

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, 2009 and 2008 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, 2009 and 2008 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
October 28, 2009, except
as to Note 16 which is as
of November 9, 2009

Cortex Business Solutions Inc.
Consolidated Balance Sheets
July 31, 2009 and 2008

| | 2009 | 2008 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,174,170 | \$ 4,770,767 |
| Accounts receivable | 140,645 | 69,863 |
| Prepays and deposits (note 3) | 94,080 | 151,799 |
| Investments (note 4) | <u>1,040,000</u> | <u>-</u> |
| | 2,448,895 | 4,992,429 |
| Investments (note 4) | - | 1,000,000 |
| Property and equipment (note 5) | <u>390,358</u> | <u>190,398</u> |
| | <u>\$ 2,839,253</u> | <u>\$ 6,182,827</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 6(c)(i)) | \$ 500,184 | \$ 507,190 |
| Deferred revenue | <u>350,575</u> | <u>30,039</u> |
| | 850,759 | 537,229 |
| Deferred revenue | <u>87,599</u> | <u>-</u> |
| | <u>938,358</u> | <u>537,229</u> |
| Shareholders' Equity | | |
| Share capital and warrants (note 6) | 13,180,927 | 11,153,914 |
| Contributed surplus (note 6(f)) | 2,231,111 | 1,553,078 |
| Deficit | <u>(13,511,143)</u> | <u>(7,061,394)</u> |
| | <u>1,900,895</u> | <u>5,645,598</u> |
| | <u>\$ 2,839,253</u> | <u>\$ 6,182,827</u> |
| Going concern (note 1) | | |
| Commitments (note 11) | | |
| Contingency (note 12) | | |
| Subsequent events (note 16) | | |
| See accompanying notes | | |
| 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, 2009 and 2008

| | 2009 | 2008 |
|--|------------------------------|-----------------------------|
| Revenue | | |
| Access and usage fees | \$ 1,119,392 | \$ 636,642 |
| Set-up fees | 146,807 | 76,352 |
| Interest income | 68,906 | 641 |
| Project management | <u>-</u> | <u>1,529,419</u> |
| | <u>1,335,105</u> | <u>2,243,054</u> |
| Expenses | | |
| General and administrative | 698,984 | 400,885 |
| Internet and hosting costs | 61,154 | 51,171 |
| Professional fees | 99,994 | 112,827 |
| Rent | 317,902 | 102,146 |
| Salaries, employee benefits and subcontract | 6,081,682 | 3,210,260 |
| Stock-based compensation | 429,366 | 778,384 |
| Amortization | <u>95,772</u> | <u>40,935</u> |
| | <u>7,784,854</u> | <u>4,696,608</u> |
| Net loss and comprehensive loss | (6,449,749) | (2,453,554) |
| Deficit, beginning of year | <u>(7,061,394)</u> | <u>(4,607,840)</u> |
| Deficit, end of year | <u><u>\$(13,511,143)</u></u> | <u><u>\$(7,061,394)</u></u> |
| Net loss per share-basic and diluted (note 6(g)) | <u><u>\$ (0.06)</u></u> | <u><u>\$ (0.04)</u></u> |

See accompanying notes

Cortex Business Solutions Inc.
Consolidated Statements of Cash Flows
July 31, 2009 and 2008

