Cortex Business Solutions Inc.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED OCTOBER 31, 2018 AND 2017

DATED: December 4, 2018

Cortex Business Solutions Inc.

Condensed Consolidated Interim Statement of Financial Position

(Prepared in Canadian Dollars)

(Unaudited)

	October 31 2018	July 31 2018
Assets		
Current Assets		
Cash and cash equivalents	$ 4,026,861	$ 8,197,785
Cash held in escrow for acquisition (note 4)	500,000	-
Short-term investments	60,773	60,000
Accounts receivable (note 9(c))	1,178,127	907,108
Prepaid expenses	180,148	167,822
	5,945,909	9,332,715
Long-term receivable	109,822	131,785
Deposits	32,379	32,379
Contracts assets (note 3(c))	66,179	-
Property and equipment	163,898	148,479
Deferred tax assets (note 4)	2,661,919	2,758,000
Intangible assets (note 4)	3,352,888	21,012
Goodwill (note 4)	4,481,329	-
	$ 16,814,323	$ 12,424,370
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (note 5)	$ 1,916,813	$ 1,197,295
Deferred revenue	470,535	309,967
Current income tax payable	23,458	20,858
Current portion of obligations under finance lease	22,923	22,923
Current portion of promissory note	1,528,290	-
	3,962,019	1,551,043
Deferred rent	131,624	141,035
Obligations under finance lease	8,079	13,801
Promissory note	745,479	-
	4,847,201	1,705,879
Shareholders' Equity		
Share capital (note 6)	60,771,418	60,771,418
Accumulated other comprehensive income	632,675	620,433
Contributed surplus	9,933,317	9,881,276
Deficit	(59,370,288)	(60,554,636)
	11,967,122	10,718,491
	$ 16,814,323	$ 12,424,370

Commitments (note 8)

Subsequent event (note 11)

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Approved by the Board:

(Signed) "Joel Leetzow", Director

(Signed) "Grant Billing", Director

Cortex Business Solutions Inc.

Condensed Consolidated Interim Statement of Income and Comprehensive Income

For the three months ended October 31, 2018 and 2017

(Prepared in Canadian Dollars)
(Unaudited)

	Three months ended October 31	
	2018	**2017**
Revenue		
Access and usage fees	$ 3,261,753	$ 2,809,912
Integration fees	30,111	86,561
Project management and other revenue	43,668	338,200
	3,335,532	3,234,673
Cost of Sales	925,357	832,300
Gross Profit	2,410,175	2,402,373
Expenses		
Sales and marketing	663,631	689,969
Research and development	529,640	477,587
General and administrative	940,807	797,419
Severance and termination	-	155,922
	2,134,078	2,120,897
Income before finance income	276,097	281,476
Finance income	21,873	7,096
Income tax expense - current	2,379	2,108
Income tax (recovery) - deferred (note 4)	(814,629)	-
Net income	$ 1,110,220	$ 286,464
Other comprehensive earnings		
Items that may be reclassified subsequently to net income:		
Foreign exchange gain on foreign operations	12,242	13,936
Comprehensive income	$ 1,122,462	$ 300,400
Net income per share – basic and diluted (note 6(d))	$ 0.12	$ 0.03

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Cortex Business Solutions Inc.

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

(Prepared in Canadian Dollars)
(Unaudited)

	Number of Common Shares	Share Capital	Accumulated Other Comprehensive Income	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance – July 31, 2017	9,069,983	$ 60,562,286	$ 591,752	$ 9,526,341	$ (64,896,501)	$ 5,783,878
Net income	-	-	-	-	286,464	286,464
Translation of foreign operations	-	-	13,936	-	-	13,936
Compensation units & stock options exercised	21,158	70,290	-	(24,040)	-	46,250
Stock based compensation	-	-	-	65,947	-	65,947
Balance – October 31, 2017	9,091,141	60,632,576	605,688	9,568,248	(64,610,037)	6,196,475
Balance - July 31, 2018	9,137,700	60,771,418	620,433	9,881,276	(60,554,636)	10,718,491
IFRS 15 opening adjustment (Note 4)	-	-	-	-	74,128	74,128
Balance - August 1, 2018	9,137,700	60,771,418	620,433	9,881,276	(60,480,508)	10,792,619
Net income	-	-	-	-	1,110,220	1,110,220
Translation of foreign operations	-	-	12,242	-	-	12,242
Stock based compensation	-	-	-	52,041	-	52,041
Balance – October 31, 2018	9,137,700	60,771,418	632,675	9,933,317	(59,370,288)	11,967,122

