

**IBEX Technologies Inc./
Technologies IBEX Inc.**

Consolidated Financial Statements
July 31, 2009 and 2008

October 21, 2009

Auditors' Report

To the Shareholders of IBEX Technologies Inc./Technologies IBEX Inc.

We have audited the consolidated balance sheets of **IBEX Technologies Inc./Technologies IBEX Inc.** as at July 31, 2009 and 2008 and the consolidated statements of deficit, earnings and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP¹

¹ Chartered accountant auditor permit No. 19983

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IBEX Technologies Inc./Technologies IBEX Inc.

Consolidated Balance Sheets

As at July 31, 2009 and 2008

	2009 \$	2008 \$
Assets		
Current assets		
Cash and cash equivalents	2,260,344	372,096
Marketable securities (note 5)	-	1,195,168
Accounts receivable (note 6)	996,830	337,621
Inventories (note 7)	321,922	292,755
Prepaid expenses	63,258	90,206
	<u>3,642,354</u>	<u>2,287,846</u>
Property and equipment (note 8)	530,544	238,809
Deposits	<u>8,650</u>	<u>-</u>
	<u>4,181,548</u>	<u>2,526,655</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	<u>761,208</u>	<u>455,354</u>
Shareholders' Equity		
Capital stock (note 11)	52,660,078	52,660,078
Contributed surplus (note 12)	401,553	396,252
Deficit	<u>(49,641,291)</u>	<u>(50,985,029)</u>
	<u>3,420,340</u>	<u>2,071,301</u>
	<u>4,181,548</u>	<u>2,526,655</u>
Commitments (note 16)		

Approved by the Board of Directors

 Director

 Director

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Consolidated Statements of Deficit

For the years ended July 31, 2009 and 2008

	2009	2008
	\$	\$
Balance – Beginning of year	(50,985,029)	(51,328,637)
Transitional adjustment on adoption of financial instrument standards (note 2)	-	(4,711)
Deficit, as adjusted	(50,985,029)	(51,333,348)
Net earnings for the year	1,343,738	348,319
Balance – End of year	<u>(49,641,291)</u>	<u>(50,985,029)</u>

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Consolidated Statements of Earnings and Comprehensive Income For the years ended July 31, 2009 and 2008

	2009	2008
	\$	\$
Revenues	3,544,282	2,326,744
Expenses (income)		
Net research and development expenditures (note 2)	-	(76,548)
Selling, general and administrative expenses and cost of goods sold	2,343,609	2,097,036
Amortization of property and equipment	83,810	70,148
Other interest and bank charges	17,906	10,780
Foreign exchange gain	(200,651)	(9,592)
Interest income	(24,681)	(44,200)
Gain on disposal of property and equipment (note 8)	(19,449)	(13,244)
Gain on disposal of identifiable intangible assets (note 9)	-	(48,873)
	<u>2,200,544</u>	<u>1,985,507</u>
Earnings before income taxes	1,343,738	341,237
Recovery of current income taxes	-	(7,082)
Net earnings and comprehensive income for the year	<u>1,343,738</u>	<u>348,319</u>
Net earnings per share (note 2)		
Basic and diluted	<u>0.05</u>	<u>0.01</u>

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Consolidated Statements of Cash Flows For the years ended July 31, 2009 and 2008

	2009 \$	2008 \$
Cash flows from		
Operating activities		
Net earnings for the year	1,343,738	348,319
Items not affecting cash		
Amortization of property and equipment (note 8)	83,810	70,148
Stock-based compensation costs (note 12)	5,301	21,101
Gain on disposal of property and equipment (note 8)	(19,449)	(13,244)
Gain on disposal of identifiable intangible assets (note 9)	-	(48,873)
	<u>1,413,400</u>	<u>377,451</u>
Changes in non-cash working capital items		
Decrease (increase) in accounts receivable	(659,209)	186,761
Increase in inventories	(29,167)	(128,371)
Decrease in prepaid expenses	26,948	44,808
Increase in deposits	(8,650)	-
Increase (decrease) in accounts payable and accrued liabilities	305,854	(394,368)
	<u>(364,224)</u>	<u>(291,170)</u>
	<u>1,049,176</u>	<u>86,281</u>
Investing activities		
Acquisition of property and equipment	(375,545)	(5,686)
Proceeds from disposal of property and equipment (note 8)	19,449	13,244
Proceeds from disposal of identifiable intangible assets (note 9)	-	25,000
Purchases of marketable securities	(209,207)	(3,492,968)
Proceeds from redemption of marketable securities	1,404,375	3,397,473
	<u>839,072</u>	<u>(62,937)</u>
Increase in cash and cash equivalents during the year	1,888,248	23,344
Cash and cash equivalents – Beginning of year	<u>372,096</u>	<u>348,752</u>
Cash and cash equivalents – End of year	<u>2,260,344</u>	<u>372,096</u>
Supplemental information		
Interest paid during the year	-	5

