



IBEX TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FISCAL 2017

**NINE MONTHS ENDED
APRIL 30, 2017**

As at June 16, 2017



**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED APRIL 30, 2017**

June 16, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 16, 2017

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 June 16, 2017. The MD&A provides a review of the developments and results of operations of the Company during the nine-month period ended April 30, 2017 compared with the nine-month period ended April 30, 2016.

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, 2016 and 2015.

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 which are 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 and thus facilitating the accurate measurement of haemostasis.

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 haemostasis 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. These assays 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: Q3 FISCAL 2017

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 April 30, 2017.

In thousands of dollars, excluding per share amounts	Quarter Ending								Most Recent	
	April 30		January 31		October 31		July 31		4 Quarters	
	2017 \$	2016 \$	2017 \$	2016 \$	2016 \$	2015 \$	2016 \$	2015 \$	2017 \$	2016 \$
- Revenue	1,115	696	1,542	1,141	1,210	1,415	862	1,249	4,729	4,501
- Net earnings (loss)	1	(462)	423	197	199	360	6	931	629	1,026
- Net earnings (loss) per common share	0.00	(0.02)	0.02	0.01	0.01	0.01	0.00	0.04	0.02	0.04
- Comprehensive income (loss)	49	(631)	390	318	230	360	60	1,084	729	1,131

Net Earnings for the Quarter

The Company recorded net earnings of \$1,450 during the third quarter ended April 30, 2017 compared to net loss of \$462,560 for the same period year ago. This positive change of \$464,010 is related mainly to the increase in sales of \$419,118 combined with the decrease in expenses of \$44,892 (see section 4.4).



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	April 30, 2017	April 30, 2016
Balance sheet revaluation		
US cash	\$59,006	(\$60,117)
US Trade receivables	\$25,995	(\$30,016)
Other US accounts	(\$178,071)	\$204,175
Total (gain) loss on revaluation	(\$93,070)	\$114,042

Canadian/US dollar		
Quarter ended	April 30, 2017	April 30, 2016
Average rate	1.3314	1.3272
Closing rate	1.3650	1.2548

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 April 30, 2017 totaled \$1,115,318, an increase of 60% compared to the same period year ago. The sales increase traces mainly to the introduction of a new product by one of our customers which contains an IBEX enzyme (for which we did not benefit in the year-ago period).

The net increase in sales vs. the same period year ago was \$419,118, of which \$411,747 (US\$309,263) can be attributed to an actual increase in sales and the balance of \$7,371 to the positive currency impact.

The positive variance can be attributed to volume of \$168,185, product mix of US\$138,984 and new products of US\$2,094.

Sales Variations – Quarter ended	April 30, 2017 vs. April 30, 2016
Volume/mix/new products Impact:	
• Increase due to volume USD	\$168,185
• Increase due to product mix USD	\$138,984
• Increase due to new products USD	\$2,094
Total increase due to Volume/mix/new products USD	\$309,263
Currency impact:	
• Total increase due to Volume/mix/new products CAD	\$411,747
• Currency positive effects in CAD	\$7,371
• Total increase in CAD	\$419,118

During this third quarter, the average currency rate was 1.3314 compared to 1.3272 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 third quarter of Fiscal 2017 decreased to \$1,113,868 as compared to \$1,158,760 in the same quarter year ago. The decrease of \$44,892 is related mainly to the swing in the foreign exchange (gain of \$93,070 in the current quarter vs. loss of \$114,042 in the same quarter year ago) offset by the increase in compensation (tracing to a combination of added personnel, costs associated with the termination of one employee, and the cost-of-living adjustment which was implemented in November 2016).

Expense details		
Quarter ended	April 30 2017	April 30, 2016
Cost of goods sold ¹	\$582,300	\$500,422
R&D expenses ¹	\$53,627	\$83,687
SG&A expenses ¹	\$495,018	\$387,920
Depreciation of PPE ²	\$67,387	\$81,499
Foreign exchange (gain) loss	(\$93,070)	\$114,042
Financial expenses	\$13,606	\$16,274
Total expenses	\$1,118,868	\$1,183,844
Other gains – net	(\$5,000)	(\$25,084)
Total expenses after other gains – net	\$1,113,868	\$1,158,760

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	April 30, 2017	April 30, 2016
Sales	\$1,115,318	\$696,200
Cost of goods sold ³	\$633,194	\$567,415
Gross margin %	43%	19%

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 April 30, 2017, research and development expenses totaled \$53,627 compared to \$83,687 in the same period year ago.

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

During the quarter ended April 30, 2017, SG&A expenses totaled \$495,018 compared to \$387,920 in the same period year ago. The increase of \$107,098 traces mainly to the increase in compensation (tracing to a combination of costs associated with the termination of one employee and the cost-of-living adjustment which was implemented in November 2016).



5 RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED APRIL 30, 2017

5.1 Net earnings for the nine months ended April 30, 2017

The Company recorded net earnings of \$623,024 for the nine months ended April 30, 2017 compared to net earnings of \$94,976 for the same period year ago. The positive change of \$528,048 is attributable to the increase in sales of \$616,242 offset by the increase in expenses of \$88,194 (see section 5.4).

Net earnings		
Year-to-date	Fiscal 2017	Fiscal 2016
Revenue	\$3,868,133	\$3,251,891
Net Expenses	\$3,245,109	\$3,156,915
Net earnings	\$623,024	\$94,976
Earnings per share, basic and diluted	\$0.02	\$0.00

5.2 Foreign Exchange

The table below shows the fluctuation in the Canadian/US exchange rates which can have a significant impact on our results. 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 2017	Fiscal 2016
Balance sheet revaluation		
US Cash	\$9,081	(\$27,463)
US Trade receivables	(\$1,799)	\$12,167
Other US accounts	(\$110,068)	\$57,112
Total (gain) loss on revaluation	(\$102,786)	\$41,816

5.3 Revenue for the nine months ended April 30, 2017

Sales for the nine months ended April 30, 2017 totaled \$3,868,133 compared to \$3,251,891 for the same period year ago. The sales increase traces mainly to the introduction of a new product by one of our customers which contains an IBEX enzyme (for which we did not benefit in the year-ago period).

