November 27, 2014

## Independent Auditor's Report

**To the Shareholders of**
**Cortex Business Solutions Inc.**

We have audited the accompanying consolidated financial statements of Cortex Business Solutions Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at July 31, 2014 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cortex Business Solutions Inc. and its subsidiaries as at July 31, 2014 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describe matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Cortex Business Solutions Inc.'s ability to continue as a going concern.

**Other matter**
The consolidated financial statements of Cortex Business Solutions Inc. for the year ended July 31, 2013 were audited by other auditors whose report, dated November 27, 2014, expressed an unmodified opinion on those consolidated financial statements.

PricewaterhouseCoopers LLP

**Chartered Accountants**

# Cortex Business Solutions Inc.

## Consolidated Statements of Financial Position

(Prepared in Canadian dollars)

| | July 31 2014 | July 31 2013 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 9,547,661 | $ 5,179,066 |
| Short-term investments (note 3(n)) | 60,000 | 50,000 |
| Accounts receivable (note 4) | 1,046,424 | 651,782 |
| Prepaid expenses | 237,738 | 167,870 |
| | 10,891,823 | 6,048,718 |
| Deposits | 39,029 | - |
| Property and equipment (note 5) | 389,666 | 476,735 |
| Intangible assets (note 6) | 3,474,977 | 4,275,120 |
| | $ 14,795,495 | $ 10,800,573 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 7) | $ 2,057,348 | $ 1,376,201 |
| Current portion of deferred revenue | 128,061 | 539,853 |
| Current portion of rebate provision (note 8) | 523,592 | 382,315 |
| | 2,709,001 | 2,298,369 |
| Deferred revenue | - | 4,500 |
| Rebate provision (note 8) | 754,395 | 1,274,600 |
| | 3,463,396 | 3,577,469 |
| **Shareholders' Equity** | | |
| Share capital (note 9) | 56,778,460 | 47,713,288 |
| Accumulated other comprehensive income | (77,285) | - |
| Warrants (note 9) | 980,941 | 980,941 |
| Contributed surplus | 7,500,703 | 6,492,495 |
| Deficit | (53,850,720) | (47,963,620) |
| | 11,332,099 | 7,223,104 |
| | $ 14,795,495 | $ 10,800,573 |

Going concern (note 1)
Commitments (note 15)
Subsequent events (note19)

See accompanying notes

Approved by the Board:

(Signed) "Art Smith" , Director

(Signed) "Randy Henderson", Director

# Cortex Business Solutions Inc.

## Consolidated Statements of Loss and Comprehensive Loss

## For the years ended July 31, 2014 and 2013

(Prepared in Canadian dollars)

| | 2014 | 2013 |
|---|---|---|
| **Revenue** | | |
| Access and usage fees | $ 7,673,009 | $ 5,459,909 |
| Integration fee and set-up fees | 631,556 | 704,229 |
| Project management | 672,778 | - |
| | 8,977,343 | 6,164,138 |
| **Cost of Sales** | 5,757,401 | 3,880,606 |
| **Gross Profit** | 3,219,942 | 2,283,532 |
| **Expenses** | | |
| Sales and marketing | 3,218,063 | 3,823,011 |
| Research and development costs | 1,493,684 | 1,472,637 |
| General and administrative | 4,403,382 | 3,870,694 |
| | 9,115,129 | 9,166,342 |
| Loss before finance income | (5,895,187) | (6,882,810) |
| Finance income (expense) (note 12) | 8,087 | 5,506 |
| Net loss | $ (5,887,100) | $ (6,877,304) |
| Other comprehensive earnings | | |
| Items that may be reclassified subsequently to net loss: | | |
| Foreign exchange gain on foreign operations | (77,285) | - |
| Comprehensive loss | $ (5,964,385) | $ (6,877,304) |
| Net loss per share-basic and diluted (note 9(f)) | $ (0.02) | $ (0.03) |

Going concern (note 1)
See accompanying notes

# Cortex Business Solutions Inc.

## Consolidated Statements of Changes in Shareholders' Equity

(Prepared in Canadian dollars)

| | Number of Common Shares | Common Shares | Number of Warrants | Warrants Value | Contributed Surplus | Accumulated Other Comprehensive Income | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|
| Balance - July 31, 2012 | 217,261,141 | $ 41,858,963 | 9,806,563 | $ 753,202 | $ 5,029,271 | $ - | $ (41,086,316) | $ 6,555,120 |
| Net loss | - | - | - | - | - | - | (6,877,304) | (6,877,304) |
| Stock-based compensation | - | - | - | - | 480,080 | - | - | 480,080 |
| Options exercised for cash | 191,667 | 28,750 | - | - | - | - | - | 28,750 |
| Transferred on exercise of stock options | - | 31,855 | - | - | (31,855) | - | - | - |
| Issued in lieu of salaries and bonus | 2,774,567 | 536,247 | - | - | - | - | - | 536,247 |
| Prospectus offering for cash | 38,920,000 | 6,168,820 | 22,379,000 | 1,148,140 | - | - | - | 7,316,960 |
| Expiration of Compensation Units | - | - | (9,806,563) | (753,202) | 753,202 | - | - | - |
| Issuance costs | - | (911,347) | - | (167,199) | 261,797 | - | - | (816,749) |
| Balance - July 31, 2013 | 259,147,375 | 47,713,288 | 22,379,000 | 980,941 | 6,492,495 | - | (47,963,620) | 7,223,104 |
| Net loss | - | - | - | - | - | - | (5,887,100) | (5,887,100) |
| Cumulative translation difference | - | - | - | - | - | (77,285) | - | (77,285) |
| Prospectus offering for cash | 100,000,000 | 10,000,000 | - | - | - | - | - | 10,000,000 |
| Compensation units issues in conjunction with prospectus (share issue costs) | - | (462,000) | - | - | 462,000 | - | - | - |
| Options exercised for cash | 65,852 | 13,480 | - | - | - | - | - | 13,480 |
| Transferred on exercise of stock options | - | 8,505 | - | - | (8,505) | - | - | - |
| Issued in lieu of salaries and wages | 2,484,200 | 397,472 | - | - | - | - | - | 397,472 |
| Issuance costs | - | (892,285) | - | - | - | - | - | (892,285) |
| Stock based compensation | - | - | - | - | 554,713 | - | - | 554,713 |
| Balance -July 31, 2014 | 361,697,427 | $ 56,778,460 | 22,379,000 | $ 980,941 | $ 7,500,703 | $ (77,285) | $ (53,850,720) | $ 11,332,099 |

