



# 2010 Second Quarter Report

## Management's Discussion & Analysis

March 26, 2010

*The following discussion has been prepared by management and is a review of the consolidated operating results and financial position of Cortex Business Solutions Inc. ("Cortex" or the "Company") based upon accounting principles generally accepted in Canada. This Management Discussion and Analysis ("MD & A") should be read in conjunction with the unaudited consolidated financial statements of the Company as at and for the period ended January 31, 2010, as well as the notes thereto.*

*All amounts are expressed in Canadian dollars unless otherwise stated. This disclosure is effective as of March 26, 2010.*

*The MD&A and financial statements for earlier periods should also be considered relevant and are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com). Additional information is also available on the Company's web site at [www.cortex.net](http://www.cortex.net).*

*Statements in this MD&A relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements may involve known and unknown risks and uncertainties which may cause the actual results, performances or achievements of the Company to be materially different from any future results implied by such forward-looking statements. Forward-looking statements are often, but not exclusively identified by words such as "anticipate", "may", "expect", "plan", "future", "continue", "intends", "projects", "believes", "seek", "budget", "estimate", "forecast", "will", "predict", "potential", "target", "could", "might", and other similar expressions. Some of the risks that may cause actual results to vary are described under the "Business Risks and Uncertainties" section. It is important to note that:*

- Unless otherwise indicated, forward-looking statements describe our expectations as of the date of management's discussion and analysis;*
- We caution readers not to place undue reliance on forward-looking statements as our actual results may differ materially from our expectations if known and unknown risks or uncertainties affect our business, or if our estimates or assumptions prove inaccurate. Therefore, we cannot provide any assurance that forward-looking statements will materialize; and*
- We assume no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason unless required by applicable securities laws.*

## Second Quarter 2010 Financial and Operational Highlights

Cortex signed three major buying organizations to our Cortex Trading Partner Network (“Network”) during the second quarter and beginning of the third quarter of 2010. During the second quarter of 2010, the access and usage fee revenue grew 64% over the same quarter 2009 and 15% over the first quarter of 2010. This growth is the largest quarter-over-quarter growth in the history of this Company. The signing of the buying organizations is a substantial accomplishment for Cortex. The related suppliers and transactions associated with these organizations are anticipated to further accelerate our transaction and Network growth.

### Highlights of Q2 are:

- The following are highlights about the projects and activities announced during the second quarter and beginning of the third quarter of 2010:
  - Cortex & Basware Announce Project with Apache Corporation - As a result of this agreement, Cortex's market share in the oil and gas industry is expected to expand in Western Canada and grow significantly in the United States and Gulf Coast region. Basware and Cortex have begun a project to automate Apache's invoice processing for its North America operations.
  - Cortex Announces Creation of Advisory Committee – The Committee was developed to advise the Cortex Management team on identifying strategic opportunities, expanding operations into new industries and locations, creating partnerships and investment opportunities and running a successful growth company.
  - Cortex & Powervision Announce Project with Large Calgary based Energy Trust - Powervision and Cortex will be working together to automate their supply chain by connecting their suppliers to the Cortex Network. Signing this new project comes at a great time for Cortex and its current customers. The continued expansion of our Network increases our recurring revenue stream, financial position and market share in the oil and gas industry in Western Canada.
  - Cortex Announces Agreement with Basware – An interoperability agreement with Basware and Cortex helps to extend our service offerings to all current and future customers. The agreement presents Cortex with the opportunity to extend its services beyond Western Canada and into the USA.
  - Cortex Announces Project with Murphy Oil - Cortex will be working together with Powervision to automate over 80% of Murphy Oil's supply chain by connecting Murphy's suppliers to the Cortex Network. This agreement will increase the value of the Cortex Network by bringing on new suppliers and increasing the number of transactions moving through our Network.
- Total revenue for the quarter ended January 31, 2010 of \$1,263,592. This is an increase of 297% over the same quarter ended January 31, 2009. Total revenue for the six months ended January 31, 2010 of \$2,785,974, an increase of 409% over the same six months ended January 31, 2009.
- The Company had total cash inflow from all sources in the quarter ended January 31, 2010 of \$1,756,558 compared to a total cash outflow from all sources of \$(1,754,145) in the same three month period ended January 31, 2009.
- Access and usage fee revenue has grown 64% or \$174,492 (2010 - \$447,742, 2009 - \$273,250) over the same quarter 2009.
- Volume of transactions flowing through the Network continues to grow, increasing 74% since fiscal year ended July 31 2009 and 43% since Q1 2010.