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1 Nature of operations

IBEX Technologies Inc. (“IBEX” or the “Company”) is a biopharmaceutical company currently engaged in the production and sale of proprietary enzymes for use as reagents in haemostasis monitoring devices, and of arthritis diagnostic kits for pharmaceutical research.

2 Significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned Canadian and US subsidiaries, Technologies IBEX R&D Inc., IBEX Pharmaceuticals Inc. (“IBEX Pharma”) and IBEX Technologies Corporation.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

In the normal course of operations, claims may arise against the Company pertaining to undesired side effects with respect to products being sold or which have been sold in the past. The Company recognizes liabilities for such contingencies when management determines that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company is currently not party to any such litigation proceedings that are expected to have a material adverse effect on its results of operations or financial position.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and highly liquid short-term investments. The Company considers short-term investments with an original maturity at the date of purchase of three months or less to be cash equivalents.

Cash equivalents include Treasury bills and guaranteed investment certificates in the amount of \$1,624,885 (2008 – nil) bearing interest at rates ranging from 0.06% to 2.75%.

Marketable securities

Marketable securities are recorded at the lesser of their cost or market value.

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Financial instruments

During the year ended July 31, 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1530, “Comprehensive Income”; Section 3251, “Equity”; Section 3855, “Financial Instruments – Recognition and Measurement”; Section 3862, “Financial Instruments – Disclosures”; Section 3863, “Financial Instruments – Presentation”; and Section 3865, “Hedges”. These standards provide accounting guidelines for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives, as well as the introduction of a new statement of comprehensive income. Section 3865 did not have an impact on the Company’s consolidated financial statements as the Company does not use hedge accounting.

The Company’s adoption of these new financial instrument standards resulted in changes in the accounting for financial instruments, as well as the recognition of certain transitional adjustments that have been recorded in 2008 opening deficit as described below. The principal changes in the accounting for financial instruments as a result of the adoption of these accounting standards are as follows.

a) Comprehensive income

Comprehensive income is defined as the change in equity from transactions and other events and circumstances from sources other than shareholders, and is composed of the Company’s net earnings and other comprehensive income. Other comprehensive income refers to revenues, expenses, gains and losses that are recognized in comprehensive income but excluded from net earnings. The Company does not have any components that qualify as other comprehensive income.

b) Financial assets and financial liabilities

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Financial instruments are initially recognized at fair value and are classified into one of five categories: held for trading, held to maturity, available for sale, loans and receivables, or other financial liabilities. They are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Transaction costs are expensed as incurred.

Held for trading

Financial instruments classified as held for trading are carried at fair value at each balance sheet date with the changes in fair value recorded in net earnings in the period in which the changes arise.

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Available for sale

Financial instruments classified as available for sale are carried at fair value at each balance sheet date with the changes in fair value recorded in other comprehensive income in the period in which the changes arise. Securities that are classified as available for sale and do not have a readily available market value are recorded at cost. Available-for-sale securities are adjusted to fair value through earnings whenever it is necessary to reflect other than temporary impairment. Upon derecognition, all cumulative gains or losses are then recognized in net earnings.

Held to maturity, loans and receivables, and other financial liabilities

Financial instruments classified as held to maturity, loans and receivables, and other financial liabilities are carried at amortized cost using the effective interest method, and interest income or expense is included in net earnings over the expected life of the instrument.

Management has selected the following classifications and bases of accounting for the Company's financial instruments:

Asset/Liability	Classification	Basis of accounting
Cash and cash equivalents	Held for trading	Fair value
Marketable securities	Held to maturity	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

c) Embedded derivatives

All derivative instruments are recorded in the consolidated balance sheet at fair value at each balance sheet date. Derivatives may be embedded in other financial instruments (the "host instrument"). Prior to the adoption of the new standards, such embedded derivatives were not accounted for separately from the host instrument. Under the new standards, embedded derivatives are treated as separate derivatives if their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value at each balance sheet date with subsequent changes recognized in net earnings in the period in which the changes arise. The Company selected August 1, 2002 as its transition date for embedded derivatives, which is the latest date allowed by the accounting standard.

