



IBEX TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FISCAL 2011

YEAR ENDED JULY 31, 2011

As at November 2, 2011



MANAGEMENT DISCUSSION AND ANALYSIS

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November 2, 2011

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MANAGEMENT'S DISCUSSION & ANALYSIS

November 2, 2011

1. PREAMBLE

The following Management Discussion and Analysis ("MD&A") should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the years ended July 31, 2011 and 2010. The Company's audited annual consolidated financial statements and notes thereto are prepared in accordance with Canadian generally accepted accounting principles and using Canadian dollars as its reporting currency. The significant accounting policies upon which these financial statements and information are based are detailed in Note 2 of our audited annual consolidated financial statements. Selected annual information for the three most recently completed financial years and a summary of quarterly results for each of the eight most recently completed quarters is included in this report. Additional information relating to the Company, including the Company's Proxy Circular, can be found on SEDAR at www.sedar.com.

Where "IBEX" or "the Company" is used, it is referring 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 risk factors section of the MD&A.

3. INTRODUCTION TO IBEX

The Company manufactures and markets a series of proprietary enzymes (heparinases and chondroitinases) for use in pharmaceutical research, including Heparinase I, which is used in many leading hemostasis monitoring devices.

IBEX also manufactures and markets a series of arthritis assays which are widely used in pharmaceutical research by our customers. These assays are based on the discovery of a number of specific molecular biomarkers associated with collagen synthesis and degradation.

3.1 Glycobiology / Haematology Enzymes

IBEX produces Heparinase I, Heparinase II, Heparinase III, Chondroitinase AC and Chondroitinase B via a proprietary recombinant expression system. This system allows the economic production of high purity recombinant forms of these GAG lyases. These enzymes and their uses are protected by an extensive patent suite.

These enzymes are sold directly by IBEX to manufacturers of medical devices, quality control labs and academic research institutions.



Heparinase I is the most important of the IBEX enzymes. Its potential lies in its ability to cleave heparin and low molecular weight heparins and thereby neutralize the effects of heparin and heparinoids, drugs commonly used in hospitals. *Heparinase I* recognizes and cleaves a pentasaccharide sequence which occurs in both heparin and the low molecular weight heparins, thereby neutralizing their anticoagulant activity.

IBEX produces its enzymes at its own site and at third party outside manufacturing facilities monitored by IBEX personnel.

IBEX and its partners have developed several diagnostic applications of *Heparinase I*, principally in the point-of-care market.

The Company also works with third parties in the development of new applications for its glycobiology enzymes.

3.2 Arthritis Assays

IBEX develops, manufactures and sells arthritis assays which enable the study of both the *synthesis* and *degradation* of cartilage components and are powerful tools in the study of osteo- and rheumatoid arthritis. These assays are a result of both internal Research and Development and in-licensing new 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. The marketing of these diagnostic kits is done 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: 4th QUARTER 2011

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 at July 31, 2011.

(in thousands of dollars, excluding per share amounts)	First Quarter Oct 31	Second Quarter Jan 31	Third Quarter July 31	Fourth Quarter July 31	Full Year
Fiscal 2011					
- Revenue	\$ 513	\$ 376	\$ 597	\$ 758	\$ 2,244
- Net (loss) earnings	(\$ 178)	(\$ 153)	\$ 131	\$ 303	\$ 103
- Basic and fully diluted net (loss) profit per common share	(\$ 0.01)	(\$ 0.01)	\$ 0.01	\$ 0.01	\$ 0.00
Fiscal 2010					
- Revenue	\$ 647	\$ 871	\$ 470	\$ 641	\$ 2,629
- Net earnings (loss)	\$ 72	\$ 425	\$ 138	(\$ 128)	\$ 506
- Basic and fully diluted net profit (loss) per common share	\$ 0.00	\$ 0.02	\$ 0.01	(\$ 0.01)	\$ 0.02



4.2 Net earnings for the Quarter

The Company recorded net earnings of \$303,243 for the fourth quarter ended July 31, 2011 compared to a net loss of \$128,436 for the fourth quarter of fiscal year 2010. The increase in net earnings in this fourth quarter is attributable to a gain on forward exchange due to a higher value of the Company's forward contracts, to an increase of 18% in sales and to an accrual for a research and development tax credit (see section 8.9 on forward contracts).