- The Company has a net loss per share of \$(0.01) for the quarter ended January 31, 2010. The net loss for the current quarter was \$(744,084) compared to a loss of \$(1,677,054) for the same quarter 2009. This is a 56% reduction in the net loss for the Company for the quarter ended January 31, 2010 compared to January 31, 2009. After the removal of non-cash compensation in the amount of \$296,600 as discussed in the expense section of this document, stock based compensation expense of \$93,911 and amortization in the amount of \$31,132, the Company had a non-GAAP net loss for the quarter ended January 31, 2010 of \$(322,441).
- Deferred revenue collected in the quarter ended January 31, 2010 was \$1,827,375. Included in this amount is prepayment of future monthly fees.
- On March 10, 2010 the Company announced that it has entered into an agreement with a syndicate of underwriters (the "Underwriters"), led by CI Capital Markets Inc. and including Wolverton Securities Ltd., whereby the Underwriters have agreed to purchase, on a bought deal basis, 12,000,000 common shares (the "Common Shares") from treasury of the Company at a purchase price of \$0.50 per Common Share (the "Issue Price") for gross proceeds of \$6,000,000 (the "Offering"). The Company has granted the Underwriters an option to purchase up to an additional 2,000,000 Common Shares at the Issue Price exercisable up to 48 hours prior to closing of the Offering for additional gross proceeds of up to \$1,000,000

The Company continues to successfully implement its business plan, which has resulted in the addition of three major buying organizations joining Cortex since October 31, 2009. These buying organizations will expose a larger number of suppliers to the Network. More suppliers on the Network will increase the transactions flowing through the Network which is expected to further grow our recurring access and usage fee revenue stream.

The current economic downturn may encourage companies to focus on cost saving measures. The Company's services assist companies in this goal by providing them with an automated eProcurement solution which could assist in reducing their internal costs and improving controls.

