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Auditors' Report

To the Shareholders
Cortex Business Solutions Inc.

We have audited the consolidated balance sheets of Cortex Business Solutions Inc. as at July 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS

Calgary, Alberta
September 25, 2008,
except as to note 3 which is
as of November 7, 2008

Cortex Business Solutions Inc.
Consolidated Balance Sheets
July 31, 2008 and 2007

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 4,770,767	\$ 386,491
Accounts receivable	69,863	333,136
Prepays and deposits (note 3)	<u>151,799</u>	<u>46,797</u>
	4,992,429	766,424
Investments (note 4)	1,000,000	-
Property and equipment (note 5)	<u>190,398</u>	<u>67,567</u>
	<u>\$ 6,182,827</u>	<u>\$ 833,991</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7(c)(i))	\$ 507,190	\$ 306,161
Deferred revenue	<u>30,039</u>	<u>12,181</u>
	<u>537,229</u>	<u>318,342</u>
Shareholders' Equity		
Share capital and warrants (note 7)	11,153,914	4,357,622
Contributed surplus (note 7(e))	1,553,078	765,867
Deficit	<u>(7,061,394)</u>	<u>(4,607,840)</u>
	<u>5,645,598</u>	<u>515,649</u>
	<u>\$ 6,182,827</u>	<u>\$ 833,991</u>
Commitments (Note 13)		

Approved by the Board:

(Signed) "Art Smith", Director

(Signed) "Doug Lailey", Director

Cortex Business Solutions Inc.

Consolidated Statements of Loss, Comprehensive Loss and Deficit

July 31, 2008 and 2007

	2008	2007
Revenue		
Project management	\$ 1,529,419	\$ 1,174,625
Access and usage fees	636,642	390,869
Set-up fees	76,352	43,839
Interest income	<u>641</u>	<u>16,757</u>
	<u>2,243,054</u>	<u>1,626,090</u>
Expenses		
General and administrative	399,825	198,534
Bank charges and interest	1,060	1,860
Internet and hosting costs	51,171	55,248
Professional fees	112,827	88,535
Rent	102,146	40,156
Salaries, employee benefits and subcontract	3,210,260	1,709,823
Stock-based compensation	778,384	278,912
Amortization	<u>40,935</u>	<u>21,093</u>
	<u>4,696,608</u>	<u>2,394,161</u>
Net loss and comprehensive loss	(2,453,554)	(768,071)
Deficit, beginning of year	<u>(4,607,840)</u>	<u>(3,839,769)</u>
Deficit, end of year	\$ <u>(7,061,394)</u>	\$ <u>(4,607,840)</u>
Net loss per share-basic and diluted (note 7(f))	\$ <u>(0.036)</u>	\$ <u>(0.014)</u>

Cortex Business Solutions Inc.
Consolidated Statements of Cash Flows
July 31, 2008 and 2007

	2008	2007
Operating activities		
Net loss	\$ (2,453,554)	\$ (768,071)
Items not affecting cash		
Stock-based compensation	778,384	278,912
Amortization	40,935	21,093
Management salary through issuance of shares	<u>373,725</u>	<u>-</u>
	(1,260,510)	(468,066)
Changes in non-cash working capital (note 10)	<u>497,037</u>	<u>56,823</u>
	<u>(763,473)</u>	<u>(411,243)</u>
Financing activities		
Proceeds from issuance of shares, net of costs	6,287,094	134,361
Repayment of convertible debentures	<u>-</u>	<u>(32,000)</u>
	<u>6,287,094</u>	<u>102,361</u>
Investing activities		
Purchase of investments	(1,000,000)	-
Acquisition of property and equipment	(163,766)	(44,427)
Changes in non-cash working capital (note 10)	<u>24,421</u>	<u>-</u>
	<u>(1,139,345)</u>	<u>(44,427)</u>
Cash inflow (outflow)	4,384,276	(353,309)
Cash and cash equivalents, beginning of year	<u>386,491</u>	<u>739,800</u>
Cash and cash equivalents, end of year	<u>\$ 4,770,767</u>	<u>\$ 386,491</u>
Cash and cash equivalents consist of		
Cash	\$ 1,970,767	\$ 386,491
Guaranteed investment certificate	<u>2,800,000</u>	<u>-</u>
	<u>\$ 4,770,767</u>	<u>\$ 386,491</u>
Supplemental cash flows information:		
Interest paid	<u>\$ 1,060</u>	<u>\$ 7,073</u>
Non-cash transactions:		
(a) Issuance of shares in lieu of salaries and bonuses (note 7(c)(i) and (ii))	<u>\$ 518,025</u>	<u>\$ 88,000</u>
(b) Conversion of convertible debentures into shares (note 7(c)(iii))	<u>\$ -</u>	<u>\$ 28,000</u>

