



IBEX TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FISCAL 2018

NINE MONTHS ENDED

APRIL 30, 2018

As at June 15, 2018



**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED APRIL 30, 2018**

June 15, 2018

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MANAGEMENT DISCUSSION AND ANALYSIS

June 15, 2018

1 PREAMBLE

The following Management Discussion and Analysis (“MD&A”) and IBEX Technologies Inc. (“Company”) unaudited condensed interim consolidated financial statements (“interim financial statements”) were approved by the Audit Committee and the Board of Directors on June 15, 2018. The MD&A provides a review of the developments and results of operations of the Company during the nine-month period ended April 30, 2018 compared with the nine-month period ended April 30, 2017.

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

The Company’s interim financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). Additional information relating to the Company, including the Company’s Proxy Circular, can be found on SEDAR at www.sedar.com.

Where “IBEX” or “the Company” is used, it refers to IBEX Technologies Inc. and its wholly owned subsidiaries, unless otherwise indicated. All amounts are in Canadian dollars, unless otherwise indicated.

2 FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that reflect the Company’s current expectations regarding future events. Any such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in these forward-looking statements. For more information on the Company’s risks and uncertainties relating to these forward-looking statements, please refer to the risks and uncertainties section of the MD&A.

3 INTRODUCTION TO IBEX**3.1 Enzymes**

The Company, through its wholly owned subsidiaries, IBEX Pharmaceuticals Inc. and Bio-Research Products Inc. (“BRP”), manufactures and markets enzymes for biomedical use.

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

Heparinase I is the most important of the IBEX enzymes. Its potential lies in its ability to cleave heparin and low molecular weight heparins and thereby neutralize the effects of heparin and heparinoids which are drugs commonly used in hospitals and which interfere with haemostasis tests. Heparinase I recognizes and cleaves a pentasaccharide sequence which occurs in both



unfractionated heparin and the low molecular weight heparins, thereby neutralizing their anticoagulant activity and thus facilitating the accurate measurement of haemostasis.

IBEX heparinase I is made via a proprietary process and is the only heparinase I approved for use in clinical diagnostics in North America and Europe.

IBEX produces its enzymes at its sites in Montréal, Québec and in North Liberty, Iowa, as well as at third party manufacturing facilities monitored by IBEX personnel.

In addition to making and selling enzymes, IBEX also provides lyophilization services for the making of disposable medical devices components used in the hemostasis point of care market.

3.2 Arthritis Assays

IBEX develops, manufactures and sells arthritis assay kits which enable the study of both the synthesis and degradation of cartilage components. These assays are powerful tools in the study of osteo and rheumatoid arthritis. These assays are a result of both internal research and development, and the in-licensing of technology from academic research institutions.

IBEX arthritis diagnostic kits and services are marketed and sold for research use only (“RUO”) to pharmaceutical companies, clinical research organizations and academic institutions. These diagnostic kits are marketed through distributors in Europe and Japan, and directly by IBEX in North American and the rest of the world. The kits are produced in IBEX facilities.

4 RESULTS OF OPERATIONS: Q3 FISCAL 2018

4.1 Summary of Quarterly Results

The following table is a summary of selected quarterly consolidated financial information of the Company for each of the eight most recently completed quarters ended April 30, 2018.

(In thousands of dollars, excluding per share amounts)	April 30		January 31		October 31		July 31		4 Quarters	
	2018 \$	2017 \$	2018 \$	2017 \$	2017 \$	2016 \$	2017 \$	2016 \$	2018 \$	2017 \$
- Revenues	1,389	1,115	893	1,542	1,183	1,210	1,460	862	4,925	4,729
- Net earnings (loss)	210	1	(416)	423	130	199	2,359	6	2,283	629
- Net earnings (loss) per common share	0.01	0.00	(0.02)	0.02	0.01	0.01	0.09	0.00	0.09	0.02
- Comprehensive income (loss)	238	49	(447)	390	151	230	2,289	60	2,231	729

Net earnings for the Quarter

The Company recorded a net earnings of \$209,806 during the third quarter ended April 30, 2018 compared to net earnings of \$1,450 for the same period year ago. This positive change of \$208,356 is related mainly to an increase in revenues of \$273,994 (see section 4.3) partially offset by an increase in expenses of \$65,638 (see section 4.4).