The Company enters into certain contracts for the sale of non-financial items that are denominated in currencies other than the Canadian dollar, the Company's functional currency. In cases where the foreign exchange component is not leveraged and does not contain an option feature and where the contract is denominated in the functional currency of the counterparty, or the non-financial item is routinely denominated in the currency of the contract, or the currency of the contract is commonly used in the economic environment in which the transaction takes place, the embedded derivative is considered to be closely related and is not accounted for separately. The fair value of financial instruments is determined using recognized valuation models using observable market-based inputs.

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During the year ended July 31, 2008, embedded foreign currency derivatives gave rise to a transitional adjustment for the cumulative impact of adopting these new standards for prior years, which was recognized as an adjustment directly to opening deficit. No other transitional adjustments were recorded as a result of the adoption of the new standards. The impact of the adoption was a one-time increase of \$4,711 to deficit and accounts payable and accrued liabilities.

During the year ended July 31, 2009, the impact of the change in the fair value of the derivatives related to sales contracts is recorded in foreign exchange gain, and the balance of \$107,230 as at July 31, 2009 is recorded in accrued liabilities (2008 – foreign exchange gain of \$11,502 recorded in accounts receivable).

Inventories

Inventories are composed of work in process and finished goods, which are valued at the lower of cost and net realizable value determined on a first-in, first-out basis. Inventory cost includes materials, direct labour and attributable overhead.

Property and equipment

Property and equipment are carried at cost less accumulated amortization and government assistance. Amortization is recorded based on the estimated useful lives of the related assets as follows:

	Method	Rate/Term
Machinery and equipment	Declining balance	Varying from 20% to 30%
Furniture and fixtures	Declining balance	20%
Leasehold improvements	Straight-line	5 years

Impairment of long-lived assets

The Company assesses the carrying value of its long-lived assets, which comprise property and equipment, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized if the carrying value of a long-lived asset exceeds the sum of its estimated undiscounted future cash flows expected from its use and eventual disposal. The amount of impairment loss, if any, is determined as the excess of the carrying value of the assets over their fair value.

Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, delivery has occurred and collection is reasonably assured, which occurs as products are shipped to the customer.

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Research and development costs

Research and development costs are expensed as incurred, unless the development costs meet the generally accepted criteria for deferral. As at July 31, 2009 and 2008, no such costs have been deferred in the accounts of the Company.

Government assistance relating to research and development activities is reflected as a reduction of net research and development expenditures in these financial statements as and when it is earned and collectability is reasonably assured. For the year ended July 31, 2009, no such amounts were recorded in the financial statements (2008 – \$76,548).

The recorded investment tax credits are based on management's best estimates of amounts expected to be recovered. The actual investment tax credits allowable are determined by the respective taxation authorities. Accordingly, these amounts may vary from the estimated amounts recorded.

The Company did not incur any research and development expenditures during the years ended July 31, 2009 and 2008. During the year ended July 31, 2008, the Company revised its estimate of research and development tax credits from a prior year, resulting in a credit balance of \$76,548 in the statement of earnings.

Foreign exchange

Translation of accounts of foreign subsidiaries

Accounts of foreign subsidiaries, all of which are classified as integrated, are translated using the temporal method. Under this method, monetary assets and liabilities are translated at year-end rates and non-monetary assets and liabilities at historical exchange rates. Revenues and expenses are translated at the average monthly rate during the year. Resulting gains and losses are included in earnings for the year.

Domestic foreign exchange transactions

Monetary assets and liabilities denominated in foreign currencies are translated at year-end rates and non-monetary assets and liabilities at historical exchange rates. Revenues and expenses denominated in foreign currencies are translated at the average monthly rate during the year. Resulting gains and losses are included in earnings for the year.

Income taxes

The Company uses the liability method of accounting for income taxes. Future income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, computed based on rates and provisions of enacted or substantively enacted tax laws that are expected to be in effect in the year in which the differences are expected to reverse. The Company reviews the valuation of its future income tax assets and liabilities and records adjustments, if necessary, to reflect their realizable amount.

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Net earnings per share

Net earnings per share are calculated using the weighted average number of shares outstanding of 24,703,244 (2008 – 24,703,244). The outstanding options (note 12) have been excluded from the computation of diluted earnings per share as they are anti-dilutive.