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2008 and 2007

1. Nature of operations

Cortex Business Solutions Inc. ("the Company") is listed on the TSX Venture Exchange and its primary business is the supply of eCommerce products and services.

The Company has reported consecutive net losses for the years ended July 31, 2008 and 2007 of \$2,453,554 and \$768,071 respectively, and has a cumulative deficit of \$7,061,394 as at July 31, 2008. The ability of the Company to continue as a going concern is dependent upon future profitable operations.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presumes that the Company will realize its assets and discharge its liabilities in the normal course of business. Should the Company not be able to continue as a going concern, adjustments to the recorded amounts and classifications of assets, liabilities and expenses would be required.

2. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Cortex Business Solutions Ltd.. The consolidated financial statements also included the accounts of the Company's wholly-owned subsidiary, Internode Networks Inc. ("Internode"). Internode was wound up on August 31, 2006.

(b) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and redeemable guaranteed investment certificates ("GIC") bearing interest at prime minus 2.0% per annum.

(c) 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%
Computer software	30%

Amortization is charged at one half of the annual rate in the year of acquisition of an asset and no amortization is charged in the year of disposal.

(d) Intangible asset

Intangible asset, consisting of a trademark, was amortized on a straight line basis over its estimated useful life.

(e) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2008 and 2007

2. Significant accounting policies (continued)

(f) Revenue recognition

Project management revenue is recognized as the services are performed. Access and usage fees revenue are recognized over the term of the subscription contract and any cash received in advance is recorded as deferred revenue. Set-up fees revenue is recognized over the term of the subscription contract beginning on the date of substantial completion. Interest income is recorded on an accrual basis as it is earned.

(g) Stock-based compensation

The Company accounts for stock-based compensation using the fair value method whereby all stock options, warrants and awards of stock to employees and non-employees are recorded at fair value on the date of grant. The Company estimates the fair value of stock-based compensation on the date of grant using the Black-Scholes option-pricing model. The compensation cost is recognized over the vesting periods of the respective options as an expense with a corresponding increase to contributed surplus. When stock options are exercised, the cash proceeds together with the amount previously recorded as contributed surplus is recorded as share capital.

(h) Translation of foreign currencies

The Company considers the Canadian dollar its functional currency. Transactions completed in foreign currencies are recorded in Canadian dollars at the rates prevailing at the time of transactions. Monetary assets and liabilities denominated in foreign currencies are recorded in the consolidated financial statements in equivalent Canadian dollars at the rate of exchange prevailing at the balance sheet date.

(i) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

The valuation of property and equipment is based on management's best estimates of the future recoverability of these assets and the determination of costs subject to classification as property and equipment. The amounts recorded for amortization of the property and equipment are based on management's best estimates of the remaining useful lives and period of future benefit of the related assets.

The amounts recorded as stock-based compensation expense, Agent Units and Warrants are calculated under the Black-Scholes option-pricing model using estimates of future volatility of the Company's share price, expected lives of the options, expected dividends to be paid by the Company and other relevant assumptions.

By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

(j) Net loss per share

The computation of basic loss per share uses the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that would occur if stock options and warrants were exercised. The Company uses the treasury stock method for outstanding options and warrants which assumes that all outstanding stock options and warrants with an exercise price below the average market prices are exercised and assumed proceeds plus the unamortized portion of stock-based compensation are used to purchase the Company's common shares at the average market price during the period.

