



# 2010 Third Quarter Report

## Management's Discussion & Analysis

June 11, 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 nine month period ended April 30, 2010, and the audited consolidated financial statements as at and for the year ended July 31, 2009.*

*All amounts are expressed in Canadian dollars unless otherwise stated. This disclosure is effective as of June 11, 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.*

## Third Quarter 2010 Financial and Operational Highlights

In the third quarter 2010 Cortex began three new major projects, completed a bought deal financing and began an accelerated expansion program. Overall revenue declined during the three months ended April 30, 2010, as a result of reduced project management revenue, in line with expectations. Over the next two quarters, revenue associated with the expansion of the Cortex Network to the three additional buying organizations, Apache North America, Murphy Oil Canada and the Calgary Based Energy Trust is expected to increase monthly recurring access and usage fees revenue as well as project management and invoiced set up fees revenue. Cortex has begun investing into our US expansion program in preparation for our project with Apache in Houston to begin in the fall of this year.

### Highlights of Q3 are:

- The following are highlights about the projects and activities announced during the third quarter of 2010:
  - Total revenue for the quarter ended April 30, 2010 of \$897,822. This is an increase of 162% over the same quarter ended April 30, 2009. Total revenue for the nine months ended April 30, 2010 of \$3,683,796, an increase of 309% over the same nine months ended April 30, 2009.
  - The Company had cash inflow from financing activities in the quarter ended April 30, 2010 of \$7,430,401 compared to no cash inflow or outflow from financing activities in the same three month period ended April 30, 2009.
  - The total cash outflow from operating activities was less during the three month period ended April 30, 2010 at \$(613,272) from \$(1,269,726).
  - Access and usage fee revenue has grown 50% or \$148,880 (2010 - \$448,146, 2009 - \$299,266) over the same quarter 2009.
  - The Company recorded a net loss per share of \$(0.01) for the quarter ended April 30, 2010. The net loss for the current quarter was \$(1,429,583) compared to a loss of \$(1,611,614) for the same quarter 2009. This is a 12% reduction in the net loss for the Company for the quarter ended April 30, 2010 compared to April 30, 2009. After the removal of stock based compensation expense of \$407,029 and amortization in the amount of \$38,716, the Company had a non-GAAP net loss for the quarter ended April 30, 2010 of \$(983,838) compared to \$(1,545,316) for the same quarter ended April 30, 2009.
  - On March 30, 2010 the Company closed a "Bought Deal" financing with a syndicate of underwriters (the "Underwriters"), led by Stonecap Securities and including Wolverton Securities Ltd., whereby the Underwriters agreed to purchase, on a bought deal basis, 14,000,000 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 \$7,000,000 (the "Offering").
  - Of the 13,050,000 warrants which expired on May 29, 2010, the warrant holders exercised 12,704,250 or 97%, leaving 345,750 warrants to expire. The Company received gross proceeds of \$3,811,275 on warrant conversion.
  - On June 3, 2010 the Company announced they have entered into an agreement to jointly develop and market an integrated solution between Full Circle's DocVue workflow and

document management solution and the Cortex Trading Partner Network. Full Circle, a leading solutions provider to mid-tier oil and gas companies in the United States, is focused on providing its customers with document management, imaging and workflow applications integrated with the industry leading accounting, land, engineering, and compliance software.

The Company continues to implement its business plan and focus on an accelerated expansion program, which has resulted in the addition of three major buying organizations joining Cortex since October 30, 2009. These buying organizations will expose a larger number of suppliers to the Cortex Network (the "Cortex Network" or 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.