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Cortex Business Solutions Inc.

Condensed Consolidated Interim Statement of Cash Flows

For the three months ended October 31, 2018 and 2017

(Prepared in Canadian Dollars)

(Unaudited)

	Three months ended October 31 2018	2017
Cash provided by (used in)		
Operating activities		
Net income	$ 1,110,220	$ 286,464
Items not affecting cash		
Recovery for deferred taxes	(814,629)	-
Stock-based compensation	52,041	65,947
Amortization	55,812	150,294
Deferred Rent	(9,411)	79,923
Contract Assets	7,949	-
Long term receivables	21,963	(25,974)
Changes in non-cash working capital	53,631	(242,791)
Net cash provided by operating activities	477,576	313,863
Financing activities		
Proceeds on exercise of compensation units & stock options	-	46,250
Finance lease payments	(5,722)	(12,993)
Net cash provided by (used in) financing activities	(5,722)	33,257
Investing Activities		
Cash paid on Powervision acquisition, net of cash assumed	(4,124,141)	-
Additions to cash held in escrow	(500,000)	-
Additions to short-term investments	(773)	-
Acquisition of property and equipment	(30,106)	(16,231)
Net cash used in investing activities	(4,655,020)	(16,231)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	12,242	13,933
Cash (outflow) inflow	(4,170,924)	344,822
Cash, beginning of year	8,197,785	6,248,176
Cash, end of year	$ 4,026,861	$ 6,592,998
Supplemental cash flow information		
Interest received during the year	$ 22,610	$ 14,442

The accompanying notes are an integral part of these condensed consolidated interim financial statements

1. NATURE OF OPERATIONS – REPORTING ENTITY

Cortex Business Solutions Inc. ("Cortex" or the "Company") is listed on the TSX Venture Exchange and its primary business is the supply of e-commerce products and services that improve efficiencies, reduces fixed and variable costs and streamline procurement and supply chain processes for its customers in both Canada and the United States of America ("US"). The head office and principal address of the Company is Suite 130 – 115 Quarry Park Road SE, Calgary, Alberta T2C 5G9.

These condensed consolidated interim financial statements were approved and authorized by the Board of Directors on December 4, 2018.

2. BASIS OF PREPARATION

(a) Statement of compliance

These condensed consolidated interim financial statements were prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements for the year ended July 31, 2018. The condensed consolidated interim financial statements were reported in accordance with International Accounting Standard IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain financial information and disclosure normally included in annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") has been omitted or condensed. The disclosure provided herein is incremental to the disclosure included in the audited annual consolidated financial statements.

The condensed consolidated interim financial statements should be read in conjunction with Cortex's annual audited consolidated financial statements for the year ended July 31, 2018.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these condensed consolidated interim financial statement are the same as those applied in the Company's annual consolidated financial statements for the year ended July 31, 2018.

(a) Intangible assets

Intangible assets are carried at historical cost, net of accumulated amortization and accumulated impairment losses. Historical cost includes expenditures directly attributable to the acquisition of intangibles. The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

Intangible assets with finite lives are amortized over their respective useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization expense on intangible assets is recognized in the condensed consolidated interim statement of income and comprehensive income in cost of sales.

Amortization of intangible assets is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Customer relationships	10 years
Non-compete clauses	3 years
Intellectual property	5 years
Trade name	5 years
Third party software	3-5 years

The estimated useful lives and amortization methods are reviewed annually and adjusted prospectively as appropriate.