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2008 and 2007

2. Significant accounting policies (continued)

(k) Change in accounting policies

Effective August 1, 2007, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

- Section 1530, Comprehensive Income;
- Section 3855, Financial Instruments - Recognition and Measurement; and
- Section 3865, Hedges; and
- Section 1506, Accounting Changes.

The standards have been adopted prospectively and there was no effect on the financial results of current or prior periods as a result of the adoption of these standards.

Comprehensive income

Section 1530 establishes standards for the reporting and presenting of comprehensive income and other comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources and other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with generally accepted accounting principles, are recognized in comprehensive loss but excluded from net loss.

Financial instruments - recognition and measurement

Section 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. All financial instruments must be classified as one of the following five categories: held-for-trading; held-to-maturity instruments; loans and receivables; available-for-sale financial assets; or other financial liabilities. All financial instruments, with the exception of loans and receivables, held-to-maturity investments and other financial liabilities measured at amortized cost, are reported on the balance sheet at fair value. Subsequent measurement and changes in fair value will depend on their initial classification. Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts are recorded in the statement of loss.

The Company has designated its cash and cash equivalents and investments as held for trading and are measured at fair value. Accounts receivable and deposits are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost.

Derivatives

All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless they qualify for the normal sale and purchase exception. All changes in fair value are included in earnings unless cash flow hedge or net investment accounting is used, in which case, changes in fair value are recorded in other comprehensive income to the extent the hedge is effective, and in earnings to the extent it is ineffective. The Company has not entered into any derivative instruments for the years ended July 31, 2008 and 2007.

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2008 and 2007

2. Significant accounting policies (continued)

Hedge accounting

Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting continues to be optional. At the inception of a hedge, the Company must formally document the designation of the hedge, the risk management objectives, the hedging relationships between the hedged items and the hedging items and the methods for testing the effectiveness of the hedge. Assessments are made, both at inception of the hedge and on an ongoing basis, to determine if the derivatives designated as hedges are highly effective in offsetting changes in fair values or cash flows of hedged items.

For cash flow hedges that have been terminated or cease to be effective, prospective gains or losses on the derivative are recognized in the statement of loss. Any gain or loss that has been included in accumulated other comprehensive income at the time the hedge is discontinued continues to be deferred in accumulated other comprehensive income until the original hedged transaction is recognized in the statement of loss. If the likelihood of the original hedged transaction occurring is no longer probable, the entire gain or loss in accumulated other comprehensive income related to this transaction is immediately reclassified to the statement of loss. The Company has not entered into any hedging programs for the years ended July 31, 2008 and 2007.

Accounting changes

Effective August 1, 2007, the Company adopted the revised recommendations of the CICA Section 1506, Accounting Changes. Under the revised standards, voluntary changes in accounting policies are permitted only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in the statement of loss. The Company has not had any accounting changes for the years ended July 31, 2008 and 2007.

(1) Future accounting pronouncements

As of August 1, 2008, the Company will be required to adopt two new CICA standards, Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentation which will replace Section 3861, Financial Instruments - Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carried forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

As of August 1, 2008, the Company will be required to adopt CICA Section 1535, Capital Disclosures which will require additional disclosures of the objectives, policies and processes for managing capital. In addition, disclosures will include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") by the end of 2011. In February 2008, the AcSB confirmed that 2011 is the change over date for publicly-traded companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2008 and 2007

- (l) Future accounting pronouncements (continued)

statements relating to fiscal years beginning on or after January 1, 2011. The transition date of August 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. Prepaids and deposits

Included in prepaids and deposits is \$50,000 paid to the Company's investor relations firm. These funds were provided as part of the comprehensive investor relations and market-making services agreement the Company entered into in February 2008. Subsequent to the year end, the specific program for which the funds were provided was cancelled and the amount was refunded to the Company in full.