Stock options

Effective February 25, 2008, concurrent with the listing on the TSX Venture Exchange, the IBEX Pharma stock option plan was discontinued. The IBEX stock option plan remains in force. The stock option plans are described in note 12.

Compensation expense for stock options is included in net earnings, with the offset credited to contributed surplus. Using the fair value method, compensation expense is measured at the grant date and recognized over the vesting period of the stock options. Any consideration paid on exercise of stock options or purchase of stock is credited to capital stock. If stock or stock options are repurchased, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to deficit.

Adoption of new accounting policies

a) General standards of financial statement presentation

The CICA has issued an amendment to Section 1400, “General Standards of Financial Statement Presentation”, relating to the going concern assumption. When preparing financial statements, management must make an assessment of the Company’s ability to continue as a going concern. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern, those uncertainties must be disclosed. Management performed such an assessment, and no additional disclosures are required.

b) Inventories

Section 3031, “Inventories”, prescribes the basis and method for measuring inventories and provides guidance on the determination of cost and subsequent recognition as an expense, including any writedown to net realizable value. The adoption of this new standard has no material impact on the consolidated financial statements of the Company.

c) Goodwill and intangible assets

Section 3064, “Goodwill and Intangible Assets”, replaces existing Section 3062, “Goodwill and Other Intangible Assets”, and Section 3450, “Research and Development Costs”. The standard provides guidance on the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this new standard has no material impact on the Company’s consolidated financial statements.

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Accounting standards not yet adopted

a) Business combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", which replaces Section 1581 of the same title. The Section establishes standards for accounting for a business combination and provides the Canadian equivalent to International Financial Reporting Standard 3 (Revised), "Business Combinations". This Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

b) Consolidated financial statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard 27 (Revised), "Consolidated and Separate Financial Statements". These changes are effective for interim and annual financial statements beginning on January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is evaluating the impact of the adoption of these new accounting standards on its consolidated financial statements.

3 Writedown of loan receivable

During the year ended July 31, 2007, the Company entered into a non-binding letter of intent for the proposed acquisition of Garvinci Inc. ("Garvinci"). Pursuant to the letter, the Company paid a monthly exclusivity fee of \$125,000 during the negotiating period. The transaction was terminated on May 7, 2007. The fee was paid as a loan bearing an annual interest rate of 12% to be reimbursed to the Company if the parties failed to close the transaction at the earlier of:

- a) 12 months from the date discussions between the parties in connection with the transaction had been terminated; or
- b) the date the other party entered into a business combination with a third party.

As at the transaction termination date of May 7, 2007, the Company had made eight payments of \$125,000, for a total of \$1 million. As per the agreement, Garvinci was to reimburse the Company the full amount of the loan plus accrued interest on May 7, 2008. As at July 31, 2009, no amounts have been repaid of the outstanding balance of \$1,180,740.

In accordance with the terms of the agreement, the Company has the right to convert \$375,000 of the loan, and the related accrued interest, into common shares of Garvinci, based on a value for Garvinci of \$6 million. No amounts have been converted into shares of Garvinci as at July 31, 2009.

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Management determined that the loan was unlikely to be collected and wrote down the full amount of the loan plus accrued interest during the year ended July 31, 2007.

The Company is currently in discussions with Garvinci regarding repayment of the loan. Management has determined that the full provision continues to be appropriate as at July 31, 2009, and has fully provided for interest earned of \$120,000 during the year.

4 Financial instruments

Currency risk

The Company operates internationally, and its sales are contracted in US dollars. A change in the currency exchange rate between the Canadian dollar and the US dollar could have a material effect on its consolidated results of operations, financial position or cash flows.

The Company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by using forward foreign exchange contracts to hedge a portion of the exposure of its foreign currency cash flows. Foreign exchange contracts will usually have a maturity of less than one year.

The Company does not use forward foreign exchange contracts for speculative purposes. The Company also does not apply hedge accounting, and these derivative contracts are being marked to fair value at every reporting date with changes recorded in the statement of earnings.