| | 2009 | 2008 |
|--|---------------------|---------------------|
| Operating activities | | |
| Net loss | \$ (6,449,749) | \$ (2,453,554) |
| Items not affecting cash | | |
| Stock-based compensation | 429,366 | 778,384 |
| Amortization | 95,772 | 40,935 |
| Management salary paid through issuance of shares | <u>-</u> | <u>373,725</u> |
| | (5,924,611) | (1,260,510) |
| Changes in non-cash working capital (note 9) | <u>396,866</u> | <u>497,037</u> |
| | <u>(5,527,745)</u> | <u>(763,473)</u> |
| Financing activities | | |
| Proceeds from issuance of shares and warrants, net of costs | 2,275,680 | 6,287,094 |
| Changes in non-cash working capital (note 9) | <u>5,621</u> | <u>-</u> |
| | <u>2,281,301</u> | <u>6,287,094</u> |
| Investing activities | | |
| Purchase of investments | (40,000) | (1,000,000) |
| Acquisition of property and equipment | (295,732) | (163,766) |
| Changes in non-cash working capital (note 9) | <u>(14,421)</u> | <u>24,421</u> |
| | <u>(350,153)</u> | <u>(1,139,345)</u> |
| Cash inflow (outflow) | (3,596,597) | 4,384,276 |
| Cash and cash equivalents, beginning of year | <u>4,770,767</u> | <u>386,491</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,174,170</u> | <u>\$ 4,770,767</u> |
| Cash and cash equivalents consist of | | |
| Cash | \$ 1,174,170 | \$ 1,970,767 |
| Guaranteed investment certificate | <u>-</u> | <u>2,800,000</u> |
| | <u>\$ 1,174,170</u> | <u>\$ 4,770,767</u> |
| Supplemental cash flows information: | | |
| Interest received | <u>\$ 69,206</u> | <u>\$ -</u> |
| Interest paid | <u>\$ -</u> | <u>\$ 1,060</u> |
| Non-cash transactions: | | |
| (a) Issuance of shares in lieu of salaries and bonuses (note 6(c)(i) and (ii)) | <u>\$ -</u> | <u>\$ 518,025</u> |

See accompanying notes

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2009 and 2008

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, 2009 and 2008 of \$6,449,749 and \$2,453,554 respectively, and has a cumulative deficit of \$13,511,143 as at July 31, 2009. Management's assessment of the Company, based on its current cash flow forecast and financial model, is that the ability to remain as a going concern is affected by the following factors:

- a) The current recession has reduced capital spending in the oil and gas sector.
- b) The current recession has also reduced overall spending in the oil and gas sector. This has impacted the Company's generation of recurring access and usage fee revenue through a reduction of documents flowing between vendor and suppliers. This translates into reduced transactional volume and reduced volume of suppliers coming on board through the addition of new hubs.

Management's plan for addressing these issues:

- a) Subsequent to year end, the Company signed a new long term service agreement with its largest customer. The agreement includes a one year professional services agreement and a new five year service agreement with an option to extend for an additional five years. The funds generated by this agreement, in conjunction with the anticipated growth in transactional fee revenue (access and usage fee revenue) is expected to provide sufficient funds to carry out the Company's current business plan.
- b) The Company has taken steps to reduce its operating costs including a salary reduction by its employees, during the year ended July 31, 2009 and closely monitoring all other operating costs.
- c) The Company may consider additional salary or general and administrative cost reductions and may need to consider additional equity financing as well.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which assumes 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.

(b) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and redeemable guaranteed investment certificates ("GIC").

(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% |

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2009 and 2008

2. Significant accounting policies (continued)

Leasehold improvements are amortized on a straight line bases over the term of the lease. 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) 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.

(e) 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. Integration set-up fees revenue is recognized over the term of the subscription contract beginning on the date of substantial completion. Desktop set-up fees revenue is recognized over the term of the subscription contract, which is estimated to commence within one month of the activation fee being charged. Interest income is recorded on an accrual basis as it is earned.

(f) 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 and warrants are exercised, the cash proceeds together with the amount previously recorded as contributed surplus is recorded as share capital.

(g) 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.

(h) 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.

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2009 and 2008

2. Significant accounting policies (continued)

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 and warrants, 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.

(i) 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.

(j) Changes in accounting policies

Financial Instruments - Disclosure and Presentation

Effective August 1, 2008, the Company adopted two new Canadian Institute of Chartered Accountants ("CICA") standards, Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentation which replaces 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 effect on the financial statements as a result of adopting these sections is additional disclosures in the financial statements (see note 13).

Capital disclosures

Effective August 1, 2008, the Company adopted CICA Section 1535, Capital Disclosures which requires additional disclosures of objectives, policies and processes for managing capital. In addition, disclosures include whether companies have complied with externally imposed capital requirements. The effect on the financial statements as a result of this new section is additional disclosures in the financial statements (see note 15).

