



CORTEX BUSINESS SOLUTIONS INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE QUARTERS ENDED APRIL 30, 2016 AND 2015

DATED: June 8, 2016

## MANAGEMENT'S DISCUSSION & ANALYSIS

For the quarters ended April 30, 2016 and 2015

*The following management's discussion and analysis ("MD&A") should be read in conjunction with Cortex Business Solutions Inc. ("Cortex" or the "Company") condensed consolidated interim financial statements, as at and for the quarter ended April 30, 2016. The accompanying financial statements of Cortex have been prepared by management and approved by the Company's Board of Directors. The financial data presented herein has been prepared in accordance with International Financial Reporting Standards ("IFRS").*

*All amounts are expressed in Canadian dollars, unless otherwise stated. This disclosure is effective as of June 8, 2016.*

*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 website at [www.cortex.net](http://www.cortex.net).*

### *Forward Looking Statements*

*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;*
- Readers should be cautioned 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;*
- The Company assumes 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.*

### *Non-GAAP Financial Measures*

*The Company reports its financial results in accordance with Canadian GAAP. However, the MD&A contains references to non-GAAP financial measures such as Baseline revenue (access and usage fees revenue plus integration and set-up fees revenue and adjusted EBITDA (Earnings before interest, taxes, depreciation, stock option expense and amortization)). A reconciliation of revenue can be performed by subtracting project management fees from total revenue reported on the Company's condensed consolidated interim statement of loss and comprehensive loss. Non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers.*

*These non-GAAP financial measures have been included in this MD&A as they are measures which management uses to assist in evaluating the Company's operating performance against its expectations and against other companies in similar industries. Management believes that non-GAAP financial measures assist in identifying underlying operating trends.*



## **OVERVIEW**

Cortex Business Solutions Inc. is a provider of business-to-business efficiency solutions. The primary service offering is the Cortex Network which enables electronic invoicing between buyers and sellers across multiple industries. Increased automation facilitates improved cash flow, improved accuracy and reduction of rework, improved internal controls and visibility into accounts receivable and accounts payable at any point in the process flow.

Since its inception in 1999, the Company has developed a reputation for cost effective solutions, exceptional system up-time, and solid customer service. Historically the Company has focused on the energy sector and while it continues to be the bulk of activity, management has expanded into new vertical markets such as mining, waste management, construction and sports & entertainment. The Cortex solution is a strategic partner which can benefit any industry through automation of complex supply chain processes.

During the past year, management has focused on better aligning processes and functions that substantially reduced operating expenses without impacting product development and support of the Cortex Network or customer service. The Company is well structured and focused for revenue growth and continued improvement on profits.

The current revenue model is structured such that revenue is earned primarily on a recurring basis. This recurring revenue is derived from the buying organizations and their related suppliers brought to us through our workflow partners. The recurring revenue is made up of a monthly access fee and a document overage charge based on supplier document usage. In addition, there is a one-time set up fee for buyers on initial implementation as Cortex integrates the buyer onto the Network enabling them to receive documents.



## OVERALL HIGHLIGHTS

As at Q3 F2016, the Company had approximately 8,600 customers active on the Network. The value-add of the Cortex service is highlighted by the stability of the number of customers active on the Network despite a dramatic downturn in the activity levels overall of the energy sector.

Highlights for the three months ended April 30, 2016 include:

- Adjusted EBITDA improved by \$1.1 million to \$(80)K compared to \$(1,133)K in Q3 F2015.
- 85% improvement in net cash used in operating activities to \$206K from \$1,331K the same period prior year.
- There were three new buying organizations signed in the quarter estimated to bring in over \$200K annually in net new revenue.
- Internal efficiencies are continuing to be improved with the re-architecture of our CRM and various other initiatives to improve data management and increase productivity.
- We are in the process of moving the production environment to a managed service agreement. This will provide Cortex with the following benefits:
  - Eliminate the expenditure spikes in purchasing our own equipment
  - Re-purpose the existing production equipment in our corporate infrastructure further reducing capital expenditures
  - Reduce the amount spent on maintenance contracts
  - Enhance our disaster recovery and back-up options
  - The ability to add capacity at an accelerated rate

The following table highlights key results of operations as at and for the quarters ended April 30, 2016 and April 30, 2015.

	Q3 F2016	Q3 F2015	% Change
Total revenue	\$2,403,314	\$2,640,897	(9%)
Cost of Sales	\$1,319,152	\$1,381,534	(5%)
Gross Profit	\$1,084,162	\$1,259,363	(14%)
Total other <sup>(1)</sup> expenses	\$1,664,150	\$2,928,529	(43%)
Loss before finance income (expense)	\$(579,988)	\$(1,669,166)	65%
Loss per share	\$(0.06)	\$(0.23)	74%
Adjusted EBITDA <sup>(2)</sup>	\$(80,067)	\$(1,132,790)	93%
Net cash used in operating activities	\$(205,502)	\$(1,331,095)	85%
Total assets	\$7,693,035	\$9,283,276	(17%)
Deferred revenue	\$59,944	\$280,488	(79%)
Total long-term financial liabilities <sup>(3)</sup>	\$287,212	\$751,289	(62%)

(1) Other expenses include; sales and marketing; research and development, general and administrative and severance and termination charges.

(2) Non-GAAP measure as defined on page 4.