Consolidated foreign exchange (gain) loss			
	Q4, Fiscal 2011	Q3, Fiscal 2011	Q4, Fiscal 2010
Embedded derivatives	(\$ 3,120)	(\$ 8,072)	(\$ 67,165)
Foreign exchange agreements	(\$ 209,818)	(\$ 77,223)	\$ 76,036
Other loss (gain) on FX rate	\$ -	\$ -	\$ 32,360
Total of (gain) loss	(\$ 212,938)	(\$ 85,295)	\$ 41,231
Balance sheet revaluation			
US Cash	\$ 9,120	\$ 855	(\$ 6,650)
Trade receivables	(\$ 5,040)	\$ 19,928	(\$ 4,477)
Other US accounts	\$ 1,537	\$ 4,305	\$ 70
Total of (gain) loss on revaluation	\$ 5,617	\$ 25,088	(\$ 11,057)
Net (gain) loss on foreign exchange	(\$ 207,322)	(\$ 60,207)	\$ 30,174

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 US / Canadian exchange rate have a significant impact on the reported sales figures.

Reported sales for the quarter ended July 31, 2011 totaled \$758,203 as compared to \$641,550 for the same period in the prior year. Despite a strong Canadian dollar, sales for this quarter increased by 18%.

Sales Variations	Q4-F11 vs. Q4-F10
Currency Impact:	
• Total increase in USD	\$ 139,072
• Currency effects CAD	(\$ 22,419)
• Total change in CAD	\$ 116,653
Volume/mix/new product Impact:	
• Variation due to volume decrease USD	(\$ 28,872)
• Variation due to product mix USD	\$ 167,944
• Variation due to price USD	\$ -
• Variation due to new product(s) USD	\$ -
Total of variations due to Volume/mix/new products USD	\$ 139,072



4.4 Selling, General and Administrative expenses

Total expenses in the fourth quarter of fiscal 2011 decreased to \$454,960 from \$769,986 in the same quarter a year ago. Excluding the financial expenses, which include a foreign exchange gain of the Company's forward contracts; total expenses have decreased by 10%. This decrease in total expenses is attributable to several factors, including the recognition of an accrual for an R&D tax credit as well as a higher cost allocated to production. Selling, General and Administrative expenses were lower than last year due to a reduction in compensation expenses.

Expenses details for the quarter			
Quarter	Q4 Fiscal	Q3 Fiscal	Q4, Fiscal
Cost of goods sold ¹	\$ 409,302	\$ 136,958	\$ 367,804
Net R&D expenses ¹	\$ 34,855	\$ 83,984	\$ 42,367
SG&A ¹	\$ 180,633	\$ 285,108	\$ 288,410
Amortization	\$ 41,218	\$ 32,285	\$ 37,534
Write-off obsolete assets	\$ -	\$ -	\$ 4,000
Financial expenses	(\$ 211,048)	(\$ 9,455)	\$ 29,871
Total expenses	\$ 454,960	\$ 528,930	\$ 769,986

1- Cost of Goods Sold, R&D and SG&A exclude related amortization expense for the purposes of this presentation.

4.5 Cost of goods sold

Cost of goods sold consists principally of the costs of supplies, royalties, manufacturing labor and the allocation of fixed overheads, of which the allocation of fixed overheads is by far the largest component.

Cost of goods sold was slightly higher compared to the same period of the preceding fiscal year. When compared with the third quarter of fiscal year 2011, cost of goods sold increased by \$298,170 due to production of goods in advance of sale.