## **Description of Business**

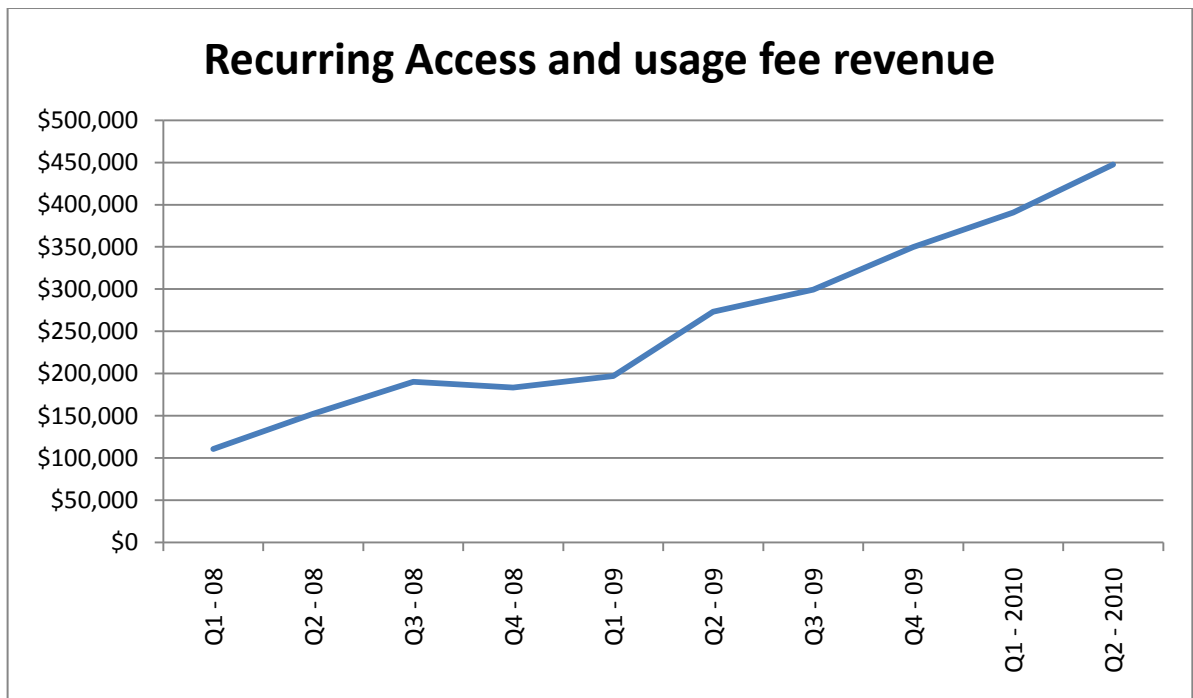
Cortex Business Solutions Inc. is a leading eCommerce service company that improves efficiencies, reduces costs and streamlines procurement and supply chain processes for its customers. Accessing the Cortex Network enhances the exchange of business critical documents, such as purchase orders, receipts and invoices resulting in improved cash flow management and business controls, while reducing day's outstanding and administrative costs. Cortex is a low cost, low risk solution that can be implemented quickly by leveraging its customers existing business environment - evolving business.

Cortex products and services are non-intrusive and allow our customers the freedom to leverage and optimize their existing processes and information technology assets when it makes the best business sense for them. This approach improves the productivity, cash flow and profitability of our customers, while avoiding the risk and delays associated with large information technology or business process re-engineering initiatives.

## Overview of Results of Operations

In the second quarter of fiscal 2010, the Company saw a substantial increase in overall revenue of 297% (\$945,479) over the same quarter last year. Of this amount, \$703,333 related to project management fees earned in the quarter. These project management fees related to time and services fees accrued for the quarter. There was no project management revenue stream during the same quarter last year.

The Company continues to realize growth in our access and usage fees, which grew 64% during the three month period ended January 31, 2010 compared to the same period last year. The Company has continued to attract more customers to the Network with an increase in both contracted customers and customers transacting on the Network. In January 2009 there were 651 customers transacting whereas at January 31, 2010 there were 1,472, an increase of 126%. The growth of the Network and growth in transactions is starting to generate increased access and usage fees, as expected.



The Company's revenue streams are based on the premise that our business assists companies in reducing their overhead and improving cash flow. The recent economic downturn may encourage companies to focus on these measures. As a result, Cortex does not anticipate that the current economic downturn to have a significant negative impact on our estimated revenue growth.

## Selected Financial Information

The following table presents selected quarterly information for the quarters ended January 31, 2010 and 2009.

	Three Months Ended January 31				Six Months Ended January 31			
	2010	2009	\$ Change	% Increase (Decrease)	2010	2009	\$ Change	% Increase (Decrease)
Total Revenues	\$1,263,592	\$318,113	\$945,479	297%	\$2,785,974	\$546,926	\$2,239,048	409%
Total Expenses	\$2,007,676	\$1,995,167	\$12,509	1%	\$3,602,067	\$3,989,802	\$(387,735)	(10%)
Net loss	\$(744,084)	\$(1,677,054)	\$(932,970)	(56%)	\$(816,093)	\$(3,442,876)	\$(2,626,783)	(76%)
Net loss per share	\$(0.01)	\$(0.02)	\$(0.01)	(50%)	\$(0.01)	\$(0.03)	\$(0.02)	(67%)
Total assets	\$4,088,156	\$3,307,910	\$780,246	24%	\$4,088,156	\$3,307,910	\$780,246	24%
Total long-term financial liabilities	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-