The Company is exposed to foreign exchange risk primarily as a result of sales revenues and expenses denominated in US dollars. Monetary balances denominated in foreign currencies as at July 31, 2009 and 2008 were as follows:

	2009		2008	
	\$	US\$	\$	US\$
Cash and cash equivalents	604,263	560,756	309,507	302,253
Accounts receivable	551,214	511,728	283,936	277,280
Accounts payable and accrued liabilities	133,968	124,322	103,859	101,425

The impact on the Company's financial instruments of a 5% increase in the US dollar exchange rate would be a \$51,360 foreign exchange gain recorded in net earnings for the year ended July 31, 2009.

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The following table summarizes the Company's foreign currency commitments as at July 31, 2009 (as at July 31, 2008, the Company had no foreign currency commitments).

Foreign currency forward contracts	Notional amount US\$	Exchange rate	Maturity date	Notional equivalent \$	Fair market value \$
Sell					
US\$ to CA\$	500,000	1.222	Aug. 6, 2009	611,050	72,275
US\$ to CA\$	500,000	1.250	Nov. 18, 2009	625,150	86,484
US\$ to CA\$	500,000	1.248	Jan. 4, 2010	624,100	85,428
US\$ to CA\$	500,000	1.246	Apr. 1, 2010	623,150	84,388
US\$ to CA\$	500,000	1.152	July 2, 2010	576,250	37,675
US\$ to CA\$	500,000	1.100	Nov. 19, 2010	550,050	11,580
US\$ to CA\$	500,000	1.098	Feb. 18, 2011	549,200	10,800
US\$ to CA\$	500,000	1.098	May 19, 2011	549,050	10,368
US\$ to CA\$	500,000	1.098	Aug. 19, 2011	548,650	9,711

Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk consist of marketable securities, which consist of AAA-rated corporate discount notes with fixed interest rates and maturities at the date of purchase of four months or less, and cash equivalents which are with highly rated financial institutions. Therefore, the Company considers the interest rate risk to be low. A 0.5% change in interest rates would not have a material impact on net earnings for the year ended July 31, 2009.

Credit risk

Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, marketable securities and accounts receivable. Cash and cash equivalents consist of bank balances maintained at highly rated financial institutions. Marketable securities consist of AAA-rated corporate discount notes. The Company's practice is to invest in AAA-rated investments with maturities at the date of purchase of four months or less. Therefore, the Company considers the risk of non-performance for cash, cash equivalents and marketable securities to be low.

The Company performs ongoing credit reviews of its debtors and records an allowance for doubtful accounts when accounts are determined to be uncollectible. The Company recorded an uncollectible balance of \$1,812 in its net earnings for the year ended July 31, 2009.

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The aging of trade accounts receivable as at July 31, 2009 was as follows:

	\$	%
Current	374,087	68
Past due 0–30 days	60,555	11
Past due 31–90 days	76,653	14
Past due over 90 days	39,814	7
	<hr/>	
	551,109	100

The Company's exposure to credit risk for trade accounts receivable for customers with greater than 10% of the total balance was as follows:

	2009 %	2008 %
Customer 1	32	47
Customer 2	14	18
Customer 3	13	13

Liquidity risk

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

Fair value of financial instruments

The Company has evaluated the fair value of its financial instruments based on the current interest rate environment, related market values and current pricing of financial instruments with comparable terms. The carrying value of its financial instruments is considered to approximate fair value.

5 Marketable securities

Marketable securities comprise the following:

	2009 \$	2008 \$
Debt securities, at cost (which approximates market value)	<hr/> -	1,195,168

The marketable securities at July 31, 2008 consisted of AAA-rated discount notes which matured on August 14, 2008 and December 1, 2008 and had annualized yields of 2.9% and 3.4%, respectively.

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6 Accounts receivable

Accounts receivable comprise the following:

	2009	2008
	\$	\$
Trade	551,109	283,936
Accrued interest	1,694	-
Foreign currency forward contracts	408,710	-
Other	35,317	53,685
	<hr/>	<hr/>
	996,830	337,621
	<hr/>	<hr/>

7 Inventories

Inventories comprise the following:

	2009	2008
	\$	\$
Finished goods – Enzymes	189,475	239,400
Finished goods – Arthritis diagnostic kits	55,991	31,602
Work in process – Enzymes	76,456	21,753
	<hr/>	<hr/>
	321,922	292,755
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In 2009, the cost of inventories recognized as expense and included in cost of sales amounts to \$1,135,344 (2008 – \$844,960).