4. Investments

The Company has invested \$1,000,000 into GICs during the year ended July 31, 2008 consisting of two \$500,000 18 month non-redeemable GICs, accruing interest at 4% per annum with interest to be paid at maturity, January 29, 2010.

5. Property and equipment

	2008		
	Cost	Accumulated Amortization	Net Book Value
Furniture and office equipment	\$ 69,385	\$ 9,426	\$ 59,959
Computer equipment	163,217	50,097	113,120
Leasehold improvements	2,832	378	2,454
Computer software	<u>29,967</u>	<u>15,102</u>	<u>14,865</u>
	<u>\$ 265,401</u>	<u>\$ 75,003</u>	<u>\$ 190,398</u>

	2007		
	Cost	Accumulated Amortization	Net Book Value
Furniture and office equipment	\$ 11,008	\$ 1,733	\$ 9,275
Computer equipment	75,586	20,395	55,191
Computer software	<u>15,032</u>	<u>11,931</u>	<u>3,101</u>
	<u>\$ 101,626</u>	<u>\$ 34,059</u>	<u>\$ 67,567</u>

6. Intangible asset

	2008	2007
Balance, beginning of year, at cost	\$ 9,747	\$ 9,747
Less: Accumulated amortization	<u>9,747</u>	<u>9,747</u>
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2008 and 2007

7. 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

	2008		2007	
	Number	Stated Value	Number	Stated Value
Common Shares				
Balance, beginning of year	55,755,958	\$ 4,357,622	52,470,958	\$ 4,077,611
Issued in lieu of salaries and bonuses (note 7(c)(i))	1,410,167	233,934	1,760,000	88,000
Issued in lieu of bonuses in the form of exercise of stock options (note 7(c)(ii))	2,115,083	571,650	-	-
Conversion of debentures (note 7(c)(iii))	-	-	200,000	28,000
Exercise of warrants (note 9)	19,020,500	1,894,322	1,100,000	110,000
Exercise of stock options	31,667	8,117	225,000	54,450
Cash from public offering (note 7(d))	<u>26,100,000</u>	<u>4,231,725</u>	<u>-</u>	<u>-</u>
	104,433,375	11,297,370	55,755,958	4,358,061
Less: Share issuance costs	<u>-</u>	<u>917,519</u>	<u>-</u>	<u>439</u>
Balance, end of year	<u>104,433,375</u>	<u>10,379,851</u>	<u>55,755,958</u>	<u>4,357,622</u>
Warrants				
Cash from public offering (note 7(d))	13,050,000	988,275	-	-
Less: Warrants issuance costs	<u>-</u>	<u>214,212</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>13,050,000</u>	<u>774,063</u>	<u>-</u>	<u>-</u>
		<u>\$ 11,153,914</u>		<u>\$ 4,357,622</u>

(c)(i) On June 9, 2008, the shareholders approved the payment of bonuses to certain staff and insiders in the form of 448,167 common shares to be issued at \$0.20 per share for an aggregate of \$89,634.

On August 18, 2006, the Company entered into employment contracts to issue when earned, at a deemed price of \$0.15 per share, 462,000 common shares in lieu of salary and 1,500,000 common shares in lieu of a bonus for obtaining a material Anchor account. For the year ended July 31, 2007, the employee earned the 462,000 and 500,000 common shares in lieu of salary and bonus, with a fair value totalling \$144,300 which was included in accounts payable and accrued liabilities at July 31, 2007. On August 16, 2007, the 462,000 common shares in lieu of salary and 500,000 common shares in lieu of bonus were issued. During the year ended July 31, 2008, the employee earned the remaining 1,000,000 common shares in lieu of a bonus for the

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2008 and 2007

7. Share capital and warrants (continued)

signing of a material Anchor account and \$200,000 is included in accounts payable and accrued liabilities at July 31, 2008 at a fair value of \$0.20 per share.

On July 24, 2006, the shareholders approved stock compensation to certain management of the Company in lieu of salary. During the year ended July 31, 2007, a total of 1,760,000 common shares were issued at \$0.05 per share for an aggregate of \$88,000.

