



IBEX TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FISCAL 2009

SIX-MONTH ENDED JANUARY 31, 2009

AS AT MARCH 10, 2009



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MANAGEMENT'S DISCUSSION & ANALYSIS

March 10, 2009

1. PREAMBLE

The following Management Discussion and Analysis ("MD&A") should be read in conjunction with the Company's unaudited consolidated interim financial statements for the six months ended January 31, 2009 as well as the audited consolidated financial statements and notes thereto for the years ended July 31, 2008 and 2007 which are prepared in accordance with Canadian generally accepted accounting principles. These interim unaudited consolidated financial statements have not been reviewed by the Company's auditors. This MD&A provides a review of the performance of the Company for the six-month period ended January 31, 2009 as compared to the six-month period ended January 31, 2008. Additional information relating to the Company 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. Solely for the convenience of the reader, selected financial results have been translated into U.S. dollars at the January 2009 month-end rate C\$1.00 = US\$ 0.8155. This translation should not be construed as an application of the recommendations relating to the accounting for foreign currency translation, but rather as supplemental information for the reader.

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 by our customers, as well 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 and increasing role of a number of specific molecular biomarkers associated with collagen synthesis and degradation.

3.1 Glycobiology / Haematology Enzymes

IBEX has focused on the isolation, characterization and high-level expression of glycosaminoglycan GAG lyase enzymes derived from *Flavobacterium heparinum*, a non-pathogenic soil organism. The Company has developed a proprietary *Flavobacterium heparinum* production 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.

IBEX produces heparinase I, heparinase II, heparinase III, chondroitinase AC and chondroitinase B. These enzymes are sold through its distributors for research purposes, and directly by IBEX to manufacturers of medical devices.

Of these enzymes, *Heparinase I IBEX* is the most important. 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 IBEX* 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, when demand warrants, at larger size third party outside manufacturing facilities monitored by IBEX personnel.

IBEX and its partners have developed several diagnostic applications of *Heparinase I IBEX*, principally in the point-of-care market. Key customers include Abbott Point of Care, Medtronic, Siemens, Haemoscope and Pentapharm.

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

3.2 Arthritis Assays

IBEX arthritis assays enable the study of both the *synthesis* and *degradation* of cartilage components and are powerful tools when used together since they can provide a direct measure of joint damage.

IBEX Arthritis Diagnostic kits and services are marketed and sold to pharmaceutical companies, clinical research organizations and academic institutions for research use only ("RUO"). The marketing of these diagnostic kits is done directly in North America and through a distributor in Europe.

4. RESULTS OF THE SECOND QUARTER

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 ten most recently completed quarters ending at January 31, 2009.

(in thousands of dollars, excluding per share amounts)	First Quarter October 31	Second Quarter January 31	Third Quarter April 30	Fourth Quarter July 31
Fiscal 2009				
Revenue	\$ 612	\$ 996		
Net profit	\$ 337	\$ 289		
Basic and fully diluted net profit (loss) per Common	\$ 0.01	\$ 0.01		
Fiscal 2008				
Revenue	\$ 555	\$ 549	\$ 713	\$ 510
Net profit (loss)	\$ (188)	\$ 88	\$ 259	\$ 189
Basic and fully diluted net profit (loss) per Common	\$ (0.01)	\$ 0.00	\$ 0.01	\$ 0.01
Fiscal 2007				
Revenue ⁽¹⁾	\$ 428	\$ 474	\$ 552	\$ 570
Net loss ⁽²⁾	\$ (775)	\$ (311)	\$ (816)	\$ (5,508)
Basic and fully diluted net loss per Common Share	\$ (0.03)	\$ (0.01)	\$ (0.04)	\$ (0.24)

Notes:

- (1) Research tax credits formerly presented as revenue are now presented as a reduction to research & development expenses. The revenues presented exclude research tax credits for all ten quarters.
- (2) Included in the Net loss of the fourth quarter of fiscal quarter 2007 are amounts of \$3,817,000 as write down for impaired intangible assets and \$1,061,000 as write down for an unrecoverable loan plus accrued interest.

4.2 Net Profit

Net profit for the second quarter of fiscal year 2009 was \$289,110 (US\$235,769), or \$0.01 per share, compared to a net profit of \$87,527, or \$0.00 per share, for the second quarter of fiscal year 2008, and as compared to a net profit of \$337,414 (\$0.01 per share) in the first quarter.

