



**IBEX TECHNOLOGIES INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FISCAL 2016**

**THREE MONTHS ENDED  
OCTOBER 31, 2015**

**As at December 16, 2015**



**MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS ENDED OCTOBER 31, 2015**

**December 16, 2015**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 16, 2015

### 1 PREAMBLE

The following Management's Discussion and Analysis ("MD&A") and IBEX Technologies Inc. ("Company") unaudited condensed interim consolidated financial statements ("interim financial statements") were approved by the Audit Committee and the Board of Directors on December 16, 2015. The MD&A provides a review of the developments and results of operations of the Company during the three-month period ended October 31, 2015 compared with the three-month period ended October 31, 2014.

The MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes and the MD&A thereto for the years ended July 31, 2015 and 2014.

The Company's interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information relating to the Company, including the Company's Proxy Circular, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Where "IBEX" or "the Company" is used, it refers to IBEX Technologies Inc. and its wholly owned subsidiaries, unless otherwise indicated. All amounts are in Canadian dollars, unless otherwise indicated.

### 2 FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that reflect the Company's current expectations regarding future events. Any such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in these forward-looking statements. For more information on the Company's risks and uncertainties relating to these forward-looking statements, please refer to the risks and uncertainties section of the MD&A.



### **3 INTRODUCTION TO IBEX**

#### **3.1 Enzymes**

The Company, through its wholly owned subsidiaries, IBEX Pharmaceuticals Inc. and Bio-Research Products Inc. (“BRP”), manufactures and markets enzymes for biomedical use.

These enzymes are sold directly by the Company to manufacturers of medical devices, quality control labs and academic research institutions.

Heparinase I is the most important of the IBEX enzymes. Its potential lies in its ability to cleave heparin and low molecular weight heparins and thereby neutralize the effects of heparin and heparinoids, drugs commonly used in hospitals which interfere with haemostasis test. Heparinase I recognizes and cleaves a pentasaccharide sequence which occurs in both heparin and the low molecular weight heparins, thereby neutralizing their anticoagulant activity.

IBEX produces its enzymes at its sites in Montréal, Québec and North Liberty, Iowa, as well as at third party manufacturing facilities monitored by IBEX personnel.

In addition to making and selling enzymes, IBEX also provides lyophilization services related to the making of components for disposable medical devices which are used in the hemostasis point of care market.

#### **3.2 Arthritis Assays**

IBEX develops, manufactures and sells arthritis assays which enable the study of both the synthesis and degradation of cartilage components and are powerful tools in the study of osteo and rheumatoid arthritis. These assays are a result of both internal research and development and the in-licensing of technology from academic research institutions.

IBEX arthritis diagnostic kits and services are marketed and sold for research use only (“RUO”) to pharmaceutical companies, clinical research organizations and academic institutions. These diagnostic kits are marketed through distributors in Europe and Japan, and directly by IBEX in the rest of the world (including North America). The kits are produced in IBEX facilities.



## 4 RESULTS OF OPERATIONS: Q1 FISCAL 2016

### 4.1 Summary of Quarterly Results

The following table is a summary of selected quarterly consolidated financial information of the Company for each of the eight most recently completed quarters ending October 31, 2015.

(in thousands of dollars, excluding per share amounts)	October 31		July 31		April 30		January 31		4 Quarters	
	2015 \$	2014 \$	2015 \$	2014 \$	2015 \$	2014 \$	2015 \$	2014 \$	2015 \$	2014 \$
- Revenue	1,415	627	1,249	1,002	893	1,140	722	922	4,279	3,691
- Net earnings (loss)	360	(254)	931	(223)	(289)	149	(178)	(3)	824	(331)
- Net earnings (loss) per common share	0.01	(0.01)	0.04	(0.01)	(0.01)	0.01	(0.01)	(0.00)	0.03	(0.02)
- Comprehensive income (loss)	360	(211)	1,084	(205)	(352)	132	(22)	81	1,070	(203)

#### Net Earnings for the Quarter

The Company recorded net earnings of \$360,206 during the first quarter ended October 31, 2015 compared to a net loss of \$253,708 for the same period year ago. This positive change can be attributed to several factors including:

- Net earnings of \$448,121 in IBEX Pharmaceuticals compared to a net loss of \$75,424 for the same period year ago. The increase in earnings of \$523,545 is related mainly to the increase in sales of \$555,832.
- Net loss in BRP of \$87,915 compared to a net loss of \$178,284 for the same period year ago. The decrease in loss of \$90,369 traces mainly to the increase in sales of \$231,596 offset by the negative impact of inventory allocation of \$136,691.