(3) Rebate provision

## Non GAAP Measures

### Adjusted EBITDA

Earnings before interest, tax, depreciation, stock option expense and amortization is reconciled to Loss before finance income for the third quarter and nine months below:

	Q3 F2016	Q3 F2015	% Change
(Loss) before finance income	\$(579,988)	\$(1,669,166)	65%
Amortization	\$460,301	\$470,636	2%
Stock option expense	\$39,620	\$65,740	40%
Adjusted EBITDA	\$(80,067)	\$(1,132,790)	93%

	9 months ended		% Change
	Apr 30 2016	Apr 30 2015	
(Loss) before finance income	\$(1,990,623)	\$(5,895,299)	66%
Amortization	\$1,380,899	\$1,394,473	1%
Stock option expense	\$161,409	\$284,632	43%
Adjusted EBITDA	\$(448,315)	\$(4,216,194)	89%

The continued process and productivity improvements have allowed the Company to operate with a lower baseline cost structure. These improvements have resulted in \$1.1M in savings on adjusted EBITDA Q3 F2016 compared to Q3 F2015 and \$3.8M for the nine month comparative period.

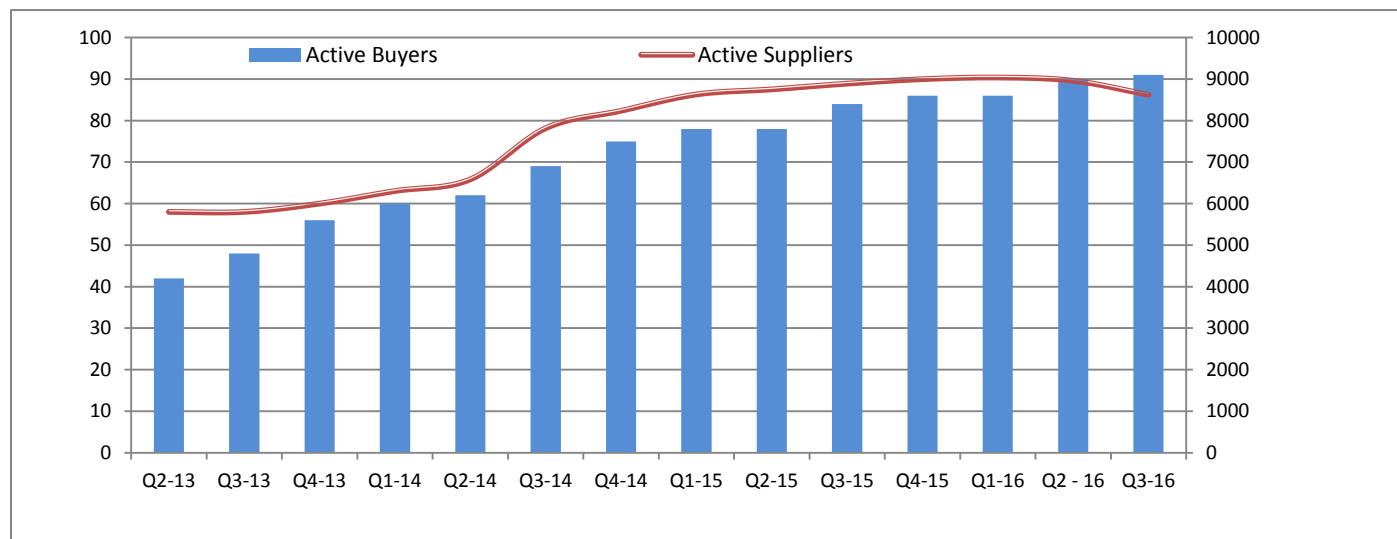
The table below highlights key operational metrics. During Q3 F2016, the Company signed three new buying organizations and lost two buying organizations. The new organizations will be going live in the next 3 months with their resulting suppliers on-boarded over the upcoming 3 – 6 months. The revenue impact is expected to be neutral from the net new organizations.

	Fiscal 2016						Fiscal 2015			
	Q3		Q2		Q1		Q4		Q3	
	#	% Change	#	% Change	#	% Change	#	% Change	#	% Change
Buyer Integrations Completed	91	1%	90	5%	86	Nil	86	2%	84	8%
In progress	5		5		8		7		3	
<b>Total</b>	96	1%	95	1%	94	1%	93	7%	87	1%
Billable Transactions	982,990	(13%)	1,127,303	(6%)	1,196,362	3%	1,166,258	(5%)	1,221,999	(17%)
Total Documents exchanged	2,540,249	(13%)	2,936,158	(6%)	3,109,103	2%	3,054,263	(9%)	3,355,769	(14%)
Active Suppliers	8,622	(4%)	8,960	(1%)	9,038	0.5%	8,997	1%	8,890	2%

The correlation of live buyers and active suppliers is highlighted in the graph below. The number of active suppliers decline marginally with the loss of the two buying organizations however, this is anticipated to rebound as the new suppliers from the



buyers added in the current quarter begin transacting. There is a lag between buyers going live and the related suppliers transacting.



## QUARTERLY INFORMATION

The below table highlight the results of the Company over the preceding eight quarters.