## Revenue

### Six Months ended January 31, 2010

Revenue for the six months ended January 31, 2010 increased 409% (January 31, 2010 - \$2,785,974; January 31, 2009 - \$546,926). The access and usage fee revenue stream during the six month period ended January 31, 2010 surpassed total revenue for the same period ended January 31, 2009 (Access and usage fee revenue six month period 2010 - \$838,402, total revenue six month period 2009 - \$546,926). Access and usage fee revenue continues to increase as more suppliers join the Network and as each supplier increases their transactions. The project management fees recognized during the six months ended January 31, 2010 include professional services accrued for work performed during the six month period. Project management fees in the six months ended January 31, 2010 were \$1,730,000 (2009 – Nil).

Access and usage fees grew 78% during the six month period ended January 31, 2010 compared to the six month period ended January 31, 2009 (January 31, 2010 \$838,402, January 31, 2009 - \$470,218). Set-up fees increased 672% during the six month period ended January 31, 2010 compared to the six month period ended January 31, 2009 (January 31, 2010 – \$209,023, January 31, 2009 - \$27,060). During the six month period, the Company invoiced customers for network set-up fees of \$237,500. Based on the Company's revenue recognition policy, these fees are to be amortized over the life of the contract. As Cortex completes integration projects, the deferred revenue will be recognized as set up fee revenue. This six month period has started to see an increase in the recognition of previously deferred amounts, resulting in \$209,023 being recognized as set up fee revenue in the six month period ended January 31, 2010.

### **Three Months ended January 31, 2010**

Revenue for the three months ended January 31, 2010 increased 297% (January 31, 2010 - \$1,263,592; January 31, 2009 - \$318,113). The access and usage fee revenue stream during the three month period ended January 31, 2010 surpassed total revenue for the same period ended January 31, 2009 (Access and usage fee revenue three month period ended January 31 2010 - \$447,742, total revenue three month period ended January 31 2009 - \$318,113). The project management fees recognized during the three months ended January 31, 2010 includes professional services accrued for work performed during the three month period. Project management fees in the three months ended January 31, 2010 were \$703,333 (2009 – Nil).

Access and usage fees grew 64% during the three month period ended January 31, 2010 compared to the three month period ended January 31, 2009 (January 31, 2010 \$447,742, January 31, 2009 - \$273,250). Set-up fees increased 335% during the three month period ended January 31, 2010 compared to the three month period ended January 31, 2009 (January 31, 2010 – \$107,382, January 31, 2009 - \$24,705). During the three month period, the Company invoiced customers for Network set-up fees of \$147,375; based on the Company's revenue recognition policy, these fees are to be amortized over the life of the contract. As Cortex completes their integration projects, the deferred revenue will be recognized as set up fee revenue. This three month period has started to see an increase in the recognition of previously deferred amounts, resulting in \$107,382 being recognized as set up fee revenue in the quarter.

As Cortex continues to bring customers onto our network, we anticipate the monthly access and usage fees will continue to increase, as will the Network set-up fees invoiced, recognized and deferred. The addition of the three buying organizations is anticipated to accelerate the transaction and supplier growth.