- (c)(ii) On June 9, 2008, the shareholders also approved the payment of bonuses to insiders and other staff in the form of offsetting the amount of the bonus against the exercise price of vested and unexercised stock options outstanding within a range of \$0.11 and \$0.20 per share. An aggregate of 2,115,083 common shares were issued for an aggregate value of \$284,091. Upon exercise of the stock options, \$287,559 of contributed surplus was credited to share capital.
- (c)(iii) At July 31, 2006, the Company had \$60,000 of secured Convertible Debentures ("debentures") bearing interest at 10% per annum outstanding to directors of the Company. During the year ended July 31, 2007, \$28,000 of the debentures were converted into 200,000 common shares, and the balance of \$32,000 was repaid along with any outstanding accrued interest. The debentures had an original term of 6 months with an option by the holder to extend the term to 12 months from closing date which was later amended on June 2, 2006 to mature on December 15, 2006. The debentures were secured by a general security agreement over the assets of the Company. The debentures permitted the holder to acquire one Unit at a conversion price of \$0.14 per Unit. Each Unit was comprised of one common share and one common share purchase warrant ("warrant"). Each warrant was exercisable at a price of \$0.22 per warrant for a period of 6 months from the closing date of the debentures or if the debentures were extended by the holder, 12 months from the closing date of the debentures and extended to December 15, 2006.
- (d) On May 29, 2008, the Company closed its short form prospectus offering, by issuing a total of 26,100,000 units ("Units") at \$0.20 per Unit for gross proceeds of \$5,220,000 (the "Offering"), including the partial exercise of an Over-Allotment Option granted to the Agent. Each Unit consists of one common share and one half common share purchase warrant ("Warrant"). Each whole Warrant will entitle the holder to acquire one common share for a period of two years from the closing of the Offering at \$0.30 per common share. The Agent was paid a cash commission of \$522,000, plus legal fees and disbursements, and was issued an Over-Allotment Option to sell additional Units to a maximum of 3,750,000 Units of which 1,100,000 of the Over-Allotment was sold at \$0.20 per Unit for 30 days from the closing of the Offering and Compensation Options to purchase an amount equal to 10% of the number of Units sold under the Offering (including the Over-Allotment Option totalling 2,610,000 Units) at \$0.20 per Unit for a period of two years from the closing of the offering. As at July 31, 2008, no Compensation Options have been exercised.

The fair value of the Compensation Options issued to the Agent pursuant to the Offering was estimated using the Black-Scholes option-pricing model at \$0.128 per Unit using the following assumptions: an expected life of two years, risk-free interest rate of 3.09%, expected volatility of 113% and expected dividend rate of \$Nil; resulting in an increase of issuance costs and contributed surplus of \$333,000.

The fair value of the Warrants issued pursuant to the Offering was estimated using the Black-Scholes option-pricing model utilizing the residual method using the following assumptions: an expected life of two years, risk-free interest rate of 3.09%, expected volatility of 113% and expected dividend rate of \$Nil. As a result, the allocation of the gross proceeds from the Offering of \$5,220,000 was allocated as to \$4,231,725 to the 26,100,000 common shares and \$988,275 to the 13,050,000 Warrants. In connection with the Offering, issuance costs were \$1,131,731 (which includes the \$333,000 Agent costs above) of which \$917,519 was allocated to the common shares and \$214,212 was allocated to the Warrants.

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2008 and 2007

7. Share capital and warrants (continued)

(e) Contributed surplus

	2008	2007
Balance, beginning of year	\$ 765,867	\$ 516,605
Stock-based compensation expense	778,384	278,912
Exercise of finders fee warrants	(32,797)	-
Exercise of stock options	(291,376)	(29,650)
Issuance of Compensation Options (note 7(d))	<u>333,000</u>	<u>-</u>
	<u>\$ 1,553,078</u>	<u>\$ 765,867</u>

(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 of 67,787,997 (2007-54,606,613). For 2008 and 2007, the potential effect of the exercise of stock options, warrants and units would not be dilutive.