	Total Revenue	Access & Usage Fees Revenue	Net Loss	Basic Loss Per Share
<b>F2016</b>				
Quarter Three	\$2,403,314	\$2,263,485	\$(564,981)	\$(0.06)
Quarter Two	\$2,558,573	\$2,443,975	\$(619,256)	\$(0.07)
Quarter One	\$2,627,272	\$2,516,293	\$(809,135)	\$(0.10)
<b>F2015</b>				
Quarter Four	\$2,491,329	\$2,324,102	\$(2,036,070)	\$(0.27)
Quarter Three	\$2,640,897	\$2,452,310	\$(1,674,220)	\$(0.23)
Quarter Two	\$2,823,082	\$2,506,230	\$(2,281,109)	\$(0.31)
Quarter One	\$2,631,647	\$2,430,228	\$(1,934,399)	\$(0.27)
<b>F2014</b>				
Quarter Four	\$2,812,040	\$2,117,717	\$(1,619,615)	\$(0.27)

Cortex continues to be impacted on a quarterly basis by the cyclical nature of the energy sector which represents its largest buyer segment. The expansion into other industries remains a strategy of the sales team and the corresponding results are expected in



the next 12 – 18 months. The declining revenue since Q2 F2015 is the result of a combination of the downturn in energy sector and spring break up. While the energy sector has seen reduced capital projects, ongoing operations continue despite a low oil price environment which allows Cortex to mitigate the effects due to their revenue model based on invoice volume versus invoice value.

## Three months ended April 30, 2016

### Q3 F2016 Revenue

The Company's revenue breakdown by significant types of revenue is as follows:

	Q3 F2016	Q3 F2015	% Change
Access and usage	\$ 2,263,485	\$ 2,452,310	(8%)
Integration and set up	\$ 127,025	\$ 167,025	(24%)
Project management	\$ 12,804	\$ 21,562	(41%)
	\$ 2,403,314	\$ 2,640,897	(9%)
Active Suppliers	8,622	8,890	(3%)
Billable Transactions	982,990	1,221,999	(20%)
Active Buyers	91	84	8%

Total revenue declined 9% to \$2,403,314 for the three months ended April 30, 2016 compared to \$2,640,897 during the quarter ended April 30, 2015. The majority of the decline in total revenue of \$237,583 is access and usage fees which declined \$188,825. Although the numbers of active buyers have increased; the numbers of active suppliers and transactions have decreased as a result of the current downturn in the energy sector, impacting the access and usage revenue.

To mitigate the impact going forward the Company continues to focus on other verticals and adding new buying organizations to the Network.

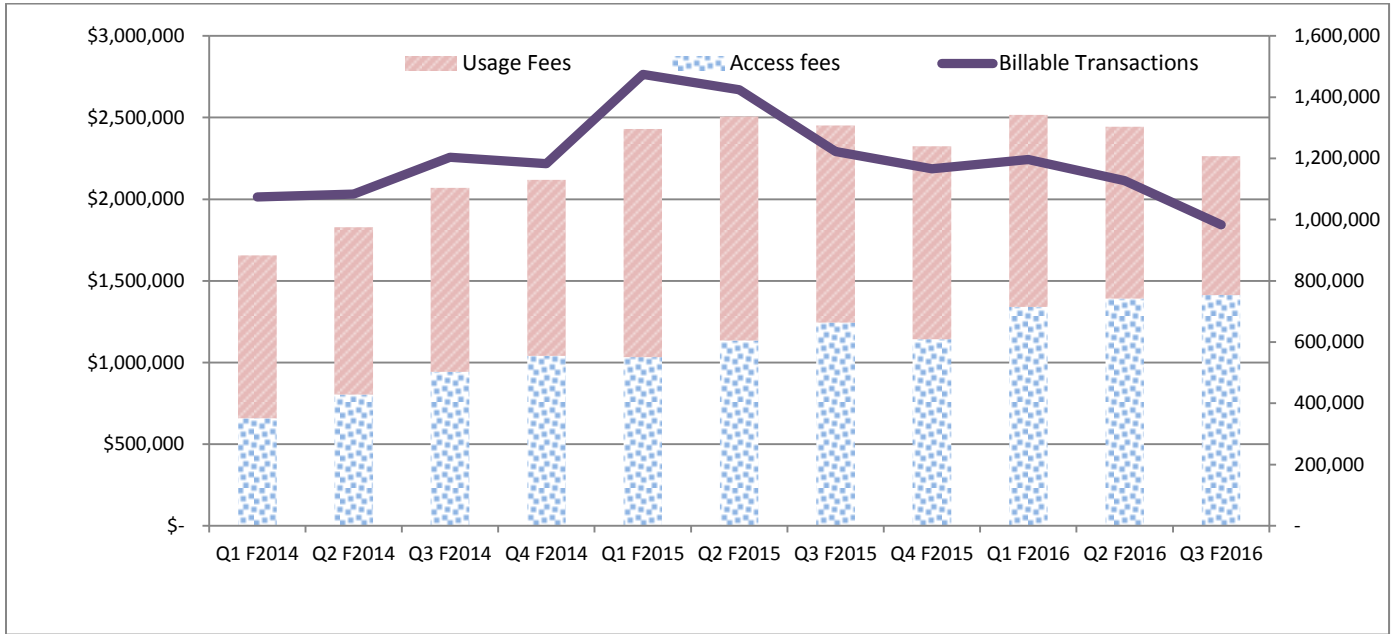
#### **Access and Usage Fees**

Access and usage fees include a monthly fee for access to the Cortex Trading Partner Network ("Network") plus transaction fees which are recognized in the month the document exchange occurred.