See accompanying notes

# Cortex Business Solutions Inc.

## Consolidated Statements of Cash Flows

## For the years ended July 31, 2014 and 2013

(Prepared in Canadian dollars)

| | 2014 | 2013 |
|---|---|---|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net loss | $ (5,887,100) | $ (6,877,304) |
| Items not affecting cash | | |
| Stock-based compensation | 554,713 | 480,080 |
| Amortization | 1,239,050 | 667,275 |
| Salaries paid in shares | 16,000 | (74,314) |
| Accretion on rebate provision | 47,404 | 38,618 |
| | (4,029,933) | (5,765,645) |
| Rebate payment (note 8) | (426,332) | (540,682) |
| Changes in non-cash working capital (note 13) | (16,588) | 93,265 |
| Net cash used in operating activities | (4,472,853) | (6,213,062) |
| Financing activity | | |
| Proceeds from issuance of shares | 10,000,000 | 7,316,960 |
| Share issuance costs | (892,285) | (787,999) |
| Proceeds on exercise of stock options for cash | 13,480 | - |
| Net cash from financing activities | 9,121,195 | 6,528,961 |
| Investing activities | | |
| Acquisition of property and equipment | (54,212) | (170,335) |
| Software development costs | (297,626) | (1,667,468) |
| Increase in short-term investments | (10,000) | (50,000) |
| Net cash used in investing activities | (361,838) | (1,887,803) |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currency | 82,091 | - |
| Cash inflow (outflow) | 4,368,595 | (1,571,904) |
| Cash, beginning of year | 5,179,066 | 6,750,970 |
| Cash, end of year | $ 9,547,661 | $ 5,179,066 |
| Supplemental cash flow information: | | |
| Interest received during the year | $ 55,491 | $ 44,121 |
| Non-cash transactions: | | |
| Issuance of shares in lieu of salaries and bonuses including prior years amounts accrued in accounts payable and accrued liabilities (note 9) | $ 381,472 | $ 536,247 |

See accompanying notes

1. **Nature of operations and going concern**

Cortex Business Solutions Inc. ("Cortex" or the "Company") is listed on the TSX Venture Exchange and its primary business is the supply of eCommerce products and services that improves efficiencies, reduces costs and streamlines 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 3404 25th St NE, Calgary, Alberta, T1Y 6C1.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (note 2(a)) on a going concern basis, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has reported net losses for the years ended July 31, 2014 of $5,887,100 and July 31, 2013 of $6,877,304 and has a cumulative deficit of $53,850,720 as at July 31, 2014. The ability of the Company to continue as a going concern is dependent upon future profitable operations. When the Company can attain profitability and generate positive cash flows from operations is uncertain. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern. The Company has raised funds in the year ended July 31, 2014 through a short form prospectus on February 28, 2014 for gross proceeds of $10,000,000 (note 9(d)) and during the year ended July 31, 2013 through a short form prospectus financing for gross proceeds of $7,200,200. The Company's cash position at July 31, 2014 is $9,547,661. The Company will closely monitor its cash on a regular basis and take the necessary measures to preserve cash such as reduce operating costs, increase sales and seek additional sources of financing until the Company starts to generate sufficient cash flows from operations. There is no assurance that these initiatives will be successful.

Until the Company can achieve profitable operations, the Company may require additional debt or equity financing and should it not be able to continue as a going concern, adjustments to the recorded amounts and classifications of assets, liabilities, revenues and expenses would be required. Any adjustments that may be required could be material.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 27, 2014.

2. **Basis of preparation**

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). A summary of the Company's significant accounting policies under IFRS is presented below.

(b) Basis of measurement

The consolidated financial statements have been prepared on the going concern basis, using historical cost.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

2. **Basis of preparation**

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity:

*Impairment of non-financial assets*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. No impairments of non-financial assets have been recorded for the year ended July 31, 2014 or July 31, 2013.

*Useful life of property and equipment and intangible assets*

Property and equipment and intangible assets are amortized over the estimated useful life of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of amortization recorded during the year.

During the fourth quarter of the year ended July 31, 2014, the Company revisited its estimate of the useful life of the Canadian platform of its software to align with its US platform. As such, the useful life of the Canadian portion of the software has been reduced by 9 quarters. The impact to the current amortization is an increase of $161,749 in the fourth quarter of the current year.

*Rebate provision*

Rebate provision is calculated using a risk free discount rate on the risk-adjusted future gross revenues the Company expects to earn. Changes in the estimated amounts and timing of future revenues to be earned could significantly increase or decrease the amount of accretion expense recorded during the period and the rebate provision recorded on the consolidated statements of financial position.

