

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

Consolidated Financial Statements  
**July 31, 2011 and 2010**

October 26, 2011

## **Independent Auditor's Report**

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

We have audited the accompanying consolidated financial statements of IBEX Technologies Inc./Technologies IBEX Inc., which comprise the consolidated balance sheets as at July 31, 2011 and 2010 and the consolidated statements of deficit, earnings and comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IBEX Technologies Inc./Technologies IBEX Inc. as at July 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP<sup>1</sup>*

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<sup>1</sup> Chartered accountant auditor permit No. 19983

# IBEX Technologies Inc./Technologies IBEX Inc.

Consolidated Balance Sheets

As at July 31, 2011 and 2010

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	2011 \$	2010 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,213,302	2,333,556
Marketable securities (note 5)	700,000	300,000
Accounts receivable (note 6)	779,783	422,761
Inventories (note 7)	327,050	226,364
Prepaid expenses	85,525	68,236
	<hr/>	<hr/>
	3,105,660	3,350,917
<b>Marketable securities</b> (note 5)	300,000	400,000
<b>Property and equipment</b> (note 8)	1,063,131	760,384
<b>Deposits</b>	10,500	8,650
	<hr/>	<hr/>
	4,479,291	4,519,951
	<hr/>	<hr/>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	286,787	472,042
	<hr/>	<hr/>
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 10)	52,660,078	52,660,078
<b>Contributed surplus</b> (note 11)	563,753	522,760
<b>Deficit</b>	(49,031,327)	(49,134,929)
	<hr/>	<hr/>
	4,192,504	4,047,909
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	4,479,291	4,519,951
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<b>Commitments</b> (note 15)		

Approved by the Board of Directors

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Director

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Director

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

Consolidated Statements of Deficit

For the years ended July 31, 2011 and 2010

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	<b>2011</b> \$	<b>2010</b> \$
<b>Balance – Beginning of year</b>	(49,134,929)	(49,641,291)
Net earnings for the year	<u>103,602</u>	<u>506,362</u>
<b>Balance – End of year</b>	<u>(49,031,327)</u>	<u>(49,134,929)</u>

# IBEX Technologies Inc./Technologies IBEX Inc.

## Consolidated Statements of Earnings and Comprehensive Income For the years ended July 31, 2011 and 2010

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	2011 \$	2010 \$
<b>Revenues</b>	2,243,902	2,628,746
<b>Expenses (income)</b>		
Research and development expenditures	259,837	42,367
Selling, general and administrative expenses and cost of goods sold	1,974,286	2,333,278
Amortization of property and equipment	158,873	131,161
Other interest and bank charges	11,696	11,356
Foreign exchange gain	(240,086)	(407,816)
Interest income	(24,306)	(13,156)
Loss on disposal and writeoff of property and equipment (note 8)	-	25,194
	<u>2,140,300</u>	<u>2,122,384</u>
<b>Earnings before income taxes</b>	103,602	506,362
<b>Provision for current income taxes</b> (note 12)	-	-
<b>Net earnings and comprehensive income for the year</b>	<u>103,602</u>	<u>506,362</u>
<b>Net earnings per share</b> (note 2)		
Basic and diluted	<u>0.00</u>	<u>0.02</u>

# IBEX Technologies Inc./Technologies IBEX Inc.

## Consolidated Statements of Cash Flows

For the years ended July 31, 2011 and 2010

	2011 \$	2010 \$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net earnings for the year	103,602	506,362
Items not affecting cash		
Amortization of property and equipment	158,873	131,211
Stock-based compensation costs (note 11)	40,993	121,207
Loss on disposal and writeoff of property and equipment (note 8)	-	25,194
	<u>303,468</u>	<u>783,974</u>
Changes in non-cash working capital items		
Decrease (increase) in accounts receivable	(357,022)	574,069
Decrease (increase) in inventories	(100,686)	95,558
Increase in prepaid expenses	(17,289)	(4,978)
Increase in deposits	(1,850)	-
Decrease in accounts payable and accrued liabilities	(185,255)	(289,166)
	<u>(662,102)</u>	<u>375,483</u>
	<u>(358,634)</u>	<u>1,159,457</u>
<b>Investing activities</b>		
Acquisition of property and equipment	(461,620)	(388,068)
Proceeds from disposal of property and equipment (note 8)	-	1,823
Purchase of marketable securities	(300,000)	(700,000)
	<u>(761,620)</u>	<u>(1,086,245)</u>
<b>Increase (decrease) in cash and cash equivalents during the year</b>	<u>(1,120,254)</u>	<u>73,212</u>
<b>Cash and cash equivalents – Beginning of year</b>	<u>2,333,556</u>	<u>2,260,344</u>
<b>Cash and cash equivalents – End of year</b>	<u>1,213,302</u>	<u>2,333,556</u>
<b>Supplemental information</b>		
Interest paid during the year	-	-
Income taxes paid during the year	-	-