Access and usage fee revenue declined 8% Q3 F2016 over Q3 F2015. The decline of the access and usage fee revenue is the result of reduced billable transactions as well as reduced active suppliers at the end of April 30, 2016.

While reviewing the access and usage fee revenue trends it was noted that usage fees were an average of 55% of total recurring revenue in F2014; an average of 53% in F2015 and for the first three quarters of F2016 made up 43% of total recurring revenue. This trend highlights that the reduction in transactional volumes is being seen in the usages fees however; the access fees are mitigating the exposure to these fluctuations. Access fees were \$1,412,780 in Q3 F2016 (\$1,244,195 – Q3 F2015) an increase of 14% and usage fees were \$850,705 (\$1,208,115 – Q3 F2015) a decrease of 30%.

The graph below highlights the access and usage fee revenue fluctuations in line with billable transactions.



## Integration and Set up Fees

Integration fees revenue is recognized over the integration project on a percentage of completion based on the stage of the project.

Set-up fee revenue is charged to suppliers for initial set up and training. This fee is deferred and recognized as revenue over a one year period representing the estimated term of the contract.

The integration and set-up fees revenue stream continues to fluctuate dependent on integration project timelines, completion and the number of net new suppliers joining the Network in the quarter paying the initial set-up fee.

Integration and set-up fees revenue declined Q3 F2016 over Q3 F2015 by 24%, or \$40,000 (Q3 F2016 - \$127,025; Q3 F2015 - \$167,025). This is driven by a reduction in completed projects as well as reduced supplier set up fees during Q3 F2016 compared to Q3 2015.

## Project Management Fees

Project management fees are recognized as services are performed on a time and material basis.

Project management fees decreased 41%, or \$8,758, Q3 F2016 compared to Q3 F2015. As the Company continues to move towards appropriate billing for services going forward and continues to add value to our customers through additional extended services, there may be an increased opportunity realized through project management fees in the upcoming quarters.





## Q3 F2016 EXPENSES

Total expenses were down Q3 F2016 over Q3 F2015 by 31% or \$1,326,761.

	Q3 F2016	Q3 F2015	% Change
<b>Expenses</b>			
<i>Cost of sales</i>	\$ 1,319,152	\$ 1,381,534	(5%)
<i>Sales and marketing</i>	\$ 336,405	\$ 845,865	(60%)
<i>Research and development costs</i>	\$ 434,426	\$ 795,750	(45%)
<i>General and administrative</i>	\$ 846,457	\$ 1,070,314	(21%)
<i>Severance and termination charges</i>	\$ 46,862	\$ 216,600	(78%)
	\$ 2,983,302	\$ 4,310,063	(31%)

The details of these movements for the quarters are highlighted below.

### **Cost of Sales & Gross Profit**

Cost of sales, as reported, decreased 5% Q3 F2016 over Q3 F2015 and cost of sales, net of amortization, decreased 6% over the same periods. This resulted in gross profit, as reported, remaining at 45% of total revenue and gross profit, net of amortization slipped to 63% from 64%.

	Q3 F2016	Q3 F2015	% Change
<b>Total Revenue</b>	\$ 2,403,314	\$ 2,640,897	(9%)
<b>Cost of Sales, as reported</b>	\$ 1,319,152	\$ 1,381,534	(5%)
As a percentage of revenue	55%	52%	
<b>Gross Profit, as reported</b>	\$ 1,084,162	\$ 1,259,363	(14%)
As a percentage of revenue	45%	48%	
<b>Cost of Sales as reported</b>	\$ 1,319,152	\$ 1,381,534	(5%)
Amortization	\$ 430,229	\$ 432,103	(0%)
<b>Cost of Sales, net of amortization</b>	\$ 888,923	\$ 949,431	(6%)
As a percentage of revenue	37%	36%	
<b>Gross Profit, net of amortization</b>	\$ 1,514,391	\$ 1,691,466	(10%)
Gross profit %	63%	64%	

Cost of Sales includes costs directly related to recognized revenue in the period. This includes delivery salaries, customer on boarding and support salaries, amortization of intangible assets, third party costs, credit card fees and related administrative costs of the individuals in these departments.



The Company has broken out cost of sales, net of amortization, as it improves the comparability of cost of sales on an annualized basis. After the amortization of the intangible ends after F2016, it will give a more meaningful comparison for subsequent years on how the Company is controlling the costs in this line item.

During the quarter, one of the buying organizations no longer on the Network also used the AP Services product line. As a result of the loss of this organization, the AP Service costs declined Q3 F2016 compared to Q3 F2015 by 53% or \$19,824. The partner commission and third party integrators declined 14% or \$18,276 as there were less third party payments in the quarter and there was a reduction in the recurring revenue received from the buying organizations resulting in lower partner commissions. Wages were down 9% or \$59,348 as a result of the reductions made since April 2015.

### Sales and Marketing

Sales and marketing in Q3 F2016 declined 60% compared to Q3 F2015. This was a reduction of \$509,460.

	Q3 F2016	Q3 F2015	% Change
<b>Sales and marketing</b>	\$ 336,405	\$ 845,865	(60%)
As a percentage of revenue	14%	32%	

Sales and Marketing expenses consists primarily of salaries and related expenses for the sales and marketing staff. This includes, sales commissions on sales which are paid out in the period, a proportionate allocation of corporate expenses, including rent, repairs, maintenance, infrastructure costs and stock option expenses.

