



IBEX TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FISCAL 2016

**SIX MONTHS ENDED
JANUARY 31, 2016**

As at March 16, 2016



**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED JANUARY 31, 2016**

March 16, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

March 16, 2016

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 March 16, 2016. The MD&A provides a review of the developments and results of operations of the Company during the six-month period ended January 31, 2016 compared with the six-month period ended January 31, 2015.

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.

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: Q2 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 January 31, 2016.

(in thousands of dollars, excluding per share amounts)	January 31		October 31		July 31		April 30		4 Quarters	
	2016 \$	2015 \$	2015 \$	2014 \$	2015 \$	2014 \$	2015 \$	2014 \$	2016 \$	2015 \$
- Revenue	1,141	722	1,415	627	1,249	1,002	893	1,140	4,698	3,491
- Net earnings (loss)	197	(178)	360	(254)	931	(223)	(289)	149	1,199	(506)
- Net earnings (loss) per common share	0.01	(0.01)	0.01	(0.01)	0.04	(0.01)	(0.01)	0.01	0.05	(0.02)
- Comprehensive income (loss)	318	(22)	360	(211)	1,084	(205)	(352)	132	1,410	(306)

Net Earnings for the Quarter

The Company recorded net earnings of \$197,330 during the second quarter ended January 31, 2016 compared to a net loss of \$178,628 for the same period year ago. This positive change of \$375,958 can be attributed to the increase in sales of \$419,464 offset by the increase in expenses of \$43,506 (see section 4.4) :

- Net earnings of \$297,644 in IBEX Pharmaceuticals, an increase in earnings of \$393,647 compared to net loss of \$96,003 for the same period year ago.
- Net loss in BRP of \$100,314, an increase in loss of \$17,689 compared to a net loss of \$82,625 for the same period year ago.

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	January 31, 2016	January 31, 2015
Balance sheet revaluation		
US cash	\$41,596	(\$61,295)
US Trade receivables	\$16,746	(\$86,207)
Other US accounts	(\$129,017)	\$4,015
Total gain on revaluation	(\$70,675)	(\$143,487)

Canadian/US dollar		
Quarter ended	January 31, 2016	January 31, 2015
Average rate	1.3735	1.1664
Closing rate	1.4006	1.2711

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 January 31, 2016 totaled \$1,140,816, an increase of 58 % compared to the same period year ago. The increase in sales vs. year-ago of \$419,464 is mainly due to the quarter-to-quarter fluctuation in customer orders, rather than a sustained increase in sales rate.

The net increase in sales vs. the same period year ago was \$419,464, of which \$275,964 (US\$200,924) can be attributed to an actual increase in sales and the balance of \$143,500 to the positive currency impact.

Sales Variations – Quarter ended	January 31, 2016 vs. January 31, 2015
Volume/mix/new products Impact:	
• Increase due to volume USD	\$458,739
• Decrease due to product mix USD	(\$240,745)
• Decrease due to new products USD	(\$17,070)
Total increase due to Volume/mix/new products USD	\$200,924
Currency impact:	
• Total increase due to Volume/mix/new products CAD	\$275,964
• Currency positive effects in CAD	\$143,500
• Total increase in CAD	\$419,464

During this second quarter, the average currency rate was 1.3735 compared to 1.1664 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 second quarter of Fiscal 2016 increased to \$943,486 as compared to \$899,980 in the same quarter year ago. The increase of \$43,506 is attributable to:

- An increase in IBEX Pharmaceuticals expenses of \$64,936 related mainly to a reduction in the contribution to earnings of foreign exchange gains (\$70,675 in the current quarter vs. \$143,487 in the same quarter year ago).
- A decrease in expenses in BRP of \$21,430 in the current quarter compared to the same quarter year ago.

Expense details		
Quarter ended	January 31, 2016	January 31, 2015
Cost of goods sold ¹	\$570,070	\$480,393
R&D expenses ¹	\$60,040	\$102,645
SG&A expenses ¹	\$302,657	\$357,206
Depreciation of PPE ²	\$86,434	\$90,279
Foreign exchange gain	(\$70,675)	(\$143,487)
Financial expenses	\$15,750	\$12,944
Total expenses	\$964,276	\$899,980
Other gains – net	(\$20,790)	-
Total expenses after other gains – net	\$943,486	\$899,980

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 cost 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	January 31, 2016	January 31, 2015
Sales	\$1,140,816	\$721,352
Cost of goods sold ³	\$640,560	\$561,053
Gross margin %	44%	22%

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 overheads to inventory) rather than to a decrease 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 January 31, 2016, research and development expenses totaled \$60,040 compared to \$102,645 in the same period year ago.

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

During the quarter ended January 31, 2016, SG&A expenses totaled \$302,657 compared to \$357,206 in the same period year ago. The decrease of \$54,549 traces mainly to a decrease in professional fees expenses.

5 RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JANUARY 31, 2016

5.1 Net earnings for the six months ended January 31, 2016

The Company recorded net earnings of \$557,536 for the six months ended January 31, 2016 compared to a net loss of \$432,336 for the same period year ago. The change of \$989,872 is attributable to the increase in sales of \$1,206,892 offset by the increase in expenses of \$217,020 (see section 5.4):

- Net earnings of \$745,765 in IBEX Pharmaceuticals, an increase in earnings of \$917,192 compared to a net loss of \$171,427 for the same period year ago.



- Net loss in the BRP subsidiary of \$188,229, a decrease in loss of \$72,680 compared to a net loss of \$260,909 for the same period year ago.