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

Notes to Consolidated Financial Statements

**July 31, 2011 and 2010**

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## **1 Nature of operations**

IBEX Technologies Inc. (“IBEX” or the “Company”) is a biopharmaceutical company engaged in the production and sale of proprietary enzymes for use as reagents in hemostasis 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 (“GAAP”) 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.

As at July 31, 2011, cash equivalents include mutual funds and guaranteed investment certificates (“GICs”) in the amount of \$785,000 bearing interest at rates ranging from 1.70% to 2.26% (2010 – \$2,720,000).

### **Marketable securities**

Marketable securities are classified as held to maturity and recorded at amortized cost.

# IBEX Technologies Inc./Technologies IBEX Inc.

Notes to Consolidated Financial Statements

July 31, 2011 and 2010

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## Financial instruments

### 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.

#### *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.

# IBEX Technologies Inc./Technologies IBEX Inc.

## Notes to Consolidated Financial Statements

July 31, 2011 and 2010

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

<b>Asset/Liability</b>	<b>Classification</b>	<b>Basis of accounting</b>
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"). 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 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, does not contain an option feature and the contract is either denominated in the functional currency of the counterparty, 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.

During the year ended July 31, 2011, the impact of the change in fair value of the derivatives related to sales contracts is recorded in foreign exchange gain, and there is no balance outstanding as at July 31, 2011 (2010 – nil).

### **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.

# IBEX Technologies Inc./Technologies IBEX Inc.

## Notes to Consolidated Financial Statements

July 31, 2011 and 2010

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### Property and equipment

Property and equipment are carried at cost less accumulated amortization and government assistance. On February 1, 2010, the Company revised its estimate with respect to the way in which it consumes its property and equipment and revised its method of amortization on certain of its assets from declining balance to straight-line. The change in estimate, applied prospectively, did not have a material impact on amortization expense for the year ended July 31, 2010. Amortization is recorded based on the estimated useful lives of the related assets as follows:

	Method	Term
Machinery and equipment	Straight-line	2 to 30 years
Furniture and fixtures	Straight-line	2 to 10 years
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 after products are shipped to the customer.

### 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, 2011 and 2010, 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 collectibility is reasonably assured. For the year ended July 31, 2011, an amount of \$64,000 (2010 – nil) was recorded as a reduction of research and development expenditures.

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.

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

Notes to Consolidated Financial Statements

**July 31, 2011 and 2010**

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## **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 exchange 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 exchange rates and non-monetary assets and liabilities, at historical exchange rates. Revenues and expenses denominated in foreign currencies are translated at the average monthly exchange 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 any, to reflect their realizable amount.

## **Net earnings per share**

Net earnings per share is calculated using the weighted average number of shares outstanding of 24,703,244 (2010 – 24,703,244). The outstanding options (note 11) have been excluded from the computation of diluted earnings per share as they are non-dilutive.

## **Stock options**

The IBEX stock option plan is described in note 11.

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.

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

Notes to Consolidated Financial Statements

**July 31, 2011 and 2010**

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## **Future changes to accounting standards**

The Company will cease to prepare its consolidated financial statements in accordance with Canadian GAAP as set out in Part V of the Canadian Institute of Chartered Accountants (“CICA”) Handbook – Accounting (“Canadian GAAP”) for the year beginning on August 1, 2011 when it will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board as set out in Part I of the CICA Handbook – Accounting as its primary basis of accounting. Consequently, future accounting changes to Canadian GAAP effective for periods beginning on or after August 1, 2011 are not discussed in these consolidated financial statements as they will normally never be applied by the Company.