The large restructuring of the sales and marketing team resulted in a reduced headcount of 19 individuals or 68% and wage and commission savings of \$430,891. Although there are is a significantly reduced team, the ability of the team to sell has improved by the changes away from middle management to boots on the ground. The review of the sales team will continue as the pipeline improves and the possibility of additional sales representatives is considered.

The remaining reduction in the sales and marketing expense is the associated travel, advertising and overhead costs associated with the reduced headcount.

### Research and Development

Research and Development declined 45%, or \$361,324, Q3 F2016 over Q3 F2015.

	Q3 F2016	Q3 F2015	% Change
<b>Research and development</b>	\$ 434,426	\$ 795,750	(45%)
As a percentage of revenue	18%	30%	

Research and Development expenses include the costs of our development resources and related expenses, quality assurance salaries, related expenses and a proportionate allocation of rent and stock option expense.

The reduction in research and development was the result of some restructuring of the team and replacing contractors with employees. The reductions made in research and development expenditures do not minimize the importance of continued product improvement and maintenance.



## General and Administrative

General and administrative expense decreased 21%, or \$223,857, Q3 F2016 over Q3 F2015.

	Q3 F2016	Q3 F2015	% Change
<b>General and administrative</b>	\$ 846,457	\$ 1,070,314	(21%)
As a percentage of revenue	35%	41%	

The constant review of costs and ensuring each dollar spent is spent in the most efficient manner resulted in no recruitment fees in the quarter a reduction of \$89,130 over the same quarter last year. The other large reduction was reduced salary and contractor costs of \$149,069 or 30%. The largest difference is the interim CEO costs included in Q3 F2015 and contracted human resources and accounting positions which were subsequently reduced or converted to employees.

## Severance and Termination charges

Severance and termination charges declined 78% Q3 F2016 over Q3 F2015.

	Q3 F2016	Q3 F2015	% Change
<b>Severance and termination charges</b>	\$ 46,862	\$ 216,600	(78%)
As a percentage of revenue	2%	8%	

There were some severance charges in the quarter as the Company continues to review current talent and fit within the teams and ensure the Company is motivating a high performance culture.

## Net Loss Q3 F2016

The Company's net loss for the quarter ended April 30, 2016 improved 66% to \$564,981 (Q3 F2015 - \$1,674,220). This represents the lowest quarterly net loss the Company has achieved in over 5 years.

This significant items impacting net loss were:

- The impact of the cost reductions made in the latter part of fiscal 2015;
- bringing the investor relation function in-house ; and
- streamlining of the sales organization has resulted in reduced net new contracted sales.



## Nine months ended April 30, 2016

### Revenue

The Company's revenue breakdown by significant types of revenue is as follows:

	9 months		
	Q3 F2016	Q3 F2015	% Change
Access and usage	\$ 7,223,753	\$ 7,388,768	(2%)
Integration and set up	\$ 335,810	\$ 459,594	(27%)
Project management	\$ 29,596	\$ 247,264	(88%)
	\$ 7,589,159	\$ 8,095,626	(6%)

Total revenue for the nine month period declined 6% or \$506,467. The changes per revenue stream items are detailed below.

#### **Access and Usage Fees**

Access and usage fees include a monthly fee for access to the Network plus transaction fees which are recognized in the month the document exchange occurred.

Access and usage fees were flat over the nine months ended April 30, 2016 compared to the nine month period ended April 30, 2015. During a period where the billable transactions declined 20% (nine months ended April 30, 2016 – 3,306,655; nine months ended April 30, 2015 – 4,120,467) the ability to maintain access and usage fees revenue is significant. The access fees, which customers are becoming more and more aware of the value of accessing the Network, are playing a large role in mitigating the transactional fluctuations due to economic trends.

The access fee revenue has increased 22% for the nine month period ended April 30 2016 (F2016 - \$4,144,474; F2015 - \$3,409,925) while the usage fees decreased 23% during the same period (F2016 - \$3,079,279; F2015 - \$3,978,843). The usage fees decline is in alignment with the billable transactions decline of 20%.

#### **Integration and Set up Fees**

Integration fees revenue is recognized over the integration project on a percentage of completion based on the stage of the project.

Set-up fee revenue is charged to suppliers for initial set up and training. This fee is deferred and recognized as revenue over a one year period representing the estimated term of the contract.



The integration and set-up fees revenue stream continues to fluctuate dependent on integration project timelines, completion and the number of net new suppliers joining the Network in the quarter paying the initial set-up fee.

Integration and set-up fees revenue declined 27%, or \$123,784 for the nine months ended April 30, 2016 compared to April 30, 2015 (F2016 - \$335,810; F2015 - \$459,594). The reduction was the result of a combination of fewer projects moving stages during the nine month period and fewer workbenches set up fees being realized during the nine months.

### **Project Management Fees**

Project management fees are recognized as services are performed on a time and material basis.

Project management fees decreased 88%, or \$217,668, for the nine months ended April 30, 2016 over April 30, 2015 (F2016 - \$29,596; F2015 - \$247,264).

### **Nine months Expenses**

Total expenses were down 32% or \$4,411,143 for the nine months ended April 30 2016 compared to April 30 2015.