*Valuation of accounts receivable*

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts. During this review, historical experience, the age of the receivable balance, the credit worthiness of the customer and the reason for delinquency are considered.

*Share-based compensation*

Management is required to make certain estimates when determining the fair value of stock options awards and warrants issued including future volatility of the Company's share price, expected forfeiture rates, expected lives of the underlying securities, expected dividends and other relevant assumptions.

2. **Basis of preparation**

**Critical judgments in applying accounting policies**

In the preparation of these consolidated financial statements, the Company has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the consolidated financial statements.

*Capitalized software development costs*

Software development costs are capitalized as intangible assets when costs are attributable to a clearly defined product, technical feasibility has been established, a market has been identified, positive economic returns are expected, the Company intends to distribute the software as a service and has adequate resources expected to be available to complete the project. Management is required to make judgments on when the criteria for recognition as intangible assets are met. During the year ended July 31, 2014, $295,297 (2013 - $1,667,468) of development costs were capitalized as an intangible asset.

*Income tax*

Management is required to apply judgment in determining whether it is probable deferred income tax assets will be realized. Management had determined that future realization of its deferred income tax assets did not meet the threshold of being probable and, as such, has not recognized any deferred income tax assets in the consolidated statement of financial position.

In addition, the measurement of any potential income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements
.

*Rebate provision*

Management is required to apply judgement in determining whether it has a financial liability relating to any contracts that the Company enters into and consequently requires management to determine when the financial liability should be recorded on the consolidated statement of financial position. There may be significant judgement in determining the value of these financial liabilities as they may relate to timing of the Company’s future revenues.

3. **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cortex Business Solutions Ltd. and Cortex Business Solutions USA, LLC. Intercompany balances and transactions are eliminated upon consolidation.

(b) Foreign currency translation

The Company's functional currency is the Canadian dollar. Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary items, such as property and equipment and intangible asset are translated to Canadian dollars at the rate of exchange in effect when the transactions occur. Foreign exchange gains and losses are recognized in the statement of loss.

The financial statements of entities that have a functional currency different from that of the Company (“foreign operations”) are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the

3. **Significant accounting policies** (continued)

period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income as foreign exchange gain (loss) on foreign operations.

Actual Foreign exchange gains and losses are recognized in the statement of loss.

(c) Financial instruments

(i) Classification and measurement

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through the statement of income”, “loans and receivables”, or “financial liabilities measured at amortized cost” as defined by IAS 39 Financial Instruments: Recognition and Measurement.

Financial assets and financial liabilities designated as “fair value through the statement of loss and comprehensive loss” are measured at fair value with changes in fair value recognized in the income statement. Transaction costs are expensed when incurred.

Financial assets and financial liabilities classified as “loans and receivables” or “financial liabilities measured at amortized cost” are measured at amortized cost using the effective interest method of amortization. “Loans and receivables” are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. “Financial liabilities measured at amortized cost” are those financial liabilities that are not designated as “fair value through the statement of income” and that are not derivatives. The Company has designated cash, short-term investments and accounts receivable as “loans and receivables” and accounts payable and accrued liabilities and rebate provision as “financial liabilities measured at amortized cost

(ii) Equity instruments

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issue of common shares and warrants are recognized as a deduction from equity, net of any income tax effects.

(iii) Impairment

The Company assesses at each reporting date whether there is objective evidence that financial assets, other than those designated as “fair value through the statement of income” are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of loss and comprehensive loss. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

(d) Intangible assets

Software development costs are capitalized as intangible assets when costs are attributable to a clearly defined product, technical feasibility has been established, a market has been identified, the Company intends to distribute the software as a service has adequate resources expected to be available to complete the project and positive economic returns are expected. Management is required to make judgments on when the criteria for recognition as intangible assets are met.

3. **Significant accounting policies** (continued)

Internally developed software costs will be amortized over the period of expected useful life commencing upon the completion of development and the software is available for use and being amortized on a straight line basis over a period of three to five years. Third party software is amortized using the declining balance method at a rate of 30%.

(e) Property and equipment

Property and equipment are recorded at cost. Amortization is recorded using the declining balance method at the following annual rates:

| | |
|---|---|
| Furniture and office equipment | 20% |
| Computer equipment | 30% |

Leasehold improvements are amortized on a straight-line basis over the terms of the leases.

(f) Revenue recognition

The Company's revenue includes set-up fees, integration fees, access and usage fees and project management fees.

Set-up fee revenue is deferred and recognized as revenue over a one year period representing the estimated term of the contract.

Integration fees revenue is recognized over the integration project on a percentage of completion basis based on the provision of services provided.

Access and usage fees include a monthly fee plus a transaction fee which are recognized in the month the service is performed.

Project management fees are recognized over the term of the project as services are performed.

Finance income is recorded on an accrual basis as it is earned.

Deferred revenue results from amounts received in advance of the delivery of services where the Company has not met the criteria for revenue recognition as described herein.

(g) Stock-based compensation

The Company has a stock option plan as described in note 10. Stock options and warrants granted to directors, officers, employees and consultants of the Company are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options and warrants at the grant date using the Black-Scholes option pricing model.

Each tranche is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(h) Provisions and contingent liabilities

Provisions are recognized by the Company when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

3. **Significant accounting policies** (continued)

(i) Finance income and expenses

Finance income is comprised of interest on cash held at financial institutions using the effective interest method.