## **Description of Business**

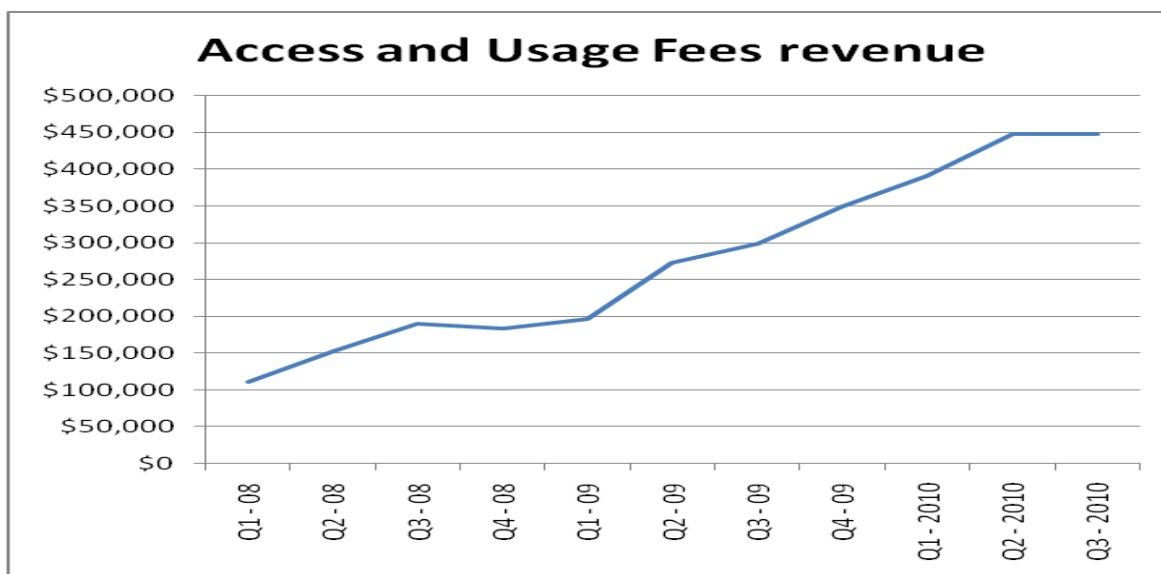
Cortex Business Solutions Inc. is a leading eCommerce service company that improves efficiencies, reduces costs and streamlines procurement and supply chain processes for its customers. Accessing the Cortex Network enhances the exchange of business critical documents, such as purchase orders, receipts 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 third quarter of fiscal 2010, the Company continued to see strong access and usage fee revenue, resulting in a substantial increase in overall revenue of 154% (\$544,638) over the same quarter last year. Of this amount, \$348,500 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 earned during the same quarter last year. As the Company continues to focus on growth and expansion, the expectation is to continue seeing a reduction in project management fees revenue and strength in access and usage fees revenue and set up fees revenue invoiced.

The growth in our access and usage fees, of 50% during the three month period ended April 30, 2010 over the same three month period ended April 30, 2009 is the result of increased contracted suppliers and growth in the number of documents flowing through the Network. The Company has continued to attract more customers to the Network with an increase in contracted customers from 1,006 at April 30, 2009 to 2,279 at April 30, 2010 a 127% increase. The growth of the Network and growth in transactions is starting to generate increased access and usage fees, as expected. Transactions were static in the quarter as a result of spring break up in the oil and gas industry, which reduces the use of the Network.



During the nine months ended April 30, 2010, the Company's total expenses stayed consistent, slight decline of (.4%), with the same period in 2009 (April 30, 2010 - \$5,929,472; April 30, 2009 - \$5,954,600). The Company was able to maintain a similar cost structure while increasing overall revenue for the nine month period by 309%. The focus over the last nine months was to control and cut spending in line with revenue generation. Salaries, employee benefits and subcontracts remain the majority of the expense of the Company at 75%, as expected with this type of industry. Over the upcoming six to eighteen months, the Company will be investing in some growth and expansion projects which are anticipated to increase costs. These costs will lead to revenue generation, as we accelerate growth and focus on expansion into the United States.

The Company's revenue streams are based on the premise that our business assists companies in reducing their overhead and improving cash flow. The continued 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 April 30, 2010 and 2009.

	Three Months Ended April 30				Nine Months Ended April 30			
	2010	2009	\$ Change	% Increase (Decrease)	2010	2009	\$ Change	% Increase (Decrease)
Total Revenues	\$897,822	\$353,184	\$544,638	154%	\$3,683,796	\$900,110	\$2,783,686	309%
Total Expenses	\$2,327,405	\$1,964,798	\$362,607	18%	\$5,929,472	\$5,954,600	\$(25,128)	(0.4%)
Net loss	\$(1,429,583)	\$(1,611,614)	\$(182,031)	(11)%	\$(2,245,676)	\$(5,054,490)	\$(2,808,814)	(56%)

