Consolidated Financial Statements

Consolidated Statements of Financial Position 6

Consolidated Statements of Changes in Equity 7

Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income 8

Consolidated Statements of Cash Flows 9

Notes to Consolidated Financial Statements 10

THIS PAGE INTENTIONALLY LEFT BLANK

NOTICE TO THE READER OF THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Management's Statement of Responsibility for Financial Information

The consolidated financial statements are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards. Where necessary, management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in these consolidated financial statements and for ensuring that this information is consistent, where appropriate, with the information and data included in the consolidated financial statements.

The Company maintains a system of internal controls to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets. The consolidated financial statements have been audited by the Company's independent auditor, PricewaterhouseCoopers LLP, who has issued their report herein.

The Board of Directors is responsible for overseeing management in the performance of its responsibilities for financial reporting. The Board exercises its responsibilities through the Audit Committee which comprises three independent directors. The Audit Committee meets from time to time with management and the Company's independent auditor to review the financial statements and matters relating to the audit. The Company's independent auditor has full and free access to the Audit Committee. These consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

Paul Baehr
President and Chief Executive Officer

Montréal, Canada
November 7, 2018

Richard Collin, CPA, CA
Director of Finance

Montréal, Canada
November 7, 2018

THIS PAGE INTENTIONALLY LEFT BLANK

November 7, 2018

Independent Auditor's Report

To the Shareholders of
IBEX Technologies Inc.

We have audited the accompanying consolidated financial statements of IBEX Technologies Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at July 31, 2018 and 2017 and the consolidated statements of changes in equity, statements of (loss) earnings and comprehensive (loss) income and statements of cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IBEX Technologies Inc. and its subsidiaries as at July 31, 2018 and 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A123475

Consolidated Statements of Financial Position
In Canadian dollars

	Notes	**July 31, 2018 $**	July 31, 2017 $
Assets			
Current assets			
Cash and cash equivalents		**3,140,372**	3,004,627
Trade and other receivables	4	**718,030**	544,166
Inventories	5	**344,968**	478,357
Prepaid expenses		**90,086**	109,463
Total current assets		**4,293,456**	4,136,613
Non-current assets			
Property, plant, equipment and intangible assets	6	**2,771,042**	2,954,823
Deferred income tax assets	10	**2,382,125**	2,443,327
Total assets		**9,446,623**	9,534,763
Liabilities			
Current liabilities			
Trade and other payables		**621,213**	739,241
Current portion of long-term debt	7	**52,787**	48,317
Total current liabilities		**674,000**	787,558
Non-current liabilities			
Long-term debt	7	**982,870**	993,536
Total non-current liabilities		**982,870**	993,536
Total liabilities		**1,656,870**	1,781,094
Equity			
Share capital	12	**52,672,258**	52,660,078
Contributed surplus		**674,840**	585,159
Deficit		**(46,044,826)**	(45,949,637)
Accumulated other comprehensive income		**487,481**	458,069
		7,789,753	7,753,669
Total liabilities and equity		**9,446,623**	9,534,763

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors

______________________, Director ______________________, Director

Consolidated Statements of Changes in Equity

In Canadian dollars

	Notes	Share capital $	Contributed surplus $	Deficit $	Accumulated other comprehensive income $	Total $
As at July 31, 2016		52,660,078	568,633	(48,931,476)	481,506	4,778,741
Net earnings		-	-	2,981,839	-	2,981,839
Share-based compensation	12	-	16,526	-	-	16,526
Cumulative translation adjustments		-	-	-	(23,437)	(23,437)
As at July 31, 2017		**52,660,078**	**585,159**	**(45,949,637)**	**458,069**	**7,753,669**
Net loss		**-**	**-**	**(95,189)**	**-**	**(95,189)**
Stock options exercised	12	**12,180**	**(5,180)**	**-**	**-**	**7,000**
Share-based compensation	12	**-**	**94,861**	**-**	**-**	**94,861**
Cumulative translation adjustments		**-**	**-**	**-**	**29,412**	**29,412**
As at July 31, 2018		**52,672,258**	**674,840**	**(46,044,826)**	**487,481**	**7,789,753**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income