Finance expenses comprise interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

(j) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Income (loss) per share

Basic income (loss) per share is calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options and warrants granted to employees. Diluted earnings (loss) per share excludes all dilutive potential common shares if their effect is anti-dilutive.

(l) 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.

The Company has not entered into any finance lease arrangements.

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.

3. **Significant accounting policies** (continued)

(m) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. Corporate assets are also allocated to individual CGUs.

The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in net earnings. Where an impairment loss subsequently reverses, the carrying amount of the assets or CGU is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the what the carrying amount would have been if no impairment had been recorded. A reversal of impairment loss is recognized immediately in net earnings

(n) Short-term investments

Short-term investments consist of Guaranteed Investment Certificates ("GIC's") that have an original maturity from the date of purchase of more than three months. The GIC's bear interest at 1.0% per annum of which $40,000 matures November 26, 2014, $10,000 matures on January 26, 2015 and $10,000 matures on April 23, 2015.

(o) Recent accounting policies and new pronouncements

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on August 1, 2013. For the purpose of preparing and presenting the consolidated financial statements for the relevant periods, the Company has consistently adopted all of these new standards for the relevant reporting periods.

*Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income* This amendment requires the Company to group items within other comprehensive income by those that will be subsequently reclassified to net earnings and those that will not. Accordingly, the Company has updated the presentation of other comprehensive income (loss) in the consolidated statement of loss and comprehensive loss.

Other standards and interpretations issued or amended which are effective for the first time for fiscal year ends beginning on or after August 1, 2013 but which did not have a material impact on the Company's consolidated financial statements or note disclosures as currently presented include:

3. **Significant accounting policies** (continued)

*New standards and interpretations*
IFRS 10, 'Consolidated financial statements'
IFRS 11, 'Joint arrangements'
IFRS 12, 'Disclosure of interest in other entities'
IFRS 13, 'Fair value measurement'

*Amendments to existing standards and interpretations*
IFRS 7, 'Financial instruments: Disclosures'

At the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee (IFRIC) have issued the following new and revised standards and interpretations which are not yet effective for the relevant reporting periods. The Company has not early adopted these standards, amendments or interpretations, however the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements.

*Amendment to IFRS 7, 'Financial instruments: Disclosures' on derecognition* In conjunction with the transition from IAS 39 to IFRS 9 for fiscal years beginning on or after January 1, 2015, IFRS 7 will also be amended to require additional disclosure in the year of transition.

IFRS 9 'Financial instruments' IFRS was issued in July 2014 and includes (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward looking 'expected loss' impairment model. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. Management has not yet determined that potential impact the adoption of IFRS 9 will have on the Company's financial statements. This standard is effective for annual periods beginning on or after January 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 9 will have on the Company's financial statements. The standard is effective for the first interim period within years beginning on or after January 1, 2017.

*Amendment to IAS 32, 'Financial instruments: Presentation'* The amendment clarifies the requirements for offsetting financial assets and liabilities. Specifically, the amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event. This amendment is effective for fiscal periods beginning on or after January 1, 2014.

*Amendment to IAS 36, 'Impairments of assets'* This amendment removes the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets, but there has been no impairment.

(Prepared in Canadian dollars)

4. **Accounts receivable**

| | July 31 2014 | July 31 2013 |
|---|---|---|
| Accounts receivable | | |
| Trade receivables | $ 425,752 | $ 207,994 |
| Accrued usage fees | 476,312 | 302,393 |
| Allowance for doubtful accounts | (10,000) | (10,000) |
| | 892,064 | 500,387 |
| Credit card charges holdback | 154,360 | 151,395 |
| | $ 1,046,424 | $ 651,782 |
| Allowance for doubtful account reconciliation | | |
| Opening balance | $ 10,000 | $ 10,000 |
| Change in allowance for doubtful accounts | 10,359 | 1,496 |
| Amounts written off as uncollectible | (10,359) | (1,496) |
| Ending balance | $ 10,000 | $ 10,000 |

5. **Property and equipment**

| | Computer Equipment | Furniture and Office Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at July 31 2012 | $ 886,918 | $ 182,517 | $ 91,357 | $ 1,160,792 |
| Additions | 124,510 | 4,506 | 22,652 | 151,668 |
| Balance at July 31, 2013 | 1,011,428 | 187,023 | 114,009 | 1,312,460 |
| Additions | 42,444 | 10,183 | 1,585 | 54,212 |
| Disposals | - | - | (91,357) | (91,357) |
| Balance at July 31, 2014 | $ 1,053,872 | $ 197,206 | $ 24,237 | $ 1,275,315 |
| **Accumulated Amortization** | | | | |
| Balance at August 1, 2012 | $ 489,773 | $ 99,550 | $ 76,328 | $ 665,651 |
| Amortization for the year | 137,820 | 17,044 | 15,210 | 170,074 |
| Balance at July 31, 2013 | 627,593 | 116,594 | 91,538 | 835,725 |
| Amortization for the year | 120,995 | 14,948 | 5,338 | 141,281 |
| Disposals in the year | - | - | (91,357) | (91,357) |
| Balance at July 31, 2014 | $ 748,588 | $ 131,542 | $ 5,519 | $ 885,649 |

| | Computer Equipment | Furniture and Office Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|
| Net book value: | | | | |
| At July 31, 2013 | $ 383,835 | $ 70,429 | $ 22,471 | $ 476,735 |
| At July 31, 2014 | $ 305,284 | $ 65,664 | $ 18,718 | $ 389,666 |

(Prepared in Canadian dollars)