### ***Expenses***

#### **Six Months ended January 31, 2010**

Expenses for the six month period ended January 31, 2010 compared to the six month period ended January 31, 2009 decreased 10% (January 31, 2010 - \$3,602,067, January 31, 2009- \$3,989,802). The Company initiated some cost cutting measures in July 2009, which were continued through the first quarter of fiscal 2010. Salaries, employee benefits and subcontracts accounted for 78% of expenses during the current six month period, an increase from 76% for the same six month period ended January 31, 2009 (January 31, 2010 - \$2,814,284, January 31, 2009 - \$3,030,901). This is a decrease in salaries, employee benefits and subcontracts of 7% over the six month ended January 31, 2009. Included in the salaries, employee benefits and subcontracts for this period was \$296,600 accrued in accounts payable and accrued liabilities which was paid through the issuance of common shares, subsequent to January 31, 2010. The Company's general and administrative expenses were reduced by 1% from the same period in 2009 to 8% of overall expenses. These costs are kept to a minimum in order to focus resources on key strategic areas. The Company's rent expense in the period was 5% of total expenses, compared to 4% during the same period last year. This expense will be reduced in the upcoming quarter due to a reduction in rent upon the renegotiation of the lease extension for the second office.

The Company is required to value stock-based compensation expense using the Black-Scholes option-pricing model. During the six month period, this non-cash compensation expense amounted to 5% of the Company's expenses (January 31, 2010 - \$187,470, January 31, 2009 - \$317,534).

### **Three Months ended January 31, 2010**

Expenses for the three month period ended January 31, 2010 compared to the three month period ended January 31, 2009 increased 1% (January 31, 2010 - \$2,007,676, January 31, 2009 - \$1,995,167). Salaries, employee benefits and subcontracts accounted for 80% of expenses during the current three month period, an increase from 76% for the same three month period ended January 31, 2009 (January 31, 2010 - \$1,598,518, January 31, 2009 - \$1,508,780). Included in the salaries, employee benefits and subcontracts for this period was \$296,600 accrued in accounts payable and accrued liabilities which was paid through the issuance of common shares, subsequent to January 31, 2010. The Company's general and administrative expenses were reduced by 1% from the same period in 2009 to 8% of overall expenses. These costs are kept to a minimum in order to focus resources on key strategic areas. The Company's rent expense in the period is 4% of total expenses, compared to 5% during the same period last year. This expense will be reduced in the upcoming quarter due to a reduction in rent upon the renegotiation of the lease extension for the second office.

The Company is required to value stock-based compensation expense using the Black-Scholes option-pricing model. During the quarter, this non-cash compensation expense amounted to 5% of the Company's expenses (January 31, 2010 - \$93,911, January 31, 2009 - \$127,125). With a continued focus on building a strong, competent, and successful team, the Company strives to maintain a competitive compensation structure and positive environment in which to work. Part of the current compensation structure is non-cash compensation. This will reserve financial resources for additional product development, infrastructure and capital requirements.

### ***Net Loss***

#### **Six Months ended January 31, 2010**

The Company's net loss for the six months ended January 31, 2010 was reduced by 76% (January 31, 2010 - \$(816,093); January 31, 2009 - \$(3,442,876)). The strength of our recurring access and usage revenue stream continues to gain momentum. The addition of the buying organizations over the last four months, and their anticipated suppliers coming on board, will further strengthen the Network resulting in increased transactions and, correspondingly access and usage fees revenue. The revenue growth will take a while to materialize as the stages of completion of the buying organization set ups are completed. The anticipated growth in revenue is correlated to the speed at which the buying organizations are set up on the Network.

#### **Three Months ended January 31, 2010**

The Company's net loss for the three months ended January 31, 2010 was reduced by 56% (January 31, 2010 - \$(744,084); January 31, 2009 - \$(1,677,054)). The Company is encouraged by the strides made in reducing the net loss in the current quarter. With the continued strategic focus on increasing suppliers on the Network, the recurring access and usage fee revenue will continue to grow and assist in providing the necessary revenue to maintain current levels of operations as well as to support growth. This revenue stream is starting to stabilize the monthly revenue and the Company will continue to focus on its growth. The addition of the three large buying organizations should accelerate this growth. In addition, as the Company completes integration projects, the revenue increase will be twofold: the set up fees being recognized will increase and the increased number of documents flowing through the system will increase the access and usage fee revenue.