Net loss per share	\$(0.01)	\$(0.02)	\$(0.01)	(50%)	\$(0.02)	\$(0.05)	\$(0.03)	(60%)
Total assets	\$10,434,768	\$1,877,779	\$8,556,989	456%	\$10,434,768	\$1,877,779	\$8,556,989	456%
Total long-term financial liabilities	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-

## Revenue

### Nine Months ended April 30, 2010

Revenue for the nine months ended April 30, 2010 increased 309% (April 30, 2010 - \$3,683,796; April 30, 2009 - \$900,110). The access and usage fee revenue stream during the nine month period ended April 30, 2010 surpassed total revenue for the same period ended April 30, 2009 (Access and usage fee revenue nine month period 2010 - \$1,286,548, total revenue nine month period 2009 - \$900,110). 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 nine months ended April 30, 2010 include professional services accrued for work performed during the nine month period. Project management fees in the nine months ended April 30, 2010 were \$2,078,500 (2009 – Nil).

Access and usage fees grew 67% during the nine month period ended April 30, 2010 compared to the nine month period ended April 30, 2009 (April 30, 2010 \$1,286,548, April 30, 2009 - \$769,484). Set-up fees increased 329% during the nine month period ended April 30, 2010 compared to the nine month period ended April 30, 2009 (April 30, 2010 – \$308,610, April 30, 2009 - \$71,925).

### Three Months ended April 30, 2010

Revenue for the three months ended April 30, 2010 increased 154% (April 30, 2010 - \$897,822; April 30, 2009 - \$353,184). The access and usage fee revenue stream during the three month period ended April 30, 2010 surpassed total revenue for the same period ended April 30, 2009 (Access and usage fee revenue three month period ended April 30 2010 - \$448,146, total revenue three month period ended April 30 2009 - \$353,184). The project management fees recognized during the three months ended April 30, 2010 includes professional services accrued for work performed during the three month period. Project management fees in the three months ended April 30, 2010 were \$348,500 (2009 – Nil).

Access and usage fees grew 50% during the three month period ended April 30, 2010 compared to the three month period ended April 30, 2009 (April 30, 2010 \$448,146, April 30, 2009 - \$299,266). Set-up fees increased 122% during the three month period ended April 30, 2010 compared to the three month period ended April 30, 2009 (April 30, 2010 – \$99,587, April 30, 2009 - \$44,865).

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 access and usage fees growth, as more customers are able to transact with multiple buying organizations and supplier growth, as net new suppliers are introduced to the Network.

## **Expenses**

### **Nine Months ended April 30, 2010**

Expenses for the nine month period ended April 30, 2010 compared to the nine month period ended April 30, 2009 decreased (0.4)% (April 30, 2010 - \$5,929,472, April 30, 2009- \$5,954,600). Salaries, employee benefits and subcontracts accounted for 75% of expenses during the current nine month period, a reduction from 78% for the same nine month period ended April 30, 2009 (April 30, 2010 - \$4,424,277, April 30, 2009 - \$4,631,877). This is a decrease in salaries, employee benefits and subcontracts of 4% over the nine month ended April 30, 2009. The Company's general and administrative expenses were reduced by 8% from the same period in 2009 to 8% of overall expenses. The dollar value of general and administrative costs declined over the prior year due to the cost monitoring initiatives imposed during the last nine months. The Company's rent expense in the period remained at 4% of total expenses, compared to the same period last year, however the dollar value of rent declined due to the renegotiation of a lease agreement in the quarter (April 30, 2010 - \$217,623; April 30, 2009 - \$252,454).

The Company values stock-based compensation expense using the Black-Scholes option-pricing model. During the nine month period, this non-cash compensation expense amounted for 10% of the Company's expenses (April 30, 2010 - \$594,499, April 30, 2009 - \$358,317). The Company has an Employee Performance Management ("EPM") plan which includes a stock-based compensation portion, which is awarded to staff based on performance related to key objectives and deliverables. Stock-based compensation is a key component for our attracting and retaining competent employees.

