

Cortex Business Solutions Inc.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JANUARY 31, 2018 AND 2017

DATED: March 6, 2018

Cortex Business Solutions Inc.

Condensed Consolidated Interim Statements of Financial Position

(Prepared in Canadian Dollars)

(Unaudited)

	January 31 2018	July 31 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,675,340	\$ 6,248,176
Short-term investments	60,000	60,000
Accounts receivable (note 8(c))	1,363,850	1,220,442
Prepaid expenses	95,014	180,710
	<u>8,194,204</u>	<u>7,709,328</u>
Long-term receivable	134,046	98,761
Deposits	99,978	35,061
Property and equipment	108,673	178,118
Intangible assets	25,515	30,018
	<u>\$ 8,562,416</u>	<u>\$ 8,051,286</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,088,992	\$ 1,834,471
Deferred revenue	498,408	423,734
Current income tax payable	17,917	9,203
Current portion of obligations under finance lease (note 3)	22,867	-
	<u>1,628,184</u>	<u>2,267,408</u>
Deferred rent (note 4)	159,845	-
Obligations under finance lease (note 3)	25,262	-
	<u>1,813,291</u>	<u>2,267,408</u>
Shareholders' Equity		
Share capital (note 5)	60,651,418	60,562,286
Accumulated other comprehensive income	541,906	591,752
Contributed surplus	9,843,688	9,526,341
Deficit	(64,287,887)	(64,896,501)
	<u>6,749,125</u>	<u>5,783,878</u>
	<u>\$ 8,562,416</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 and six months ended January 31, 2018 and 2017

(Prepared in Canadian Dollars)

(Unaudited)

	Three months ended January 31		Six months ended January 31	
	2018	2017	2018	2017
Revenue				
Access and usage fees	\$ 2,853,893	\$ 2,398,153	\$ 5,663,805	\$ 4,735,813
Integration fees	50,683	82,475	137,244	100,599
Project management and other revenue	114,379	241,048	452,579	354,332
	<u>3,018,955</u>	<u>2,721,676</u>	<u>6,253,628</u>	<u>5,190,744</u>
Cost of Sales	<u>789,504</u>	<u>772,442</u>	<u>1,621,804</u>	<u>1,595,980</u>
Gross Profit	<u>2,229,451</u>	<u>1,949,234</u>	<u>4,631,824</u>	<u>3,594,764</u>
Expenses				
Sales and marketing	484,593	584,152	1,174,562	1,044,061
Research and development	459,143	462,159	936,730	902,690
General and administrative	971,726	1,014,480	1,769,145	1,816,337
Severance and termination	2,762	70,233	158,684	91,621
	<u>1,918,224</u>	<u>2,131,024</u>	<u>4,039,121</u>	<u>3,854,709</u>
Income (loss) before finance income	311,227	(181,790)	592,703	(259,945)
Finance income	13,065	429	20,161	438
Income tax expense	<u>(2,142)</u>	<u>(15,024)</u>	<u>(4,250)</u>	<u>(29,665)</u>
Net income (loss)	<u>\$ 322,150</u>	<u>\$ (196,385)</u>	<u>\$ 608,614</u>	<u>\$ (289,172)</u>
Other comprehensive earnings				
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange loss on foreign operations	<u>(63,782)</u>	<u>(100,826)</u>	<u>(49,846)</u>	<u>(27,449)</u>
Comprehensive income (loss)	<u>\$ 258,368</u>	<u>\$ (297,211)</u>	<u>\$ 558,768</u>	<u>\$ (316,621)</u>
Net income (loss) per share - basic and diluted (note 5(d))	<u>\$ 0.04</u>	<u>\$ (0.02)</u>	<u>\$ 0.07</u>	<u>\$ (0.03)</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	-	-	-	-	(289,172)	(289,172)
Translation of foreign operations	-	-	(27,449)	-	-	(27,449)
Compensation units & stock options exercised	3,491	18,368	-	(11,386)	-	6,982
Deferred share units issued	-	-	-	200,000	-	200,000
Stock based compensation	-	-	-	75,566	-	75,566
Balance - January 31, 2017	<u>8,988,195</u>	<u>60,309,883</u>	<u>612,783</u>	<u>9,391,128</u>	<u>(64,770,359)</u>	<u>5,543,435</u>
Balance - July 31, 2017	9,069,983	60,562,286	591,752	9,526,341	(64,896,501)	5,783,878
Net income	-	-	-	-	608,614	608,614
Translation of foreign operations	-	-	(49,846)	-	-	(49,846)
Compensation units & stock options exercised	27,163	89,132	-	(31,051)	-	58,081
Deferred share units issued	-	-	-	200,000	-	200,000
Stock based compensation	-	-	-	148,398	-	148,398
Balance - January 31, 2018	<u>9,097,146</u>	<u>\$ 60,651,418</u>	<u>\$ 541,906</u>	<u>\$ 9,843,688</u>	<u>\$ (64,287,887)</u>	<u>\$ 6,749,125</u>

