<b>October 31 2017</b>
Opening balance	\$ -
Amounts deferred for the period	<u>79,923</u>
Ending balance	<u>\$ 79,923</u>

5. SHARE CAPITAL

(a) Authorized

Unlimited number of common voting shares

Unlimited number of preferred shares. The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares and determine the rights, privileges and other conditions for each series.



# Cortex Business Solutions Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended October 31, 2017 and 2016

(Prepared in Canadian Dollars)  
(unaudited)

(b) Issued

	October 31, 2017		October 31, 2016	
	Number	Amount	Number	Amount
<b>Common Shares</b>				
Balance, beginning of year	9,069,983	\$ 60,562,286	8,984,704	\$ 60,291,515
Exercise of compensation units (note 5(c))	3,491	10,779	-	-
Exercise of stock options	17,667	59,511	-	-
Balance, end of year	<u>9,091,141</u>	<u>\$ 60,632,576</u>	<u>8,984,704</u>	<u>\$ 60,291,515</u>

(c) On September 2, 2015, the Company closed a bought deal private placement of 1,551,375 common shares at a price of \$2.00 per share for net proceeds of \$2,738,384. The underwriters received 93,083 compensation units, consisting of one share, with a fair value of \$101,222. These units could be exercised for \$2.00 and expired September 2, 2017. As at October 31, 2017, all units have been exercised prior to their expiry date.

(d) Net Income (loss) per share

Net loss per share has been calculated using the basic and diluted weighted average number of common shares outstanding during the years ended:

	October 31, 2017		October 31, 2016	
	Basic	Diluted	Basic	Diluted
Three months ended	9,082,298	9,319,312	8,984,704	9,299,348

The diluted weighted average number of common shares have been adjusted for additional shares that would have been outstanding assuming the conversion of all dilutive stock options and compensation units.

## 6. STOCK-BASED COMPENSATION

(a) The Company has a stock option plan under which directors, officers, consultants and employees are eligible to receive stock options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued and outstanding shares. Options granted under the current stock option plan have a term of five years and vest over a three year period. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policy or policies of the stock exchange upon which the Company's common shares are then listed.

# Cortex Business Solutions Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

### Three months ended October 31, 2017 and 2016

(Prepared in Canadian Dollars)  
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A summary of the status of the Company's stock option plan for the three months ended October 31, 2017 and October 31, 2016 is as follows:

	October 31, 2017		October 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	605,554	\$ 3.93	537,077	\$ 4.47
Granted	-	-	44,390	2.20
Exercised	(17,667)	2.22	-	-
Forfeited	(655)	3.70	-	-
Expired	(200)	9.75	(11,000)	12.00
Outstanding, end of period	<u>587,032</u>	<u>\$ 3.98</u>	<u>570,467</u>	<u>\$ 4.15</u>
Exercisable, end of period	<u>288,079</u>	<u>\$ 4.92</u>	<u>205,747</u>	<u>\$ 6.85</u>

(b) Deferred share units are issued to members of the Board of the Directors.

2016 Plan	October 31, 2017		October 31, 2016	
	Number of DSU's	Value	Number of DSU's	Value
Balance, beginning	84,370	345,915	105,462	\$ 253,109
Granted during the period	-	-	-	-
Fair value change	-	-	-	28,475
Balance, end of period	<u>84,370</u>	<u>345,915</u>	<u>105,462</u>	<u>\$ 281,584</u>

  

2017 Plan	October 31, 2017		October 31, 2016	
	Number of DSU's	Value	Number of DSU's	Value
Balance, beginning	75,875	200,000	-	\$ -
Granted during the period	-	-	-	-
Fair value change	-	-	-	-
Balance, end of period	<u>75,875</u>	<u>200,000</u>	<u>-</u>	<u>\$ -</u>

## 7. COMMITMENTS

The Company has entered into various operating and finance leases for office space and equipment expiring at various dates through to April 29, 2022.

The following is the minimum annual fiscal cash obligations, including the onerous contract, while excluding the share of operating costs relating to office space:

Fiscal 2018	\$	223,141
Fiscal 2019		143,663
Fiscal 2020		124,649
Fiscal 2021		124,649
Fiscal 2022		94,709
	<u>\$</u>	<u>710,811</u>

# Cortex Business Solutions Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended October 31, 2017 and 2016

(Prepared in Canadian Dollars)  
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### 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### (a) Risk management overview

The Company's activities expose itself to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Company employs risk management strategies and policies to ensure that any exposure to risk are in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Company's risk management framework, Cortex's management has the responsibility to administer and monitor these risks.