4.2 Foreign Exchange

The tables below show the fluctuation in the Canadian/US exchange rates which can have a significant impact on our results. Average rates are used to translate sales and expenses for the period mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities at the end of the reporting period.

Consolidated foreign exchange loss (gain)		
Quarter ended	April 30, 2018	April 30, 2017
Balance sheet revaluation		
US cash	\$73,821	\$59,006
US Trade receivables	\$16,364	\$25,995
Other US accounts	(\$193,104)	(\$178,071)
Total gain on revaluation	(\$102,919)	(\$93,070)

Canadian/US dollar rates		
Quarter ended	April 30, 2018	April 30, 2017
Average rate	1.2750	1.3314
Closing rate	1.2836	1.3650

4.3 Revenues for the Quarter

Note: While the Company reports in Canadian dollars, the US dollar is the Company's selling currency. As such, fluctuations in the Canadian/US exchange rate can have a significant impact on the reported revenues figures.

Revenues for the quarter ended April 30, 2018 increased by \$273,994 to \$1,389,312 compared to \$1,115,318 in the same period of the prior year. The increase in revenues represents a resumption of purchases by one of our customers who had excess inventory in the first and second quarters of Fiscal 2018.

The net increase in revenues vs. the same period year ago of \$273,994, can be attributed to an actual increase in revenues of \$325,950 (US\$255,641) less a negative variance of \$51,956 due to currency impact.

The positive revenue variance vs the same quarter of the previous years of US\$255,641 comprises a US\$464,936 positive variance in volume, offset by a negative variance in product mix of US\$206,713 and in new products of US\$2,582.

Sales variations – Quarter ended	April 30, 2018 vs. April 30, 2017
Volume/mix/new products impact:	
Increase due to volume USD	\$464,936
Decrease due to product mix USD	(\$206,713)
Decrease due to new products USD	(\$2,582)
Total increase due to volume/mix/new products USD	\$255,641
Currency impact:	
Total increase due to volume/mix/new products CAD	\$325,950
Currency negative effects in CAD	(\$51,956)
Total increase in CAD	\$273,994

During this third quarter, the average currency rate was 1.2750 compared to 1.3314 in the same quarter last year. This translates to a negative effect to the Company since its sells in US dollars, and reports in Canadian dollars.

4.4 Total Expenses for the Quarter

Total expenses in the third quarter of Fiscal 2018 increased to \$1,179,506 compared to \$1,113,868 in the same quarter year ago. The expenses are virtually the same as the quarter year ago (increase of \$65,638).

Expense details		
Quarter ended	April 30, 2018	April 30, 2017
Cost of goods sold ¹	\$763,537	\$582,300
R&D expenses	\$43,233	\$53,627
SG&A expenses ¹	\$406,357	\$495,018
Depreciation of PPE ²	\$76,682	\$67,387
Foreign exchange gain	(\$102,919)	(\$93,070)
Financial expenses	\$7,616	\$13,606
Total expenses	\$1,194,506	\$1,118,868
Other gains – net	(\$15,000)	(\$5,000)
Total expenses after other gains - net	\$1,179,506	\$1,113,868

1- Excludes related depreciation expenses for the purposes of this presentation.

2- PPE = Property, plant and equipment.

4.4.1 Cost of Goods Sold

The Company uses the actual-cost method of recording its production costs rather than a standard-cost method (because of the practicalities of the Company production, the standard-cost method is unsuitable). While the actual-cost method is most suitable to the Company's processes, it does result in the wide swings from quarter to quarter in the cost of goods sold due

to the "inventory allocation" effect (if more goods are produced in a quarter than are sold, there is a positive effect on the results; the reverse is true if more goods are sold than are produced).

Cost of goods sold consists principally of the costs of supplies, royalties, manufacturing labour and the allocation of fixed overheads.

Cost of goods sold		
Quarter ended	April 30, 2018	April 30, 2017
Revenues	\$1,389,312	\$1,115,318
Cost of goods sold ³	\$820,968	\$633,194
Gross margin %	41%	43%

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

The decrease in gross margin traces to cost allocation (the level of transfer of salaries, supplies, royalties and overhead to inventory) rather than to an increase in the costs of materials or labour.