(b) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Goodwill represents the excess of the cost of an acquisition over the fair values of Cortex's share of the net identifiable assets of the acquiree measured at the date of acquisition. Consideration transferred includes the fair value of assets transferred, including cash and contingent consideration, if any. Goodwill is allocated to the cash-generating units ("CGUs") expected to benefit from the business combination.

Goodwill is tested for impairment annually or more frequently when circumstances indicate that the carrying amount may be impaired.

Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

(c) Newly adopted accounting standards

i. IFRS 9, Financial Instruments

On August 1, 2018, Cortex adopted IFRS 9, which replaced IAS 39 using the modified retrospective approach. IFRS 9 introduces new requirements for: (i) the classification and measurement of financial assets and financial liabilities and (ii) the recognition and measurement of impairment for financial assets. IFRS 9 also introduces a simplified hedge accounting model that aligns more closely with risk management.

Financial Instruments

The standards simplify the classification of a financial asset as amortized cost or at fair value that previously had multiple classifications permitted under IAS 39. The standard also requires the use of a single impairment method.

(Prepared in Canadian Dollars)

Classification and measurement of financial instruments

The Company reclassified its loans & receivables balances to amortized cost.

Impairment of financial assets

The Company applied the simplified approach to provide for expected credit losses ("ECL") prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivables. The Companies ECL's are probability weighted estimates of credit loss. To measure the expected credit losses, accounts receivables have been grouped based on shared credit risk characteristics and the days past due over the last two years. The results of the analysis determined that Cortex's historical default rates represent a reasonable approximation of future expected defaults.

Impact of transition

The Company has classified its financial instruments into the appropriate IFRS 9 categories. There was no impact from this reclassification. Cortex's existing financial instruments as at August 1, 2018 were reviewed and assessed as follows:

	Classification		Carrying Amount	
Financial instrument	**Previous - IAS 39**	**New - IFRS 9**	**IAS 39**	**IFRS 9**
Cash and cash equivalents	Loans and receivables	Amortized cost	4,026,861	4,026,861
Accounts receivable			1,178,127	1,178,127
Long-term receivables			109,822	109,822
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost	Amortized cost	1,916,813	1,916,813
Promissory note			2,273,769	2,273,769

There was no material impact of the transition to IFRS 9 on the Company's financial position at August 1, 2018.

ii. IFRS 15, Revenue from Contracts with Customers

On August 1, 2018, Cortex adopted IFRS 15, which replaced IAS 18 "Revenue", IAS 11 "Construction contracts" and related interpretations using the modified retrospective approach and cumulative effect method. The cumulative effect of adopting IFRS 15 resulted in an opening balance adjustment to accumulated deficit for contract assets in the amount of $74,128. The details of the cumulative effect are described below. Comparative information is not restated and continues to be reported under the previous revenue standards in effect during those periods.

Revenue Recognition

IFRS 15 provides a single, comprehensive revenue recognition model to replace the separate standards that exist and improve comparability within industries. The model features a contract-based five step analysis of transactions 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.

Contracts with multiple products or services

Cortex sells its services on a stand-alone basis or as a bundled solution with separately identifiable performance obligations that add value to the customer on a stand-alone basis. For bundled transactions, each distinct performance obligation is recognized separately at its assessed transaction price. When the fair value cannot be determined for a performance obligation, the Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction. Any discounts identified are proportionately allocated to all separately identifiable components based on their relative selling price.

The Company disaggregates revenue by performance obligation in the condensed consolidated statement of income and comprehensive income as well as by geography in note 10.

Access and usage fees

Revenue from access and usage, which includes the access to the hosted software and the processing of transactions is recognized over the term of the contract. Incremental variable usage fees are recognized in the month the customer exceeds their contracted limits.

Consideration for access fees is due periodically per the term of the contract and consideration for usage fees is due once the documents are transmitted and the service is completed.