Cost of goods sold			
Quarter ended	July 31, 2011	April 30, 2011	July 31, 2010
Sales	\$ 758,203	\$ 597,074	\$ 641,550
Cost of goods sold	\$ 420,194	\$ 122,024	\$ 380,205
Gross margin %	45%	80%	41%

4.6 Research and Development expenses

Research and development expenses consisted primarily of personnel expenses, laboratory supplies and external service providers. During the quarter ended July 31, 2011, net research and development expenses totaled \$35,384 (gross R&D expenses for the three months ended July 31, 2011 were \$99,384, which were partially offset by the recognition of an accrual for an R&D tax credit). The research and development expenditures in the same period ended July 31, 2010 totaled \$42,367 as these new projects started in the fourth quarter of fiscal 2010.



5. RESULTS OF OPERATIONS FOR THE YEAR ENDED JULY 31, 2011

5.1 Net earnings for the year ended July 31, 2011

IBEX recorded net earnings of \$103,602 for the year ended July 31, 2011 compared to net earnings of \$506,362 for fiscal year ended July 31, 2010. This decrease in net earnings is mainly attributable to several factors including:

- Lower sales in the first two quarters of fiscal 2011;
- Increase in R&D expenses for arthritis assays;
- Increase in amortization expenses due to investment in new equipment;
- The strengthening of the Canadian dollar against the US dollar, which negatively affects the reported sales.

Net earnings		
	Fiscal 2011	Fiscal 2010
Revenue	\$ 2,243,902	\$ 2,628,746
Net earnings	\$ 103,602	\$ 506,362
Basic and fully diluted net profit per common share	\$ 0.00	\$ 0.02

Consolidated cumulative foreign exchange (gain) loss		
	YTD Fiscal 2011	YTD Fiscal 2010
Embedded derivatives	(\$ 11,192)	(\$ 107,811)
Foreign exchange agreements	(\$ 498,735)	(\$ 374,354)
Other loss on FX rate	\$ -	\$ 182,397
Reversal from previous Fiscal year	\$ 223,363	(\$ 107,230)
Total of (gain)	(\$ 286,564)	(\$ 406,998)
Balance sheet revaluation		
US Cash	(\$ 38,510)	(\$ 25,279)
Trade receivables	\$ 40,592	(\$ 36,067)
Other US accounts	\$ 44,396	\$ 60,528
Total of loss (gain) on revaluation	\$ 46,478	(\$ 818)
Net (gain) loss on foreign exchange	(\$ 240,086)	(\$ 407,816)

For a more detailed explanation of the foreign exchange impact, see other risks Section 8.9.

5.2 Revenue for the year ended July 31, 2011

Reported sales for the year ended July 31, 2011 were \$2,243,902 compared to \$2,628,746 for the same period in the prior year, representing a decrease of 15%. The net decrease of \$384,844 in sales vs. year ago is mainly due to a downturn in unit volume and a change in currency.

The net decrease in sales vs. year ago was \$384,844, of which USD\$319,625 can be attributed to an actual decrease in sales and the balance (\$65,219) to the negative currency



impact. The negative volume variance of USD\$420,694 was partially affected by a variance in product mix of USD\$101,069.

Sales variations	July 31, 2011 vs. July 31, 2010
Currency impact:	
• Total decrease in USD	(\$ 319,625)
• Currency effects CAD	(\$ 65,219)
• Total change in CAD	(\$ 384,844)
Volume/mix/new product Impact:	
• Variation due to volume decrease USD	(\$ 420,694)
• Variation due to product mix USD	\$ 101,069
• Variation due to new product(s) USD	(\$ 319,625)

5.3 Selling, General & Administrative expenses for the year ended July 31, 2011

Operating expenses for year ended July 31, 2011, totaled \$2,140,300 compared to \$2,122,384 for year ended July 31, 2010. Excluding financial and net R&D expenses, operating expenses decreased to \$2,134,648 from \$2,489,633 when compared to the same period in last fiscal year. This decrease in operating expenses is mainly attributable to a reduction in compensation expenses and higher inventory allocation (as mentioned previously in section 4.4).