4.4.2 Research and Development Expenses

Research and development (R&D) expenses consisted primarily of personnel expenses, laboratory supplies and external service providers. During the quarter ended April 30, 2018, research and development expenses totaled \$43,233 compared to \$53,627 in the same period year ago.

4.4.3 Selling, General and Administrative Expenses

During the quarter ended April 30, 2018, selling, general and administrative (SG&A) expenses totaled \$406,357 compared to \$495,018 in the same period year ago. The decrease of \$88,661 is related mainly to the costs associated with the termination of one employee in the quarter ended April, 30, 2017.

5 RESULTS OF OPERATIONS: NINE MONTHS ENDED APRIL 30, 2018

5.1 Summary of Results

The Company recorded net loss of \$75,931 for the nine months ended April 30, 2018 compared to net earnings of \$623,024 for the same period year ago. This negative change of \$698,955 is primarily attributable to the decrease in revenues of \$403,034 (see section 5.3) and an increase in expense of \$295,921 (see section 5.4).

Net (loss) earnings		
Year-to-date	Fiscal 2018	Fiscal 2017
Revenues	\$3,465,099	\$3,868,133
Net expenses	\$3,541,030	\$3,245,109
Net (loss) earnings	(\$75,931)	\$623,024
(Loss) earnings per share, basic and diluted	(\$0.00)	\$0.02

5.2 Foreign Exchange

The table below shows the fluctuation in the Canadian/US exchange rates which can have a significant impact on our results. As mentioned in section 4.2, average rates are used to translate revenues and expenses for the period mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities at the end of the reporting period.

Consolidated cumulative foreign exchange loss (gain)		
Year-to-date	Fiscal 2018	Fiscal 2017
Balance sheet revaluation		
US Cash	(\$48,086)	\$9,081
US Trade receivables	(\$62,504)	(\$1,799)
Other US accounts	\$26,348	(\$110,068)
Total gain on revaluation	(\$84,242)	(\$102,786)

Canadian/US dollar rates		
Year ended	April 30, 2018	April 30, 2017
Average rate	1.2635	1.3250
Closing rate	1.2836	1.3650

5.3 Revenues

Revenues for the nine months ended April 30, 2018 totaled \$3,465,099 and were down when compared to \$3,868,133 for the same period year ago. The decrease in revenues traces mainly to a reduction in purchases by one customer who built up substantial inventory in Fiscal 2017 in advance of the launch of one of their new products and have now returned to a more normal recurring purchasing pattern.

The net decrease in revenues vs. the same period year ago was \$403,034, of which \$210,311 (US\$167,786) can be attributed to an actual decrease in revenues and the balance of \$192,723 to the negative currency impact.

The negative variance in revenues came from a product mix variance of US\$315,980, offset by a positive variance in volume of \$144,101 and in new products of US\$4,093.

Sales variations – Year-to-date	Fiscal 2018 vs. Fiscal 2017
Volume/mix/new products impact:	
• Increase due to volume USD	\$144,101
• Decrease due to product mix USD	(\$315,980)
• Increase due to new products USD	\$4,093
Total decrease due to volume/mix/new products USD	(\$167,786)
Currency impact:	
• Total decrease due to volume/mix/new products CAD	(\$210,311)
• Currency negative effects CAD	(\$192,723)
• Total decrease in CAD	(\$403,034)

5.4 Total Expenses

Total expenses for the nine months ended April 30, 2018 totaled \$3,541,030 compared to \$3,245,109 for the same period year ago. The increase in operating expenses of \$295,921 traces mainly to an increase in the cost of goods sold expenses.

Expense details		
Year-to-date	Fiscal 2018	Fiscal 2017
Cost of goods sold ⁴	\$2,046,614	\$1,798,192
R&D expenses	\$144,188	\$152,080
SG&A expenses ⁴	\$1,236,944	\$1,191,626
Depreciation of PPE	\$216,088	\$208,469
Foreign exchange gain	(\$84,242)	(\$102,786)
Financial expenses	\$26,438	\$44,507
Total expenses	\$3,586,030	\$3,292,088
Other gains – net	(\$45,000)	(\$46,979)
Total expenses after other gains – net	\$3,541,030	\$3,245,109

4- Excludes related depreciation expenses for the purposes of this presentation.