Integration Fees

Integration fee revenue is recognized by on the stage of completion of the performance obligation determined using the percentage of completion method. Consideration is typically due at the outset of the project and is initially recognized in deferred revenue.

Project management and other revenue

Project management revenue is recognized by on the stage of completion of the performance obligation determined using the percentage of completion method. Consideration is typically due as project milestones are completed based on customer requirements.

(Prepared in Canadian Dollars)

The Company's other revenue consists of revenue from partnerships which is recognized in the accounting period in which the services are rendered or when the obligations are met.

Contract liability

Prepaid revenue received from customers pertaining to the revenue streams are treated as deferred revenue and classified as such on the condensed consolidated interim statement of financial position.

Contract asset

Contract costs, such as commissions paid to personnel are treated as a contract asset and classified as such on the condensed consolidated statement of financial position if the benefit is expected to be greater than one year and those costs are expected to be recoverable under the terms of the contract.

Impact of transition

The following table details the impact of IFRS 15 using the cumulative effect transition method on the Company's condensed consolidated interim statement of financial position as at October 31, 2018 and its condensed consolidated interim statement of income and comprehensive income for the three months ended October 31, 2018.

Opening condensed consolidation interim statement of financial position, August 1, 2018

	August 1, 2018 after adoption of IFRS 15	**Adjustment**	**August 1, 2018 prior to adoption of IFRS 15**
Assets			
Contract asset	74,128	74,128	-
Total assets	**$ 12,498,498**	**$ 74,128**	**$ 12,424,370**
Liabilities			
Total liabilities	1,705,879	-	1,705,879
Shareholders' Equity			
Accumulated deficit	(60,480,508)	74,128	(60,554,636)
Total equity	10,792,619	74,128	10,718,491
Total liabilities and shareholders' equity	**$ 12,498,498**	**$ 74,128**	**$ 12,424,370**

(Prepared in Canadian Dollars)

Condensed consolidated interim statement of financial position as at October 31, 2018

	October 31, 2018 As reported	Adjustment	October 31, 2018 without adoption of IFRS 15
Assets			
Contract Asset	66,179	66,179	-
Total Assets	$ **16,814,323**	$ **66,179**	$ **16,748,144**
Liabilities			
Total Liabilities	4,847,201	-	4,847,201
Shareholders' Equity			
Accumulated deficit	(59,370,288)	66,179	(59,436,467)
Total equity	11,967,122	66,179	11,900,943
Total liabilities and Equity	$ **16,814,323**	$ **66,179**	$ **16,748,144**

Condensed consolidated interim statement of income and comprehensive income for the three months ended October 31, 2018

	Three Months October 31, 2018 As reported	Adjustment	Three Months October 31, 2018 without adoption of IFRS 15
Revenue	$ **3,335,532**	$ **-**	$ **3,335,532**
Sales and marketing	663,631	7,949	671,580
Expenses	**2,134,078**	**7,949**	**2,142,027**
Net income	$ **1,110,220**	$ **7,949**	$ **1,102,271**
Comprehensive income	$ **1,122,462**	$ **7,949**	$ **1,114,513**

The adoption of IFRS 15 had no impact to cash from or used in operating, financing or investing on the condensed consolidated interim statement of cash flows.

(d) Recent accounting pronouncements, not yet adopted

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

(Prepared in Canadian Dollars)

IFRS 16 Leases

IFRS 16, which replaces IAS 17, requires all leases, including financing and operating to be reported on a company's balance sheet. The new standard will provide greater transparency on a lessee's right of use assets representing its right to use the underlying asset and the lease liability representing its obligation to make lease payments. Management has not yet determined the potential impact the adoption of IFRS 16 will have on the Company's consolidated financial statements. The standard will impact the Company and is effective for the first annual year ended July 31, 2020.

4. BUSINESS COMBINATION

Powervision Acquisition

a) On September 28, 2018, The Company completed the share purchase agreement whereby all of the issued and outstanding common and preferred shares of Powervision Software Inc. ("Powervision") for an aggregate purchase price of $7,061,329.