8. Stock options

- (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 15,147,691. 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 as at July 31, 2008 and 2007 and changes during the years ending on those dates is as follows:

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	9,437,700	\$ 0.17	4,108,700	\$ 0.14
Granted	2,100,000	0.22	6,885,000	0.18
Exercised	(2,146,750)	0.13	(225,000)	0.11
Forfeited	(180,000)	0.13	(1,025,000)	0.15
Expired	-	-	(306,000)	0.10
Outstanding, end of year	<u>9,210,950</u>	<u>\$ 0.19</u>	<u>9,437,700</u>	<u>\$ 0.17</u>
Exercisable, end of year	<u>5,727,617</u>	<u>\$ 0.19</u>	<u>2,918,950</u>	<u>\$ 0.14</u>

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2008 and 2007

8. Stock options (continued)

(b) The following table summarizes information about stock options outstanding and exercisable at July 31, 2008:

Range of Exercise Prices	Number Outstanding at July 31 2008	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable at July 31 2008	Weighted Average Exercise Price
\$0.08 - \$0.12	420,000	\$ 0.11	2.79 years	420,000	\$ 0.11
\$0.13 - \$0.16	3,011,833	0.15	3.71	1,611,833	0.15
\$0.17 - \$0.20	5,279,117	0.20	3.65	3,195,784	0.20
\$0.25	250,000	0.25	4.50	250,000	0.25
\$0.50	<u>250,000</u>	0.50	4.85	<u>250,000</u>	0.50
	<u>9,210,950</u>	\$ 0.19	4.14 years	<u>5,727,617</u>	\$ 0.19

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

	2008	2007
Fair value options granted (\$/share)	\$ 0.14	\$0.15
Expected life (years)	5	5
Risk-free interest rate (%)	3.84	4.39
Expected volatility (%)	111.92	144.14
Expected dividends (\$/share)	Nil	Nil

Subsequent to July 31, 2008, on September 30, 2008, the Company granted 75,000 stock options at an exercise price of \$0.19 per share, vesting 1/3 on each of the 6, 12 and 18 month anniversary of the option grant. These stock options expire September 30, 2013.

9. Warrants

The following table summarizes information about the Company's share purchase warrants. Each share purchase warrant entitles the holder to acquire one common share when exercised.

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2006	20,120,500	\$ 0.10
Issued	200,000	0.22
Expired	(200,000)	0.22
Exercised	<u>(1,100,000)</u>	0.10
Balance, July 31, 2007	19,020,500	0.10
Issued (note 7(d))	13,050,000	0.30
Exercised	<u>(19,020,500)</u>	0.10
Balance, July 31, 2008	<u>13,050,000</u>	\$ 0.30

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2008 and 2007

9. Warrants (continued)

Warrants exercisable at July 31, 2008:

Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life
\$0.30	<u>13,050,000</u>	1.83 years

10. Changes in non-cash working capital

	2008	2007
Relating to operating activities:		
Decrease (increase) in accounts receivable	\$ 263,273	\$ (147,631)
Increase in prepaids and deposits	(105,002)	(32,620)
Increase in accounts payable and accrued liabilities	320,908	234,818
Increase in deferred revenue	17,858	7,469
Changes in convertible debentures relating to operating activities	<u>-</u>	<u>(5,213)</u>
	<u>\$ 497,037</u>	<u>\$ 56,823</u>
Relating to investing activities:		
Increase in accounts payable and accrued liabilities	<u>\$ 24,421</u>	<u>\$ -</u>

11. Income taxes

- (a) Current income taxes recovery differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 30.60% (2007 - 32.12%) to loss before income taxes as follows:

	2008	2007
Expected income tax recovery	\$ (750,788)	\$ (246,704)
Stock-based compensation	238,186	89,586
Other non-deductible expenses	1,442	1,127
Expiry of non-capital loss carryforwards	197,914	130,302
Tax rate reductions	208,694	15,646
Future income taxes not recognized	<u>104,552</u>	<u>10,043</u>
Actual current income taxes recovery	<u>\$ -</u>	<u>\$ -</u>