The decline from the first quarter, despite a significant increase in sales, traces to swings in the recording of foreign exchange. The first quarter benefited from a \$211,619 gain in foreign exchange, while the current quarter recorded a foreign exchange loss of \$43,002. Excluding the foreign exchange swings, the net profit was up \$179,052 (117%) versus the first quarter.

4.3 Revenue

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.

Revenues for the three-month period ended January 31, 2009 totaled \$995,557 (US\$811,877) compared to \$549,217 in the second quarter of fiscal 2008, representing an increase of 81%.

Of the \$446,340 increase over year ago, US\$233,570 can be attributed to real growth and \$212,770 to currency effect (based on average exchange rates, the US dollar strengthened against the Canadian dollar by 16% when compared to same quarter of the prior year).

Sales Variations	Q2-F09 vs. Q2-F08
Currency Impact:	
• Total increase in USD	\$233,570
• Currency effects CAD	\$212,770
• Total change in CAD	\$446,340
Volume/mix/new product Impact:	
• Variation due to volume increase USD	\$234,619
• Variation due to product mix USD	\$-
• Variation due to price USD	(\$1,549)
• Variation due to new product(s) USD	\$500
Total of variations due to Volume/mix/new products USD	\$233,570

4.4 Cost of goods sold

For the three months ended January 31, 2009, cost of goods sold decreased by \$18,525 (-7%) to \$237,747 (US\$193,883) from \$256,272 for the same period of the preceding fiscal year and margin increased from 53% to 76%. The relative increase in margin is primarily attributable to product mix, and secondarily to cost-reduction measures taken in the prior fiscal year.

An additional factor impacting year to year comparisons of cost of goods is the change in accounting treatment. Prior to Q3-F2008 the Company was considered an R&D Company, therefore all costs were expensed, including the cost of product-making and thus costs such as labor, material and overhead were not inventoried. Presently the Company is considered a manufacturing company and costs associated with product-making are inventoried at the time of production.

Cost of Goods Sold		
Quarter Ended	January 31, 2009	January 31, 2008
Sales	\$995,557	\$549,217
Cost of Goods	\$237,747	\$256,272
Gross Margin %	76%	53%

4.5 Expenses

Selling, general and administrative expenses for the three-month period ended January 31, 2009 were \$410,262 (US\$334,569) versus \$301,990 in the same period a year ago. The absolute increase in selling, general and administrative expenses was due primarily to the increase in the level of business activity but also to changes in the value of the US currency.

The US dollar was 2.18% lower on January 31, 2009 when compared to the end of the first quarter ended October 31, 2008 resulting in a foreign exchange loss of \$43,002 for the quarter. In contrast, the increase of the US dollar during the second quarter ended January 31, 2008 resulted in the Company recording an unrealized foreign exchange gain of \$95,089.

Selling, General, Administrative and Other Expenses		
Quarter Ended	January 31, 2009	January 31, 2008
SG&A	\$410,262	\$301,991
Amortization	\$16,818	\$17,732
Gain on disposal	(\$4,285)	\$ -
Financial expenses	\$45,905	\$(107,247)
Total	\$468,700	\$212,476

4.6 Research & Development expenses

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

5. RESULTS OF OPERATION: YEAR TO DATE OF FISCAL 2009

5.1 Net Profit

IBEX generated a net profit of \$626,525 (US\$510,931), or \$0.03 per share in the first six months of Fiscal 2009, compared to a net loss of \$100,647, or -\$0.01 per share, for the first six-months of Fiscal 2008.

As alluded to in discussion of the Q1 results, the net profit to date has not only benefited from increasing sales, but by the accounting of the foreign exchange impact on translation of receivables and imbedded derivatives. If the foreign exchange were to be excluded from net profit, the net profit for the first half would be reduced by \$168,617 to \$457,907.

For a more detailed explanation of the foreign exchange impact see Financial Instruments Section 11.2 c.

5.2 Revenue

Revenue for the six-months ended January 31, 2009 totaled \$1,607,988 (US\$1,311,314) compared to \$1,103,803 for the same period of last year (an increase of 45%) and as compared to \$612,430 in the previous quarter (an increase of 64%).