### **Three Months ended April 30, 2010**

Expenses for the three month period ended April 30, 2010 compared to the three month period ended April 30, 2009 increased 18% (April 30, 2010 - \$2,327,405, April 30, 2009- \$1,964,798). Salaries, employee benefits and subcontracts accounted for 69% of expenses during the current three month period, a reduction from 81% for the same three month period ended April 30, 2009 (April 30, 2010 - \$1,609,993, April 30, 2009 - \$1,600,976). The amount spent on salaries, employee benefits and subcontractors went up over the same quarter last year, as the Company has started the initial phases of its accelerated growth and expansion into the United States. Salaries, employee benefits and subcontracts provide the means by which the Company is able to achieve these growth initiatives over the upcoming 12 months. Initially, there will be an increase in project related expenses which is expected to lead revenue generation. The focus will be on monitoring these costs in line with revenue trends.

The Company's general and administrative expenses increased 7% over the same period in 2009 (April 30, 2010 - \$186,572; April 30, 2009 - \$174,750). The increase in general and administrative expenses of \$11,822 is partially attributable to the increase in travel related to the expansion into the United States. The Company's rent expense in the period is 2% of total expenses, compared to 4% during the same period last year (April 30, 2010 - \$44,655, April 30, 2009 - \$83,780). This decrease in rent expense (47% reduction or \$\$39,125) was due to renegotiation of the lease extension for the second office.

The Company values stock-based compensation expense using the Black-Scholes option-pricing model. During the quarter, this non-cash compensation expense amounted for 17% of the Company's expenses (April 30, 2010 - \$407,029, April 30, 2009 - \$40,783). The Company, in line with its EPM issued 5,758,700 stock options in the period, resulting in a higher stock-based

compensation expense. 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.

Removing stock-based compensation and amortization expense the overall expenses of the Company have stayed fairly consistent for the three month periods (April 30, 2010 - \$1,881,660; April 30, 2009 - \$1,898,500), the current period having lower overall cash expenses.

## ***Net Loss***

### **Nine Months ended April 30, 2010**

The Company's net loss for the nine months ended April 30, 2010 was reduced by 56% (April 30, 2010 - \$(2,245,676); April 30, 2009 - \$(5,054,490)). Included in the net loss is amortization and stock-based compensation, non-cash items totalling \$691,991 and \$430,120 for the nine months ended April 30, 2010 and 2009 respectively. Removing these amounts from net loss for the nine month periods would have resulted in non-GAAP net losses of \$(1,553,685) and \$(4,624,370) respectively 2010 and 2009, showing an improvement of 66%. This is an important measure for the Company as commitment remains with accelerating growth and expansion with as little outlay of cash as possible, while maintaining the quality and integrity of our product. The strength of our recurring access and usage revenue stream continues to gain momentum. The addition of the buying organizations 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 is expected to take six – twelve months 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 April 30, 2010**

The Company's net loss for the three months ended April 30, 2010 was reduced by 11% (April 30, 2010 - \$(1,429,583); April 30, 2009 - \$(1,611,614)). The Company has increased its contracted suppliers on the Network by 1,273 or 127% April 30, 2010 over April 30, 2009. 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. 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 Three	\$897,822	\$(1,429,583)	\$(0.01)
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)

## Income Taxes

The Company is not cash taxable for the quarter ended April 30, 2010. At April 30, 2010, the Company has approximately \$11,541,000 of non-capital losses to carry forward to reduce future years' taxable income.

## Share Capital

On February 8, 2010 the Company issued 775,000 common shares, 250,000 of these common shares were to an insider of the Company in lieu of bonus in the form of exercising of stock options and 724,750 common shares were issued on the waiving of the exercise price of vested options. These awards valued at \$296,600 were earned for services performed up to January 31, 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 and 100,000 stock options to a consultant on April 1, 2010 at an exercise price of \$0.50 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. During the three month period the Company received \$23,467 on the exercise of 148,583 stock options at a weighted average exercise price of \$0.16. Subsequent to April 30, 2010, there were 103,325 non-vested options which were forfeited, 25,000 stock options

were exercised at \$0.15 for gross proceeds of \$3,750 and 200,000 stock options were granted to consultants at a weighted average exercise price of \$0.47, vesting 1/3 on each of the 6, 12, and 18 month anniversaries of the option grant.

The warrant holders have exercised 3,284,000 warrants during the three months ended April 30, 2010 for gross proceeds of \$985,200. Subsequent to April 30, 2010 there were an additional 10,370,250 warrants exercised for gross proceeds of \$3,111,075. In addition there were 2,491,250 Compensation Units (2,491,250 common shares 1,245,625 one half purchase share warrants) which were also converted into 3,736,875 common shares for gross proceeds of \$871,937.