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8 Property and equipment

Property and equipment comprise the following:

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Machinery and equipment	1,397,814	1,019,101	378,713
Furniture and fixtures	586,692	572,042	14,650
Leasehold improvements	531,574	394,393	137,181
	<u>2,516,080</u>	<u>1,985,536</u>	<u>530,544</u>
	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Machinery and equipment	1,167,565	959,943	207,622
Furniture and fixtures	586,692	568,381	18,311
Leasehold improvements	386,278	373,402	12,876
	<u>2,140,535</u>	<u>1,901,726</u>	<u>238,809</u>

During the year ended July 31, 2009, the Company disposed of fully amortized property and equipment that were no longer in use, with a total cost of \$249,488 for total sale proceeds of \$19,449 (2008 – \$13,244). The gain on disposal of \$19,449 was included in net earnings for the year.

9 Identifiable intangible assets

Identifiable intangible assets as at July 31, 2009 and 2008 comprised the following:

	Cost	Accumulated amortization and writedown	Net
	\$	\$	\$
Diagnostic technologies – Arthritis	2,723,942	2,723,942	-
Therapeutic technologies – Arthritis	329,982	329,982	-
	<u>3,053,924</u>	<u>3,053,924</u>	<u>-</u>

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On June 26, 2008, the Company disposed of all of its identifiable intangible assets related to cancer research, with a net book value of nil, for total sale proceeds of \$48,873, reimbursement of expenses of \$7,536 and a future 2% royalty on all net applicable future revenues of the acquirer related to this technology in excess of \$2 million. The proceeds of \$48,873 comprised cash of \$25,000 and a receivable of \$25,000, which was due one year from the date of closing and was discounted at a rate of 5.25% to arrive at an amount of \$23,873. The gain on disposal of \$48,873 was included in net earnings for the year ended July 31, 2008.

10 Capital

The Company's objectives in managing its capital are to safeguard its ability to continue as a going concern by ensuring it has sufficient cash resources to maintain its ongoing operations, to provide returns for shareholders and to minimize the cost of capital. The Company defines its capital as shareholders' equity.

There was no change to the capital risk management strategy during the year ended July 31, 2009. Management is satisfied that it has adequate cash resources to maintain its ongoing operations.

11 Capital stock

Authorized – Unlimited as to number

First preferred shares, cumulative, redeemable, issuable in series. The first series consisted of 150,000 shares, convertible into common shares at a rate of 188.68 voting common shares for each preferred share. All transferred shares were converted into common shares

Second preferred shares, cumulative, redeemable, convertible, issuable in series

Third preferred shares, issuable in series

Common shares

Issued

	Book value	
	2009	2008
	\$	\$
24,703,244 Common shares	52,660,078	52,660,078

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12 Stock options

The Company uses the fair value based method of accounting for its stock options. The fair value of the options is estimated as at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for the year ended July 31, 2008:

Risk-free interest rate	4.27%
Expected dividend yield	Nil
Expected life of the options	10 years
Expected volatility	140%

During the year ended July 31, 2009, no options were granted. For the year ended July 31, 2008, the weighted average fair value of the options granted, at an exercise price at or above market price, was \$24,898.

For the year ended July 31, 2009, there was an increase in general and administrative expenses of \$5,301 (2008 – \$21,101) and a corresponding increase in contributed surplus for stock-based compensation amortization.

The Company had two stock option plans: the IBEX stock option plan and the IBEX Pharma stock option plan. Effective February 25, 2008, concurrent with the listing on the TSX Venture Exchange, the IBEX Pharma stock option plan was discontinued. The IBEX stock option plan remains in force.

a) IBEX stock option plan

Under the existing IBEX stock option plan, common shares may be issued to the Company's full-time employees, directors and consultants, the terms and conditions of the grants thereunder being contingent on the market value of the Company's stock, the discretion of the Board of Directors and regulatory requirements. The number of common shares reserved for issuance under this stock option plan is 2,000,000. The maximum term permissible under the plan is 10 years. The terms and the vesting privileges are determined at the date of grant. The vesting privileges for the options granted during the years ended July 31, 2009 and 2008 range from immediate to a one-year vesting term.