6. **Intangible asset**

| | Third party software | Internally developed computer software | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at July 31, 2012 | $ 256,247 | $ 3,314,960 | $ 3,571,207 |
| Additions | 18,667 | 1,667,468 | 1,686,135 |
| Balance at July 31, 2013 | $ 274,914 | $ 4,982,428 | $ 5,257,342 |
| Additions | 2,329 | 295,297 | 297,626 |
| Balance at July 31, 2014 | $ 277,243 | $ 5,277,725 | $ 5,554,968 |
| **Accumulated Amortization** | | | |
| Balance at July 31, 2012 | $ 140,306 | $ 344,715 | $ 485,021 |
| Amortization for the year | 37,582 | 459,619 | 497,201 |
| Balance at July 31, 2013 | $ 177,888 | $ 804,334 | $ 982,222 |
| Amortization for the period | 29,457 | 1,068,312 | 1,097,769 |
| Balance at July 31, 2014 | $ 207,345 | $ 1,872,646 | $ 2,079,991 |

| | Third party software | Internally developed computer software | Total |
|---|---|---|---|
| Net book value: | | | |
| At July 31, 2013 | $ 97,026 | $ 4,178,094 | $ 4,275,120 |
| at July 31, 2014 | $ 69,898 | $ 3,405,079 | $ 3,474,977 |

During the year ended July 31, 2011, the Company embarked on a project to upgrade its core system and convert it into a Cloud based system. Development of the U.S. and Canadian portion of the software are complete and available for use.

7. **Accounts payable and accrued liabilities**

| | July 31 2014 | July 31 2013 |
|---|---|---|
| Accounts payable and accrued liabilities | | |
| Salaries, bonus and employee benefits payable | $ 1,503,918 | $ 1,035,721 |
| Trade payables | 239,408 | 137,285 |
| Accrued liabilities | 217,002 | 146,701 |
| U.S. sales tax payable | 62,897 | 33,585 |
| GST payable | 34,123 | 22,909 |
| | $ 2,057,348 | $ 1,376,201 |

Included in salaries, bonus and employee benefits payable is $540,058 (2013 - $465,827) to be paid through the issuance of common shares under the Company's Employee Performance Management ("EPM") Program.

(Prepared in Canadian dollars)

8. **Rebate provision**

The rebate provision arose as a result of a contract entered into by the Company to provide a customer a 5% rebate based on future gross revenue to a maximum rebate of $2,300,000. The provision has been calculated using a risk free discount rate of 2.5% based on a risk-adjusted future revenue growth.

| | July 31 2014 | July 31 2013 |
|---|---|---|
| Opening balance | $ 1,656,915 | $ 2,158,979 |
| Payments | (426,332) | (540,682) |
| Accretion | 47,404 | 38,618 |
| Closing balance | 1,277,987 | 1,656,915 |
| Less: current portion | 523,592 | 382,315 |
| | $ 754,395 | $ 1,274,600 |

9. **Share capital and warrants**

(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**

| | July 31, 2014 | | July 31, 2013 | |
|---|---|---|---|---|
| | **Number** | **Amount** | **Number** | **Amount** |
| **Common Shares** | | | | |
| Balance, beginning of year | 259,147,375 | $ 47,713,288 | 217,261,141 | $ 41,858,963 |
| Issue for cash (note 9(c) and (d)) | 100,000,000 | 10,000,000 | 38,920,000 | 6,168,820 |
| Issued in lieu of salaries and bonus (note 9(e)) | 2,484,200 | 397,472 | 2,774,567 | 536,247 |
| Fair value of stock options exercised | - | 8,505 | - | 31,855 |
| Exercise of stock options | 65,852 | 13,480 | 191,667 | 28,750 |
| | 361,697,427 | 58,132,745 | 259,147,375 | 48,624,635 |
| Less: Share issuance costs and compensation units | - | 1,354,285 | - | 911,347 |
| Balance, end of year | 361,697,427 | $ 56,778,460 | 259,147,375 | $ 47,713,288 |

(Prepared in Canadian dollars)

9. **Share capital and warrants** (continued)

| | July 31, 2014 | | July 31, 2013 | |
|---|---|---|---|---|
| | **Number** | **Amount** | **Number** | **Amount** |
| **Warrants** | | | | |
| Balance, beginning of year | 22,379,000 | $ 980,941 | 9,806,563 | $ 753,202 |
| Warrants private placement (note 9(d)) | - | - | 22,379,000 | 1,148,140 |
| Warrants expired during the year | - | - | (9,806,563) | (753,202) |
| | 22,379,000 | 980,941 | 22,379,000 | 1,148,140 |
| Less: Warrants issuance costs | - | - | - | 167,199 |
| Balance, end of year | 22,379,000 | $ 980,941 | 22,379,000 | $ 980,941 |

(c) On February 28, 2014, the Company closed its short form prospectus offering of common shares of the Company for aggregate gross proceeds of $10,000,000. Under the Offering, a total of 100,000,000 Common Shares were issued at a price of $0.10 per Common Share. In addition, the underwriters received 6,000,000 compensation options with a fair value of $462,000 calculated using the black scholes valuation model, with an annualized volatility of 77%, annualized interest rate of 1.41% and an exercise price of $0.10. These units are exercisable for a period of twenty-four months from the date of issuance.