Expense details		
Year ended	July 31, 2011	July 31, 2010
Cost of good sold ²	\$ 957,347	\$ 1,156,657
Net R&D expenses ²	\$ 259,876	\$ 42,367
SG&A	\$ 1,018,428	\$ 1,176,621
Amortization	\$ 158,873	\$ 131,161
Write-off of obsolete assets	\$ -	\$ 25,194
Financial expenses	(\$ 254,224)	(\$ 409,616)
Total	\$ 2,140,300	\$ 2,122,384

2- Cost of Goods Sold and R&D exclude amortization expense for the purposes of this presentation.

5.4. Cost of goods sold and Gross margin for the year ended July 31, 2011

Cost of goods sold consists principally of the costs of supplies, royalties, manufacturing labor and the allocation of fixed overheads, of which the allocation of fixed overheads is by far the largest component. Gross margin remained stable when compared with fiscal year 2010.

Cost of goods sold		
Year ended	July 31, 2011	July 31, 2010
Sales	\$ 2,243,902	\$ 2,628,746
Cost of goods sold	\$ 1,001,145	\$ 1,209,482
Gross margin %	55%	54%



5.5 Research and development expenses

Through a focused effort to improve our technology, the Company has hired, in the fourth quarter of fiscal 2010, a small scientific team to work on improving and augmenting its arthritis assays product line. Net research and development expenses for year ended July 31, 2011 totaled \$259,876 compared to \$42,367 for year ended July 31, 2010. The increase in research and development expenses is partially offset by an accrual for an R&D tax credit of \$64,000.

6. LIQUIDITY AND CAPITAL RESOURCES

6.1 Overview

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 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.

The Company is well capitalized to cover its obligations, in that it has cash and cash equivalents and marketable securities of \$2,213,302 and liabilities of only \$286,787. During the year ended July 31, 2011, the Company used cash to finalize its production capacity expansion project which ended during the second quarter of fiscal year 2011.

As of July 31, 2011, the Company had a net working capital of \$2,818,873 compared to a net working capital of \$3,278,875 as of July 31, 2010. When compared to the previous fiscal year 2010, the decrease in net working capital is mainly attributable to a decrease in cash due to the completion of the production capacity expansion project and to the new Research & Development initiatives.

As at:	July 31, 2011	April 30, 2011	Jan. 31, 2011	Oct. 31, 2010	July 31, 2010
Cash, cash equivalents and marketable securities	\$ 2,213,302	\$ 1,986,434	\$ 2,231,287	\$ 2,853,555	\$ 3,033,556
Net working capital	\$ 2,818,873	\$ 2,350,754	\$ 2,598,828	\$ 3,007,680	\$ 3,278,875

6.2 Contractual obligations

Contractual obligations, other than those pertaining to employment contracts which are more fully explained in the proxy as of July 31, 2011, are currently limited to lease payments.

(In thousands of dollars)	Total	2012	2013	2014	2015	2016
Operating leases*	\$ 354	\$ 128	\$ 128	\$ 98	\$ 8	\$ 8
Total	\$ 354	\$ 128	\$ 128	\$ 98	\$ 8	\$ 8

*IBEX Pharmaceuticals' current lease (which is renewable) runs out in April of 2014.



7. LOOKING FORWARD

7.1 Glycobiology Enzymes

To improve its manufacturing capacity, IBEX has invested approximately \$700,000 in production-related capital expenses during Fiscal Years 2010 and 2011. This investment includes the purchase of a new freeze-dryer to add capacity for future growth of lyophilized disposable components devices, and importantly, as a backup to the existing freeze-drying equipment. This investment was made on the expectation that additional sales from current and new customers would be forthcoming over the next few years, although there can be no assurance that such sales will in fact materialize.