- (b) The components of the future income tax asset at July 31, 2008 and 2007 are as follows:

	2008	2007
Property and equipment	\$ 13,411	\$ 7,345
Cumulative eligible capital	17,564	19,029
Share issuance costs	183,284	11,276
Non-capital losses carried forward	<u>1,224,853</u>	<u>1,052,593</u>
Future income tax asset	1,439,112	1,090,243
Less: Valuation allowance	<u>(1,439,112)</u>	<u>(1,090,243)</u>
	<u>\$ -</u>	<u>\$ -</u>

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2008 and 2007

11. Income taxes (continued)

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

(i) Non-capital loss carryforwards:

Amount	Year of Expiry
\$821,468	2009
740,421	2010
368,453	2014
227,239	2015
248,883	2026
495,895	2027
<u>1,801,760</u>	2028
<u>\$4,704,119</u>	

(ii) Share issuance costs of \$664,071

(iii) Excess of tax costs over book value of property and equipment and cumulative eligible capital of \$123,897.

12. Related party transaction

During the year, the Company accrued interest on debentures to directors of the Company in the amount of \$Nil (2007 - \$1,766).

This transaction is measured at the exchange amount which is the amount of consideration established and agreed to by the related parties

13. Commitments

(a) The Company entered into a new five year operating lease for office space commencing December 1, 2007 and expiring November 30, 2012, a second eleven month operating sublease for office space commencing September 1, 2008, a new four year operating lease for office equipment commencing February 11, 2008, and a second new four year operating lease for office equipment commencing August 2008.

(b) The Company has retained, effective February 1, 2008, the services of CHF Investor Relations ("CHF"), an investor relations firm. The Company has committed \$7,500 per month plus disbursements for a one year period ended January 31, 2009. The Company also, in addition to the monthly fee, granted on February 1, 2008, 250,000 stock options to CHF at an exercise price of \$0.25 per share and another 250,000 stock options to CHF at an exercise price of \$0.50 per share on June 9, 2008.

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Notes to Consolidated Financial Statements

July 31, 2008 and 2007

13. Commitments (continued)

The following is minimum annual obligations:

	CHF	Office space	Office equipment	Total
2009	\$ 45,000	\$ 306,462	\$ 5,350	\$ 356,812
2010	-	127,727	5,588	133,315
2011	-	127,727	5,588	133,315
2012	-	127,727	4,448	132,175
2013	-	42,576	238	42,813
	<u>\$ 45,000</u>	<u>\$ 732,219</u>	<u>\$ 21,212</u>	<u>\$ 798,430</u>

14. Financial instruments

(a) Fair values

The fair values of the Company's cash and cash equivalents, accounts receivable, deposits, investments and accounts payable and accrued liabilities approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

(b) Credit risk

The majority of the Company's accounts receivable are due from one customer. Management believes this risk is mitigated by the size and reputation of the company to which they have extended credit. The Company has established an allowance for doubtful accounts based on credit risk applicable to certain customers. The Company's maximum exposure to credit risk is the fair value of accounts receivable on the balance sheet shown net of an appropriate allowance for doubtful accounts, its cash and cash equivalents and investments.

(c) Interest rate risk

The Company is exposed to interest rate cash flow risk to the extent of the interest rate fluctuations on its GICs.

(d) Currency risk

The Company is exposed to currency price risk on sales denominated in Australian dollars to the extent that the receipt of payment of the Australian denominated accounts receivable are subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk exists on U.S. denominated subscription purchases in the year. Included in accounts receivable is \$980 (2007 -\$6,679) denominated in Australian dollars and included in accounts payable is \$1,853 (2007 - \$Nil) denominated in U.S. dollars.

15. Significant customers

During the year, the Company earned 80% of its total revenue from one customer (2007 - 80% from two customers) and accounts receivable at year end includes 45% (2007 - 87%) from these customers .