In Canadian dollars

	Notes	**For the year ended July 31, 2018** **$**	For the year ended July 31, 2017 (adjusted – note 16) $
Revenues		**4,729,599**	5,326,721
Cost of sales	8	**2,925,395**	2,611,321
Research and development expenses	8	**247,683**	201,871
Selling, general and administrative expenses	8	**1,733,287**	1,906,786
Operating (loss) earnings		**(176,766)**	606,743
Foreign exchange (gain) loss	8	**(110,859)**	125,689
Finance expenses - net	8	**33,080**	56,202
Other gains	8, 15	**(65,000)**	(90,811)
(Loss) earnings before income taxes		**(33,987)**	515,663
Income tax expense (recovery)	10	**61,202**	(2,466,176)
Net (loss) earnings		**(95,189)**	2,981,839
Other comprehensive income (loss)			
Foreign currency translation adjustments – gain (loss)		**29,412**	(23,437)
Comprehensive (loss) income		**(65,777)**	2,958,402
Basic and diluted net (loss) earnings per share	2	**(0.00)**	0.12

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows
In Canadian dollars

	Notes	**For the year ended July 31, 2018 $**	For the year ended July 31, 2017 $
Cash flows generated from operating activities			
Net (loss) earnings		**(95,189)**	2,981,839
Adjustments for non-cash income and expenses			
Depreciation of property, plant, equipment and intangible assets	6	**284,376**	273,613
Stock option-based compensation	12	**94,861**	16,526
Deferred income tax expense (recovery)	10	**61,202**	(2,466,176)
		345,250	805,802
Changes in non-cash working capital balances			
Increase in trade and other receivables		**(167,370)**	(140,506)
Decrease in inventories		**143,968**	186,023
Decrease (increase) in prepaid expenses		**19,910**	(17,735)
(Decrease) increase in trade and other payables		**(125,792)**	241,341
Net changes in non-cash working capital balances		**(129,284)**	269,123
Net cash generated from operating activities		**215,966**	1,074,925
Cash flows used in investing activities			
Purchase of property, plant and equipment	6	**(34,234)**	(880,776)
Purchase of intangible assets	6	**(3,486)**	(40,339)
Net cash used in investing activities		**(37,720)**	(921,115)
Cash flows used in financing activities			
Issuance of shares upon exercise of stock options	12	**7,000**	-
Repayment of long-term debt	7	**(49,501)**	(48,805)
Net cash used in financing activities		**(42,501)**	(48,805)
Net increase in cash and cash equivalents		**135,745**	105,005
Cash and cash equivalents at beginning of year		**3,004,627**	2,899,622
Cash and cash equivalents at end of year		**3,140,372**	3,004,627
Interest paid		**44,488**	49,023
Interest received		**29,585**	12,731

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1 General information

IBEX Technologies Inc. / Technologies IBEX Inc. ("IBEX" or the "Company"), through its wholly owned subsidiaries, manufactures and markets enzymes for biomedical use. IBEX also manufactures and markets a series of arthritis assays which are widely used in osteoarthritis research. These consolidated financial statements were authorized for issue by the Board of Directors on November 7, 2018 and were signed on its behalf.

The Company is a public company listed on the TSX Venture Exchange and is incorporated and domiciled in Canada. The address of its registered office is 5485 Paré Street, Suite 100, Montréal, Québec.

2 Summary of significant accounting policies

Basis of presentation

The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles in Canada as set out in the CPA Canada Handbook – Accounting – Part 1, which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned Canadian and US subsidiaries, Technologies IBEX R&D Inc., IBEX Pharmaceuticals Inc. ("IBEX Pharma"), IBEX Technologies Corporation and Bio-Research Products Inc. ("BRP").

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated on the date control ceases. Intercompany transactions and balances between companies are eliminated.

New and amended accounting standards adopted

The Company has adopted the following new and amended accounting standards (International Auditing Standards ("IAS")), along with any consequential amendments, effective August 1, 2017.

IAS 7 "Statement of Cash Flows"

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows". The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The adoption of this standard had no significant impact on the Company's consolidated financial statements.

IAS 12 "Income Taxes"

In January 2016, the IASB issued amendments to IAS 12, "Income Taxes", regarding the recognition of deferred tax assets for unrealized losses, effective for annual periods beginning on or after January 1, 2017. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The adoption of this standard had no significant impact on the Company’s consolidated financial statements.

Accounting standards issued but not yet applied

New accounting standards, amendments and interpretations issued but only effective for the Company beginning on or after August 1, 2018 are as follows:

IFRS 9 “Financial Instruments”

In July 2014, the IASB completed IFRS 9, “Financial Instruments”, in its three-part project to replace IAS 39, “Financial Instruments: Recognition and Measurement” with a single approach to determine whether a financial asset is measured at amortized cost or fair value. The standard includes requirements for recognition and measurement, impairment and general hedge accounting. The standard is effective for fiscal years beginning on or after January 1, 2018 with earlier adoption permitted. The adoption of this standard will have no significant impact on the Company’s consolidated financial statements.