## 4.2 Foreign Exchange

The tables below show the fluctuation in the Canadian/US exchange rates which can have a significant impact on our results. Average rates are used to translate sales and expenses for the period mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities at the end of the reporting period.

Consolidated foreign exchange (gain) loss		
Quarter ended	October 31, 2015	October 31, 2014
Balance sheet revaluation		
US cash	<b>(\$8,942)</b>	(\$26,913)
US Trade receivables	<b>\$25,437</b>	(\$4,272)
Other US accounts	<b>(\$18,046)</b>	(\$17,391)
Total (gain) loss on revaluation	<b>(\$1,551)</b>	(\$48,576)

Canadian/US dollar		
Quarter ended	October 31, 2015	October 31, 2014
Average rate	<b>1.3161</b>	1.1051
Closing rate	<b>1.3075</b>	1.1271

## 4.3 Revenue for the Quarter

*Note: While the Company reports in Canadian dollars, the US dollar is the Company's selling currency. As such, fluctuations in the Canadian/US exchange rate can have a significant impact on the reported sales figures.*

Sales for the quarter ended October 31, 2015 totaled \$1,414,875, an increase of 125% compared to the same period year ago. The increase in sales vs. year-ago of \$787,428 is mainly due to the quarter-to-quarter fluctuation in customer orders, rather than a sustained increase in sales.

The net increase in sales vs. the same period year ago was \$787,428, of which \$658,490 (US\$500,337) can be attributed to an actual increase in sales and the balance of \$128,938 to the positive currency impact. The positive product mix variance of US\$324,269 and volume variance of US\$180,368 were affected by a negative new product variance of US\$4,300.

Sales Variations – Quarter ended	October 31, 2015 vs. October 31, 2014
Volume/mix/new products Impact:	
• Increase due to volume USD	\$180,368
• Increase due to product mix USD	\$324,269
• Decrease due to new products USD	(\$4,300)
Total increase due to Volume/mix/new products USD	\$500,337
Currency impact:	
• Total increase due to Volume/mix/new products CAD	\$658,490
• Currency positive effects in CAD	\$128,938
• Total increase in CAD	\$787,428

During this first quarter, the average currency rate was 1.3161 compared to 1.1051 in the same quarter last year. A lower value of the Canadian dollar positively affects the current USD sales by translating them into a higher Canadian dollar amount.

#### 4.4 Total Expenses for the Quarter

Total expenses in the first quarter of Fiscal 2016 increased to \$1,054,669 as compared to \$881,155 in the same quarter year ago. The increase of \$173,514 is attributable to:

- An increase in IBEX Pharmaceuticals expenses of \$32,287 related mainly to the negative impact of inventory allocation of \$57,475.
- An increase in expenses in BRP of \$141,227 in the current quarter compared to the same quarter year ago, which related mainly to the negative impact of inventory allocation of \$136,691.

Expense details		
Quarter ended	October 31, 2015	October 31, 2014
Cost of goods sold <sup>1</sup>	\$600,220	\$362,176
R&D expenses <sup>1</sup>	\$69,433	\$93,143
SG&A <sup>1</sup> expenses	\$296,332	\$378,647
Depreciation of PPE <sup>2</sup>	\$88,637	\$84,137
Foreign exchange gain	(\$1,551)	(\$48,576)
Financial expenses	\$16,598	\$11,628
Total expenses	\$1,069,669	\$881,155
Other gains – net	(\$15,000)	-
Total expenses after other gains - net	\$1,054,669	\$881,155

1- Excludes related depreciation expenses for the purposes of this presentation.