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The following table summarizes the IBEX stock option plan for the years ended July 31, 2009 and 2008:

	2009		2008	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Beginning balance	1,279,385	0.28	1,586,668	0.36
Granted	-	-	325,000	0.10
Expired	-	-	(3,885)	2.55
Cancelled	(510,000)	0.26	(628,398)	0.38
Ending balance	769,385	0.26	1,279,385	0.28

The following table summarizes the IBEX stock options outstanding as at July 31, 2009:

Range of exercise prices \$	Options outstanding			Options currently exercisable		
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number outstanding	Weighted average exercise price \$	
0.06	25,000	8.37	0.06	25,000	0.06	
0.10	280,000	8.66	0.10	280,000	0.10	
0.18–0.25	241,500	6.95	0.21	241,500	0.21	
0.33–0.45	57,500	4.16	0.35	57,500	0.35	
0.50–0.70	165,385	2.71	0.59	165,385	0.59	
	769,385	6.50	0.26	769,385	0.26	

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The following table summarizes the IBEX stock options outstanding as at July 31, 2008:

Range of exercise prices \$	Options outstanding			Options currently exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number outstanding	Weighted average exercise price \$
0.06	25,000	9.37	0.06	-	-
0.10	300,000	9.66	0.10	150,000	0.10
0.18-0.25	551,500	7.55	0.23	532,500	0.23
0.33-0.45	107,500	5.50	0.40	107,500	0.40
0.50-0.70	295,385	3.46	0.55	295,385	0.55
	1,279,385	6.96	0.28	1,085,385	0.32

b) IBEX Pharma stock option plan

The IBEX Pharma stock option plan consisted of executive and employee stock option plans under which common shares could be issued to the Company's full-time employees, directors and consultants, the terms and conditions of the grants thereunder contingent on the market value of the Company's stock, the discretion of the Board of Directors and regulatory requirements. Market value, unless otherwise determined by the Board of Directors, was determined using the closing price of the Company's common shares on the day preceding the grant. The option strike price was fixed by the Board of Directors and was not lower than the market value. Option holders under the IBEX Pharma stock option plans were also option holders under the IBEX plan (note 12(a)). Accordingly, if option holders under the IBEX plan exercised their IBEX options, options of equal value held in IBEX Pharma were cancelled and vice versa. The maximum number of common shares reserved for issuance under the IBEX Pharma option plan was increased on June 10, 2007 from 5,274,134 to 5,770,200 in order to mirror the IBEX stock option plan. The maximum term permissible under the plan was 10 years. The terms and the vesting privileges were determined at the date of grant. The vesting privileges for the options granted during the years ended July 31, 2009 and 2008 range from immediate to a one-year vesting term.

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The following tables summarize the IBEX Pharma stock option plan for the years ended July 31, 2009 and 2008:

	2009		2008	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Beginning balance	-	-	4,577,699	0.13
Granted	-	-	72,128	0.02
Cancelled	-	-	(4,649,827)	0.13
Ending balance	-	-	-	-

As at July 31, 2009 and 2008, there are no outstanding options in the IBEX Pharma stock option plan.

13 Income taxes

a) The Company's effective income tax rate consists of the following:

	2009 %	2008 %
Combined federal and provincial statutory income tax rate	30.90	31.37
Current year's operating losses not recognized in the accounts	4.92	12.28
Reduction in income tax expense arising from the recognition of a previously unrecognized tax loss	(37.62)	(43.08)
Other future income tax assets not recognized in the accounts	1.48	6.49
Permanent differences and other	0.32	(9.13)
	(30.90)	(33.44)
Effective tax rate	-	(2.07)

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b) The future income tax balance is summarized as follows:

	2009 \$	2008 \$
Future income tax assets		
Research and development expenditures pool	2,298,282	2,298,282
Investment tax credits	1,418,443	1,164,950
Non-capital losses carried forward	4,849,585	5,107,849
Capital loss carryforward	366,411	366,411
Difference between financial statement value and tax basis of property and equipment	383,867	379,701
	<u>9,316,588</u>	<u>9,317,193</u>
Valuation allowance	(9,316,588)	(9,317,193)
Total future income tax assets	<u>-</u>	<u>-</u>
Future income tax liabilities		
Difference between financial statement value and tax basis of identifiable intangible assets	-	-
Total future income tax liabilities	<u>-</u>	<u>-</u>
Net future income tax asset (liability)	<u>-</u>	<u>-</u>

c) IBEX has accumulated losses for federal tax purposes of approximately \$2,658,000 and for Quebec tax purposes of approximately \$2,658,000 for which no future tax benefit has been recognized in the accounts. These losses may be carried forward and used to reduce taxable income in future years, and will expire as follows:

	Federal \$	Quebec \$
2010	364,000	364,000
2014	355,000	355,000
2015	575,000	575,000
2026	321,000	321,000
2027	729,000	729,000
2028	116,000	116,000
2029 and thereafter	198,000	198,000

In addition, for federal tax purposes, the Company has available unclaimed research and development expenditures totalling approximately \$4,021,000 (\$3,598,000 for Quebec tax purposes) for which no future tax benefit has been recognized in the accounts. These expenditures can be used to reduce taxable income in future years and have no expiry date.