IFRS 15 “Revenue from Contracts with Customers”

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. IFRS 15 supersedes IAS 18, "Revenue", IAS 11, "Construction Contracts", and other revenue-related interpretations. In September 2015, the IASB deferred the mandatory effective date of IFRS 15 to fiscal years beginning on or after January 1, 2018 with earlier adoption permitted. The adoption of this standard will have no significant impact on the Company’s consolidated financial statements.

IFRS 16 “Leases”

In January 2016, the IASB issued IFRS 16, “Leases”, which will replace IAS 17, “Leases”. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15 “Revenue from Contracts with Customers”. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all lease contracts, and record it on the balance sheet, except with respect to lease contracts that meet limited exception criteria. The Company is evaluating the impact of this standard on its consolidated financial statements.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, the valuation of long-lived assets, and the valuation of tax attributes. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of (loss) earnings and comprehensive (loss) income in the period in which they become known.

Functional and presentation currency and foreign currency translation

Presentation and functional currency

The financial statements of the Company’s subsidiaries are measured using their functional currency, which is the currency of the primary economic environment in which they operate and corresponds to their local currency.

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Translation of accounts of foreign subsidiaries

Accounts of foreign subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) Assets and liabilities are translated at the closing rate at the reporting date;

ii) Income and expenses are translated at the average monthly exchange rates; and

iii) All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at each reporting date's exchange rates, of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of (loss) earnings and comprehensive (loss) income.

Cash and cash equivalents

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

As at July 31, 2018, cash equivalents include money market funds totalling $605,000 and bearing interest at a rate of 1.35% (July 31, 2017 – $600,000 – 0.85%).

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Financial assets and financial liabilities at fair value through profit or loss: A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term.

Derivatives are also included in this category unless they are designated as hedges. All derivatives are classified as fair value through profit or loss and are included in the consolidated statement of financial position within other assets or other payables. As at July 31, 2018 and 2017, the Company had no derivative instruments.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of (loss) earnings and comprehensive (loss) income. Gains and losses arising from changes in fair value are presented in the consolidated statement of (loss) earnings and comprehensive (loss) income within "other gains" in the period in which they arise. Non-derivative financial assets and financial liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position date, which is classified as long-term.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from remeasurement are recognized in the consolidated statement of (loss) earnings and comprehensive (loss) income. Available-for-sale investments are classified as non-current unless an investment matures within twelve months or management expects to dispose of it within twelve months.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents and trade and other receivables, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade and other payables and long-term debt. Trade and other payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified at fair value through profit or loss) is impaired.

The criteria used to determine if objective evidence of an impairment loss exists include:

(i) significant financial difficulty of the obligor;

(ii) delinquencies in interest or principal payments; and

(iii) it becoming probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Derivatives

All derivative instruments are recorded in the consolidated statement of financial position at fair value at each statement of financial position date. Derivatives may be embedded in other financial instruments (the "host instrument"). 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 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 derivatives are measured at fair value at each statement of financial position date with subsequent changes recognized in net (loss) earnings in the period in which the changes arise.

The Company enters into certain contracts for the sale of non-financial items that are denominated in currencies other than the Canadian dollar, the Company's functional currency. In cases where the foreign exchange component is not leveraged and does not contain an option feature and the contract is either denominated in the functional currency of any party to the contract, 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 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.

Inventories

Raw materials are measured at the lower of cost or net realizable value. Cost is determined using the average cost method. Net realizable value corresponds to replacement cost in the normal course of business.

Work in process and finished goods are valued at the lower of cost or net realizable value determined on a first-in, first-out basis. Cost of finished goods comprises direct production costs such as raw materials, consumables, utilities, labour and production overheads such as depreciation, maintenance and occupancy costs. Net realizable value is the estimated selling price less applicable selling expenses. If carrying value exceeds net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation, government assistance and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of property, plant and equipment the cost of replacing parts of such item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the consolidated statement of (loss) earnings and comprehensive (loss) income during the period in which they are incurred.

Depreciation is recorded using the straight-line method based on the estimated useful lives of the related assets as follows:

	Term
Building	Varying from 10 to 40 years
Machinery and equipment	Varying from 2 to 30 years
Furniture and fixtures	Varying from 2 to 10 years
Leasehold improvements	5 years

Assets under construction are capitalized and are depreciated when ready to use.

Intangible assets

Intangible assets comprise software which are amortized using the straight-line method over a period of 4 to 5 years.

Impairment of long-lived assets

The Company assesses the carrying value of its long-lived assets, which comprise property, plant and equipment, for impairment when events or changed circumstances indicate that the carrying value may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or “CGUs”). Recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management). The amount of impairment loss, if any, is determined as the excess of the carrying value of the assets over their recoverable amount.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less or in the normal operating cycle of the business if longer. If not, they are presented as non-current liabilities.