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 and six months ended January 31, 2018 and 2017
(Prepared in Canadian Dollars)
(unaudited)

	Three months ended January 31		Six months ended January 31	
	2018	2017	2018	2017
Cash provided by (used in)				
Operating activities				
Net income (loss)	\$ 322,150	\$ (196,385)	\$ 608,614	\$ (289,172)
Items not affecting cash				
Stock-based compensation	282,451	276,055	348,398	351,621
Amortization	8,167	25,030	158,461	49,885
Deferred Rent	79,922	-	159,845	-
Accretion on rebate provision	-	2,154	-	4,307
Loss on disposal of equipment	-	1,012	-	1,012
Long term receivables	(9,311)	(26,577)	(35,285)	(53,034)
Changes in non-cash working capital	<u>(541,926)</u>	<u>(190,044)</u>	<u>(784,717)</u>	<u>(299,622)</u>
Net cash provided by (used in) operating activities	<u>141,453</u>	<u>(108,755)</u>	<u>455,316</u>	<u>(235,003)</u>
Financing activities				
Proceeds on exercise of compensation units & stock options	11,831	6,982	58,081	6,982
Finance lease payments	<u>(5,683)</u>	<u>-</u>	<u>(18,676)</u>	<u>-</u>
Net cash provided by financing activities	<u>6,148</u>	<u>6,982</u>	<u>39,405</u>	<u>6,982</u>
Investing Activities				
Acquisition of property and equipment	<u>(1,478)</u>	<u>(2,340)</u>	<u>(17,709)</u>	<u>(2,340)</u>
Net cash used in investing activities	<u>(1,478)</u>	<u>(2,340)</u>	<u>(17,709)</u>	<u>(2,340)</u>
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	<u>(63,781)</u>	<u>(106,529)</u>	<u>(49,848)</u>	<u>(27,350)</u>
Cash inflow (outflow)	82,342	(210,642)	427,164	(257,711)
Cash, beginning of period	<u>6,592,998</u>	<u>5,574,766</u>	<u>6,248,176</u>	<u>5,621,835</u>
Cash, end of period	<u>\$ 6,675,340</u>	<u>\$ 5,364,124</u>	<u>\$ 6,675,340</u>	<u>\$ 5,364,124</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 and six months ended January 31, 2018 and 2017

(Prepared in Canadian Dollars)

(unaudited)

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 March 6, 2018.

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. The condensed consolidated interim financial statements 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

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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, which replaces the existing guidance in IAS 39, 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. It carries forward existing requirements on recognition and de-recognition of financial instruments from IAS 39. 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 new standard replaces IAS 11, IAS 18 IFRIC 13, IFRIC 15, IFRIC 18 and SIC 18. 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, which replaces IAS 17, requires all leases, including financing and operating to be reported on a company’s balance sheet. The new standard will provide greater transparency on a lessee’s right of use assets representing its right to use the underlying asset and the lease liability representing its obligation to make lease payments. 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

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(Prepared in Canadian Dollars)
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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 up to 5.8%.

	January 31 2018
Opening balance, July 31, 2017	\$ -
Additions to finance lease during the period	66,805
Payments during the period	<u>(18,676)</u>
Ending balance	48,129
Less: current portion	<u>22,867</u>
Long term portion	<u>\$ 25,262</u>

The Company has minimum lease payment commitments for the following amounts:

F2018	\$ 11,406
F2019	23,903
F2020	4,889
F2021	4,889
F2022	<u>4,889</u>
Total	49,976
Interest	<u>(1,847)</u>
Principal	\$ 48,129

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 are charged to deferred rent.

	January 31 2018
Opening balance, July 31, 2017	\$ -
Amounts deferred for the period	<u>159,845</u>
Ending balance	<u>\$ 159,845</u>

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Notes to the Condensed Consolidated Interim Financial Statements

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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.

(b) Issued

	January 31, 2018		January 31, 2017	
	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of period	9,069,983	\$ 60,562,286	8,984,704	\$ 60,291,515
Exercise of compensation units (note 5(c))	3,491	10,779	3,491	18,368
Exercise of stock options	23,672	78,353	-	-
Balance, end of period	<u>9,097,146</u>	<u>\$ 60,651,418</u>	<u>8,988,195</u>	<u>\$ 60,309,883</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. 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 periods ended:

	January 31, 2018		January 31, 2017	
	Basic	Diluted	Basic	Diluted
Three months ended	9,094,625	9,194,595	8,984,972	9,047,983
Six months ended	9,088,462	9,188,431	8,984,837	9,047,848

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.