2- PPE = Property, plant and equipment

#### 4.4.1 Cost of Goods Sold

The Company manufactures specialized and proprietary enzyme products. The production of these enzymes is unique and cannot be compared to other manufacturers. Since production levels are highly variable from one quarter to another and from one manufacturing run to another, the standard costs methodology is not particularly useful. Management has selected an alternative method of recording its production at actual costs, which explains the wide swings from quarter to quarter in the cost of goods sold due to the "inventory allocation" effect.

Cost of goods sold consists principally of the costs of supplies, royalties, manufacturing labour and the allocation of fixed overheads.

Cost of goods sold		
Quarter ended	October 31, 2015	October 31, 2014
Sales	\$1,414,875	\$627,447
Cost of goods sold <sup>3</sup>	\$671,208	\$426,840
Gross margin %	53%	32%

3- Includes related depreciation expenses for the purposes of this presentation.

The increase in gross margin traces to cost allocation (the level of transfer of salaries, supplies, royalties and overhead to inventory) rather than to an increase in the costs of materials or labour.

#### 4.4.2 Research and Development (R&D) Expenses

Research and development expenses consisted primarily of personnel expenses, laboratory supplies and external service providers. During the quarter ended October 31, 2015, research and development expenses totaled \$69,433 compared to \$93,143 in the same period year ago.

#### 4.4.3 Selling, General and Administrative (SG&A) Expenses

During the quarter ended October 31, 2015, SG&A expenses totaled \$296,332 compared to \$378,647 in the same period year ago. The change of \$82,315 traces mainly to a decrease in professional fees.

## 5 LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities when due. The Company's financial liabilities include its trade and other accounts payable presented on the consolidated statement of financial position, which are due within the next 12 months and long-term debt. The Company manages liquidity risk by maintaining adequate cash balances to discharge its liabilities when due.





As at October 31, 2015, the Company had net working capital of \$3,629,097 compared to net working capital of \$3,192,333 as at July 31, 2015. Cash and cash equivalents increased by \$551,864 to \$2,636,690.

As at:	October 31, 2015	July 31, 2015	April 30, 2015	Jan. 31, 2015	Oct. 31, 2014
Cash and cash equivalents	<b>\$2,636,690</b>	\$2,084,826	\$1,165,347	\$1,433,347	\$1,751,798
Net working capital	<b>\$3,629,097</b>	\$3,192,333	\$2,102,767	\$2,328,427	\$2,380,204

Management believes that the Company has sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

## 6 LOOKING FORWARD

We see an improving picture and expect to be cash positive in the 2016 Fiscal Year if current customer purchase projections hold, and if we continue to benefit from the favourable US/CAN exchange rate.

The Company continues to work on a number of projects with our key customers, some of which it hopes will result in significant revenue in Fiscal 2016 and beyond. However, we cannot give any assurances that any of these projects will come to fruition and produce revenues.

Management believes that the Company has sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

## 7 RISKS AND UNCERTAINTIES

The results of operations and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of Management.

For more information, and for a complete description of the risk factors that could materially affect the business, please refer to the corresponding sections in the Company's July 31, 2015 MD&A, as they are the same for the quarter ended October 31, 2015.

## 8 RELATED PARTY TRANSACTIONS

During the quarters ended October 31, 2015 and 2014, the Company did not have any related party transactions.



## **9 CRITICAL ACCOUNTING ESTIMATES**

Please refer to *Note 2* of the Company's July 31, 2015 audited consolidated financial statements and the corresponding section of the July 31, 2015 MD&A to review the Company's critical accounting estimates. They were the same as those used in the interim financial statements for the quarter ended October 31, 2015.

## **10 ACCOUNTING STANDARDS AND AMENDMENTS**

Please refer to *Note 2* of the Company's October 31, 2015 interim financial statements.

## **11 OUTSTANDING SHARE DATA**

The following details the issued and outstanding equity securities of the Company.

### **11.1 Common Shares**

As at December 16, 2015, the Company has 24,703,244 common shares outstanding.

### **11.2 Stock options**

As at December 16, 2015, the Company has 1,015,000 stock options outstanding with exercise prices ranging from \$0.05 to \$0.24 and expiry dates ranging from January 2017 to December 2023.

As at December 16, 2015, on an if-converted basis, these stock options would result in the issuance of 1,015,000 common shares at an aggregate exercise price of \$191,400.

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