Sales of enzymes increased by 93% vs. the previous year, and by 57% vs. the previous quarter, tracing to continued strong demand for the point of care disposables sold by IBEX customers. Sales of arthritis assays were down 25% vs. year ago but up 97% vs. the previous quarter due to the influence in the year-ago of a large clinical trial-related shipment, that will not be repeated this year.

The net increase in sales was \$504,185, of which US\$280,287 can be attributed to real growth and \$223,898 to currency effect. Although we can attribute a variation of US\$282,336 to volume, this was partially offset by a negative (US\$4,925) variation in product mix and a variation due to price of US\$2,876. The recent increase of 22% of the US dollar vs. the Canadian dollar when compared to last year had a positive impact during the second quarter.

Sales Variations	Jan. 31, 2009 vs. Jan. 31, 2008
Currency Impact:	
• Total increase in USD	\$280,287
• Currency effects CAD	\$223,898
• Total change in CAD	\$504,185
Volume/mix/new product Impact:	
• Variation due to volume increase USD	\$282,336
• Variation due to product mix USD	(\$4,925)
• Variation due to price USD	\$2,876
• Variation due to new product(s) USD	\$-
Total of variations due to Volume/mix/new products USD	\$280,287

5.3 Cost of goods sold

Cost of goods sold (COGS) consists principally of the costs of supplies, royalties and manufacturing. For the six-month ended January 31, 2009, cost of goods sold decreased by \$48,998 (-9%) to \$485,498 from \$534,496 and margin increased from 52% to 70%. As mentioned previously in section 4.4, the increase in margin is attributable to a combination of product mix, cost reduction measures as well as changes in the manner of accounting for COGS.

Cost of Goods Sold		
Six months ended	January 31, 2009	January 31, 2008
Sales	\$1,607,988	\$1,103,803
Cost of Goods	\$485,498	\$534,496
Gross Margin %	70%	52%

5.4 Expenses (Excluding Cost of Goods)

Expenses for the six months ending January 31, 2009 (excluding cost of goods) were \$495,966 (US\$404,460) down 27% versus the same period year ago primarily due to a gain in Financial Expenses.

Selling, general and administrative expenses for the six months ended January 31, 2009 were down 3% at \$651,422 (US\$531,235) versus \$660,497 in the same period a year ago.

Financial expenses (which include interest income, bank charges and foreign exchange gain) saw a big gain, mainly attributable to a gain on foreign exchange by the translation of US currency accounts into CAD and the embedded derivatives. This translation resulted in a gain of \$149,995 compared to a loss of \$6,897 in the same period a year ago.

Selling, General, Administrative and Other Expenses		
Six-month ended	January 31, 2009	January 31, 2008
SG&A	\$651,422	\$660,497
Amortization	\$32,018	\$33,914
Gain on disposal	(\$10,389)	\$ -
Financial expenses	(\$177,085)	\$(17,398)
Total	\$495,966	\$677,013

5.5 Research & Development expenses

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

6. LIQUIDITY AND CAPITAL RESOURCES

6.1 Overview

As of January 31, 2009, IBEX had \$1,848,936 in cash, cash equivalents and marketable securities. This compares to cash, cash equivalents and marketable securities of \$1,676,039 as at October 31, 2008 and \$1,567,264 as at July 31, 2008. The Company manages liquidity risk by maintaining adequate cash balances to discharge its liabilities when due.

As of January 31, 2009, the Company had a net working capital of \$2,390,884 compared to net working capital of \$2,163,018 as at October 31, 2008 and \$1,832,492 as at July 31, 2008.

As at:	January 31, 2009	October 31, 2008	July 31, 2008
Cash, cash equivalents and Marketable Securities	\$1,848,936	\$1,676,039	\$1,567,264
Working Capital	\$2,390,884	\$2,163,018	\$1,832,492

6.2 Contractual Obligations

Contractual Obligations (other than those pertaining to Employment Contracts which are more fully explained in the Proxy) as of January 31, 2009 are currently limited to lease payments.