5.4.1 Cost of Goods Sold

Cost of goods sold consists principally of the costs of supplies, royalties, manufacturing labour and the allocation of fixed overheads. For further explanation on the determination of the cost of goods sold, see section 4.4.1 above.

Cost of goods sold		
Year-to-date	Fiscal 2018	Fiscal 2017
Revenues	\$3,465,099	\$3,868,133
Cost of goods sold ⁵	\$2,213,171	\$1,959,928
Gross margin %	36%	49%

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

The decrease in gross margin traces to cost allocation (the level of transfer of salaries, supplies, royalties and overheads to inventory) rather than to an increase in the costs of materials or labour.

5.4.2 Research and Development Expenses

Research and development (R&D) expenses for the nine months ended April 30, 2018 totaled \$144,188 compared to \$152,080 for the same period year ago.

5.4.3 Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses for the nine months ended April 30, 2018 increased by \$45,318 to \$1,236,944 compared to \$1,191,626 for the same period year ago.

6 LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the potential risk that the Company will not be able to meet its financial liabilities when due. The Company's financial liabilities include its accounts payable and accrued liabilities presented on the consolidated statement of financial position, which are due within the next 12 months. The Company manages liquidity risk by maintaining adequate cash balances to discharge its liabilities when due.

As at April 30, 2018, the Company had net working capital of \$3,512,390 compared to net working capital of \$3,349,055 as at July 31, 2017. Cash and cash equivalents decreased by \$308,223 to \$2,696,404 as compared to \$3,004,627 as at July 31, 2017.

As at:	April 30, 2018	January 31, 2018	October 31, 2017	July 31, 2017	April 30, 2017
Cash and cash equivalents	\$2,696,404	\$2,708,984	\$3,108,941	\$3,004,627	\$3,001,410
Net working capital	\$3,512,390	\$3,216,453	\$3,501,390	\$3,349,055	\$3,664,184

Management believes that the Company has sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

7 LOOKING FORWARD

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

As previously reported, we expected to see lower sales in Fiscal 2018 vs. Fiscal 2017 as one of our major customers was building inventory in Fiscal 2017 in advance of a major new product introduction has reduced their off-take in Fiscal 2018. We expect, however, our sales to increase as this customer moves to a post-introduction sales pattern.

We also anticipate a weaker US dollar in Fiscal 2018, which is having, and will have, a negative impact on profitability.

The two factors mentioned above point to lower net earnings in Fiscal 2018 as compared to Fiscal 2017. On the positive side, with the completion of our Montréal fermentation facility, the Fiscal 2018 cash needs of the Company due to capital expenditures will be significantly reduced.

The Company continues to work on a number of projects with its key customers, some of which may result in additional revenues in Fiscal 2019 and beyond; however, as with all developmental projects, we cannot give any assurances that any of these projects will come to fruition and produce revenues.

8 RISKS AND UNCERTAINTIES

The results of operations and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of Management.

For more information, and for a complete description of the risk factors that could materially affect the business, please refer to the corresponding sections in the Company's July 31, 2017 MD&A, as they are the same for the nine months ended April 30, 2018.

9 RELATED PARTY TRANSACTIONS

During the nine months ended April 30, 2018 and 2017, other than the transactions and amounts described in *Note 9* in our interim financial statements, the Company did not have any other related party transactions.

10 CRITICAL ACCOUNTING ESTIMATES

Please refer to *Note 2* of the Company's July 31, 2017 audited consolidated financial statements and the corresponding section of the July 31, 2017 MD&A to review the Company's critical accounting estimates. They were the same as those used in the interim financial statements for the nine months ended April 30, 2018.

11 ACCOUNTING STANDARDS AND AMENDMENTS

Please refer to *Note 2* of the Company's April 30, 2018 interim financial statements.

12 OUTSTANDING SHARE DATA

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

12.1 Common Shares

As at June 15, 2018, the Company has 24,773,244 common shares outstanding.

In the quarter ended April 30, 2018, 70,000 stock options were exercised and 70,000 shares were issued for \$12,180.

12.2 Stock Options

As at June 15, 2018, the Company has 1,505,000 stock options outstanding with exercise prices ranging from \$0.05 to \$0.24 and expiry dates ranging from December 2019 to December 2027.

As at June 15, 2018, on an if-converted basis, these stock options would result in the issuance of 1,505,000 common shares at an aggregate exercise price of \$312,375.

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