(d) On April 4, 2013, the Company completed its short form prospectus offering of common shares of the Company for aggregate gross proceeds of $7,200,200. Under the Offering, a total of 38,920,000 Units were issued at a price price of $0.185 per Unit. Each Unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitled the holder to acquire one common share of the Company at $0.23125 per share for 3 years following closing. In addition, the Company issued 2,919,000 warrants at a purchase price of $0.04 per Unit for gross proceeds of $116,760. The agent was paid a cash commission of 7% plus legal fees and disbursements totaling $785,299 and were issued Compensation Units to purchase 3,164,090 Units at $0.185 per Unit which expire on April 4, 2015. To July 31, 2014, none of the Compensation Units were exercised.

The fair value of the Compensation Units issued to the Agent pursuant to the Offering (the Units) was estimated using the Black-Scholes option-pricing model using the following weighted average assumptions: an expected life of 2 years for the Units and 3 years for the warrants issued upon exercise of the Units, risk-free interest rate of 1.01% expected volatility of 68.5% for the Units and 61.8% for the warrants issued upon exercise of the Units, expected dividend rate of $Nil, exercise price of $0.185 per Unit and $0.23125 for the warrants issued upon exercise of the Units, and an allocated share price of $0.165; resulting in an increase in issuance costs and contributed surplus of $261,797.

The fair value of the warrants issued pursuant to the Offering was estimated using the Black-Scholes option-pricing model utilizing the residual value method using the following weighted average assumptions: an expected life of 3 years, risk-free interest rate of 1.01%, expected volatility of 61.8% and expected dividend rate of $Nil, exercise price of $0.23125 and an allocated share price of $0.165. As a result, the allocation of the gross proceeds from the Offering of $7,316,960 was allocated as to $6,168,820 to the 38,920,000 common shares and $1,148,140 to the 22,379,000 Warrants. In connection with the Offering, the total issuance costs were $1,047,096 (which includes the $261,797 above) of which $879,897 was allocated to the common shares and $167,199 was allocated to the Warrants.

(Prepared in Canadian dollars)

9. **Share capital and warrants** (continued)

(e) On June 10, 2013, the Company received shareholder approval to issue up to 3,500,000 common shares to employees as part of the Employee Performance Management Program. In line with that resolution in December of 2013, the Company issued 2,484,200 common shares were issued at a market value totaling $381,472( 2013 - 2,774,567 common shares were issued at a market value totaling $536,247). In addition, the Company received shareholder approval to issue up to 2,000,000 common shares to employees responsible for signing any significant hub accounts. In line with that resolution, the Company issued 100,000 common shares for a fair value of $16,000 based on current share price.

(f) Net loss per share

Net loss per share has been calculated using the basic and diluted weighted average number of common shares outstanding during the year ended July 31, 2014 of 302,707,097 (2013 - 231,919,469). For 2014 and 2013, the potential effect of the exercise of stock options, warrants and Compensation Options would not be dilutive.

(g) Commitment to issue common shares

On June 12, 2014, the Company received shareholder approval to issue up to 3,500,000 common shares to employees responsible for signing any significant hub accounts. In addition, the Company received shareholder approval to issue 50% cash and 50% common shares to employees as part of the 2014 Employee Performance Management Bonus program. At July 31, 2014 the Company had accrued the fair value of common shares in the amount of $540,058. The Company also received shareholder approval to issue up to 4,000,000 common shares to members of the Executive Leadership Team in line with their employment agreements; at July 31, 2014 the Company had accrued $336,375 in accounts payable and accrued liabilities as part of this resolution. The issuance of common shares will occur at market value on the date of issuance.

10. **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 generally have a term of five years but may not exceed five years and vest over an 18 month 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(s) upon which the Company's common shares are then listed.

A summary of the status of the Company's stock option plan for the years ended July 31, 2014 and July 31, 2013 as follows:

| | **July 31, 2014** | | **July 31, 2013** | |
|---|---|---|---|---|
| | **Number of Options** | **Weighted Average Exercise Price** | **Number of Options** | **Weighted Average Exercise Price** |
| Outstanding, beginning of year | 20,176,933 | $ 0.28 | 14,840,248 | $ 0.31 |
| Granted | 6,025,100 | 0.18 | 6,622,400 | 0.19 |
| Exercised | (65,852) | 0.21 | (191,667) | 0.15 |
| Forfeited | (1,395,653) | 0.27 | (494,048) | 0.23 |
| Expired | (2,143,966) | 0.20 | (600,000) | 0.20 |
| Outstanding, end of year | 22,596,562 | $ 0.26 | 20,176,933 | $ 0.28 |
| Exercisable, end of year | 16,788,300 | $ 0.29 | 14,428,065 | $ 0.31 |

(Prepared in Canadian dollars)

10. **Stock-based compensation** (continued)

(b) The following table summarizes information about stock options outstanding and exercisable at July 31, 2014:

| Range of Exercise Prices | Number Outstanding at July 31 2014 | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number Exercisable at July 31 2014 | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $0.13 - $0.16 | 3,600,000 | $ 0.13 | 4.69 years | 700,001 | $ 0.15 |
| $0.17 - $0.20 | 4,267,902 | 0.18 | 3.45 | 3,209,639 | 0.19 |
| $0.21 - $0.25 | 8,843,460 | 0.22 | 3.12 | 6,993,460 | 0.22 |
| $0.30 - $0.51 | 5,885,200 | 0.44 | 0.82 | 5,885,200 | 0.44 |
| | 22,596,562 | $ 0.26 | 2.83 years | 16,788,300 | $ 0.29 |

(c) The fair value of stock options granted was estimated on the dates of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | 2014 | 2013 |
|---|---|---|
| Expected life (years) | 5 | 5 |
| Risk-free interest rate (%) | 1.46% | 1.48% |
| Expected volatility (%) | 74% | 73% |
| Expected dividends ($/share) | Nil | Nil |

The Company's expected volatility is based off its historical share price fluctuations.