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") of the CICA approved an abstract EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities which provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, Financial Instruments - Recognition and Measurement. This EIC states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after the date of issuance of this abstract. The

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2009 and 2008

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (continued)

Company has adopted the recommendations of EIC 173 which did not have an impact on the Company's financial statements.

- (k) Future accounting pronouncements

Goodwill and Intangible Assets

As of August 1, 2009, the Company will be required to adopt CICA Section 3064, Goodwill and Intangible Assets which will replace Handbook Section 3062. The new guidance reinforces a principles-based approach to the recognition of costs of assets in accordance with the definition of an asset and the criteria for asset recognition under Handbook Section 1000, Financial Statement Concepts. Section 3064 clarifies the application of the concept of matching revenues and expenses in Section 1000 to eliminate the current practice of recognizing items as assets that do not meet the definition and recognition criteria. Under this new guidance, fewer items meet the criteria for capitalization. The Company expects this standard will not have an impact on its financial statements.

International Financial Reporting Standards

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 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.

The Company has not completed development of its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Company will complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities.

The International Accounting Standards Board ("IASB") has stated that it plans to issue an exposure draft relating to certain amendments to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time.

Business Combinations

As of August 1, 2011, the Company will be required to adopt changes in CICA Section 1582, Business Combinations which will replace Section 1581, Business Combinations and harmonizes the Canadian standards related to business combinations with IFRS. This new standard establishes revised standards on the recognition and measurement of identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, as well as recognition and measurement guidance for goodwill acquired in the business combination or the gain from a bargain purchase option. The new standard also provides guidance on identifying the acquirer and identifying the acquisition date (being the date at which control is acquired), and on the presentation and disclosure to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2009 and 2008

Consolidated Financial Statements and Non-Controlling Interests

As of August 1, 2011, the Company will be required to adopt changes to CICA Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests which, together replace Section 1600, Consolidated Financial Statements. These sections establish revised standards for the preparation of consolidated financial statements and specifically discuss the consolidated accounting following a business combination involving the purchase of an equity interest of one company by another. These sections also provide guidance in situations involving a combination or consolidation other than through purchase of an equity interest or involving unincorporated businesses.

3. Prepays and deposits

Included in prepaids and deposits for the year ended July 31, 2009 is \$Nil (July 31, 2008 - \$50,000) paid to an 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. During the year ended July 31, 2009 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 \$1,040,000 (including reinvested interest of \$40,000) (2008 - \$1,000,000) into GICs consisting of two \$500,000 non-redeemable GICs, bearing interest at 4% per annum maturing January 29, 2010.

5. Property and equipment

| | 2009 | | |
|--------------------------------|-------------------|--------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Computer equipment | \$ 350,777 | \$ 111,976 | \$ 238,801 |
| Furniture and office equipment | 131,629 | 27,642 | 103,987 |
| Computer software | 71,469 | 25,787 | 45,682 |
| Leasehold improvements | <u>7,137</u> | <u>5,249</u> | <u>1,888</u> |
| | <u>\$ 561,012</u> | <u>\$ 170,654</u> | <u>\$ 390,358</u> |
| | 2008 | | |
| | Cost | Accumulated Amortization | Net Book Value |
| Computer equipment | \$ 163,217 | \$ 50,097 | \$ 113,120 |
| Furniture and office equipment | 69,385 | 9,426 | 59,959 |
| Computer software | 29,967 | 15,102 | 14,865 |
| Leasehold improvements | <u>2,832</u> | <u>378</u> | <u>2,454</u> |
| | <u>\$ 265,401</u> | <u>\$ 75,003</u> | <u>\$ 190,398</u> |

