Cortex Business Solutions Inc.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED APRIL 30, 2018 AND 2017

(Unaudited)

DATED: June 12, 2018

Cortex Business Solutions Inc.

Condensed Consolidated Interim Statements of Financial Position

(Prepared in Canadian Dollars)

(Unaudited)

	April 30 2018	July 31 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 7,561,299	$ 6,248,176
Short-term investments	60,000	60,000
Accounts receivable (note 8(c))	1,092,404	1,220,442
Prepaid expenses	218,281	180,710
	8,931,984	7,709,328
Long-term receivable	112,083	98,761
Deposits	67,439	35,061
Property and equipment	112,428	178,118
Intangible assets	23,264	30,018
	$ 9,247,198	$ 8,051,286
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,125,052	$ 1,834,471
Deferred revenue	375,919	423,734
Current income tax payable	20,951	9,203
Current portion of obligations under finance lease (note 3)	22,923	-
	1,544,845	2,267,408
Deferred rent (note 4)	150,445	-
Obligations under finance lease (note 3)	19,511	-
	1,714,801	2,267,408
Shareholders' Equity		
Share capital (note 5)	60,771,418	60,562,286
Accumulated other comprehensive income	602,103	591,752
Contributed surplus	9,802,315	9,526,341
Deficit	(63,643,439)	(64,896,501)
	7,532,397	5,783,878
	$ 9,247,198	$ 8,051,286

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 nine months ended April 30, 2018 and 2017
(Prepared in Canadian Dollars)
(Unaudited)

	Three months ended April 30 2018	Three months ended April 30 2017	Nine months ended April 30 2018	Nine months ended April 30 2017
Revenue				
Access and usage fees	$ 2,911,847	$ 2,603,932	$ 8,575,652	$ 7,339,745
Integration fees	87,612	119,792	224,856	220,391
Project management and other revenue	113,384	207,002	565,963	561,334
	3,112,843	2,930,726	9,366,471	8,121,470
Cost of Sales	808,897	853,057	2,430,701	2,449,037
Gross Profit	2,303,946	2,077,669	6,935,770	5,672,433
Expenses				
Sales and marketing	501,039	596,473	1,675,601	1,640,534
Research and development	479,843	500,338	1,416,573	1,403,028
General and administrative	709,182	908,697	2,478,327	2,725,034
Severance and termination	5,747	36,436	164,431	128,057
	1,695,811	2,041,944	5,734,932	5,896,653
Income (loss) before finance income	608,135	35,725	1,200,838	(224,220)
Finance income	38,540	921	58,701	1,359
Income tax expense	(2,227)	(16,799)	(6,477)	(46,464)
Net income (loss)	$ 644,448	$ 19,847	$ 1,253,062	$ (269,325)
Other comprehensive earnings				
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange gain on foreign operations	60,197	97,922	10,351	70,473
Comprehensive income (loss)	$ 704,645	$ 117,769	$ 1,263,413	$ (198,852)
Net income (loss) per share – basic and diluted (note 5(d))	$ 0.07	$ 0.00	$ 0.14	$ (0.03)

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	-	-	-	-	(269,325)	(269,325)
Translation of foreign operations	-	-	70,473	-	-	70,473
Compensation units & stock options exercised	6,158	26,491	-	(14,442)	-	12,049
Deferred share units issued				200,000		200,000
Stock based compensation	-	-	-	219,361	-	219,361
Balance – April 30, 2017	8,990,862	60,318,006	710,705	9,531,867	(64,750,512)	5,810,066
Balance - July 31, 2017	9,069,983	60,562,286	591,752	9,526,341	(64,896,501)	5,783,878
Net income	-	-	-	-	1,253,062	1,253,062
Translation of foreign operations	-	-	10,351	-	-	10,351
Compensation units & stock options exercised	27,163	89,132	-	(31,051)	-	58,081
Deferred share units exercised for shares	40,554	120,000	-	(120,000)	-	-
Deferred share units issued				200,000		200,000
Stock based compensation	-	-	-	227,025	-	227,025
Balance – April 30, 2018	9,137,700	$ 60,771,418	$ 602,103	$ 9,802,315	$ (63,643,439)	$ 7,532,397

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 nine months ended April 30, 2018 and 2017

(Prepared in Canadian Dollars)
(unaudited)

	Three months ended April 30		Nine months ended April 30	
	2018	2017	2018	2017
Cash provided by (used in)				
Operating activities				
Net income (loss)	$ 644,448	$ 19,847	$ 1,253,062	$ (269,325)
Items not affecting cash				
Stock-based compensation	78,627	67,740	427,025	419,361
Amortization	9,220	25,004	167,681	74,889
Deferred Rent	(9,400)	-	150,445	-
Accretion on rebate provision	-	2,153	-	6,460
Loss on disposal of equipment	868	-	868	1,012
Long term receivables	21,963	(26,517)	(13,322)	(79,551)
Changes in non-cash working capital	97,323	153,229	(687,393)	(146,393)
Net cash provided by operating activities	843,049	241,456	1,298,366	6,453
Financing activities				
Proceeds on exercise of compensation units & stock options	-	5,067	58,081	12,049
Finance lease payments	(5,696)	-	(24,371)	-
Net cash provided by (used in) financing activities	(5,696)	5,067	33,710	12,049
Investing Activities				
Acquisition of property and equipment	(11,591)	(548)	(29,300)	(2,888)
Net cash used in investing activities	(11,591)	(548)	(29,300)	(2,888)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	60,197	97,822	10,347	70,472
Cash inflow	885,959	343,797	1,313,123	86,086
Cash, beginning of period	6,675,340	5,364,124	6,248,176	5,621,835
Cash, end of period	$ 7,561,299	$ 5,707,921	$ 7,561,299	$ 5,707,921

1. NATURE OF OPERATIONS – REPORTING ENTITY

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 June 12, 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 interim 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, as asset and an obligation is recorded at the lesser of the present value of the minimum lease payments and the asset's fair value.