Leases

Operating leases are deemed to be those leasing agreements which do not transfer to the Company substantially all the benefits and risks of ownership of an asset. Payments made under operating leases are charged to the consolidated statement of (loss) earnings and comprehensive (loss) income on a straight-line basis over the term of the lease.

Share-based compensation

The Company operates an equity-settled, share-based compensation plan under which the Company receives services from employees as consideration for equity instruments (stock options).

Compensation expense for stock options is included in net (loss) earnings, with the offset credited to contributed surplus. Using the fair value method, compensation expense is measured at the grant date and recognized over the vesting period of the stock options. Any consideration paid on exercise of stock options or purchase of stock is credited to share capital.

Share capital

Common shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments.

Net (loss) earnings per share

Net (loss) earnings per share is calculated using the weighted average number of shares outstanding of 24,773,244 as at July 31, 2018 (July 31, 2017 – 24,703,244). The options that are outstanding (note 12) have been considered in the computation of diluted (loss) earnings per share; however, these options had no impact on net (loss) earnings per share.

Revenue recognition

Revenue is measured by reference to the fair value of consideration received or receivable for goods supplied. Revenue from sales is recognized when all the following conditions have been satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods which occurs when the goods leave the Company’s premises.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Company.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Cost of sales

Cost of sales comprises the costs of manufactured products. It includes the purchase cost of raw materials, production costs directly related to the manufactured products and production overheads. Production overheads include depreciation of equipment and inventory allocations. Cost of sales also includes a relevant portion of general overheads to the extent that they are directly attributable to bringing the manufactured products to their present condition.

Research and development costs

Research costs are expensed when incurred. Development costs are capitalized as intangible assets when the conditions relating to the commercial and technical feasibility of the project, the ability to allocate the costs reliably and the probability of generating future economic benefits are fulfilled. Development costs are reviewed annually in order to determine whether the criteria for recognition as intangible assets are met.

As at July 31, 2018 and 2017, no such costs have been deferred in the accounts of the Company.

Government assistance relating to research and development activities is reflected as a reduction of net research and development expenditures in these consolidated financial statements as and when it is earned and collectability is reasonably assured. For the year ended July 31, 2018 and 2017, no such amounts have been recorded as a reduction of research and development expenditures.

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

Income taxes

The tax expense comprises current and deferred tax. When applicable, tax is recognized in the consolidated statement of (loss) earnings and comprehensive (loss) income.

Current income tax

The current income tax charge is based on the results for the period as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of each reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognized using the asset and liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred income tax assets or liabilities are settled. Deferred income tax assets are recognized only to the extent that it is probable that the assets will be realized. Deferred income tax assets and liabilities are presented as non-current.

3 Financial instruments

Currency risk

The Company operates internationally, and its sales are mainly 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 (loss) earnings and comprehensive (loss) income, financial position and cash flows.

The Company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by buying, from time to time, forward foreign exchange contracts to hedge a portion of the exposure of its foreign currency cash flows. Foreign exchange contracts will usually have a maturity of less than two years. As at July 31, 2018 and 2017, the Company has no forward foreign exchange contracts outstanding.

The Company does not use forward foreign exchange contracts for speculative purposes. The Company also does not apply hedge accounting, and these derivative contracts are being marked to fair value at every reporting date with changes recorded in the consolidated statement of (loss) earnings and comprehensive (loss) income as foreign exchange (gain) loss and in the consolidated statement of financial position as trade and other receivables or trade and other payables.

The Company is exposed to foreign currency risk primarily as a result of revenues and expenses denominated in US dollars. Financial instruments denominated in foreign currencies as at July 31, 2018 and July 31, 2017 were as follows:

	July 31, 2018		July 31, 2017	
	$	**US$**	$	US$
Cash and cash equivalents	**902,616**	**693,413**	1,718,661	1,376,581
Trade and other receivables	**532,155**	**408,815**	411,754	329,799
Trade and other payables	**16,797**	**12,904**	3,323	2,662

The impact on the Company's (excluding BRP) financial instruments of a 5% increase in the US dollar exchange rate would be a foreign exchange gain of $70,899 recorded in net (loss) earnings for the year ended July 31, 2018 (July 31, 2017 gain of $106,355).

Interest rate risk

The Company's interest rate risk related to the long-term debt is fixed for five years. Every five years, the interest rate will be revised based on the weekly average yield on US Treasury Securities adjusted (see note 7).

Given the above, 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 loss for the year ended July 31, 2018.