A forfeiture rate of 1 % was used when recording stock-based compensation for executives and directors and a forfeiture rate of 5% was used when recording stock-based compensation for non-insiders. This estimate is adjusted to the actual forfeiture rate. Stock based compensation cost of $554,713 (2013- $480,080) was expensed during the year ending July 31, 2014.

(d) The following table summarizes information about the Company's share purchase warrants outstanding at July 31, 2014. Each share purchase warrant entitles the holder to acquire one common share when exercised.

| | Number of Warrants | Exercise Price | Remaining Contractual life |
|---|---|---|---|
| **Warrants Expiring April 4, 2016** | | | |
| Balance, beginning and end of year | 22,379,000 | $ 0.23125 | 1.68 years |

At July 31, 2014 there are 22,379,000 warrants outstanding with a weighted average exercise price of $0.23125 and a weighted average remaining contractual life of 1.68 years.

(Prepared in Canadian dollars)

11. **Income taxes**

(a) Income taxes recovery differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 25% (2013 - 27.13%) to loss before income taxes as follows:

| | 2014 | 2013 |
|---|---|---|
| Expected income tax recovery | $ (1,491,096) | $ (1,810,106) |
| Stock-based compensation | 138,678 | 126,357 |
| Other non-deductible expenses | 7,915 | 5,983 |
| Expiry of non-capital loss carryforwards | 55,888 | 92,113 |
| Tax rate reductions | (167,970) | (332,660) |
| Deferred income taxes not recognized | 1,456,585 | 1,918,313 |
| Actual income taxes recovery | $ - | $ - |

(b) The components of the future income tax asset at July 31, 2014 and July 31, 2013 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Property and equipment and intangible assets | $ (19,709) | $ (255,647) |
| Rebate liability | 319,497 | 414,229 |
| Cumulative eligible capital | 17,564 | 17,644 |
| Share issuance costs | 402,933 | 362,890 |
| Non-capital losses carried forward | 12,155,809 | 10,657,346 |
| Future income tax asset | 12,876,094 | 11,196,462 |
| Less: Deferred income tax asset not probable to be recovered | (12,876,094) | (11,196,462) |
| | $ - | $ - |

11. **Income taxes (continued)**

(c) The Company has available the following approximate amounts for which no benefit has been recognized in the financial statements:

(i) Non-capital loss carryforwards:

| Canada | US (in US dollars) | Year of Expiry |
|---|---|---|
| $ 249,000 | - | 2025 |
| 481,000 | - | 2026 |
| 1,450,000 | - | 2027 |
| 6,343,000 | - | 2028 |
| 4,994,000 | - | 2029 |
| 8,075,000 | - | 2030 |
| 8,838,000 | 479,000 | 2031 |
| 1,056,000 | 1,240,000 | 2032 |
| 7,341,000 | 824,000 | 2033 |
| 3,895,000 | 1,650,000 | 2034 |
| $42,722,000 | $4,193,000 | |

(ii) Share issuance costs of $1,611,731 and $70,254 excess of tax costs over book value and cumulative eligible capital.

(d) The following tables provide a continuity of the deferred tax assets (liabilities):

**Year ended July 31, 2014**

| | Balance July 31, 2013 | Recognized in net loss | Recognized directly in equity | Balance July 31, 2014 |
|---|---|---|---|---|
| Property and equipment and intangible assets | $(255,647) | $235,938 | $ - | $(19,709) |
| Rebate liability | 414,229 | (94,732) | - | 319,497 |
| Non-capital losses | 10,657,346 | 1,498,463 | - | 12,155,809 |
| Share issuance costs | 362,890 | (183,028) | 223,071 | 402,933 |
| Cumulative eligible capital | 17,644 | (80) | - | 17,564 |
| Deferred income tax asset not probable to be recovered | (11,196,462) | (1,456,561) | (223,071) | (12,876,094) |
| | $ - | $ - | $ - | $ - |

(Prepared in Canadian dollars)

11. **Income taxes** (continued)

**Year ended July 31, 2013**

| | Balance July 31, 2013 | Recognized in net loss | Recognized directly in equity | Balance July 31, 2014 |
|---|---|---|---|---|
| Property and equipment and intangible assets | $ (71,127) | $ (184,520) | $ - | $ (255,647) |
| Rebate liability | 539,745 | (125,516) | - | 414,229 |
| Non-capital losses | 8,324,043 | 2,333,303 | - | 10,657,346 |
| Share issuance costs | 316,929 | (158,226) | 204,187 | 362,890 |
| Cumulative eligible capital | 18,985 | (1,341) | - | 17,644 |
| Deferred income tax asset not probable to be recovered | (9,128,575) | (1,863,700) | (204,187) | (11,196,462) |
| | $ - | $ - | $ - | $ - |

12. **Finance income (expenses)**

Finance income (expenses) is comprised of:

| | 2014 | 2013 |
|---|---|---|
| Interest income | $ 55,491 | $ 44,124 |
| Accretion on rebate provision | (47,404) | (38,618) |
| | $ 8,087 | $ 5,506 |

13. **Changes in non-cash working capital**

| | 2014 | 2013 |
|---|---|---|
| Relating to operating activities: | | |
| (Increase) decrease in accounts receivable | (474,330) | $ 196,065 |
| Decrease in prepaid expenses and deposits | (108,897) | 290 |
| Increase in accounts payable and accrued liabilities | 982,931 | 405,523 |
| Decrease in deferred revenue | (416,292) | (508,613) |
| | (16,588) | 93,265 |