## **3 Writedown of loan receivable**

During the fiscal 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:

- i) 12 months from the date discussions between the parties in connection with the transaction have been terminated; or
- ii) the date the other party enters 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, 2011, no amounts had 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, 2011.

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.

In January 2009, the Company and Garvinci entered into a new agreement (the “Escrow Agreement”) in which, among other things, Garvinci agreed to share in the sales revenue from its sales to a customer in return for a reduction of interest rate from 12% to prime rate plus 1%.

In September 2009, the Company determined that Garvinci had not abided by the essential terms of the Escrow Agreement, whereupon the Company unilaterally cancelled the Escrow Agreement and reverted to the terms of its original loan agreement.

# IBEX Technologies Inc./Technologies IBEX Inc.

## Notes to Consolidated Financial Statements

July 31, 2011 and 2010

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Despite the Company's continuing efforts to seek reimbursement of interest and principle owed, no such payments have been made by Garvinci to date. Management has determined that the full provision continues to be appropriate as at July 31, 2011.

### 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 two years.

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 on the consolidated statement of earnings and comprehensive income as foreign exchange gain and on the consolidated balance sheet in accounts receivable.

The Company is exposed to foreign currency risk primarily as a result of sales revenues and expenses denominated in US dollars. Monetary balances denominated in foreign currencies as at July 31, 2011 and 2010 were as follows:

	<u>2011</u>		<u>2010</u>	
	\$	US\$	\$	US\$
Cash and cash equivalents	260,134	272,249	240,848	234,288
Accounts receivable	430,318	450,359	162,124	157,735
Accounts payable and accrued liabilities	11,706	12,251	13,586	13,216

The impact on the Company's financial instruments of a 5% increase in the US dollar exchange rate would be a \$33,937 foreign exchange gain recorded in net earnings for the year ended July 31, 2011 (2010 – \$19,490).

# IBEX Technologies Inc./Technologies IBEX Inc.

## Notes to Consolidated Financial Statements

July 31, 2011 and 2010

The following table summarizes the Company's foreign exchange currency commitments as at July 31, 2011:

Forward foreign exchange contracts	Notional amount US\$	Exchange rate	Maturity date	Notional equivalent \$	Fair market value \$
<b>Sell</b>					
US\$ to CA\$	500,000	1.097	Aug. 19, 2011	548,650	69,257
US\$ to CA\$	500,000	1.050	Oct. 28, 2011	525,000	44,594
US\$ to CA\$	500,000	1.070	Dec. 20, 2011	535,100	53,910
US\$ to CA\$	500,000	1.072	Feb. 06, 2012	536,150	54,266
US\$ to CA\$	500,000	1.045	May 10, 2012	522,500	39,407

### Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk consist of marketable securities, which comprise GICs held at highly rated institutions, with variable interest rates and maturities at the date of purchase of four months or more. 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 years ended July 31, 2011 and 2010.

### 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 financial institutions with high credit ratings. Marketable securities consist of GICs held at highly rated institutions. The Company's practice is to invest in GICs held at highly rated institutions, with maturities at the date of purchase of four months or more. Therefore, the Company considers the risk of non-performance for cash and 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 aging of trade accounts receivable as at July 31, 2011 was as follows:

	\$	%
Current	318,279	74
Past due 0–30 days	99,405	23
Past due 31–90 days	12,634	3
Past due over 90 days	-	-
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	430,318	100

# IBEX Technologies Inc./Technologies IBEX Inc.

## Notes to Consolidated Financial Statements

July 31, 2011 and 2010

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

	2011 %	2010 %
Customer 1	41	45
Customer 2	36	27

### Liquidity risk

Liquidity risk is risk that the Company will be unable 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.

### 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.

Certain of the Company's financial instruments are recorded at their fair value. Fair value is used to determine the values at which these instruments could be traded in a current transaction between willing parties. When these financial instruments are not traded in public markets, their fair value is established based on a set of predetermined criteria, which minimizes the subjectivity of the valuation. The Company categorizes its financial instruments according to the following three hierarchical levels:

Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 – Valuation techniques based primarily on observable market data; and

Level 3 – Valuation techniques not based primarily on observable market data.

