

**IBEX TECHNOLOGIES INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FISCAL 2018**

**THREE MONTHS ENDED  
OCTOBER 31, 2017**

**As at December 14, 2017**



**MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS ENDED OCTOBER 31, 2017**

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## MANAGEMENT DISCUSSION AND ANALYSIS

December 14, 2017

### 1 PREAMBLE

The following Management 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 14, 2017. The MD&A provides a review of the developments and results of operations of the Company during the three-month period ended October 31, 2017 compared with the three-month period ended October 31, 2016.

The MD&A should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the years ended July 31, 2017 and 2016.

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 which are drugs commonly used in hospitals and which interfere with haemostasis tests. 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 in 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. 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: Q1 FISCAL 2018

### 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, 2017.

(in thousands of dollars, excluding per share amounts)	October 31		July 31		April 30		January 31		4 Quarters	
	2017 \$	2016 \$								
- Revenue	1,183	1,210	1,460	862	1,115	696	1,542	1,141	5,300	3,909
- Net earnings (loss)	130	199	2,359	6	1	(462)	423	197	2,913	(60)
- Net earnings (loss) per common share	0.01	0.01	0.09	(0.00)	0.00	(0.02)	0.02	0.01	0.11	0.00
- Comprehensive income (loss)	151	230	2,289	60	49	(631)	390	318	2,879	(23)

#### Net earnings for the Quarter

The Company recorded net earnings of \$129,859 during the first quarter ended October 31, 2017 compared to net earnings of \$198,888 for the same period year ago. This change of \$69,029 in earnings is related mainly to a decrease in revenues of \$27,561 and an increase in expenses of \$41,468 (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 loss (gain)		
Quarter ended	October 31, 2017	October 31, 2016
Balance sheet revaluation		
US cash	<b>(\$55,005)</b>	(\$33,273)
US Trade receivables	<b>(\$47,655)</b>	\$(4,786)
Other US accounts	<b>\$20,562</b>	(\$10,830)
Total gain on revaluation	<b>(\$82,098)</b>	(\$48,889)

Canadian/US dollar		
Quarter ended	October 31, 2017	October 31, 2016
Average rate	<b>1.2498</b>	1.3116
Closing rate	<b>1.2893</b>	1.3411

## 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.*

Revenues for the quarter ended October 31, 2017 totaled \$1,183,013, a decrease of \$27,561 (3%) compared to the same period year ago. The decrease in revenues traces mainly to the changes in quarterly purchases patterns on the part of our major customers.

The net decrease in sales vs. the same period year ago was \$27,561, of which \$30,572 (US\$24,462) can be attributed to an actual increase in sales and the balance of \$58,133 to the negative currency impact.

The positive variance can be attributed to product mix of US\$169,037, offset by a negative variance in volume of US\$143,750 and new products of US\$825.

Sales Variations – Quarter ended	October 31, 2017 vs. October 31, 2016
Volume/mix/new products Impact:	
• Decrease due to volume USD	(\$143,750)
• Increase due to product mix USD	\$169,037
• Decrease due to new products USD	(\$825)
Total increase due to Volume/mix/new products USD	\$24,462
Currency impact:	
• Total increase due to Volume/mix/new products CAD	\$30,572
• Currency negative effects in CAD	(\$58,133)
• Total decrease in CAD	(\$27,561)

During this first quarter, the average currency rate was 1.2498 compared to 1.3116 in the same quarter last year. This translates to a negative effect to the Company since its sells in US dollars, and reports in Canadian dollars.

#### 4.4 Total Expenses for the Quarter

Total expenses in the first quarter of Fiscal 2018 increased to \$1,053,154 as compared to \$1,011,686 in the same quarter year ago. The increase of \$41,468 is related mainly to an increase in sales, administration and all other expenses (mainly attributable to supplies associated with the start-up of the new production facility), partially offset by the positive impact of inventory allocation and in foreign exchange.

Expense details		
Quarter ended	October 31, 2017	October 31, 2016
Cost of goods sold <sup>1</sup>	\$673,122	\$611,684
R&D expenses <sup>1</sup>	\$47,065	\$56,214
SG&A expenses <sup>1</sup>	\$359,109	\$327,354
Depreciation of PPE <sup>2</sup>	\$60,908	\$71,583
Foreign exchange gain	(\$82,098)	(\$48,889)
Financial expenses	\$10,048	\$15,719
Total expenses	\$1,068,154	\$1,033,665
Other gains – net	(\$15,000)	(\$21,979)
Total expenses after other gains - net	\$1,053,154	\$1,011,686

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 uses the actual-cost method of recording its production costs rather than a standard-cost method (because of the practicalities of the Company production, the standard-



cost method is unsuitable). While the actual-cost method is most suitable to the Company's processes, it does result in the wide swings from quarter to quarter in the cost of goods sold due to the "inventory allocation" effect (if more goods are produced in a quarter than are sold, there is a positive effect on the results; the reverse is true if more goods are sold than are produced).

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, 2017	October 31, 2016
Sales	<b>\$1,183,013</b>	\$1,210,574
Cost of goods sold <sup>3</sup>	<b>\$720,513</b>	\$668,943
Gross margin %	<b>39%</b>	45%

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

The decrease 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, 2017, research and development expenses totaled \$47,065 compared to \$56,214 in the same period year ago.

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

During the quarter ended October 31, 2017, SG&A expenses totaled \$359,109 compared to \$327,354 in the same period year ago.



## 5 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 accounts payable and accrued liabilities presented on the consolidated statement of financial position, which are due within the next 12 months. The Company manages liquidity risk by maintaining adequate cash balances to discharge its liabilities when due.

As at October 31, 2017, the Company had net working capital of \$3,501,390 compared to net working capital of \$3,349,055 as at July 31, 2017. Cash and cash equivalents increased by \$104,314 during the fiscal year to \$3,108,941.

As at:	October 31, 2017	July 31, 2017	April 30, 2017	January 31, 2017	October 31, 2016
Cash and cash equivalents	<b>\$3,108,941</b>	\$3,004,627	\$3,001,410	\$3,114,055	\$2,882,165
Net working capital	<b>\$3,501,390</b>	\$3,349,055	\$3,664,184	\$3,952,297	\$3,631,731

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

As always, the future of the Company is difficult to predict as the Company's customers have wide swings in their purchase patterns.

In Fiscal 2018 we expect to see lower sales than in Fiscal 2017 as one of our major customers who was building inventory in Fiscal 2017 moves to a sustaining level of purchases. We also anticipate a weaker US dollar in Fiscal 2018 which will have a negative impact on profitability. These two factors point to lower net earnings in Fiscal 2018. However, as we do not expect any major capital expenditures in Fiscal 2018, we expect to modestly improve our year-end cash-on-hand position.

The Company also continues to work on a number of projects with its key customers, some of which may result in additional revenues in Fiscal 2018 and beyond. However, we cannot give any assurances that any of these projects will come to fruition and produce revenues.

## 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, 2017 MD&A, as they are the same for the quarter ended October 31, 2017.

## **8 RELATED PARTY TRANSACTIONS**

During the quarters ended October 31, 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.

## **9 CRITICAL ACCOUNTING ESTIMATES**

Please refer to *Note 2* of the Company's July 31, 2017 audited consolidated financial statements and the corresponding section of the July 31, 2017 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, 2017.

## **10 ACCOUNTING STANDARDS AND AMENDMENTS**

Please refer to *Note 2* of the Company's October 31, 2017 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 14, 2017, the Company has 24,703,244 common shares outstanding.

### **11.2 Stock options**

As at December 14, 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 January 2018 to April 2027.

As at December 14, 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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