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2009 and 2008

6. 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

| | 2009 | | 2008 | |
|---|--------------------|----------------------|--------------------|----------------------|
| | Number | Stated Value | Number | Stated Value |
| Common Shares | | | | |
| Balance, beginning of year | 104,433,375 | \$ 10,379,851 | 55,755,958 | \$ 4,357,622 |
| Issued in lieu of salaries and bonuses (note 6(c)(i)) | - | - | 1,410,167 | 233,934 |
| Issued in lieu of bonuses in the form of exercise of stock options (note 6(c)(ii)) | - | - | 2,115,083 | 571,650 |
| Exercise of warrants (note 8) | - | - | 19,020,500 | 1,894,322 |
| Exercise of stock options | - | - | 31,667 | 8,117 |
| Cash from public offering (note 6(d)) | - | - | 26,100,000 | 4,231,725 |
| Cash from private placement (note 6(e)) | <u>13,247,500</u> | <u>2,078,685</u> | <u>-</u> | <u>-</u> |
| | 117,680,875 | 12,458,536 | 104,433,375 | 11,297,370 |
| Less: Share issuance costs | <u>-</u> | <u>483,857</u> | <u>-</u> | <u>917,519</u> |
| Balance, end of year | <u>117,680,875</u> | <u>11,974,679</u> | <u>104,433,375</u> | <u>10,379,851</u> |
| Warrants | | | | |
| Balance, beginning of year | 13,050,000 | 774,063 | - | - |
| Cash from public offering (note 6(d)) | - | - | 13,050,000 | 988,275 |
| Cash from private placement (note 6(e)) | 6,623,750 | 563,315 | - | - |
| Less: Warrants issuance costs | <u>-</u> | <u>131,130</u> | <u>-</u> | <u>214,212</u> |
| Balance, end of year | <u>19,673,750</u> | <u>1,206,248</u> | <u>13,050,000</u> | <u>774,063</u> |
| | | <u>\$ 13,180,927</u> | | <u>\$ 11,153,914</u> |

Cortex Business Solutions Inc.

Notes to Consolidated Financial Statements

July 31, 2009 and 2008

- (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 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. As at July 31, 2009, the shares have not been issued and the amount of \$200,000 is included in accounts payable and accrued liabilities.

- (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.

- (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 consisted 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 and 2009, 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 value 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, 2009 and 2008

6. Share capital and warrants (continued)

- (e) On June 17, 2009, the Company completed a brokered private placement financing, by issuing a total of 13,210,000 units ("Units") at \$0.20 per Unit for gross proceeds of \$2,642,000 (the "Offering"). 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 and for an additional two years at \$0.45 per common share. The Agent was paid a cash commission of \$264,200, a corporate finance fee of \$25,500 of which \$7,500 was paid through the issuance of 37,500 Units, plus legal fees and disbursements and Compensation Options to purchase an amount equal to 10% of the number of Units sold (1,321,000) under the Offering at \$0.20 per Unit for a period of four years from the closing of the offering. As at July 31, 2009, 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 using the following weighted average assumptions: an expected life of 2.67 years, risk-free interest rate of 2.14%, expected volatility of 179.5% and expected dividend rate of \$Nil; resulting in an increase in issuance costs and contributed surplus of \$248,667.

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 2.67 years, risk-free interest rate of 2.14%, expected volatility of 179.5% and expected dividend rate of \$Nil. As a result, the allocation of the gross proceeds from the Offering of \$2,642,000 was allocated as to \$2,078,685 to the 13,210,000 common shares and \$563,315 to the 6,623,750 Warrants. In connection with the Offering, issuance costs were \$614,987 (which includes the \$248,667 Agent costs above) of which \$483,857 was allocated to the common shares and \$131,130 was allocated to the Warrants.

(f) Contributed surplus

| | 2009 | 2008 |
|--|---------------------|---------------------|
| Balance, beginning of year | \$ 1,553,078 | \$ 765,867 |
| Stock-based compensation expense | 429,366 | 778,384 |
| Exercise of finders fee warrants | - | (32,797) |
| Exercise of stock options | - | (291,376) |
| Issuance of Compensation Options (note 6(e)) | <u>248,667</u> | <u>333,000</u> |
| | <u>\$ 2,231,111</u> | <u>\$ 1,553,078</u> |

(g) 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 107,155,259 (2008 - 67,787,997). For 2009 and 2008, the potential effect of the exercise of stock options, warrants and units would not be dilutive.

7. 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 20,886,675. 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.

Cortex Business Solutions Inc.