Credit risk

Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, as well as trade and other receivables. Cash and cash equivalents consist of bank balances and money market funds maintained at financial institutions with high credit ratings. Therefore, the Company considers the risk of non-performance for cash, cash equivalents 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 receivables as at July 31, 2018 was as follows:

Trade receivables	**$**	**%**
Current	607,662	89
Past due 31–90 days	76,649	11
Over 90 days	-	-
	684,311	100

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

	July 31, 2018 %	July 31, 2017 %
Customer 1	**35**	48
Customer 2	**14**	14
Customer 3	**11**	15

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 trade and other payables presented on the consolidated statement of financial position, which are due within the next 12 months and long-term debt. The Company manages liquidity risk by maintaining adequate cash balances to discharge its liabilities when due.

The following table details the maturities of the financial liabilities as at July 31, 2018.

	Carrying amount $	Contractual cash flows $	Less than 1 year $	Between 1 and 3 years $	Between 3 and 5 years $	More than 5 years $
Trade and other payables	621,213	621,213	621,213	-	-	-
Long-term debt obligations[1]	1,035,657	1,390,100	95,869	191,738	191,738	910,755
	1,656,870	2,011,313	717,082	191,738	191,738	910,755

1- See Note 7.

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.

Financial instruments

Except for derivatives, 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 with the exception of long-term debt.

The fair value of the Company's long-term debt was estimated at $907,074 (US$696,838) as at July 31, 2018 based on discounted future cash flows, using market interest rates available as at July 31, 2018 (July 31, 2017 - $970,575 (US$777,393)). Fair value is used to determine the values at which these instruments could be traded in a current transaction between willing parties. When these financial instruments are not traded in public markets, their fair value is established based on a set of predetermined criteria, which minimizes the subjectivity of the valuation.

The Company categorizes its financial instruments according to the following three hierarchical levels:

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

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

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

As at July 31, 2018 and 2017, there are no financial instruments that were accounted for using fair value.

4 Trade and other receivables

	July 31, 2018 $	July 31, 2017 $
Trade	**684,311**	479,416
Sales tax receivable	**33,719**	64,750
	718,030	544,166

5 Inventories

	July 31, 2018 $	July 31, 2017 $
Finished goods – Enzymes	**251,023**	444,229
Finished goods – Arthritis diagnostic kits	**30,480**	34,128
Work in process – Enzymes	**63,465**	-
	344,968	478,357

During the year ended July 31, 2018, the Company wrote off inventories that had expired in the amount of $35,406 (July 31, 2017 - $31,542). The related expense is included in the Cost of sales.

6 Property, plant, equipment and intangible assets

	Building $	Land $	Machinery and Equipment $	Furniture and Fixtures $	Leasehold Improvements $	Software $	Total $
As at July 31, 2016							
Cost	924,541	816,000	3,029,771	592,631	274,875	-	5,637,818
Accumulated depreciation	(187,599)	-	(2,215,458)	(585,261)	(274,875)	-	(3,263,193)
Net book amount	736,942	816,000	814,313	7,370	-	-	2,374,625
Year ended July 31, 2017							
Opening net book amount	736,942	816,000	814,313	7,370	-	-	2,374,625
Additions	-	-	746,302	-	134,474	40,339	921,115
Depreciation charge	(52,716)	-	(213,231)	(1,813)	-	(5,853)	(273,613)
Effect of exchange rate variations	(29,234)	(35,687)	(2,383)	-	-	-	(67,304)
Closing net book amount	654,992	780,313	1,345,001	5,557	134,474	34,486	2,954,823
As at July 31, 2017							
Cost	884,107	780,313	3,665,318	592,631	409,349	40,339	6,372,057
Accumulated depreciation	(229,115)	-	(2,320,317)	(587,074)	(274,875)	(5,853)	(3,417,234)
Net book amount	**654,992**	**780,313**	**1,345,001**	**5,557**	**134,474**	**34,486**	**2,954,823**
Year ended July 31, 2018							
Opening net book amount	654,992	780,313	1,345,001	5,557	134,474	34,486	2,954,823
Additions	-	-	11,373	-	22,861	3,486	37,720
Depreciation charge	(50,724)	-	(195,337)	(1,812)	(27,363)	(9,140)	(284,376)
Effect of exchange rate variations	26,795	33,250	2,830	-	-	-	62,875
Closing net book amount	**631,063**	**813,563**	**1,163,867**	**3,745**	**129,972**	**28,832**	**2,771,042**
As at July 31, 2018							
Cost	921,779	813,563	3,726,180	592,631	432,210	43,825	6,530,188
Accumulated depreciation	(290,716)	-	(2,562,313)	(588,886)	(302,238)	(14,993)	(3,759,146)
Net book amount	**631,063**	**813,563**	**1,163,867**	**3,745**	**129,972**	**28,832**	**2,771,042**

During the year ended July 31, 2018, assets under construction of $739,586, comprised of Machinery and Equipment of $582,251 (July 31, 2017 - $582,251) and Leasehold Improvements of $157,335 (July 31, 2017 - 134,474) were put into operations. The Company started recording depreciation charge on these assets during the second quarter of fiscal 2018.