	Q3 F2016	Q3 F2015	% Change
<b>Expenses</b>			
<i>Cost of sales</i>	\$ 4,128,834	\$ 4,626,865	(11%)
<i>Sales and marketing</i>	\$ 1,009,993	\$ 2,893,274	(65%)
<i>Research and development costs</i>	\$ 1,509,674	\$ 2,336,554	(35%)
<i>General and administrative</i>	\$ 2,722,685	\$ 3,654,007	(25%)
<i>Severance and termination charges</i>	\$ 208,596	\$ 480,225	(57%)
	\$ 9,579,782	\$ 13,990,925	(32%)

The details of these movements for the nine months are highlighted below.



## Cost of Sales & Gross Profit

Cost of sales, as reported, decreased 11% for the nine months ended April 30, 2016 compared to April 30, 2015, while cost of sales net of amortization, decreased 15% over the same period. This resulted in gross profit, as reported, improving to 46% of total revenue, and gross profit, net of amortization improved to 63% of total revenue.

9 months ended			
	April 30 2016	April 30 2015	% Change
<b>Total Revenue</b>	\$ 7,589,159	\$ 8,095,626	(6%)
<b>Cost of Sales, as reported</b>	\$ 4,128,834	\$ 4,626,865	(11%)
As a percentage of revenue	54%	57%	
<b>Gross Profit, as reported</b>	\$ 3,460,325	\$ 3,468,761	(0%)
As a percentage of revenue	46%	43%	
<b>Cost of Sales as reported</b>	\$ 4,128,834	\$ 4,626,865	(11%)
Amortization	\$ 1,290,685	\$ 1,294,261	(0%)
<b>Cost of Sales, net of amortization</b>	\$ 2,838,149	\$ 3,332,604	(15%)
As a percentage of revenue	37%	41%	
<b>Gross Profit, net of amortization</b>	\$ 4,751,010	\$ 4,763,022	(0%)
Gross profit %	63%	59%	

Cost of Sales includes costs directly related to recognized revenue in the period. This includes delivery salaries, customer on boarding and support salaries, amortization of intangible assets, third party costs, credit card fees and related administrative costs of the individuals in these departments.

The Company has broken out cost of sales, net of amortization, as it improves the comparability of cost of sales on an annualized basis. After the amortization of the intangible ends after F2016, it will give a more meaningful comparison for subsequent years on how the Company is controlling the costs in this line item.

The largest reduction was in the wages and employee related expenses which were down 22% or \$533,647 for the nine month period. The headcount reduction was part of the restructuring of the client delivery and success organization. The Company maintains its ability to ensure the customer is achieving their automation requirements with a smaller more focused team.



## Sales and Marketing

Sales and marketing declined 65% or \$1,883,281 for the nine months ended April 30 2016 compared to April 30, 2015.

9 months ended			
	Q3 F2016	Q3 F2015	% Change
<b>Sales and marketing</b>	\$ 1,009,993	\$ 2,893,274	(65%)
As a percentage of revenue	13%	36%	

Sales and Marketing expenses consists primarily of salaries and related expenses for our sales and marketing staff. This includes, sales commissions on sales which are paid out in the period, a proportionate allocation of corporate expenses, including rent, repairs, maintenance, infrastructure costs and stock option expenses.

The reduction in sales and marketing expenses are the result of the restructuring which occurred at the end of F2015. There will be costs added in Q4 F2016 as the Company adds a VP of US Sales to the organization to reduce Canadian sales travel to the US improve our feet on the ground in the US.

## Research and Development

Research and development decreased 35% or \$826,880 for the nine months ended April 30 2016 compared to April 30, 2015.

9 months ended			
	Q3 F2016	Q3 F2015	% Change
<b>Research and development</b>	\$ 1,509,674	\$ 2,336,554	(35%)
As a percentage of revenue	20%	29%	

Research and Development expenses include the costs of our development resources and related expenses, quality assurance salaries, related expenses and a proportionate allocation of rent and stock option expense.

The restructuring in Q1 F2016 resulted in cost savings nine month period ended April 30, 2016 compared to April 30, 2015 of \$787,409 in salaries, benefits and related expenditures

In addition to salary reductions, the reduction in headcount resulted in reductions in overhead expenses in the research and development team of \$39,471.

The smaller team has renewed focus on enhancing the application with additional features and functionality in response to customers and the current market requirements.

## General and Administrative

General and administrative expense decreased 25%, or \$931,322 for the nine months ended April 30, 2016 compared to April 30, 2015.

9 months ended			
	Q3 F2016	Q3 F2015	% Change
<b>General and administrative</b>	\$ 2,722,685	\$ 3,654,007	(25%)
As a percentage of revenue	36%	45%	



Included in the \$931,322 cost savings was \$635,877 related to salaries, benefits and contractors savings (68% of the total reduction). This savings was the result of moving contractors to employees and reducing headcount. Related to salaries was the reduction in recruitment fees during the nine month period of \$171,307. The Company has utilized other methods of recruiting which have provided material savings, as well as there not being many staffing increases as the Company finds the right staffing levels.

The professional fees savings over the nine month period was \$174,342. During the nine months ended April 30, 2015 there were professional services relating to executive terminations, additional accounting services and legal fees related to contract improvements.

There was savings in the Investor Relations expenditures during the nine month period of \$92,896. This is the result of bringing the Investor Relations function in house and no longer utilizing external third parties.

### Severance and Termination charges

Severance and termination charges decreased 57% or \$271,629 for the nine months ended April 30, 2016 compared to April 30, 2015.