(In thousands of dollars)	Total	2009	2010	2011	2012	2013	2014
Operating leases	\$ 553	\$ 171	\$ 79	\$ 80	\$ 81	\$ 81	\$ 61
TOTAL	\$ 553	\$ 171	\$ 79	\$ 80	\$ 81	\$ 81	\$ 61

7. LOOKING FORWARD

IBEX has been successful in bringing its existing business to profitability and is now turning its attention to pursuing growth opportunities, including further growing its base business and maximizing shareholder value through strategic initiatives with companies where increased market strength and synergies might be obtained.

Operationally, IBEX continues to focus on developing value from its enzyme and arthritis business. Notable items in 2009 are expected to be:

7.1 Glycobiology

- increased sales from current enzyme customers
- the commencement of sales of third party glycobiology reagents as the Company expands its product line

7.2 Arthritis Assays

- the development of additional assays using third party resources
- sales of current assays at around the same level as 2008 (however, the arthritis assay business is volatile and cyclical, depending as it does on the timing of major studies, and there can be no assurance that 2009 sales will reach the level of 2008)

7.3 Other

- the benefits from a strengthening US dollar
- reduced occupancy costs as the benefits of the prior year's reorganization begin to flow through

8. RISKS AND UNCERTAINTIES

8.1 General Risk Factors

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

IBEX products are sold in US\$ 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 tests into research applications. A decrease in demand for such products could have a material adverse effect on the Company.

8.3 Regulatory Approval

The current line of IBEX products are not subject to regulatory approval. However, there is no guarantee that this may not change in the future. Any such changes may 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

The Company is exposed to market risks related to volatility in interest rates for the Company's investment portfolio and foreign currency exchange rates related to sales revenue and

purchases of supplies and services made in US dollars. In addition, the Company's share price is subject to equity market risk, which may result in significant speculation and volatility of trading due to the uncertainty inherent in the Company's business and in the biotechnology industry in general. The expectations of the Company made by securities analysts could also have a significant impact on the trading price of IBEX's common shares.

9. RELATED PARTY TRANSACTIONS

During the quarter ended January 31, 2009, the Company had the following related party transactions which were measured at the exchange amount as they were in the ordinary course of business:

- The Company received rental income from a member of the Board of Directors for office space occupied by that Director at the Company's business address. The amount of rental income received or to be received totals \$16,581.

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 and Amortization of Technology

The Company's intangible assets are comprised of purchased diagnostics and therapeutics technologies. The cost of the Company's technology is amortized over an estimated useful life of 18 years. The Company assesses its technology for recoverability whenever indicators of impairment exist. When the carrying value of an asset is greater than its net recoverable value as determined on an undiscounted basis, an impairment loss is recognized to the extent that its fair value is below the asset's carrying value.

10.2 Refundable Investment Tax Credits

Should the Company incur research and development expenditures which are eligible for refundable investment tax credits from the province of Quebec, the investment tax credits will be recorded based on our best estimates of amounts expected to be recovered. Actual investment tax credits received are based on the ultimate determination of the taxation authorities. Accordingly, actual amounts may vary from recorded amounts.

10.3 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 more likely than not, at this time, that these carry-forward amounts will not 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.

10.4 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 an assumption regarding the Company's dividend policy in the future.

11. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

11.1 Capital Disclosures

During the year ended July 31, 2008, the Company early adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures", as permitted by the standard. The standard requires the disclosure of both qualitative and quantitative information that enables the users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital.

The adoption of this Section did not have an impact on the Company's financial position, earnings or cash flows, however it did result in expanded disclosure.

11.2 Financial Instruments

During the year ended July 31, 2008, the Company adopted the 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 as it does not use hedge accounting. The Company elected to early adopt Sections 3862 and 3863, as permitted by the standards.

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 opening deficit as described below. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are as follows:

a) **Comprehensive income (loss)**

Comprehensive income (loss) 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 (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains and losses that are recognized in comprehensive income (loss) but excluded from net earnings (loss). The Company does not have any components that qualify as other comprehensive income (loss).

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 (loss) 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 (loss) 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 (loss) whenever it is necessary to reflect other than temporary impairment. Upon derecognition, all cumulative gains or losses are then recognized in net earnings (loss).

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 (loss) 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 (loss) 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, 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 quarter ended January 31, 2009, the impact of the change in the fair value of the derivatives related to sales contracts (\$69,466) is recorded as a gain in foreign exchange gain and an offset is recorded in accounts receivable.