## Quarterly Information

The following table presents key financial information by quarter for the eight most recent quarters.

	Revenue	Net Loss	Basic and diluted loss per share
<b>2010</b>			
Quarter Two	\$1,263,592	\$(744,084)	\$(0.01)
Quarter One	1,522,382	(72,009)	(0.00)
<b>2009</b>			
Quarter Four	434,995	(1,395,259)	(0.01)
Quarter Three	353,184	(1,611,614)	(0.02)
Quarter Two	318,113	(1,677,054)	(0.02)
Quarter One	228,813	(1,765,822)	(0.02)
<b>2008</b>			
Quarter Four	197,784	(1,652,382)	(0.02)
Quarter Three	609,130	(456,504)	(0.01)

## Income Taxes

The Company is not cash taxable for the quarter ended January 31, 2010. At January 31, 2010, the Company has approximately \$10,609,000 of non-capital losses to carry forward to reduce future years' taxable income.

## Share Capital

On February 8, 2010, as part of the Company's reduction in cash salaries and continued focus on reducing outlays of cash, the Company has been approved to award share based compensation to certain employees of up to a maximum of 1,400,000 common shares at a deemed price of \$0.20 per share and the waiving of the exercise price of vested options for up to a maximum of 764,750 common shares with exercise prices ranging from \$0.15 - \$0.20 per share. Out of the maximum 1,400,000 common shares 775,000 common shares have been awarded: 250,000 common shares have been awarded to an insider of the Company and of the 764,750 common shares which were approved upon the waiving of the exercise price of vested options 724,750 common shares were awarded with exercise prices ranging from \$0.15 - \$0.20. These awards valued at \$296,600 were earned for services performed up to January 31, 2010 and are included in accounts payable and accrued liabilities at January 31, 2010. There were 1,499,750 common shares subsequently issued in February 2010.

On February 17, 2010 the Company granted 5,758,700 stock options to employees at an exercise price of \$0.46 per share, vesting 1/3 on each of the 6, 12 and 18 month anniversaries of the option grant. These stock options expire February 17, 2015. The Company also received \$20,667 on the exercise of 134,583 stock options at a weighted average exercise price of \$0.15. In addition, since January 31, 2010, there were 20,575 non-vested options which were forfeited.

The warrant holders have exercised 1,984,000 warrants subsequent to January 31, 2010 for gross proceeds of \$595,200 and 138,750 Compensation Units (138,750 shares 138,750 one half purchase share warrants, which were also converted (69,375 warrants)) into 208,125 common shares for gross proceeds of \$48,562.

As of March 26, 2010 the Company has 122,507,333 common shares issued and outstanding and 17,689,750 warrants issued and outstanding.

## **Liquidity and Capital Resources**

At January 31, 2010, Cortex Business Solutions Inc. held \$2,493,524 in cash and cash equivalents compared to \$1,455,326 at January 31, 2009. The Company had accounts receivable, net of an allowance for doubtful accounts, of \$1,113,713 at January 31, 2010 compared to accounts receivable of \$320,862 at January 31, 2009. None of the accounts receivable are under dispute; however, the Company has set up \$4,000 as an allowance for doubtful accounts at January 31, 2010. The Company also has \$Nil in a non-redeemable guaranteed investment certificate at January 31, 2010 (\$1,000,000 at January 31, 2009), which matured January 29, 2010.

Cash provided by (used in) operating activities was \$1,252,722 during the current quarter as compared to \$(1,626,907) in the same quarter fiscal 2009. Cash provided by (used in) operating activities was \$326,804 during the six month period compared to \$(3,028,891) in the same six month period fiscal 2009. The increase in cash obtained from operating activities is due in large part to the collection in the current quarter of prepayment of monthly revenue fees. This, in addition to accounts receivable collections, has resulted in a large influx of cash during the current quarter.