   Powervision specializes in the development of electronic document management and workflow management software. Powervision's client base is oil and gas industry mainly in Canada. Powervision has been a Cortex partner since Cortex's inception and a significant number of Powervision customers are already on the Cortex Network.

b) Total purchase consideration

Cash consideration paid, net of cash assumed	$	4,241,853
Cash held in escrow for acquisition		482,160
Promissory note		2,273,769
Cash payable - working capital adjustment		63,547
Total purchase consideration	**$**	**7,061,329**

Total cash consideration paid upon close of the acquisition was $4,250,000 plus an estimate of working capital of $68,430 less cash assumed of $76,577.

The Promissory note of $2,250,000 is due quarterly in equal installments of $375,000 over the next six quarters with the first payment due December 31, 2018. The Promissory note carries an interest rate of 2%. The purchase consideration amount of $2,273,769 reflects the amortized cost of the liability.

The Cash held in escrow for acquisitions of $500,000 is due September 28, 2019, net of any potential unrecorded liabilities identified within the first year of the acquisition. The purchase consideration amount of $482,160 reflects the amortized cost of the liability (note 5).

(Prepared in Canadian Dollars)

c) Fair value of identified assets acquired

The preliminary fair values of the identifiable assets acquired and liabilities assumed as presented as follows. Cortex expects to finalize these amounts no later than one year from the acquisition date.

Accounts Receivable		197,345
Prepaid expenses		10,150
Property and equipment		12,781
Accounts payable and accrued liabilities		(31,241)
Deferred revenue		(71,325)
Intangible Assets		
Customer contracts		1,936,000
Intellectual property		213,000
Non-compete		1,186,000
Tradename		38,000
Deferred tax liabilities associated with intangibles assets		(910,710)
Total identifiable assets acquired	**$**	**2,580,000**

A deferred tax liability was recognized on acquisition due to temporary differences between the carrying amounts of identified intangible assets for financial reporting purposes and the amounts used for taxation purposes.

Subsequent to the acquisition, the Company was able to realize deferred tax assets which were previously unrecognized to reduce the deferred tax liability associated with intangible assets.

d) Goodwill on acquisition

Total purchase consideration	$	7,061,329
Total identifiable assets acquired		(2,580,000)
Goodwill arising on acquisition	**$**	**4,481,329**

The preliminary calculation of goodwill is attributable to the benefit of leveraged industry experience towards the solicitation of new customers and markets, synergies of operations and assembled workforce. These benefits, however, are not recognized separately from goodwill as they do not meet the recognition requirements for identifiable intangibles assets.

(Prepared in Canadian Dollars)

e) Impact of acquisition on the results of the Company

These condensed consolidated interim financial statements incorporate the results of operations for Powervision from the date of acquisition of September 28, 2018. Had the acquisition occurred at the beginning of the reporting period, the approximate total quarterly impact to the Company would be an increase of $530,000 to Revenue and $320,000 to Net income. Although these amounts represent Cortex's best estimate, there can be no assurance that this would have been the actual results had the Powervision acquisition had occurred on August 1, 2018.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		October 31, 2018		July 31, 2018
Salaries, bonus and employee benefits payable	$	386,173	$	253,146
Trade payables		281,142		214,965
Accrued liabilities		506,170		445,610
Deferred share units		221,470		237,290
U.S. sales tax payable		19,586		20,055
GST payable		20,112		26,229
Liability to acquiree		482,160		-
	$	1,916,813	$	1,197,295

6. SHARE CAPITAL

(a) Authorized

i. Unlimited number of common voting shares.

ii. Unlimited number of preferred shares.

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares and determine the rights, privileges and other conditions for each series.