9 months ended			
	April 30 2016	April 30 2015	% Change
Severance and termination charges	\$ 208,596	\$ 480,225	(57%)
As a percentage of revenue	3%	6%	

There were additional restructuring costs in Q1 and Q3 as the development and delivery parts of the organization went through some reorganization and restructuring.

### Net Loss nine months ended April 30, 2016

The Company's net loss for the nine months ended April 30, 2016 improved \$3,896,355 (Nine months ended April 30, 2016 - \$1,993,372; April 30, 2015 - \$5,889,727). This represents the lowest nine month net loss the Company has achieved in over 5 years.

This significant items impacting net loss were:

- The impact of the cost reductions made in the latter part of fiscal 2015;
- additional severance and termination charges during the nine months with the reorganization of the delivery and development teams;
- bringing the investor relation function in- house ; and
- streamlining of the sales organization which has resulted in reduced nine month new contracted sales.

### Income Taxes

For the nine months and quarter ended April 30, 2016, the Company is not cash taxable in Canada, however will be subject to a minimum tax in the US for the fiscal year. At July 31, 2015, the Company has approximately \$53.3million of non-capital losses to carry forward to reduce future year's taxable income.





## Rebate Provision

Cortex Business Solutions has increased its rebate provision in the first nine months of fiscal 2016 by \$10,874. This is the result of accretion expense recorded in the nine month period. The payment for the rebate is on an annualized basis in July of each calendar year. (Total rebate provision; Q3 F2016 - \$783,638; July 31, 2015 - \$772,764).

## Share Capital

Cortex Business Solutions Inc. issued 1,551,375 common shares during the nine months ended April 30, 2016 compared to 192,400 common shares issued during the nine months ended April 30, 2015.

During the nine month period, 447,580 warrants and 120,000 compensation units expired. The Company has no outstanding warrants after this expiration and 93,083 compensation units remaining which expire September 2, 2017. Subsequent to the quarter, there were 6,980 compensation units exercised.

The number of common shares issued and outstanding at April 30, 2016 is 8,977,724 and June 8, 2016 is 8,984,704.

## Liquidity and Capital Resources

At April 30, 2016, Cortex Business Solutions Inc. held \$5,896,618 in cash and \$60,000 in short-term investments, compared to \$3,986,950 and \$60,000, respectively, at July 31, 2015. The Company had trade accounts receivable of \$429,353 at April 30, 2016 compared to trade accounts receivable of \$407,899 at July 31, 2015. The Company continues to maintain a diligent collections regime. None of the accounts receivables are under dispute however, the Company has set up \$20,000 as an allowance for doubtful accounts at April 30, 2016.

The Company has a current working capital of \$5,566,991 compared to \$3,138,608 at July 31, 2015. The improvement in the working capital can be attributed mostly to the cash increase as a result of the private placement in Q1 F2016; adding \$2,738,384 to the Company's cash position.

The below table highlights the Company's current undiscounted commitments:

	2016	2017	Total on FS
Accounts payable and accrued liabilities	695,192		695,192
Deferred revenue	59,944		59,944
Rebate provision	496,426	300,158	796,584
Income tax provision	44,177		44,177

Cash used in operating activities was \$205,502 in Q3 F2016 compared to \$1,331,095 in Q3 F2015. The significant improvement in the cash utilized in operating activities was the combined result of maintaining revenue while realizing the benefits of the cost reductions in fiscal 2015 the first nine months of fiscal 2016. The Company reduced the cash used in operating activities 85% compared to same quarter last year. Cash used in operating activities for the nine month period ended April 30, 2016 improved 83% to \$744,342 from \$4,485,632 during the same nine month period ended April 30, 2015.



During the quarter ended April 30, 2016 the Company did not purchase any property and equipment compared to \$63,347 during the quarter ended April 30, 2015. For the nine month period ended April 30, 2016 the Company invested \$1,189 in property and equipment compared to \$152,297 during the same nine month period ended April 30, 2015.

The Company operates a stock option plan as approved by the shareholders at the 2015 Annual General Meeting on January 27, 2016. 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 10% of the issued and outstanding common shares of the Company. Options granted under the current stock option plan generally have a term of five years but may not exceed five years and vest over a 3 year period. The stock options granted under a previous stock option plan had vesting periods ranging from immediate vesting upon grant to 3 years. 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, 2016 was 322,176 and at April 30, 2015, 305,585 with a weighted average exercise price of \$6.02 and \$9.50 respectively. The amounts exercisable for the same periods were 159,424 and 226,182, respectively, with a weighted average exercise price of \$8.46 and \$11.00 respectively. At June 8, 2016 there were 206,160 stock options exercisable and 318,077 stock options outstanding.

At April 30, 2016 and June 8, 2016 there were no warrants outstanding. At April 30, 2016 there were 93,083 Compensation Options/Units outstanding with a weighted average exercise price of \$2.00 per Compensation Option/Unit. Subsequent to April 30, 2016, 6,980 Compensation Options/Units were exercised leaving 86,103 Compensation Options/Units outstanding at June 8, 2016.