The Company used \$(2,779) as share issue costs in the current quarter, compared to \$(Nil) in the same quarter 2009. The Company used \$(8,400) as financing activities for the six month period ended January 31, 2010 compared to \$(Nil) for the same six month period fiscal 2009.

The Company received \$506,725 in investing activities in the current quarter compared to an outflow of \$(127,238) in the same quarter fiscal 2009. For the three months ended January 31, 2010, this cash inflow from investing activities relates to the Company's Guaranteed Investment Certificate ("GIC") being redeemed for \$520,000, acquisition of property and equipment in the period of \$(46,506) and changes in non-cash working capital from investing activities of \$33,231. The Company purchased \$35,466 in computer hardware during the quarter and \$11,040 in computer software. During the same period January 31, 2009 the Company purchased property and equipment for \$(141,381) and had changes in non-cash working capital from investing activities of \$14,143.

The Company had a positive \$1,000,950 in investing activities for the six months ended January 31, 2010. This was from the redemption of two GIC's for proceeds of \$1,040,000, the purchase of property and equipment of \$72,281 and a change to non-cash working capital from investing activities of \$33,231. During the same six month period in 2009, the Company used \$(286,550) to invest in property and equipment and changes in non-cash working capital.

The Company operates a stock option plan as approved by the shareholders at the 2008 Annual General Meeting on May 4, 2009. Under this plan, 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 stock options granted under a previous stock option plan had vesting periods ranging from immediate vesting upon grant to 18 months. 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. The number of outstanding stock options at January 31, 2010 was 11,956,512 and at January 31, 2009, 9,085,950, each with a weighted average exercise price of \$0.19. The amounts exercisable for the same periods were 8,968,159 and 8,477,616, respectively, with a weighted average exercise price of \$0.18 and \$0.19 respectively. At March 26, 2010, the Company had 8,378,433 stock options exercisable and 16,835,304 stock options issued and outstanding. At March 26, 2010 there were 17,689,750 warrants outstanding at a weighted average exercise price of \$0.35.

The consolidated financial statements of the Company have been prepared on a going concern basis. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to realize its assets at the amounts recorded and discharge its liabilities in other than the normal course of business. The Company has experienced consecutive net losses for the years ended July 31, 2009 and 2008 of \$6,449,749 and \$2,453,554, respectively, and a net loss for the current six months of \$816,093 and has a cumulative deficit of \$14,327,236 as of January 31, 2010. Management's assessment of the Company, based on its current cash flow forecast and financial model, 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 buying organizations.

Management's plan for addressing these issues:

- a) The Company continues to closely monitor all operating costs.
- b) The Company has signed three buying organizations which should result in the generation of additional suppliers transacting on the Network and correspondingly increased recurring access and usage fee revenue.
- b) The Company announced that it has entered into an agreement with a syndicate of underwriters (the "Underwriters"), led by CI Capital Markets Inc. and including Wolverton Securities Ltd., whereby the Underwriters have agreed to purchase, on a bought deal basis, 12,000,000 common shares (the "Common Shares") from treasury of the Company at a purchase price of \$0.50 per Common Share (the "Issue Price") for gross proceeds of \$6,000,000 (the "Offering"). The Company has granted the Underwriters an option to purchase up to an additional 2,000,000 Common Shares at the Issue Price exercisable up to 48 hours prior to closing of the Offering for additional gross proceeds of up to \$1,000,000. The Offering is expected to close on March 30, 2010.

The 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.

The economic downturn may affect the Company's ability to obtain similar financing in the future, as was completed during the year. The Company anticipates that current capital resources, together with anticipated revenue growth, will be sufficient to support operations without the need for additional financing in the near future.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Contractual Obligations**

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, and extended again, with reduced costs through November 30, 2012; 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 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.

The Company's total minimum annual obligations are as follows: 2010 - \$97,961; 2011 - \$235,735; 2012 - \$234,595; and 2013 - \$76,954.

### **Transaction with Related Parties**

The Company had no transactions with related parties during the current quarter or the same quarter last year.