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7. Stock options (continued)

A summary of the status of the Company's stock option plan as at July 31, 2009 and 2008 and changes during the years ending on those dates is as follows:

| | 2009 | | 2008 | |
|--------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 9,210,950 | \$ 0.19 | 9,437,700 | \$ 0.17 |
| Granted | 3,082,207 | 0.20 | 2,100,000 | 0.22 |
| Exercised | - | - | (2,146,750) | 0.13 |
| Forfeited | (233,333) | 0.15 | (180,000) | 0.13 |
| Expired | (332,700) | 0.18 | - | - |
| Outstanding, end of year | <u>11,727,124</u> | <u>\$ 0.19</u> | <u>9,210,950</u> | <u>\$ 0.19</u> |
| Exercisable, end of year | <u>8,403,250</u> | <u>\$ 0.19</u> | <u>5,727,617</u> | <u>\$ 0.19</u> |

Subsequent to July 31, 2009, 278,485 stock options were forfeited at a weighted average exercise price of \$0.17.

- (b) The following table summarizes information about stock options outstanding and exercisable at July 31, 2009:

| Range of Exercise Prices | Number Outstanding at July 31 2009 | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number Exercisable at July 31 2009 | Weighted Average Exercise Price |
|--------------------------|------------------------------------|---------------------------------|---|------------------------------------|---------------------------------|
| \$0.08 - \$0.12 | 420,000 | \$ 0.11 | 1.79 years | 420,000 | \$ 0.11 |
| \$0.13 - \$0.16 | 2,778,500 | 0.15 | 2.72 | 2,778,500 | 0.15 |
| \$0.17 - \$0.20 | 8,028,624 | 0.20 | 3.60 | 4,704,750 | 0.20 |
| \$0.25 | 250,000 | 0.25 | 3.50 | 250,000 | 0.25 |
| \$0.50 | <u>250,000</u> | 0.50 | 3.86 | <u>250,000</u> | 0.50 |
| | <u>11,727,124</u> | \$ 0.19 | 3.33 years | <u>8,403,250</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:

| | 2009 | 2008 |
|---------------------------------------|--------|--------|
| Fair value options granted (\$/share) | \$0.14 | \$0.14 |
| Expected life (years) | 5 | 5 |
| Risk-free interest rate (%) | 2.28 | 3.84 |
| Expected volatility (%) | 110 | 112 |
| Expected dividends (\$/share) | Nil | Nil |

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8. 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, 2007 | 19,020,500 | \$ 0.10 |
| Issued (note 6(d)) | 13,050,000 | 0.30 |
| Exercised | <u>(19,020,500)</u> | 0.10 |
| Balance, July 31, 2008 | 13,050,000 | 0.30 |
| Issued (note 6(e)) | <u>6,623,750</u> | 0.30 - 0.45 |
| Balance, July 31, 2009 | <u><u>19,673,750</u></u> | \$ 0.35 |

Warrants exercisable at July 31, 2009:

| Exercise Price | Number of Warrants | Weighted Average Remaining Contractual Life |
|---|--------------------------|---|
| \$0.30 | 13,050,000 | 0.83 years |
| \$0.30 - until June 17, 2011 and \$0.45 thereafter | <u>6,623,750</u> | 3.83 years |
| | <u><u>19,673,750</u></u> | 1.85 years |

9. Changes in non-cash working capital

| | 2009 | 2008 |
|---|--------------------|-------------------|
| Relating to operating activities: | | |
| Decrease (increase) in accounts receivable | \$ (70,782) | \$ 263,273 |
| Decrease (increase) in prepaids and deposits | 57,719 | (105,002) |
| Increase in accounts payable and accrued liabilities | 1,794 | 320,908 |
| Increase in deferred revenue | <u>408,135</u> | <u>17,858</u> |
| | <u>\$ 396,866</u> | <u>\$ 497,037</u> |
| Relating to investing activities: | | |
| Increase (decrease) in accounts payable and accrued liabilities | <u>\$ (14,421)</u> | <u>\$ 24,421</u> |
| Relating to financing activities: | | |
| Increase in accounts payable and accrued liabilities | <u>\$ 5,621</u> | <u>\$ -</u> |