The net increase in sales vs. the same period year-ago was \$616,242, of which \$648,227 (US\$484,376) can be attributed to an actual increase in sales and the balance of \$31,985 to the negative currency impact.

A positive variance in product mix of US\$697,473 was offset by a negative variance in volume of US\$209,808 and in new products of US\$3,289.

Sales Variations – Year-to-date	Fiscal 2017 vs Fiscal 2016
Volume/mix/new products Impact:	
• Decrease due to volume USD	(\$209,808)
• Increase due to product mix USD	\$697,473
• Decrease due to new products USD	(\$3,289)
Total increase due to Volume/mix/new products USD	\$484,376
Currency Impact:	
• Total increase due to Volume/mix/new products CAD	\$648,227
• Currency negative effects CAD	(\$31,985)
• Total increase in CAD	\$616,242

5.4 Total Expenses for the nine months ended April 30, 2017

Total expenses for the nine months ended April 30, 2017 totaled \$3,245,109 compared to \$3,156,915 for the same period year ago. The increase of \$88,194 is mainly attributable to the increase in compensation, (tracing to a combination of added personnel, costs associated with the termination of one employee, and the cost-of-living adjustment which was implemented in November 2016) and an expense related to the information system's upgrade offset by the swing in the foreign exchange (gain of \$102,786 in the current period vs. loss of \$41,816 for the same period year ago).

Expense details		
Year-to-date	Fiscal, 2017	Fiscal, 2016
Cost of goods sold ⁴	\$1,798,192	\$1,670,712
R&D expenses ⁴	\$152,080	\$213,160
SG&A expenses ⁴	\$1,191,626	\$986,909
Depreciation of PPE	\$208,469	\$256,570
Foreign exchange (gain) loss	(\$102,786)	\$41,816
Financial expenses	\$44,507	\$48,622
Total expenses	\$3,292,088	\$3,217,789
Other gains – net	(\$46,979)	(\$60,874)
Total expenses after other gains - net	\$3,245,109	\$3,156,915

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, 2017	Fiscal, 2016
Sales	\$3,868,133	\$3,251,891
Cost of goods sold ⁵	\$1,959,928	\$1,879,183
Gross margin %	49%	42%

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 nine months ended April 30, 2017 totaled \$152,080 compared to \$213,160 for the same period year ago. The decrease of \$61,080 traces mainly to a hiatus development of one of our projects.

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

SG&A expenses for the nine months ended April 30, 2017 totaled \$1,191,626 compared to \$986,909 for the same period year ago. The increase of \$204,717 is mainly due to an increase in compensation (tracing to a combination of costs associated with the termination of one employee and the cost-of-living adjustment which was implemented in November 2016) and an expense related to the information system's upgrade.

6 LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the potential 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 payables 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 April 30, 2017, the Company had net working capital of \$3,664,184 compared to net working capital of \$3,516,189 as at July 31, 2016. Cash and cash equivalents increased by \$101,788 to \$3,001,410.

As at:	April 30, 2017	January 31, 2017	October 31, 2016	July 31, 2016	April 30, 2016
Cash and cash equivalents	\$3,001,410	\$3,114,055	\$2,882,165	\$2,899,622	\$2,917,775
Net working capital	\$3,664,184	\$3,952,297	\$3,631,731	\$3,516,189	\$3,450,289

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

We expect that the construction of our fermentation facility is on track to be finished in July 2017 (the fourth quarter of this fiscal year) and will be commissioned by the end of this calendar year. The total cost of the facility is unchanged at \$600,000 of which \$461,000 has already been disbursed. The balance of our investment is expected to be disbursed within the current fiscal year.

The expansion of our purification capability will also be completed by the end of this fiscal year (budgeted at \$140,000 of which \$124,000 has already been disbursed).

We expect sales in the 4th Quarter to be higher than the current quarter, but net earnings may reflect a modest loss as a result of the normal heavier expenses in the 4th Quarter.

Overall, we expect to end the 2017 Fiscal Year with a cash position similar to 2016, despite the increase in net earnings, tracing to the absorbance of the construction costs of our new fermentation facility.

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, 2016 MD&A, as they are the same for the nine months ended April 30, 2017.

9 RELATED PARTY TRANSACTIONS

During the nine months ended April 30, 2017 and 2016, other than the transactions and amounts described in Note 9 in our interim financial statements, the Company did not have any other related party transactions.

10 CRITICAL ACCOUNTING ESTIMATES

Please refer to *Note 2* of the Company's July 31, 2016 audited consolidated financial statements and the corresponding section of the July 31, 2016 MD&A to review the Company's critical accounting estimates. They were the same as those used in the interim financial statements for the nine months ended April 30, 2017.

11 ACCOUNTING STANDARDS AND AMENDMENTS

Please refer to *Note 2* of the Company's April 30, 2017 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 June 16, 2017, the Company has 24,703,244 common shares outstanding.

12.2 Stock options

As at June 16, 2017, the Company has 1,020,000 stock options outstanding with exercise prices ranging from \$0.05 to \$0.24 and expiry dates ranging from March 2018 to April 2027.

As at June 16, 2017, on an if-converted basis, these stock options would result in the issuance of 1,020,000 common shares at an aggregate exercise price of \$193,575.

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