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 April 30, 2010 was 16,921,304 and at April 30, 2009, 9,617,795, with a weighted average exercise price of \$0.28 and \$0.19, respectively. The amounts exercisable for the same periods were 8,364,433 and 8,169,916, respectively, with a weighted average exercise price of \$0.18 and \$0.19 respectively. At June 11, 2010, the Company had 8,758,545 stock options exercisable and 16,992,979 stock options issued and outstanding. At June 11, 2010 there were 7,080,938 warrants outstanding at a weighted average exercise price of \$0.38.

As of June 11, 2010 the Company has 151,967,833 common shares issued and outstanding, 7,080,938 warrants issued and outstanding and 1,286,625 Compensation Units outstanding.

## **Liquidity and Capital Resources**

At April 30, 2010, Cortex Business Solutions Inc. held \$9,214,533 in cash and cash equivalents compared to \$166,487 at April 30, 2009. The Company had accounts receivable and accrued receivables, net of an allowance for doubtful accounts, of \$636,902 at April 30, 2010 compared to accounts receivable and accrued receivables of \$149,988 at April 30, 2009. None of the accounts receivable are under dispute; however, the Company has set up \$4,000 as an allowance for doubtful accounts at April 30, 2010. The Company also has \$Nil in a non-redeemable guaranteed investment certificates at April 30, 2010 (\$1,000,000 at April 30, 2009), which were redeemed prior to January 31, 2010.

Cash provided by (used in) operating activities was \$(613,272) during the current quarter as compared to \$(1,626,726) in the same quarter fiscal 2009. Cash provided by (used in) operating activities was \$(286,468) during the nine month period compared to \$(4,298,617) in the same nine month period fiscal 2009.

The Company had cash inflow from financing activities during the three months ended April 30, 2010 of \$7,430,401. Warrant execution provided \$985,200, stock option exercises \$23,467, compensation units \$51,436 and the bought deal financing \$6,370,297. The Company had (Nil) cash flow from financing activities in the same quarter 2009. Cash provided by financing activities for the nine month

period ended April 30, 2010 was \$7,422,001 compared to \$(Nil) for the same nine month period 2009.

The Company used \$(96,100) in investing activities in the current quarter compared to an outflow of \$(19,113) in the same quarter fiscal 2009. For the three months ended April 30, 2010, this cash outflow from investing activities relates to the acquisition of property and equipment in the period of \$(97,945) and changes in non-cash working capital from investing activities of \$1,845. The Company purchased \$13,139 in computer hardware during the quarter, \$42,083 in computer software, \$36,517 on office furniture and equipment and \$6,206 on leasehold improvements. During the same period April 30, 2009 the Company purchased property and equipment for \$(19,113) and had changes in non-cash working capital from investing activities of \$(Nil).

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 nine months of \$2,245,676 and has a cumulative deficit of \$15,756,819 as of April 30, 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.
- c) The Company was successful in raising \$7,430,401 during the third quarter 2010 through issuance of shares. In addition, the Company was able to raise an additional \$3,111,075 on the exercise of warrants and Compensation Units, subsequent to April 30, 2010. This provides the Company with a strong cash position to assist in carrying out the Company's accelerated growth and expansion plan.

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 nine months April 30, 2010. 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.

On June 3, 2010 the Company entered into a two year financial advisory agreement with Wolverton Securities Ltd which terminates on June 2, 2012.

The Company's total minimum annual obligations are as follows: 2010 - \$158,934; 2011 - \$349,295; 2012 - \$248,155; and 2013 - \$49,542.

### **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**

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. Accelerated growth and expansion into the United States will be a key focus of the Company over the upcoming twelve to eighteen months.

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 replaced 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 April 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 April 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 initial stages of the IFRS conversion plan are in progress and include; training, analysis of different standards and the choices available, preparing recommendations of which policy to adopt and preparing financial system (general ledger) for the IFRS changes required to recording and reporting. The Company is going through two software implementations which will assist in the calculation of the parallel reporting year being July 31, 2011. These software upgrades are stock-based compensation and general ledger systems.

The International Accounting Standards Board ("IASB") has issued amendments to IFRS 1 for 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