7.2 Arthritis Assays

In Fiscal 2010 we formed a new assay research and development capability which will not only serve as added technical support to our customers, but also as a research source of new products and the development of new and improved versions of our existing assays.

8. RISKS AND UNCERTAINTIES

8.1 General Risk Factors

IBEX products are sold to device manufacturers, to pharmaceutical companies for pre-clinical research, and to contract research organizations for clinical studies. As such, IBEX is dependent on the successful marketing by the device manufacturers and the frequency and size of pre-clinical and clinical studies.

IBEX products are mainly sold in US currency and as such, the Company is highly exposed to currency fluctuations.

8.2 Market Demand

Changes in market demand could affect sales of the Company's enzyme reagents and sales of its arthritis assays into research applications. A decrease in demand for such products could have a material adverse effect on the Company.

8.3 Regulatory Approval

Since IBEX produces assays for research and development and device components for third parties, the cost of regulatory compliance, while not insignificant, is manageable within the context of IBEX turnover to remain competitive. However, there is no guarantee that this may not change in the future. Any such changes might have the effect of significantly increasing the cost of doing business for IBEX.

8.4 Intellectual Property

IBEX places great importance on the protection of its intellectual property and has a portfolio of patents and patent applications that it intends to enforce. However, unauthorized parties may infringe on the Company's patents or obtain information that is proprietary, and there can be no assurance that the Company's patent applications will be approved or that it will be able to successfully defend its existing patents in the case of infringement. Further, it is not clear whether the patents issued or patents that may be issued to IBEX will provide the



Company with any competitive advantages, or if any such patents will be the target of challenges by third parties, whether the patents of others will interfere with IBEX's ability to market its products or whether third parties will circumvent IBEX's patents by means of alternate processes. It may be possible for others to develop products that have the same effect as IBEX's products on an independent basis.

8.5 Competition

The impact of competition from other companies developing novel heparin reversal agents or arthritis assays may negatively affect IBEX's anticipated revenue streams. Certain of the companies which could be considered IBEX's competitors have substantially more financial and technical resources, more extensive research and development capabilities and greater marketing, distribution, production and human resources than IBEX does.

8.6 Financial Resources

IBEX has limited financial resources and limited opportunities to raise additional capital should the occasion warrant. There can be no assurance that IBEX will be able to improve or maintain a positive cash flow if events in the marketplace change materially.

8.7 Reliance on Key Personnel

IBEX relies upon a small staff of key employees who possess the knowledge and know-how to continue the Company's operations. There is no assurance that the Company will be able to maintain its personnel, or readily replace those who may leave.

8.8 Contingencies

In the normal course of operations, claims may arise against the Company pertaining to undesired side effects with respect to products 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 the Company's results of operations or financial position.

8.9 Other Risks

Foreign exchange risks

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. In order to take advantage of the improving exchange rate, the Company has outstanding agreements with the Royal Bank of Canada to sell US dollars as follows:

\$	<u>Settlement date</u>	<u>Foreign exchange</u>
US\$ 500,000	August 19, 2011	CAD\$ 1.10
US\$ 500,000	October 28, 2011	CAD\$ 1.05
US\$ 500,000	December 20, 2011	CAD\$ 1.07
US\$ 500,000	February 6, 2012	CAD\$ 1.07
US\$ 500,000	May 10, 2012	CAD\$ 1.05

On July 31, 2011, the average of the forward exchange rates for these contracts was approximately CAD\$1.07 and the value of the forward exchange contracts on July 31, 2011 was \$261,435. This compares to the value as at July 31, 2010 of \$223,363 which was taken into profit in fiscal 2010 with an offset recorded in other receivables.

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

	July 31, 2011		July 31, 2010	
	CAD\$	US\$	CAD\$	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

Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk consist of marketable securities, which consist of guaranteed certificates of investment held on 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 quarter ended July 31, 2011.