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. The Company is currently evaluating the impact of this standard on its 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. The Company is currently evaluating the impact of this standard on its 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. Management has not yet determined the potential impact the adoption of IFRS 16 will have on the Company's consolidated financial statements. The standard will impact the Company and is effective for the first annual year ended July 31, 2020.

(Prepared in Canadian Dollars)

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%.

	April 30 2018
Opening balance, July 31, 2017	$ -
Additions to finance lease during the period	66,805
Payments during the period	(24,371)
Ending balance	42,434
Less: current portion	22,923
Long term portion	$ 19,511

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

F2018	$ 5,776
F2019	23,903
F2020	4,889
F2021	4,889
F2022	4,889
Total	44,346
Interest	(1,912)
Principal	$ 42,434

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.

	April 30 2018
Opening balance, July 31, 2017	$ -
Amounts deferred for the period	159,845
Recognized for the period	(9,400)
Ending balance	$ 150,445

(Prepared in Canadian Dollars)

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

	April 30, 2018		April 30, 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 deferred share units for shares	40,554	120,000	-	-
Exercise of stock options	23,672	78,353	2,667	8,123
Balance, end of period	9,137,700	$ 60,771,418	8,990,862	$ 60,318,006

(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 income (loss) per share has been calculated using the basic and diluted weighted average number of common shares outstanding during the periods ended:

	April 30, 2018		April 30, 2017	
	Basic	Diluted	Basic	Diluted
Three months ended	9,121,340	9,219,265	8,989,303	9,073,774
Nine months ended	9,098,742	9,196,667	8,986,298	9,070,769

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

The number of anti-dilutive stock options of 348,706 as of April 30, 2018 have not been included in the determination of the weighted average number of common shares.

(Prepared in Canadian Dollars)

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 nine months ended April 30, 2018 and April 30, 2017 is as follows:

	April 30, 2018		April 30, 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	(2,667)	1.90
Forfeited	(90,108)	4.32	(17,860)	4.88
Expired	(14,026)	10.43	(23,566)	11.09
Outstanding, end of period	577,748	$ 3.83	537,374	$ 3.99
Exercisable, end of period	232,468	$ 4.45	183,425	$ 6.59

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

2016 Plan	April 30, 2018		April 30, 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)	(85,255)	(21,092)	(57,287)
Fair value change	-	(26,534)	-	115,502
Balance, end of period	63,278	234,126	84,370	$ 311,324

2017 & 2018 Plans	April 30, 2018		April 30, 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
Exercised during the period	(40,554)	(120,000)		
Fair value change	-	-	-	-
Balance, end of period	86,342	280,000	75,875	$ 200,000

(Prepared in Canadian Dollars)

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	$	35,643
Fiscal 2019		143,663
Fiscal 2020		124,649
Fiscal 2021		124,649
Fiscal 2022		94,709
	$	523,313

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 meets 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 April 30, 2018, the Company had $674,803 (2017 – $715,646) of trade accounts receivables. Of this amount, $74,883 (2017 – $89,034) 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 April 30, 2018, the Company had accrued receivable in the amount of $437,601 (2017 - $341,815) for services performed prior to April 30, 2018. All accounts receivable balances 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.

(Prepared in Canadian Dollars)

Credit risk also exists in cash and cash equivalents 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.

	April 30, 2018
Cash and cash equivalents	$ 7,561,299
Accounts Receivable	1,092,404
	$ 8,653,703

(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 April 30, 2018:

	Accounts payable and accrued liabilities	Obligations under finance lease (note 3)	Total
Within one year	$ 1,125,052	$ 22,923	$ 1,147,975
Two - five years	-	19,511	19,511
	$ 1,125,052	$ 42,434	$ 1,167,486

(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 $2,879,197 in revenue for the nine months' period ended April 30, 2018 (2017 - $2,462,653) which was denominated in U.S. dollars. The Company had $229,096 (2017 - $213,513) in U.S. trade accounts receivable, $135,475 (2017 - $101,386) in accrued usage fees, nil (2017 - $50,000) of other receivables and $1,120,001 (2017 - $528,783) in U.S. bank accounts at April 30, 2018 denominated in U.S. dollars.

Included in accounts payable and accrued liabilities at April 30, 2018 are $137,960 (2017 - $226,215) 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 $24,000 CAD on net income at April 30, 2018.

(f) Capital management

The Company considers its shareholders' equity which is comprised of share capital, contributed surplus, accumulated other comprehensive income and deficit, as part of its total capital. 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 consistent positive net cash flows provided by operating activities for the nine period ended, combined with $7,561,299 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 cash and cash equivalents. The Company has detailed expected revenue and expense targets for the fiscal year ended July 31, 2018 incorporated into its business plan.

The Company is not subject to externally imposed capital requirements. There has been no change to the Company's capital management strategy during the period ended April 30, 2018.

(Prepared in Canadian Dollars)

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 April		Nine months ended April	
	2018	2017	2018	2017
Canada	$ 1,862,077	$ 1,751,060	$ 5,728,732	$ 4,858,567
U.S.	1,250,766	1,179,666	3,637,739	3,262,903
	$ 3,112,843	$ 2,930,726	$ 9,366,471	$ 8,121,470

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