7 Long-term debt

	July 31, 2018		July 31, 2017	
	US$	**CA$**	US$	CA$
Term loan [2]	**795,619**	**1,035,657**	834,484	1,041,853
Less: current portion	**40,553**	**52,787**	38,700	48,317
	755,066	**982,870**	795,784	993,536

[2] Term loan bearing interest at 4.20% repayable in blended monthly instalments of US$6,137 maturing on January 1, 2033.

In 2013, the Company has entered into a 20-year term loan that mirrors a mortgage, with variable interest rates. The initial interest rate is 4.25% for five years. Every five years, the interest rate will be revised based on the weekly average yield on US Treasury Securities adjusted to a constant maturity of five years, as made available by the Federal Reserve Board and published in the Wall Street Journal, using the most recent index figure as of the date 45 days before each Change Date (January 2013 - 0.75%), plus a margin of 3.5%.

The interest rate was revised to 4.20% for five years in January 2018.

The term loan is secured by the land and building of BRP.

The aggregate minimum amount of principal payments required in each of the next five years and thereafter is as follows:

Years ending July 31	$
2019	52,787
2020	54,967
2021	57,466
2022	59,961
2023	62,565
Thereafter	747,911

8 Expense by nature

	July 31, 2018 $	July 31, 2017 $
Salaries and benefits expense	**2,348,301**	2,594,981
Share-based compensation expense	**94,861**	16,526
Board compensation	**114,241**	84,996
Contracts and collaborators	**248,010**	55,083
Professional fees	**172,030**	154,637
Shareholders' relation fees	**34,359**	33,039
Occupancy costs	**397,864**	381,478
Insurance	**114,418**	111,925
Royalties	**23,295**	19,596
Sales, administration and all other expenses	**934,980**	810,071
Foreign exchange (gain) loss	**(110,859)**	125,689
Finance expense	**62,900**	68,745
Finance revenue	**(29,820)**	(12,543)
Changes in inventory allocation, work in process and finished goods	**139,630**	184,033
Depreciation of property, plant, equipment and intangible assets	**284,376**	273,613
Other gains (note 15)	**(65,000)**	(90,811)
	4,763,586	4,811,058

9 Key management compensation

Key management includes the Company's executives, members of the Audit Committee and the Board of Directors. Compensation awarded to key management included:

	July 31, 2018 $	July 31, 2017 $
Salaries, share-based compensation and employee benefits	**891,497**	938,635

As of July 31, 2018, no amount is due to key management in respect of the bonus plan (July 31, 2017 - $137,258).

10 Income taxes

a) Income tax expense (recovery)

	July 31, 2018 $	July 31, 2017 $
Current	**-**	-
Deferred	**61,202**	(2,466,176)
Income tax expense (recovery)	**61,202**	(2,466,176)

b) Effective tax rate

The Company's effective income tax rate differs from the statutory federal and provincial income tax rate in Canada. This difference arises from the following:

	July 31, 2018 %	July 31, 2017 %
Combined statutory tax rate	**26.74**	26.84
Unrecognized tax benefits	**(122.84)**	9.99
Adjustments from prior years and other adjustments	**135.32**	(31.13)
Non-deductible and other items	**(73.65)**	2.40
Rate changes and recognition of tax attributes not previously recognised [A]	**(143.11)**	(473.82)
Foreign subsidiary subject to higher tax rates	**(2.53)**	(12.53)
	(206.81)	(505.09)
Effective tax rate	**(180.07)**	(478.25)

[A] On December 22, 2017, the US Congress introduced important changes to US corporate income tax laws under the Tax Cuts and Jobs Act, which reduced the US statutory federal income tax rate to 21% from the previous rate of 35%. The impact of the change in tax rate resulted in a reduction of $1,220,789 of the Company US subsidiary deferred tax assets derived from non-capital losses carried forward. However, as the Company US subsidiary non-capital losses carried forward are not recognized, the net impact on the Company effective tax rate was nil.

c) Deferred income tax assets and liabilities

Deferred income tax assets, representing deductible temporary differences, tax loss carry-forwards and non-refundable unused tax credits, have been recognized to the extent that it is probable that sufficient taxable profits will be available to allow the assets to be recovered.