(b) Issued

	October 31, 2018			October 31, 2017		
	Number		Amount	Number		Amount
Common Shares						
Balance, beginning of period	9,137,700	$	60,771,418	9,069,983	$	60,562,286
Exercise of compensation units (note 6(c))	-		-	3,491		10,779
Exercise of stock options	-		-	17,667		59,511
Balance, end of period	9,137,700	$	60,771,418	9,091,141	$	60,632,576

(Prepared in Canadian Dollars)

(c) 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 underwriters received 93,083 compensation units, consisting of one share, with a fair value of $101,222. These units could be exercised for $2.00 and expired September 2, 2017. As at October 31, 2017, all units have been exercised prior to their expiry date.

(d) Net income per share

Net income per share has been calculated using the basic and diluted weighted average number of common shares outstanding during the periods ended:

	October 31, 2018		October 31, 2017	
	Basic	**Diluted**	**Basic**	**Diluted**
Three months ended	9,137,700	9,222,077	9,082,298	9,319,312

The diluted weighted average number of common shares has been adjusted for additional shares that would have been outstanding assuming the conversion of all dilutive stock options and compensation units.

The number of anti-dilutive stock options of 322,166 as of October 31, 2018 have not been included in the determination of the weighted average number of common shares.

7. STOCK-BASED COMPENSATION

(a) The Company has a stock option plan under which directors, officers, consultants and employees are eligible to receive stock options. The aggregate number of common shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued and outstanding shares. Options granted under the current stock option plan have a term of five years and vest over a three-year period. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policy or policies of the stock exchange upon which the Company's common shares are then listed.

A summary of the status of the Company's stock option plan for the three months ended October 31, 2018 and 2017 is as follows:

	October 31, 2018		October 31, 2017	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding, beginning of period	550,328	$ 3.62	605,554	$ 3.93
Granted	-	-	-	-
Exercised	-	-	(17,667)	2.22
Forfeited	(180)	2.20	(655)	3.70
Expired	-		(200)	9.75
Outstanding, end of period	550,148	$ 3.62	587,032	$ 3.98
Exercisable, end of period	347,021	$ 3.63	288,079	$ 4.92

(Prepared in Canadian Dollars)

(b) Deferred share units ("DSU's") are issued to members of the Board of the Directors. The Company's expected volatility is based on historical share price fluctuations.

2016 Plan	**October 31, 2018**		**October 31, 2017**	
	Number of DSU's	**Value**	**Number of DSU's**	**Value**
Balance, beginning	63,278	237,290	84,370	$ 345,915
Granted during the period	-	-	-	-
Exercised during the period	-	-	-	-
Fair value change	-	(15,820)	-	-
Balance, end of period	63,278	221,470	84,370	$ 345,915

2017 & 2018 Plans	**October 31, 2018**		**October 31, 2017**	
	Number of DSU's	**Value**	**Number of DSU's**	**Value**
Balance, beginning	86,342	280,000	75,875	$ 200,000
Granted during the period	-	-	-	-
Exercised during the period	-	-	-	-
Balance, end of period	86,342	280,000	75,875	$ 200,000

8. COMMITMENTS

The Company has entered into various operating and finance leases for office space and equipment expiring at various dates through to August 1, 2022. In addition, as part of the Powervision acquisition, the Company assumed the leased premises for Powervision, which runs through to May 30, 2020. Subsequent to October 31, 2018, the Company agreed to a lease buyout (note 11).

The following is the minimum annual fiscal cash obligations while excluding the share of operating costs relating to office space, including the lease buyout:

Fiscal 2019	257,627
Fiscal 2020	124,649
Fiscal 2021	124,649
Fiscal 2022	94,709
	$ 601,634

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Risk Management overview

The Company's activities expose itself to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these condensed consolidated interim financial statements. The Company employs risk management strategies and policies to ensure that any exposure to risk are in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Company's risk management framework, Cortex's Management has the responsibility to administer and monitor these risks.

(Prepared in Canadian Dollars)

(b) Fair value of financial instruments

The carrying value of cash and cash equivalents, cash held in escrow, short term investments, accounts receivable, long term receivable, accounts payables and accrued liabilities, obligations under finance lease and promissory note approximate fair value due to the short term nature of those instruments.