**14. Expenses by nature**

| **Expenses** | **2014** | **2013** |
|---|---|---|
| Salaries employee benefit and contractors | $10,244,633 | $ 8,892,724 |
| General and administrative | 1,350,627 | 985,677 |
| Commissions and credit cards | 696,903 | 378,952 |
| Rent | 458,197 | 351,682 |
| Professional fees | 380,441 | 200,902 |
| Internet and hosting | 114,398 | 106,674 |
| Market expansion and product development | - | 982,977 |
| Amortization | 1,239,052 | 667,275 |
| Stock based compensation | 554,713 | 480,080 |
| | $15,038,964 | $ 13,046,943 |

(Prepared in Canadian dollars)

## 15. Commitments

The Company has entered into various operating leases for office space expiring at various dates to January 31, 2018 and office equipment expiring at various dates to August 2014. During the year ended July 31, 2013, the Company consolidated its operating space into a new lease which expires January 31, 2018.

The Company has an obligation to pay rebates to certain customers based on future gross revenues (note 8).

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

| | |
|---|---|
| Fiscal 2015 | 336,646 |
| Fiscal 2016 | 270,621 |
| Fiscal 2017 | 280,644 |
| Fiscal 2018 | 145,334 |
| | $ 1,033,245 |

## 16. Related party transactions

Compensation to key management personnel

Key management includes members of the Board of Directors, the President and Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, Senior VP of US Operations and Business Development and VP, Business Development and US Sales

The aggregate compensation paid or payable to key management for services is as follows:

| | 2014 | 2013 |
|---|---|---|
| Salaries and short-term employees benefits | 1,086,688 | 1,038,762 |
| Stock-based compensation | 850,696 | 244,493 |
| | $ 1,937,384 | $ 1,283,255 |

During the year ended July 31, 2014, Cortex paid a company under significant influence by a director who was appointed to the board of directors in April 2014 $300,000 in cash commission and 3,000,000 Compensation Units with a fair value of $231,000 for the February 2014 prospectus offering of common shares of the Company. In addition, they have been engaged in a professional capacity for consulting matters for fees up to a maximum of $200,000.

Key management personnel are comprised of the Company's officers. As at July 31, 2014 there is a $1,029,500 commitment (July 31, 2013 – $675,000) relating to change of control or termination of employment of the key management personnel.

## 17. Financial instruments and risk management

(a) Risk management overview

The Company's activities expose it 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.

(Prepared in Canadian dollars)

17. **Financial instruments and risk management (continued)**

(b) Fair value of financial instruments

The carrying value of cash, short-term investments, accounts receivable, accounts payables and accrued liabilities and rebate provision 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 July 31, 2014, the Company had $425,752 of trade accounts receivables. Of this amount, $55,691 are over 60 days, which is past due under the Company's normal credit terms. Of this amount, $10,000 has been allowed for under the Company's general allowance policy. At July 31, 2014, the Company had accrued receivable in the amount of $476,312 for services performed prior to July 31, 2014. All accounts receivable are unsecured. The Company's maximum exposure to credit risk is the carrying value of accounts receivable on the consolidated statement of financial position shown net of the allowance for doubtful accounts of $10,000.

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

(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. See going concern (note 1).

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

| | Accounts payable and accrued liabilities | Rebate provision | Total |
|---|---|---|---|
| Within one year | $ 2,057,348 | $ 523,592 | $ 2,580,940 |
| 2 - 5 years | - | 809,395 | 809,395 |
| Total | $ 2,057,348 | $ 1,332,987 | $ 3,390,335 |

(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.

17. **Financial instruments and risk management (continued)**

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 $3,412,840 in revenue for the year ended July 31, 2014 (2013 - $2,014,508) which was denominated in U.S. dollars. The Company had $102,886 (July 31, 2013 - $69,087) in U.S. accounts receivable, $282,548 (2013 - $127,325) in accrued usage fees, $50,000 of other receivables and $2,564,601 (July 31, 2013 - $793,762) in a U.S. bank account at July 31, 2014 denominated in U.S. dollars.

Included in accounts payable and accrued liabilities at July 31, 2014 are $193,293 (July 31, 2013 - $89,196) 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 $30,000 on net loss at July 31, 2014.

(f) Capital management

The Company includes as capital, shareholders' equity which is comprised of share capital and warrants, contributed surplus, accumulated other comprehensive income and accumulated deficit. The Company's 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. As the Company does not currently have net positive cash flow from operations, the Company is also funding operations from funds previously raised through equity financing. 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 may also seek future equity financings. The Company has set forth in its business plan, expected revenue and expense targets for the fiscal year ended July 31, 2014.

The Company is not subject to externally imposed capital requirements.

There has been no change to the Company's capital management philosophy during the year ended July 31, 2014.

18. **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:

| | Year Ended July 31, 2014 | Year Ended July 31, 2013 |
|---|---|---|
| Canada | $ 5,339,611 | $ 4,136,133 |
| U.S. | 3,637,732 | 2,028,005 |
| | $ 8,977,343 | $ 6,164,138 |

Substantially all of the assets of the Company are located in Canada.

19. **Subsequent events**

The Compensation Committee approved a corporate bonus be issued on December 15, 2014. The number of shares to be issued is 3,435,058 shares and 599,700 stock options issued at market value at the date of issuance. Of this

2,895,000 are issued to insiders.