The components of the deferred income tax are as follows:

	July 31, 2018 $	July 31, 2017 $
Deferred income tax assets		
Research and development expenditures pool	**1,047,469**	1,124,064
Investment tax credits	**743,609**	774,386
Property, plant and equipment	**591,047**	544,877
Non-capital losses carried forward	**9,348**	59,904
Non-deductible reserve	**2,111**	6,978
	2,393,584	2,510,209
Deferred income tax liabilities		
Property, plant and equipment	**1,622**	11,224
Changes in method of accounting	**9,837**	55,658
	11,459	66,882
Net deferred income tax assets	**2,382,125**	2,443,327

Deferred income tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available to allow the assets to be recovered. Accordingly, some deferred income tax assets have not been recognized; these unrecognized deferred income tax assets amount to $5,760,355 (July 31, 2017 - $7,131,164).

As at July 31, 2018 and 2017, significant components of the Company's unrecognized deferred income tax assets are as follows:

	July 31, 2018 $	July 31, 2017 $
Deferred income tax assets		
Research and development expenditures pool	**1,319,388**	1,319,388
Investment tax credits	**707,782**	699,666
Non-capital losses carried forward	**3,217,042**	4,460,871
Non-deductible reserve	**164,861**	292,908
Capital loss carry forward	**320,311**	327,360
Property, plant and equipment	**30,971**	30,971
	5,760,355	7,131,164

d) Other

The Company has accumulated non-capital losses for federal and Québec tax purposes of approximately $2,494,000 for which no future tax benefit has been recognized in the accounts. These losses may be carried forward and used to reduce taxable income in future years, and will expire as follows:

	$
2026	321,000
2027	729,000
2028	116,000
2029	198,000
2030	93,000
2031	145,000
Thereafter	892,000
	2,494,000

A US subsidiary company has non-capital losses amounting to approximately US$9,329,000 (CA$12,146,000) for which no future tax benefit has been recognized in the accounts. These losses may be carried forward and used to reduce taxable income in the United States in future years, and will expire as follows:

	$
2019	2,618,000
2020	6,289,000
2021	1,226,000
2022	401,000
2026	15,000
2027	15,000
2028	16,000
2029	16,000
2030	17,000
2031	17,000
2032	16,000
2033	17,000
2034	824,000
2037	101,000
2038	558,000
	12,146,000

The Company has unused investment tax credits totalling approximately $369,000. The investments tax credits may be used to reduce federal income tax payable in future years for which no future tax benefit has been recognized in the accounts. The credits will expire as follows:

	$
2019	345,000
2020	24,000
	369,000

A US subsidiary company has an unclaimed tax credit of approximately US$140,000 (CA$182,000) for which no future tax benefit has been recognized in the accounts. This credit may be carried forward 20 years and used to reduce taxable income in the United States in future years (expiring between 2029 and 2037).

11 Segment information and economic dependence

Reliance on key customers

The Company is highly reliant on sales from a small number of customers. During the year ended July 31, 2018, 64% of its sales derived from its top three customers (July 31, 2017 – 70%).

	July 31, 2018 %	July 31, 2017 %
Customer A	**42**	57
Customer B	**13**	6
Customer C	**9**	7

Industry

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

Geographic information

The Company has production facilities in Canada and in the United States. The Company’s sales by geographic region for the year ended July 31, 2018 and 2017 were as follows:

	July 31, 2018 %	July 31, 2017 %
Canada	**19**	11
United States	**56**	71
United Kingdom	**14**	9
Other	**11**	9
	100	100

Property, plant and equipment attributed to the countries based on location are as follows:

	July 31, 2018 $	July 31, 2017 $
Canada	**1,286,534**	1,421,769
United States	**1,484,508**	1,533,054
	2,771,042	2,954,823

12 Share capital

Authorized – Unlimited as to number

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

Issued and fully paid

	July 31, 2018		July 31, 2017	
	Number of common shares	**Book value $**	Number of common shares	Book value $
Beginning balance	**24,703,244**	**52,660,078**	24,703,244	52,660,078
Stock options exercised	**70,000**	**12,180**	-	-
Ending balance	**24,773,244**	**52,672,258**	24,703,244	52,660,078

Stock options

Stock options are granted to directors, full-time employees and consultants. The terms and conditions of the grants thereunder are contingent on the market value of the Company's stock, the discretion of the Board of Directors and regulatory requirements. The number of common shares reserved for issuance under this stock option plan is 2,400,000 (July 31, 2017 - 2,000,000). The maximum term permissible under the plan is 10 years. The terms and the vesting privileges are determined at the date of grant. The vesting privileges for the options range from immediate to a three-year vesting term.