(c) Credit risk

Cortex applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivables. To measure the expected credit losses, trade accounts receivables within accounts receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at October 31, 2018 incorporates forward looking forward information and is determined as follows.

October 31, 2018	**Current**	**31-60 days**	**61- 90 days**	**91 + days**	**Total**
Gross carrying amount - trade	504,332	109,108	15,910	159,658	789,008
Expected loss rate	1.5%	6.0%	15.0%	25.0%	
Loss allowance provision	$ 7,565	$ 6,546	$ 2,387	$ 39,914	$ 56,412

Cash and cash equivalents, accrued usage fees and long-term receivables are also subject to the impairment requirements of IFRS 9, however the identified impairment loss was immaterial.

The Company does not engage in hedging arrangements, therefore the adoption of IFRS 9 had no impact due to hedging models.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk by continuously monitoring actual and projected cash flows to ensure it will have sufficient liquidity to meet its commitments and obligations as they become due. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow as well as potential future equity or debt financings.

The following table outlines the expected undiscounted payments of future financial liabilities at October 31, 2018.

	Accounts payable and accrued liabilities	Obligations under finance lease	Promissory Note	Total
Within one year	$ 1,934,653	$ 19,149	$ 1,543,356	$ 3,497,158
Two - five years	-	13,445	763,171	776,616
	$ 1,934,653	$ 32,594	$ 2,306,527	$ 4,273,774

(e) Market risk

Market risk is the risk that financial instruments fair values and the Company's future cash flows will fluctuate due to changes in market prices.

The Company is exposed to currency risk on sales in the Company's wholly owned U.S. subsidiary denominated in US dollars. The Company had $1,025,942 in revenue for the period ended October 31, 2018 (2017 - $946,794) which was denominated in U.S. dollars. The Company had $159,620 (2017 - $234,196) in U.S. trade accounts receivable, $118,873 (2017 - $125,999) in accrued usage fees and $636,649 (2017 - $845,786) in U.S. bank accounts at October 31, 2018 all denominated in U.S. dollars.

Included in accounts payable and accrued liabilities at October 31, 2018 are $70,589 (2017 - $180,465) denominated in U.S. dollars, respectively.

A 1% increase or decrease in foreign exchange rates on the net assets denominated in U.S. dollars would have an estimated impact of $9,000 CAD on net income at October 31, 2018.

(f) Capital management

The Company considers its shareholders' equity which is comprised of share capital, contributed surplus, accumulated other comprehensive income and deficit, as part of its total capital. The Company's primary objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has positive net cash flows provided by operating activities for the period ended October 31, 2018, combined with $4,026,861 in cash and cash equivalents. The Company has in place a detailed planning and budgeting process to assist in determining the funds required to ensure appropriate capital to meet its growth objectives. The Company strives to maintain sufficient capital to meet its short term business requirements taking into account its capital commitments, planned capital expenditures and cash and cash equivalents. The Company has detailed expected revenue and expense targets for the fiscal year ended July 31, 2019 incorporated into its business plan and budgeting process.

The Company is not subject to externally imposed capital requirements. There has been no change to the Company's capital management strategy during the period ended October 31, 2018.

(Prepared in Canadian Dollars)

10. SEGMENTED INFORMATION

Although the Company supplies services to both Canadian and U.S. customers, the Company only has one operating segment.

Revenue by geographic area is as follows:

	3 months ended October 31	
	2018	**2017**
Canada	$ 1,998,798	$ 2,051,401
U.S.	1,336,734	1,183,272
	$ 3,335,532	$ 3,234,673

Substantially all of the non-current assets of the Company are located in Canada.

11. SUBSEQUENT EVENT

Subsequently to October 31, 2018, the Company agreed to terms with the landlord to buyout the remaining lease term on the lease acquired as part of the Powervision acquisition for $90,000. The Company will maintain the premises until the lease buy-out as of January 1, 2019.