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10. 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 29.21% (2008 - 30.60%) to loss before income taxes as follows:

| | 2009 | 2008 |
|--|------------------|----------------|
| Expected income tax recovery | \$ (1,883,972) | \$ (750,788) |
| Stock-based compensation | 125,418 | 238,186 |
| Other non-deductible expenses | 3,748 | 1,442 |
| Expiry of non-capital loss carryforwards | 239,951 | 197,914 |
| Tax rate reductions | 258,620 | 208,694 |
| Future income taxes not recognized | <u>1,256,235</u> | <u>104,552</u> |
| Actual current income taxes recovery | <u>\$ -</u> | <u>\$ -</u> |

- (b) The components of the future income tax asset at July 31, 2009 and 2008 are as follows:

| | 2009 | 2008 |
|------------------------------------|--------------------|--------------------|
| Property and equipment | \$ 37,500 | \$ 13,411 |
| Cumulative eligible capital | 18,985 | 17,564 |
| Share issuance costs | 216,627 | 183,284 |
| Non-capital losses carried forward | <u>2,529,236</u> | <u>1,224,853</u> |
| Future income tax asset | 2,802,348 | 1,439,112 |
| Less: Valuation allowance | <u>(2,802,348)</u> | <u>(1,439,112)</u> |
| | <u>\$ -</u> | <u>\$ -</u> |

- (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:

| Amount | Year of Expiry |
|---------------------|----------------|
| \$ 740,000 | 2010 |
| 368,000 | 2014 |
| 227,000 | 2015 |
| 249,000 | 2026 |
| 496,000 | 2027 |
| 1,802,000 | 2028 |
| <u>6,157,000</u> | 2029 |
| <u>\$10,039,000</u> | |

- (ii) Share issuance costs of \$785,000

- (iii) Excess of tax costs over book value of property and equipment and cumulative eligible capital of \$226,000.

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11. Commitments

- (a) The Company has retained, effective April 1, 2009, the services of Brisco Capital Partners Corp, an investor relations firm. The Company committed \$6,000 per month plus disbursements for a one year period ending March 31, 2010. In addition, on April 1, 2009, the Company granted to Brisco Capital Partners Corp 500,000 incentive stock options at an exercise price of \$0.20. These stock options will vest in accordance with the Company's stock option plan.
- (b) The Company entered into a 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 which was extended effective August 1, 2009 for an additional seven months, a new four year operating lease for office equipment commencing February 11, 2008, and a second four year operating lease for office equipment commencing August 2008. The Company entered into a five month sub lease agreement effective March 1, 2009 to July 31, 2009 to recover \$3,000 of rent per month from an independent third party.

The following is minimum annual obligations:

| | Brisco | Office space | Office equipment | Total |
|------|------------------|-------------------|------------------|-------------------|
| 2010 | \$ 48,000 | \$ 243,290 | \$ 5,588 | \$ 296,878 |
| 2011 | - | 127,727 | 5,588 | 133,315 |
| 2012 | - | 127,727 | 4,448 | 132,175 |
| 2013 | - | 42,576 | 238 | 42,814 |
| | <u>\$ 48,000</u> | <u>\$ 541,320</u> | <u>\$ 15,862</u> | <u>\$ 605,182</u> |

12. Contingency

A former employee of the Company has filed a Statement of Claim for wrongful dismissal in the amount of \$467,200 plus damages and costs. In response, the Company has filed a Statement of Defence. Management and its counsel are of the opinion that any amounts paid will be substantially less than the full amount claimed in the Statement of Claim. Any settlement under the claim will be recorded in the period the loss becomes likely and the amount of the loss can be reasonably estimated.

13. Financial instruments and risk management

The Company has classified its financial instruments as follows:

| Financial instrument | Classification |
|--|-----------------------------|
| Financial Assets | |
| Cash and cash equivalents | Held for trading |
| Accounts receivable and deposits | Loans and receivables |
| Investments | Held for trading |
| Financial Liabilities | |
| Accounts payable and accrued liabilities | Other financial liabilities |

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13. Financial instruments and risk management (continued)

The fair values of above financial instruments approximate their carrying values due to the immediate or short-term maturity or because they bear interest at market rates. The Company is exposed in varying degrees to a number of risks arising from its financial instruments. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The Company does not use financial instruments to mitigate these risks and has no designated hedging transactions.