Net earnings (loss)		
Year-to-date	Fiscal 2016	Fiscal 2015
Revenue	\$2,555,691	\$1,348,799
Operating Expenses	\$1,998,155	\$1,781,135
Net earnings (loss)	\$557,536	(\$432,336)
Earnings (loss) per share, basic and diluted	\$0.02	(\$0.02)

5.2 Foreign Exchange

The table below shows the fluctuation in the Canadian/US exchange rates which can have a significant impact on net earnings. As mentioned in section 4.2, 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 cumulative foreign exchange (gain) loss		
Year-to-date	Fiscal 2016	Fiscal 2015
Balance sheet revaluation		
US Cash	\$32,654	(\$88,208)
US Trade receivables	\$42,183	(\$107,110)
Other US accounts	(\$147,063)	\$3,255
Total gain on revaluation	(\$72,226)	(\$192,063)

5.3 Revenue for the six months ended January 31, 2016

Sales for the six months ended January 31, 2016 totaled \$2,555,691 compared to \$1,348,799 for the same period year ago. The increase in sales vs. year-ago of \$1,206,892 is mainly due to the quarter-to-quarter fluctuation in customer orders, rather than a sustained increase in sales rate.



The net increase in sales vs. the same period year ago was \$1,206,892, of which \$934,454 (US\$701,261) can be attributed to an actual increase in sales and the balance of \$272,438 to the positive currency impact.

Sales Variations – Year-to-date	Fiscal 2016 vs Fiscal 2015
Volume/mix/new products Impact:	
• Increase due to volume USD	\$639,107
• Increase due to product mix USD	\$83,524
• Decrease due to new products USD	(\$21,370)
Total increase due to Volume/mix/new products USD	\$701,261
Currency Impact:	
• Total increase due to Volume/mix/new products CAD	\$934,454
• Currency positive effects CAD	\$272,438
• Total increase in CAD	\$1,206,892

5.4 Total Expenses for the six months ended January 31, 2016

Total expenses for the six months ended January 31, 2016 totaled \$1,998,155 compared to \$1,781,135 for the same period year ago. The increase of \$217,020 is mainly attributable to the negative impact of inventory allocation (\$218,380), a reduction in the contribution to earnings of foreign exchange gains (\$72,226 this year vs. \$192,063 for the same period year ago), offset by a decrease in professional fees expenses (\$98,297).

Expense details		
Year-to-date	Fiscal, 2016	Fiscal, 2015
Cost of goods sold ⁴	\$1,170,290	\$842,569
R&D expenses ⁴	\$129,473	\$195,788
SG&A expenses ⁴	\$598,989	\$735,853
Depreciation of PPE	\$175,071	\$174,416
Foreign exchange gain	(\$72,226)	(\$192,063)
Financial expenses	\$32,348	\$24,572
Total expenses	\$2,033,945	\$1,781,135
Other gains – net	(\$35,790)	-
Total expenses after other gains - net	\$1,998,155	\$1,781,135

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

5.4.1 Cost of Goods Sold

Cost of goods sold consists principally of the costs of supplies, royalties, manufacturing labour and the allocation of fixed overheads. For further explanation on the determination of the cost of goods sold, see section 4.4.1 above.

Cost of goods sold		
Year-to-date	Fiscal, 2016	Fiscal, 2015
Sales	\$2,555,691	\$1,348,799
Cost of goods sold ⁵	\$1,311,767	\$987,893
Gross margin %	49%	27%

5- 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 overheads to inventory) rather than to a decrease in the costs of materials or labour.

5.4.2 Research and Development (R&D) Expenses

Research and development expenses for the six months ended January 31, 2016 totaled \$129,473 compared to \$195,788 for the same period year ago.

5.4.3 Selling, General and Administrative (SG&A) Expenses

SG&A expenses for the six months ended January 31, 2016 totaled \$598,989 compared to \$735,853 for the same period year ago. The decrease of \$136,864 is mainly due to a decrease in professional fees expenses (\$98,297).

6 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 January 31, 2016, the Company had net working capital of \$3,928,661 compared to net working capital of \$3,192,333 as at July 31, 2015. Cash and cash equivalents increased by \$989,510 to \$3,074,336 compared to \$2,084,826 as at July 31, 2015.

As at:	January 31, 2016	October 31, 2015	July 31, 2015	April 30, 2015	Jan. 31, 2015
Cash and cash equivalents	\$3,074,336	\$2,636,690	\$2,084,826	\$1,165,347	\$1,433,347
Net working capital	\$3,928,661	\$3,629,097	\$3,192,333	\$2,102,767	\$2,328,427

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 LOOKING FORWARD

While we continue to forecast a positive cash flow for the year, we expect that the next two quarters results will be significantly lower, as our customers return to their normal purchase pattern.

The Company continues to work on a number of projects with our key customers, some of which it may 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.

8 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 six months ended January 31, 2016.

9 RELATED PARTY TRANSACTIONS

During the six months ended January 31, 2016 and 2015, the Company did not have any related party transactions.

10 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 six months ended January 31, 2016.

11 ACCOUNTING STANDARDS AND AMENDMENTS

Please refer to *Note 2* of the Company's January 31, 2016 interim financial statements.

12 OUTSTANDING SHARE DATA

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

12.1 Common Shares

As at March 16, 2016, the Company has 24,703,244 common shares outstanding.

12.2 Stock options

As at March 16, 2016, 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 March 16, 2016, 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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