As part of the Company's long-term incentives for non-executive directors a deferred share unit plan ("DSU") was established representing a component of director compensation. At the end of April 30, 2016 there were 105,462 units outstanding compared to no units outstanding at April 30, 2015. The fair value of these units at April 30, 2016 was \$290,021. As of June 8, 2016 there were 105,462 units outstanding and a fair value of \$284,747.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (note 2(a)) on a going concern basis, which assumes the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has reported net losses for the nine months ended April 30, 2016 and the year ended July 31, 2015 of \$1,993,372 and \$7,925,798; negative cash flow from operations of \$744,342 and \$4,485,632 for the nine months ended April 30, 2016 and April 30, 2015, respectively, and has a cumulative deficit of \$63,769,890 as at April 30, 2016. The ability of the Company to continue as a going concern is dependent upon future profitable operations. There is uncertainty when the Company will be able to attain profitability and generate positive cash flows from operations. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company's cash position at April 30, 2016 is \$5,896,618. On September 2, 2015, the Company closed a bought deal private placement of 1,551,375 common shares at a price of \$2.00 per share for net proceeds of \$2,738,384. The proceeds of which are to be used for working capital needs until such time that the Company achieves positive cash flow from operations. The significant narrowing of the net loss and negative cash flow from operations for the nine months ended April 30, 2016 are positive signs that the Company is taking the necessary measures to achieve this result. The Company will need to closely monitor its cash on a regular basis and will take the necessary measures such as further reducing operating costs and increasing sales until the Company starts to generate sufficient cash flows from operations. There is no assurance that these initiatives will be successful.

Until the Company can achieve profitable operations, the Company may require additional debt or equity financing or further



reduce operating costs and should it not be able to continue as a going concern, adjustments to the recorded amounts and classifications of assets, liabilities, revenues and expenses would be required. Any adjustments that may be required could be material.

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

The Company has no off-balance sheet arrangements other than the contractual obligations noted below.

#### **Contractual Obligations**

The Company has entered into various operating leases for office space expiring at various dates to January 2018 .

The Company has an obligation to pay a rebate to a customer based on future gross revenues.

The Company's total minimum annual obligations, excluding rebate provision as follows: 2016 - \$67,655; 2017 - \$280,644 and 2018 - \$145,333.

#### **Transaction with Related Parties**

A Company under significant influence by a director was paid a cash commission of \$158,240 and 79,121 broker warrants with a fair value of \$86,039 in consideration for their involvement with the September 2, 2015 private placement. Included in general and administrative expenses is \$12,109 paid to a related party for administrative duties performed during the nine months ended April 30, 2016.

#### **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 material business risks and uncertainties are described in greater detail in the Company's' Short-Form Prospectus filed on February 21, 2014 and its Annual Information form as filed on December 18, 2015. These documents can be found on the SEDAR website [www.sedar.com](http://www.sedar.com).

#### **Use of Estimates and Judgments**

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal



the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

#### *Impairment of assets*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Impairment for intangible assets not available for use is required to be tested for recoverability on an annual basis. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. No impairments of assets have been recorded for the nine months ended April 30, 2016 or the nine months ended April 30, 2015.

#### *Useful life of property and equipment and intangible assets*

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

#### *Rebate provision*

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

#### *Valuation of accounts receivable*

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

#### *Share-based compensation*

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

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

#### *Deferred Share Units*

As part of the Company's long-term incentives for non-executive directors a deferred share unit plan ("DSU") was established representing a component of director compensation. DSU awards vest immediately upon grant and are settled in cash when a

director's service ceases. The settlement value is based on the Company's common share value on the day the director retires from the Board of Directors. The compensation costs for DSU are awarded to non-executive directors are based on the fair values of these awards at the time the award is granted. This cost is recognized as a component of general and administration expense with a corresponding liability recorded on the balance sheet as it is the Company's intention to settle the DSU's with cash. Changes in the fair values of the DSU's are recorded as general and administration expense in the period the change occurs with a corresponding change in deferred compensation. Upon settlement of these awards by cash, the outstanding liability for these awards is reduced.

## *Income tax*

Management is required to apply judgment in determining whether it is probable deferred income tax assets will be realized. At April 30, 2016, management had determined that future realization of its deferred income tax assets did not meet the threshold of being probable and, as such, has not recognized any deferred income tax assets in the consolidated statement of financial position.

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

## **Changes in accounting policies**

### ***Recent accounting policies and new pronouncements***

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

*IFRS 9 Financial Instruments* IFRS 9 introduces a number of new principles including (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward-looking 'expected loss' impairment model, and (iii) a substantially-reformed approach to hedge accounting. Management has not yet determined that potential impact the adoption of IFRS 9 will have on the Company's consolidated financial statements. The standard is effective for the first interim period within years beginning on or after January 1, 2018.

*IFRS 15 Revenue from contracts with customers* IFRS 15 provides a single, comprehensive revenue recognition model for all contracts with customers. The standard contains principles that the Company will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that Company expects to be entitled to in exchange for those goods or services. Management has not yet determined that potential impact the adoption of IFRS 15 will have on the Company's consolidated financial statements. The standard is effective for the first interim period within years beginning on or after January 1, 2018.

*IFRS 16 Leases* IFRS 16 requires all leases, including financing and operating to be reported on a Company's balance sheet. The new standard will provide greater transparency on companies' lease assets and liabilities. The amendments will apply for



annual periods beginning on January 1, 2019. The extent of the impact of adoption of this amendment has not yet been determined.

"Joel Leetzow" (signed)

President and CEO

"Sandra L. Weiler" (signed)

CFO



Connect. Interact.  
Transmit. Grow.