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. When the Company invests in marketable securities, they shall consist of guaranteed certificates of



investment held on highly rated institutions and mutual funds. The Company's policy is to invest in investments held by highly rated institutions with maturities at the date of purchase of up to four months or more. 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 aging of trade accounts receivable as at July 31, 2011 was as follows:

	CAD\$	%
Current		
Past due 0-30 days	318,279	74%
Past due 31-90 days	112,039	26%
Past due over 90 days	-	-
	<u>430,318</u>	<u>100</u>

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

	July 31, 2011	July 31, 2010
	%	%
Customer 1	41	45
Customer 2	36	27

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.

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 valuation. The Company categorizes its financial instruments according to 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 table shows 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

9. RELATED PARTY TRANSACTIONS

During the quarter ended July 31, 2011, the Company did not have any related party transactions.

10. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results can differ from those estimates. We have identified the following areas which we believe require management's most subjective judgments, often requiring the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods.

10.1 Valuation Allowance for Future Tax Assets

The Company has recorded a valuation allowance on future tax assets primarily related to the carry-forward of operating losses, research and development expenses and federal research and development income tax credits. The Company has determined that it is not more likely than not, at this time, that these carry-forward amounts will be realized based on historical results and estimated future taxable income. The generation of future taxable income or the implementation of tax planning strategies could result in the realization of some or all of the carry-forward amounts, which could result in a material change in our net income (loss) through the recovery of future income taxes.

10.2 Stock Based Compensation

When the Company issues stock options to certain employees, directors and officers of the Company, a fair value is derived for the stock options using the Black-Scholes pricing model. The application of this pricing model requires management to make assumptions regarding several variables, including the expected life of the options, the price volatility of the Company's stock over a relevant timeframe, the determination of a relevant risk free interest rate and the Company's dividend policy in the future.

11. NEW ACCOUNTING STANDARDS ISSUED AND NOT ADOPTED

11.1 International Financial Reporting Standards (IFRS)

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that IFRS, as issued by the International Accounting Standards Board (IASB), would replace Canadian Generally Accepted Accounting Principles (GAAP) for Canadian publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. As a result, the Company will be required to changeover to IFRS for its fiscal year 2012 interim and annual financial statements with comparative information for fiscal 2011.

The Company's transition to IFRS is substantially completed as at July 31, 2011. The Company modified its process to monitor divergences between Canadian GAAP and IFRS for this IFRS comparative year, the impact of which is non-significant. The Company identified relevant necessary procedures to capture any new financial information required by IFRS. The overall impact of the transition to IFRS from an operational point of view has been nominal with no significant changes required to the Company's operations or reporting environment.

The Company's August 1, 2010 transition adjustments are presented below. Readers are cautioned that the information presented below reflects the most recent assumptions and expectations of management. Circumstances beyond the control of management may require changes to such information due to any new changes to IFRS standards and interpretations. The information below may be subject to change.

Identification and impact on accounting policy changes

IFRS 1 – First-time adoption of IFRS

The adoption of IFRS will require the application of "First-time adoption of International Financial Reporting Standards", which provides entities adopting IFRS for the first time with a number of optional exemptions in certain areas, to the general requirement for full retrospective application of IFRS.

The Company will apply the exemptions of IFRS 1. The overall impact to shareholders' equity as a result of the reclassification is non-significant.

The Company has also made the following IFRS election that will not result in a direct transition adjustment.

IFRS 2 – Share-based payment

The Company has a stock option plan that will be subject to IFRS 2 – Share-Based Payments. Under this standard, the expense related to the arrangement must be recognized based on a financial model such as Black-Scholes. The stock option plan is currently calculated based on the Black-Scholes model.

The vesting privileges for the options granted range from immediately to a one-year vesting term. No adjustments will arise from the adoption of IFRS 2.



IAS 12 – Income taxes

Under Canadian GAAP, an entity is required to present both current and long-term future income taxes on its balance sheet. Under IFRS, an entity must present them entirely as long-term.