### **Business Risks and Uncertainties**

Material risk factors that could cause our actual results to differ materially from the forward-looking statements contained herein include: dependence on key personnel; risks related to expansion of our business operations, domestically and internationally; current global economic downturn; exchange rate fluctuations; risks related to future acquisitions; requirements for additional financing for our business and any future acquisitions; credit terms extended to our customers; possible volatility of our share price; product and geographic concentration in conjunction with the limited range of services that we provide; our historical dependence on a small number of large customers; our ability to protect our intellectual property; our potential vulnerability to computer and information systems security breaches; competition from third parties; rapid technological change; risk of third party claims for infringement of intellectual property rights by others; and risks related to technical standards and the certification of our services.

The recovery in the value of the Canadian dollar recently should minimize the effect on the Company's future revenues from international sources. The Company currently has no revenue outside of Canada.

## **Critical Accounting Estimates**

Management estimates are used when accounting for items and matters, such as useful lives and future recoverability of property and equipment, and stock-based compensation.

The Company amortizes property and equipment on a declining balance method based on their estimated useful lives. Any change in the estimate of their useful lives could impact the amortization provisions.

The Company grants stock options. The estimated fair value of the stock options granted is determined using the Black-Scholes option-pricing model. This model incorporates estimates based on historical data for inputs into the option-pricing model such as the expected 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.

The Company issues Units of common shares and warrants and Compensation Options to purchase Units and estimates their fair value using the Black-Scholes option-pricing model. This model incorporates estimates based on historical data for inputs into the option-pricing model such as the expected future volatility of the Company's share price, expected lives of the Compensation Options and warrants, expected dividends to be paid by the Company and other relevant assumptions.

## **Outlook**

During the remaining quarters of fiscal 2010, the Company will continue the further expansion of the Cortex Trading Partner Network, by adding additional buying organizations and supplier groups. By doing so, Cortex will draw additional revenue from increased transaction volumes and strategic expansion into oil and gas and other industry segments.

The continued growth of the Company in the marketplace has increased the credibility and acceptance of our solutions resulting in numerous opportunities to expand. Management expects that the current business cycle in the oil and gas industry will strengthen the sales pipeline and increase the growth of the Cortex Trading Partner Network. This market trend, in conjunction with our initiatives to add customers to the Cortex Trading Partner Network and the increased focus of our sales organization on integrations should result in further revenue growth during fiscal 2010. Scrutiny of the current cash burn will continue and actions will be taken to restructure and/or refocus resources to achieve the revenue growth necessary to sustain operations in the future.

Cortex has established itself as the market leader in the next generation of procure to pay and e-invoicing solutions. The growth of our Network is generating market interest from large organizations seeking to leverage the Network to increase efficiencies and reduce administrative costs. The addition of these companies to the Network will further accelerate our growth and strengthen our position in the market.

As a result, our capital position remains strong and sufficient to fund operations and the anticipated growth of the Company. Our solution continues to deliver the expected benefits of improved controls, rate checking, commitment tracking, cost allocations and reduced administration costs, by achieving a 99% first pass invoice approval rate.

## **Changes in Accounting Policies**

The following outlines the most notable changes to financial reporting requirements which have, or may have, the greatest impact on the Company.

### **Goodwill and Intangible Assets**

As of August 1, 2009, the Company has adopted 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 as assets items that do not meet the definition and recognition criteria. Under this new guidance, fewer items meet the criteria for capitalization. The implementation of this standard did not have an impact on the Company's financial statements.

### **Future accounting pronouncements**

#### **International Financial Reporting Standards (IFRS)**

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 issued 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. This new standard will only have an impact on the Company's financial statement for any business combinations completed after the adoption of this standard.

## **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. These standards are not expected to have an impact on the Company's financial statements.

“Art Smith” (signed)  
President

“Sandra L. Weiler” (signed)  
Chief Financial Officer