The following tables show the breakdown of the fair value valuation of the financial instruments among the three levels.

	2011			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Cash and cash equivalents	1,213,302	-	-	1,213,302
Accounts receivable	-	261,435	-	261,435

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Notes to Consolidated Financial Statements

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				<b>2010</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Cash and cash equivalents	2,336,016	-	-	2,336,016
Accounts receivable	-	223,363	-	223,363

## 5 Marketable securities

Marketable securities, which consist of debt securities held at highly rated institutions, are as follows:

			<b>2011</b>	<b>2010</b>
<b>Debt securities</b>	<b>Maturity</b>	<b>Yield</b>	<b>Amount</b>	<b>Amount</b>
		%	\$	\$
GIC	April 8, 2013	2.26	300,000	-
GIC	March 8, 2012	1.95	400,000	400,000
GIC	November 23, 2011	1.70	300,000	-
GIC	April 6, 2011	1.35	-	300,000
			1,000,000	700,000

## 6 Accounts receivable

Accounts receivable comprise the following:

	<b>2011</b>	<b>2010</b>
	\$	\$
Trade	430,318	165,677
Gain on forward foreign exchange contracts	261,435	223,363
Other	88,030	33,721
	779,783	422,761

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## 7 Inventories

Inventories comprise the following:

	2011 \$	2010 \$
Finished goods – Enzymes	311,257	197,130
Finished goods – Arthritis diagnostic kits	15,541	14,419
Work in process – Enzymes	252	14,815
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	327,050	226,364
	<hr/>	<hr/>

For the year ended July 31, 2011, the cost of inventories recognized and included in cost of sales amounts to \$957,246 (2010 – \$1,156,657).

## 8 Property and equipment

Property and equipment comprise the following:

	<b>2011</b>		
	<b>Cost</b> \$	<b>Accumulated amortization</b> \$	<b>Net</b> \$
Machinery and equipment	1,779,719	889,169	890,550
Furniture and fixtures	592,643	573,569	19,074
Leasehold improvements	274,920	121,413	153,507
	<hr/>	<hr/>	<hr/>
	2,647,282	1,584,151	1,063,131
	<hr/>	<hr/>	<hr/>
	<b>2010</b>		
	<b>Cost</b> \$	<b>Accumulated amortization</b> \$	<b>Net</b> \$
Machinery and equipment	1,338,896	794,467	544,429
Furniture and fixtures	597,370	579,428	17,942
Leasehold improvements	625,709	427,696	198,013
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	2,561,975	1,801,591	760,384
	<hr/>	<hr/>	<hr/>

As at July 31, 2010, capitalized property and equipment includes assets under construction with a carrying amount of \$190,974. There were no such assets as at July 31, 2011.

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## 9 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 years ended July 31, 2011 and 2010. Management is satisfied that it has adequate cash resources to maintain its ongoing operations.

## 10 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

	<b>Book value</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
24,703,244 Common shares	<u>52,660,078</u>	<u>52,660,078</u>

## 11 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, 2010:

Risk-free interest rate	3.46%
Expected dividend yield	nil
Expected life of the options	10 years
Expected volatility	146%

During the year ended July 31, 2011, no options were granted. For the year ended July 31, 2010, the weighted average fair value of the options granted at an exercise price at or above market price was \$162,200.

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## Notes to Consolidated Financial Statements

July 31, 2011 and 2010

For the year ended July 31, 2011, there was an increase in general and administrative expenses of \$40,993 (2010 – \$121,207) and a corresponding increase in contributed surplus for stock-based compensation amortization.

### 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 upon 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 year ended 2010 range from immediate to a one-year vesting term.