IAS 16 – Property, plant and equipment (PP&E)

Property, plant and equipment permits assets to be measured based on either at cost model or a revaluation model. Under a revaluation model, an item of property, plant and equipment is carried at a revalued amount, being the fair value at the date of the revaluation.

IFRS also requires to depreciate separately each significant component of an item of PP&E, using useful lives and depreciation methods that reflect the expected pattern of consumption. Practice under Canadian GAAP has been to depreciate PP&E based on component parts when practicable.

The property, plant and equipment review and analysis has been completed. The Company plans to continue to use the cost model under IFRS.

No significant adjustment is expected from the adoption of this standard.

IAS 32 & IAS 39 – Financial instruments presentation, recognition and measurement

IAS 32 and 39 establish the recognition and measurement criteria for financial assets and liabilities, including classification criteria. The Company performed an assessment and there is no significant impact.

IAS 36 – Impairment of assets

Impairment of assets uses a one-step approach for testing and measuring asset impairment. Asset carrying values are being compared to the higher of the value in use and fair value less disposal costs. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists.

As of July 2011, an assessment has been prepared and no impairment adjustment was required.

Identification and resolution of key information technology (IT) and data systems requirements

The Company has performed an initial analysis of its data system infrastructure and has concluded that transition to IFRS will not result in a material modification to any of its IT processes resulting from divergences noted previously. It should be noted however that future amendments to IFRS may result in IT infrastructure complexities not considered at the time of writing of this management analysis. Management has concluded that the Company's current reporting information systems are compatible with the requirements of IFRS that impact the context of the Company's internal reporting environment.

Internal control over financial reporting

The overall impact of IFRS adoption on the internal control over financial reporting environment has not been significant. The Company has modified its IT environment to reflect these requirements. This revision has been made at minimal cost and minimal complexity.

Internal control over financial reporting

The Company is currently in the process of assessing the impact the divergences noted above will have on its internal control and financial reporting structure. Further updates to this key element will be made upon finalization of this assessment. It is the Company's intention to have controls in place that address the divergences noted above by the quarter ended October 31, 2011.

12. DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Controller, together with other members of management, after evaluating the effectiveness of the Company's disclosure controls and procedures as of July 31, 2011, have concluded that the Company's disclosure controls and procedures are adequate and effective enough to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

13. INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Director of Finance, together with other members of management, after having designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with the issuer's GAAP as of July 31, 2011, have identified certain weaknesses in internal controls over financial reporting:

- i) owing to the limited number of staff at the Company, it is not feasible to achieve complete segregation of incompatible duties;
- ii) owing to the limited number of staff, the Company does not have a sufficient number of finance personnel with all the technical accounting knowledge to address all non-routine accounting transactions that may arise.

Management and the Board of Directors work to mitigate the risk that results from these weaknesses :

- i) increased oversight and diligence by the CEO, Director of Finance, Audit committee and the Board to ensure that the risk of a misstatement resulting from this weakness is minimized;
- ii) the Company will, as necessary, engage qualified consultants to assist with the accounting for any complex and non-routine accounting transactions that may arise.



14. OUTSTANDING SHARE DATA

14.1 Authorized:

At November 2 2011, the Company's authorized capital stock consists of an unlimited number of:

- Cumulative, redeemable first preferred shares, 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;
- Cumulative, redeemable convertible second preferred shares, issuable in series;
- Third preferred shares, issuable in series;
- Voting common shares.

14.2 Issued and outstanding:

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

14.2.1 Common shares

As of November 2 2011 the Company has 24,703,244 common shares outstanding.

14.2.2 Stock options

As at November 2, 2011 the Company has 1,315,500 stock options outstanding with exercise prices ranging from \$0.06 to \$0.70 and expiry dates ranging from December 2011 to December 2019.

At November 2, 2011, on an if-converted basis, these stock options would result in the issuance of 1,315,500 common shares at an aggregate exercise price of \$312,755.

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