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Furthermore, the Company has unclaimed investment tax credits totalling approximately \$715,000 which can be used to reduce federal income taxes payable in future years for which no future tax benefit has been recognized in the accounts.

As at July 31, 2009, there was an excess of undepreciated capital cost over net book value of depreciable assets of approximately \$145,000 (\$80,000 for Quebec tax purposes) for which no future tax benefit has been recognized in the accounts. This amount is available to be charged over a number of years against future taxable income.

- d) IBEX Pharma has accumulated losses for federal tax purposes of approximately \$3,301,000 and for Quebec tax purposes of approximately \$3,507,000 for which no future tax benefit has been recognized in the accounts. These losses may be carried forward and used to reduce taxable income in future years, and will expire as follows:

	Federal \$	Quebec \$
2010	-	610,000
2015	1,214,000	1,203,000
2026	809,000	554,000
2027	1,278,000	1,140,000

In addition, for federal tax purposes, the Company has available unclaimed research and development expenditures totalling approximately \$4,534,000 (\$4,932,000 for Quebec tax purposes) for which no future tax benefit has been recognized in the accounts. These expenditures can be used to reduce taxable income in future years and have no expiry date.

Furthermore, the Company has unclaimed federal investment tax credits totalling approximately \$1,225,000 which can be used to reduce federal income taxes payable in future years and for which no future tax benefit has been recognized in the accounts. These credits may be carried forward and used to reduce taxable income in future years and will expire as follows:

	Federal \$
2011	301,000
2012	17,000
2013	103,000
2014	219,000
2015	232,000
2026	233,000
2027	120,000

The Company has capital losses in the amount of \$2,724,000 for which no future tax benefit has been recognized in the accounts. These capital losses may be carried forward indefinitely and offset against future capital gains.

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As at July 31, 2009, there was an excess of undepreciated capital cost over net book value of depreciable assets of approximately \$1,406,000 (\$1,178,000 for Quebec tax purposes) for which no future tax benefit has been recognized in the accounts. This amount is available to be charged over a number of years against future taxable income.

- e) A US subsidiary company has non-capital losses amounting to approximately US\$8,794,000 (CA\$9,476,000) for which no future tax benefit has been recognized in the accounts. These losses may be carried forward and used to reduce taxable income in the United States in future years, and will expire as follows:

	US\$	CA\$
2013	2,627,000	2,830,000
2019	4,836,000	5,211,000
2020	942,000	1,015,000
2021	308,000	332,000
2026	22,000	24,000
2027	20,000	22,000
2028	17,000	18,000
2029	12,000	13,000
2030	10,000	11,000

14 Related party transactions and balances

Transactions and balances with related parties in the ordinary course of business which are measured at the exchange amount and not otherwise disclosed are as follows:

	2009	2008
	\$	\$
Rental income charged to a shareholder	24,722	34,711
Consulting services charged by shareholders	-	4,375

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15 Segmented information and economic dependence

a) Industry

The Company operates in one industry segment: the production and sale of diagnostic products.

b) Geographic information

The Company operates in one geographic segment: Canada. The Company's sales by geographic region of the customer were as follows:

	2009	2008
	%	%
Canada	23	23
United States	51	50
Europe	22	23
Other	4	4
	<hr/>	<hr/>
	100	100
	<hr/>	<hr/>

c) The Company's sales to significant customers were as follows:

	2009	2008
	%	%
Customer 1	26	22
Customer 2	21	18
Customer 3	8	11

16 Commitments

a) The Company has future annual commitments under operating leases as follows:

	\$
Years ending July 31, 2010	82,051
2011	93,881
2012	92,580
2013	92,146
2014	71,078

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- b) On July 30, 2008, the Company entered into a licensing arrangement for certain arthritis technologies which calls for a payment to the licensor in the amount of \$75,000 should net sales related to this technology exceed \$1 million. The Company has also agreed to pay a royalty of 3% on the net sales related to this technology. As at July 31, 2009, no amounts have been disbursed or accrued for the contingent payments.