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	February 9, 2009	CAD\$1.18
US\$500,000	May 7, 2009	CAD\$1.18
US\$500,000	August 6, 2009	CAD\$1.22
US\$500,000	November 18, 2009	CAD\$1.25

On February 9th, the exchange rate was CAD\$1.23, therefore, a loss of \$20,750 was recorded in the foreign exchange and an offset is recorded in accrued liabilities.

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 January 31, 2009 and July 31, 2008 were as follows:

	<u>January 31, 2009</u>		<u>July 31, 2008</u>	
	\$	US\$	\$	US\$
Cash and cash equivalents	593,574	484,059	309,507	302,253
Accounts receivable	571,121	465,651	283,936	277,280
Accounts payable and accrued liabilities	7,996	6,520	103,859	101,425

Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk consist of marketable securities, which consist of AAA-rated Government of Canada Treasury bill with fixed interest rates and maturities at the date of purchase of four months or less. 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 January 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 financial institutions with high credit ratings. Marketable securities consist of AAA-rated Government of Canada Treasury bills. The Company's policy 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. No allowance for doubtful accounts was recorded as at January 31, 2009.

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

	\$	%
Current	521,201	91
Past due 0-30 days	23,162	4
Past due 31-90 days	26,758	5
Past due over 90 days	<u>-</u>	<u>-</u>
	<u>571,121</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:

	January 31 2009	July 31, 2008
	%	%
Customer 1	34	47
Customer 2	15	18
Customer 3	14	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 and consider liquidity risk to be low.

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 be approximate fair value.

Inventories

On August 1st, 2008, the Company adopted CICA Handbook section 3031 "Inventories", which provides guidance on the determination of costs and their subsequent recognition as an expense, including the allocation of fixed and variable overheads; narrows the permitted costs formulas; and expands the disclosure requirements to increase transparency.

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. During the six months ended January 31, 2009 the Company recognized an expense of \$485,498 in cost of products sold.

	January 31, 2009	July 31, 2008
	\$	\$
Inventories		
Assay kits	23,804	31,602
Enzymes	304,906	239,400
Work in process - enzyme	-	21,753
Total inventory	<u>328,710</u>	<u>292,755</u>

General Standards of Financial Presentation

The CICA amended section 1400 of the CICA Handbook, "General standards of Financial Statement Presentation", to include a requirement that management make an assessment of an entity's ability to continue as a going concern when preparing financial statements. In making its assessment, when management is aware 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. This Section has no impact on the Company's financial statements.

Goodwill and Intangible Assets

In January 2007, the CICA Handbook Section 3064, "Goodwill and Intangible Assets" replaces the existing Handbook Section 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs". This standard is effective for interim annual financial statements relating to fiscal quarters commencing on or after January 2008. The standard provides guidance on the recognition, measurement and disclosures of goodwill and intangible assets. This Section does not have an impact of the financial statements.

12. NEW ACCOUNTING STANDARDS ISSUED AND NOT ADOPTED

12.1 International Financial Reporting Standards (“IFRS”)

The CICA plans to converge Canadian GAAP with IFRS over a transition period expected to end in 2011. The Company is in the process of determining the impact of the transition to IFRS on its consolidated financial statements.

13. 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 January 31, 2009, have concluded that the Company’s disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

14. INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Controller, 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 January 31, 2009, have identified certain weaknesses in internal controls over financial reporting which are as follows:

- i) due to the limited number of staff at the Company, it is not feasible to achieve complete segregation of incompatible duties;
- ii) due 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 rise.

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

- i) increased oversight and diligence by the CEO, Controller 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.

15. OUTSTANDING SHARE DATA

15.1 Authorized:

At March 10, 2009, 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.

15.2 Issued and Outstanding:

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

15.2.1 Common shares

As of March 10, 2009 the Company had 24,703,244 common shares outstanding.

15.2.2 Stock options

As of March 10, 2009 the Company had 1,249,385 stock options outstanding with exercise prices ranging from \$0.06 to \$0.70 and expiry dates ranging from June 2010 to March 2018. At March 10, 2009, on an if-converted basis, these stock options would result in the issuance of 1,249,385 common shares at an aggregate exercise price of \$341,638.

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