The types of risk exposure and how such exposures are managed are as follows:

(a) Credit risk

A large portion of the Company's accounts receivable, which is unsecured, is due from one customer (\$32,673 or 37% of trade accounts receivable). Management believes that this risk is mitigated by the size and reputation of the company to which they have extended credit. The Company has a diversified customer list for its remaining trade receivables and has established a general allowance policy for doubtful accounts.

The Company monitors its general allowance policy on a regular basis. As at July 31, 2009, the Company had \$87,383 of trade accounts receivables. Of this amount, \$22,515 are over 30 days, which is past due under the Company's normal credit terms. Of this amount, \$3,000 has been allowed for under the Company's general allowance policy. All accounts receivable are unsecured. At July 31, 2009, the Company also had accrued interest of \$342 on GICs and accrued receivables in the amount of \$55,920 for services performed prior to July 31, 2009. 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 of \$3,000.

Credit risk also exists in cash and cash equivalents and investments as all balances are maintained with one financial institution. The risk is mitigated because the financial institution is a major Canadian bank.

(b) 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.

(c) Market risk

Market risk is the risk that financial instruments fair values will fluctuate due to changes in market prices.

The significant market risks to which the Company is exposed are interest rate and currency rate risk.

(i) 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. The Company had \$Nil access and usage fee revenue in the year ended July 31, 2009, (\$11,097 during the year ended July 31, 2008) which was subject to Australian currency fluctuations. The Company had \$Nil in AUS accounts receivable at July 31, 2009 (2008 - \$980). Included in accounts payable and accrued liabilities is \$5,621 (2008 - \$1,853) denominated in U.S. dollars. The income impact on any changes in the foreign exchange rates relating to this would be negligible.

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(c) Market risk (continued)

(ii) Interest rate risk

The Company is exposed to interest rate cash flow risk to the extent of the interest rate fluctuations on its GICs. The Company's policy is to invest any surplus funds in redeemable or non-redeemable secured GICs at fixed or floating rates of interest, in the most advantageous denominations, to maintain a reasonable balance between return on investment and liquidity. At July 31, 2009 interest rates on the Company's remaining GIC was fixed at 4% per annum which exceeds current market interest rates. Fluctuations in interest rates will not impact the value of future interest receivable as it is as a fixed rate. A 1% increase or decrease in interest rates beyond the range would have an annual effect of \$10,000 on net loss and comprehensive loss.

14. Significant customers

During the year, the Company earned 31% of its total revenue from one customer (2008 - 80% from one customer) and accounts receivable at year end includes 23% (2008 - 45%) from this customer. Deferred revenue represents 29% (2008 - nil) from this customer.

15. Capital disclosures

The Company includes as capital, shareholders' equity which is comprised of share capital and warrants, contributed surplus, 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 positive cash flow from operations, the Company is 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 and cash equivalents and investments. The Company has set forth in its business plan, expected revenue and expense targets for the fiscal year ended July 31, 2010. The Company completed a brokered private placement financing for a total of 13,210,000 units at a price of \$0.20 per Unit for gross proceeds of up to \$2,642,000. Part of the proceeds from this placement, will be used to fund the commercialization of new products. The remaining funds will be used to support working capital.

The Company is not subject to externally imposed capital requirements.

16. Subsequent events

Subsequent to July 31, 2009, on November 9, 2009, the Company granted 95,730 stock options to employees at an exercise price of \$0.20 per share, vesting 1/3 on each of the 6, 12 and 18 month anniversaries of the option grant. These stock options expire November 9, 2014. The Company also granted 537,807 stock options to management on November 3, 2009 at an exercise price of \$0.20 per share vesting 1/3 on each of the 6, 12 and 18 month anniversaries of the option grant.

On October 30, 2009, the Company signed a new long term service agreement with its largest customer. The agreement includes a one year professional services agreement and a new five year service agreement with an option to extend for an additional five years.