The following tables summarize the IBEX stock option plan for the year ended July 31, 2018 and the year ended July 31 2017:

	July 31, 2018		July 31, 2017	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Beginning balance	**1,020,000**	**0.19**	1,015,000	0.19
Granted	**775,000**	**0.20**	105,000	0.24
Exercised	**(70,000)**	**0.10**	-	-
Expired	**(220,000)**	**0.13**	(100,000)	0.23
Ending balance	**1,505,000**	**0.21**	1,020,000	0.19

The following table summarizes the IBEX stock options outstanding as at July 31, 2018:

	Options outstanding and currently exercisable		
Exercise prices $	**Number outstanding**	**Number vested and exercisable**	**Weighted average remaining contractual life (years)**
0.05	**20,000**	**20,000**	**5.39**
0.08	**50,000**	**50,000**	**4.92**
0.20	**775,000**	**375,000**	**9.39**
0.23	**550,000**	**550,000**	**1.39**
0.24	**110,000**	**92,500**	**8.40**
	1, 505,000	**1,087,500**	

The following table summarizes the IBEX stock options outstanding as at July 31, 2017:

	Options outstanding and currently exercisable		
Exercise prices $	Number outstanding	Number vested and exercisable	Weighted average remaining contractual life (years)
0.05	20,000	20,000	6.39
0.08	50,000	50,000	5.92
0.10	235,000	235,000	0.65
0.23	600,000	600,000	2.39
0.24	115,000	80,000	8.88
	1,020,000	985,000	

The Company uses the fair value based method of accounting for its stock options. The fair value of the options is estimated as at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for the year ended July 31, 2018:

Risk-free interest rate	0.86%
Expected dividend yield	Nil
Expected life of the options	10 years
Expected volatility	133%

During the year ended July 31, 2018, the fair value of the options granted at an exercise price of $0.20 is $149,808 (July 31, 2017 - Exercise price of $0.235 and fair value of $22,460).

13 Commitments and contingency

Operating lease commitments – Company as lessee

The Company leases offices under operating leases. The leases terms are five years. The leases are renewable at the end of the lease term at market rate.

The future minimum payments for all commitments are as follows:

Years ending July 31	**$**
2019	164,060
2020	49,780
2021	50,781
2022	8,576

14 Capital

The Company's objectives in managing its capital are to safeguard its ability to continue as a going concern by ensuring it has sufficient cash resources to maintain its ongoing operations, to provide returns for shareholders and to minimize the cost of capital (see Note 3). The Company defines its capital as equity plus long-term debt.

There has been no change to the capital risk management strategy during the year ended July 31, 2018 and 2017.

15 Lawsuits settlement

From time to time, the Company becomes involved in various legal proceedings and other disputes in the normal course of business. Such matters include contract issues, commercial disputes, taxes and other matters. The Company currently has no on-going legal actions having settled all actions during the fourth quarter of the fiscal year ended July 31, 2015.

These settlements, which are subject to confidentiality restrictions, resulted in aggregate settlements in favour of IBEX of approximately $875,000. Total legal fees and other expenses incurred by the Company for these settlements amounted to $125,379 during the year ended July 31, 2015. No legal fees or other expenses were incurred in fiscal 2018 and 2017 with respect to these settlements.

During the year ended July 31, 2018, the Company received a gross amount of $65,000 (July 31, 2017 - $55,000) from these settlements. These amounts were recorded as "Other gains" in the consolidated statement of (loss) earnings and comprehensive (loss) income.

The outstanding proceeds, which as of July 31, 2018 amount to $10,000, are recognized as they are received.

Subsequent to year-end, the Company collected the amount of $10,000 related to these settlements.

16 Comparative financial information

The consolidated financial statements for the year ending July 31, 2017 reported cost of sales excluding depreciation of property, plant and equipment. As stated in our accounting policy, cost of sales should have included production overhead, which includes depreciation of equipment and inventory allocations. Management of the Company evaluated the impact of this presentation adjustment in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", and concluded that retrospective adjustments to the comparative reported periods was required.

The effects of the adjustments on the comparative reported periods are as follows:

Adjustments to the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income:

	For the twelve-month period ended July 31, 2017		
	Previously stated $	Adjustments $	Adjusted $
Revenues	5,326,721	-	5,326,721
Cost of sales	2,399,009	212,312	2,611,321
Research and development expenses	201,871	-	201,871
Selling, general and administrative expenses	2,119,098	(212,312)	1,906,786
Operating earnings	606,743	-	606,743
Net earnings	2,981,839	-	2,981,839

There is no impact on the Consolidated Statements of Financial Position and the Consolidated Statements of Cash Flows.