The following tables summarize the IBEX stock option plan for the years ended July 31, 2011 and 2010:

	2011		2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Beginning balance	1,478,385	0.24	769,385	0.26
Granted	-	-	720,000	0.23
Expired	(42,885)	0.50	(11,000)	0.52
Cancelled	(120,000)	0.19	-	-
	1,315,500		1,478,385	

The following table summarizes the IBEX stock options outstanding as at July 31, 2011:

	Options outstanding			Options currently exercisable	
Range of exercise prices \$	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number outstanding	Weighted average exercise price \$
0.06	25,000	6.37	0.06	25,000	0.06
0.10	245,000	6.66	0.10	245,000	0.10
0.18–0.25	876,500	7.56	0.22	876,500	0.22
0.33–0.45	38,500	3.54	0.36	38,500	0.36
0.50–0.70	130,500	1.15	0.59	130,500	0.59
	1,315,500			1,315,500	

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The following table summarizes the IBEX stock options outstanding as at July 31, 2010:

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	7.37	0.06	25,000	0.06
0.10	280,000	7.66	0.10	280,000	0.10
0.18–0.25	961,500	8.53	0.22	491,500	0.22
0.33–0.45	57,500	3.16	0.35	57,500	0.35
0.50–0.70	154,385	1.84	0.60	154,385	0.60
	<u>1,478,385</u>			<u>1,008,385</u>	

## 12 Income taxes

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

	2011 %	2010 %
Combined federal and provincial statutory income tax rate	29.03	30.32
Current year's operating losses not recognized in the accounts	42.98	6.38
Reduction in income tax expense arising from the recognition of a previously unrecognized tax loss	(155.54)	(55.12)
Other future income tax assets not recognized in the accounts	78.76	10.21
Permanent differences and other	4.77	8.21
	<u>(29.03)</u>	<u>(30.32)</u>
Effective tax rate	-	-

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## Notes to Consolidated Financial Statements

July 31, 2011 and 2010

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

	2011 \$	2010 \$
Future income tax assets		
Research and development expenditures pool	2,342,612	2,306,444
Investment tax credits	1,453,026	1,425,015
Non-capital losses carried forward	4,050,808	4,398,531
Capital loss carryforward	373,746	373,746
Difference between financial statement value and tax basis of property and equipment	465,647	420,239
	<hr/>	<hr/>
	8,685,839	8,923,975
Valuation allowance	(8,685,839)	(8,923,975)
	<hr/>	<hr/>
Total future income tax assets	-	-

- c) The Company has accumulated losses for federal and Quebec tax purposes of approximately \$2,533,000 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:

	\$
2014	355,000
2015	575,000
2026	321,000
2027	729,000
2028	116,000
2029	198,000
2030 and thereafter	239,000

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.

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, 2011, 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.

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## Notes to Consolidated Financial Statements

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- d) IBEX Pharma has accumulated losses for federal tax purposes of approximately \$1,740,000 and for Quebec tax purposes of approximately \$2,043,000 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:

	<b>Federal</b> \$	<b>Quebec</b> \$
2015	-	349,000
2026	462,000	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 \$4,681,000 (\$5,119,000 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 \$1,272,000 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:

	<b>Federal</b> \$
2021	301,000
2022	17,000
2023	103,000
2024	219,000
2025	232,000
2026	233,000
2027	120,000
2030	8,000
2031	39,000

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.

As at July 31, 2011, there was an excess of undepreciated capital cost over net book value of depreciable assets of approximately \$1,710,000 (\$1,482,000 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.

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Notes to Consolidated Financial Statements

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- e) A US subsidiary company has non-capital losses amounting to approximately US\$8,818,000 (CA\$8,427,000) 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\$	CAS
2013	2,627,000	2,510,000
2019	4,836,000	4,621,000
2020	942,000	900,000
2021	308,000	295,000
2025	22,000	22,000
2026	20,000	19,000
2027	17,000	16,000
2028	12,000	12,000
2029	13,000	12,000
2030	13,000	12,000
2031	8,000	8,000

## 13 Related party transactions

The Company had no related party transactions during the years ended July 31, 2011 and 2010.

## 14 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:

	2011 %	2010 %
Canada	26	25
United States	47	47
Europe	23	23
Other	4	5
	<hr/>	<hr/>
	100	100
	<hr/>	<hr/>

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Notes to Consolidated Financial Statements

July 31, 2011 and 2010

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

	2011 %	2010 %
Customer 1	26	27
Customer 2	26	25
Customer 3	10	9

## 15 Commitments

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

	\$
Years ending July 31, 2012	128,194
2013	127,760
2014	97,789
2015	7,875
2016	7,875

- 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, 2011 and 2010, no amounts have been disbursed or accrued for the contingent payments.