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(Prepared in Canadian Dollars)
(unaudited)

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.

(b) A summary of the status of the Company's stock option plan for the six months ended January 31, 2018 and January 31, 2017 is as follows:

	January 31, 2018		January 31, 2017	
	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	100,000	4.19	44,390	2.20
Exercised	(23,672)	2.16	-	-
Forfeited	(39,831)	2.72	(10,773)	2.05
Expired	(14,026)	10.43	(23,681)	11.07
Outstanding, end of period	<u>628,025</u>	<u>\$ 3.97</u>	<u>547,013</u>	<u>\$ 4.05</u>
Exercisable, end of period	<u>267,685</u>	<u>\$ 4.70</u>	<u>193,095</u>	<u>\$ 6.62</u>

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

2016 Plan	January 31, 2018		January 31, 2017	
	Number of DSU's	Value	Number of DSU's	Value
Balance, beginning	84,370	345,915	105,462	\$ 253,109
Granted during the period	-	-	-	-
Exercised during the period	-	-	(21,092)	(57,287)
Fair value change	-	-	-	74,161
Balance, end of period	<u>84,370</u>	<u>345,915</u>	<u>84,370</u>	<u>\$ 269,983</u>

2017 & 2018 Plan	January 31, 2018		January 31, 2017	
	Number of DSU's	Value	Number of DSU's	Value
Balance, beginning	75,875	200,000	-	\$ -
Granted during the period	51,021	200,000	75,875	200,000
Fair value change	-	-	-	-
Balance, end of period	<u>126,896</u>	<u>400,000</u>	<u>75,875</u>	<u>\$ 200,000</u>

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Notes to the Condensed Consolidated Interim Financial Statements

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(Prepared in Canadian Dollars)
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7. COMMITMENTS

The Company has entered into various operating and finance leases for office space and equipment expiring at various dates through to August 1, 2022.

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

Fiscal 2018	\$	71,286
Fiscal 2019		143,663
Fiscal 2020		124,649
Fiscal 2021		124,649
Fiscal 2022		94,709
	\$	<u>558,956</u>

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.

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(Prepared in Canadian Dollars)
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The Company monitors its general allowance policy on accounts receivable on a regular basis. As at January 31, 2018, the Company had \$835,749 (2017 - \$559,722) of trade accounts receivables. Of this amount, \$332,764 (2017 - \$135,990) are over 60 days, which is past due under the Company's normal credit terms. Of this amount, \$20,000 has been allowed for under the Company's general allowance policy. At January 31, 2018, the Company had accrued receivable in the amount of \$548,101 (2017 - \$361,672) for services performed prior to January 31, 2018. 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 \$20,000.

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.

The maximum credit risk exposure is equal to the carrying value of cash and accounts receivables.

	January 31, 2018	
Cash and cash equivalents	\$	6,675,340
Accounts Receivable		1,363,850
	<u>\$</u>	<u>8,039,190</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 at January 31, 2018:

	Accounts payable and accrued liabilities	Obligations under finance lease (note 3)	Total
Within one year	\$ 1,088,992	\$ 22,867	\$ 1,111,859
two - five years	-	25,262	25,262
	<u>\$ 1,088,992</u>	<u>\$ 48,129</u>	<u>\$ 1,137,121</u>

Cortex Business Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(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 (amounts below in U.S. Dollars).

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 \$1,897,937 in revenue for the six month period ended January 31, 2018 (2017 - \$1,579,299) which was denominated in U.S. dollars. The Company had \$308,978 (2017 - \$141,723) in U.S. trade accounts receivable, \$133,214 (2017 - \$106,508) in accrued usage fees, nil (2017 - \$50,000) of other receivables and \$1,238,250 (2017 - \$2,759,599) in U.S. bank accounts at January 31, 2018 denominated in U.S. dollars.

Included in accounts payable and accrued liabilities at January 31, 2018 are \$146,655 (2017 - \$208,470) 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 \$16,000 on net income at January 31, 2018.

(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 \$6,675,340 in cash and cash equivalents. 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 January 31, 2018.

Cortex Business Solutions Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(Prepared in Canadian Dollars)

(unaudited)

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:

	Three months ended January 31		Six months ended January 31	
	2018	2017	2018	2017
Canada	\$ 1,815,254	\$ 1,666,616	\$ 3,866,655	\$ 3,107,507
U.S.	1,203,701	1,055,060	2,386,973	2,083,237
	<u>\$ 3,018,955</u>	<u>\$ 2,721,676</u>	<u>\$ 6,253,628</u>	<u>\$ 5,190,744</u>

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