#### (b) Fair value of financial instruments

The carrying value of cash and cash equivalents, short term investments, accounts receivable, long term receivable and accounts payables and accrued liabilities approximate fair value due to the short term nature of those instruments.

#### (c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables.

The Company monitors its general allowance policy on accounts receivable on a regular basis. As at October 31, 2017, the Company had \$907,252 (2016 - \$388,726) of trade accounts receivables. Of this amount, \$260,493 (2016 - \$95,488) are over 60 days, which is past due under the Company's normal credit terms. Of this amount, \$20,110 has been allowed for under the Company's general allowance policy. At October 31, 2017, the Company had accrued receivable in the amount of \$558,462 (2016 - \$408,369) for services performed prior to October 31, 2017. All accounts receivable are unsecured. The Company's maximum exposure to credit risk is the carrying value of accounts receivable and long term receivables on the consolidated statement of financial position shown net of the allowance for doubtful accounts of \$20,110.

Credit risk also exists in cash and other receivable relating to credit card processor holdbacks as all balances are maintained at major financial institutions. These risks are mitigated because the financial institutions are major Canadian and U.S. banks.

# Cortex Business Solutions Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended October 31, 2017 and 2016

(Prepared in Canadian Dollars)  
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The maximum credit risk exposure is equal to the carrying value of cash and accounts receivables.

	October 31, 2017	
Cash	\$	6,592,998
Accounts Receivable		1,445,604
	\$	<u>8,038,602</u>

### (d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk by continuously monitoring actual and projected cash flows to ensure it will have sufficient liquidity to meet its commitments and obligations as they become due. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow as well as future equity financings.

The following table outlines the expected undiscounted payments of future financial liabilities:

	Accounts payable and accrued liabilities	Obligations under finance lease (note 3)	Total
Within one year	\$ 1,805,570	\$ 22,812	\$ 1,828,382
two - five years	-	31,000	31,000
	<u>\$ 1,805,570</u>	<u>\$ 53,812</u>	<u>\$ 1,859,382</u>

### (e) Market risk

Market risk is the risk that financial instruments fair values and the Company's future cash flows will fluctuate due to changes in market prices.

The Company is exposed to currency risk.

The Company is exposed to currency risk on sales in the Company's wholly owned U.S. subsidiary denominated in U.S. dollars. The Company had \$946,794 in revenue for the period ended October 31, 2017 (2016 - \$775,897) which was denominated in U.S. dollars. The Company had \$234,196 (2016 - \$134,355) in U.S. accounts receivable, \$125,999 (2016 - \$105,497) in accrued usage fees, nil (2016 - \$50,000) of other receivables and \$845,786 (2016 - \$2,280,619) in U.S. bank accounts at October 31, 2017 denominated in U.S. dollars.

# Cortex Business Solutions Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

### Three months ended October 31, 2017 and 2016

(Prepared in Canadian Dollars)  
(unaudited)

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Included in accounts payable and accrued liabilities at July 31, 2017 are \$180,465 (2016 - \$128,891) denominated in U.S. dollars, respectively.

A 1% increase or decrease in foreign exchange rates on the net assets denominated in U.S. dollars would have an estimated impact of \$7,000 on net income at October 31, 2017.

#### (f) Capital management

The Company includes as capital: shareholders' equity which is comprised of share capital, contributed surplus, accumulated other comprehensive income and deficit. The Company's primary objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has positive net cash flows provided by operating activities, combined with \$6,592,998 in cash and cash equivalents. The ability of the Company to continue as a going concern is dependent upon maintaining future profitable operations. The Company has in place a detailed planning and budgeting process to assist in determining the funds required to ensure appropriate capital to meet its growth objectives. The Company strives to maintain sufficient capital to meet its short term business requirements taking into account its capital commitments, planned capital expenditures and its holdings of cash. The Company has set forth in its business plan, expected revenue and expense targets for the fiscal year ended July 31, 2018.

The Company is not subject to externally imposed capital requirements. There has been no change to the Company's capital management philosophy during the period ended October 31, 2017.

#### 9. SEGMENTED INFORMATION

Although the Company supplies services to both Canadian and U.S. customers, the Company only has one operating segment.

Revenue by geographic area is as follows:

	Period ended	
	October 31, 2017	October 31, 2016
Canada	\$ 2,051,401	\$ 1,440,891
U.S.	1,183,272	1,028,177
	<u>\$ 3,234,673</u>	<u>\$ 2,469,068</u>

Substantially all of the non-current assets of the Company are located in Canada.