IBEX

IBEX TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FISCAL 2018

YEAR ENDED JULY 31, 2018

As at November 7, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JULY 31, 2018

November 7, 2018

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MANAGEMENT DISCUSSION AND ANALYSIS

November 7, 2018

1 PREAMBLE

The following Management Discussion and Analysis ("MD&A") and the audited consolidated financial statements of IBEX Technologies Inc. ("Company") were approved by the Audit Committee and the Board of Directors on November 7, 2018. This MD&A provides a review of the developments and results of operations of the Company during the fourth quarter and the fiscal year ended July 31, 2018 compared with the fourth quarter and the fiscal year ended July 31, 2017.

This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the years ended July 31, 2018 and 2017.

The Company's audited consolidated 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, Quebec, 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 device 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 America and the rest of the world. The kits are produced in IBEX facilities.

4 RESULTS OF OPERATIONS: Q4 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.

(in thousands of dollars, excluding per share amounts)	July 31		April 30		January 31		October 31		Full Year	
	2018 $	2017 $	2018 $	2017 $	2018 $	2017 $	2017 $	2016 $	2018 $	2017 $
- Revenues	1,265	1,460	1,389	1,115	893	1,542	1,183	1,210	4,730	5,327
- Net earnings (loss)	(19)	2,359	210	1	(416)	423	130	199	(95)	2,982
- Earnings (loss) per common share	-	0.09	0.01	-	(0.02)	0.02	0.01	0.01	-	0.12
- Comprehensive income (loss)	(8)	2,289	238	49	(447)	390	151	230	(66)	2,958

Net Loss for the Quarter

The Company recorded a net loss of $19,258 during the fourth quarter ended July 31, 2018 compared to net earnings of $2,358,815 for the same period year ago. This change of $2,378,073 can be attributed to several factors including:

- Income tax expense (recovery): During the quarter ended July 31, 2018, income tax expense totaled $61,202 compared to a recovery of income taxes of $2,466,176 in the same period year ago. The change of $2,527,378 is related to the recognition of deferred income tax assets of $2,443,327 during the quarter ended July 31, 2017.

- Earnings before income taxes: The Company recorded earnings before income taxes of $41,944 during the fourth quarter ended July 31, 2018 compared to a loss before income taxes of $107,361 for the same period year ago. This positive change of $149,305 is related mainly to a decrease in expenses of $343,393 (see section 4.4), partially offset by a decrease in revenues of $194,088.

4.2 Foreign Exchange

The tables below show the fluctuation in the Canadian/US dollar exchange rates which can have a significant impact on the Company's results. Average rates are used to translate revenues and expenses for the period mentioned; closing rates are used to translate assets and liabilities of foreign operations, as well as monetary assets and liabilities at the end of the reporting period.

Consolidated foreign exchange (gain) loss		
Quarter ended	**July 31, 2018**	July 31, 2017
Balance sheet revaluation		
• US cash	**($37,377)**	$85,406
• US Trade receivables	**$36,284**	$35,414
• Other US accounts	**($25,524)**	$107,655
Total (gain) loss on revaluation	**($26,617)**	$228,475

Canadian/US dollar		
Quarter ended	**July 31, 2018**	July 31, 2017
Average rate	**1.3044**	1.3198
Closing rate	**1.3017**	1.2485

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 dollar exchange rate can have a significant impact on the reported revenue figures.

Revenues for the quarter ended July 31, 2018 totaled $1,264,500, a decrease of $194,088 (13%) compared to the same period year ago. The decrease in revenues traces mainly to a reduction in purchases by one customer who built up inventory in fiscal 2017 in advance of the launch of one of their new products and in fiscal 2018 found themselves with excess inventory.

The net decrease of $194,088 in revenues vs. the same period year ago can be attributed to an actual decrease in revenues of $169,593 (US$130,015) and a negative variance of $24,495 due to the impact of currency exchange.

The negative variance of US$130,015 vs. the same quarter in the previous year can be attributed to volume of US$138,762, offset by a positive variance in product mix of US$7,793 and new products of US$954.

Revenues Variations – Quarter ended	July 31, 2018 vs. July 31, 2017
Volume/mix/new products impact:	
• Decrease due to volume USD	($138,762)
• Increase due to product mix USD	$7,793
• Increase due to new products USD	$954
Total decrease due to volume/mix/new products USD	($130,015)
Currency impact:	
• Total decrease due to volume/mix/new products CAD	($169,593)
• Currency negative effects in CAD	($24,495)
• Total decrease in CAD	($194,088)

During fourth quarter ended July 31, 2018, the average currency rate was 1.3044 compared to 1.3198 in the same quarter last year. This translates to a loss for the Company since it sells in US dollars and reports in Canadian dollars.

4.4 Total Expenses for the Quarter

Total expenses in the fourth quarter of fiscal 2018 decreased to $1,222,556 compared to $1,565,949 in the same quarter year ago. The decrease of $343,393 is related mainly to the swing in foreign exchange of $255,092 (gain of $26,617 in the current quarter vs. loss of $228,475 for the same period year ago), a decrease in salaries and benefits expense of $200,750 (of which $179,000 was an accrual for bonuses in the same period year ago), partially offset by an increase in contracts and collaborators of $161,336.

Expense details		
Quarter ended	**July 31, 2018**	July 31, 2017
Cost of sales[1]	**$655,393**	$600,817
R&D expenses[1]	**$103,495**	$49,791
SG&A expenses[1]	**$435,355**	$653,859
Depreciation of PPE[2]	**$68,288**	$65,144
Foreign exchange (gain) loss	**($26,617)**	$228,475
Financial expenses - net	**$6,642**	$11,695
Total expenses	**$1,242,556**	$1,609,781
Other gains	**($20,000)**	($43,832)
Total expenses after other gains	**$1,222,556**	$1,565,949

1- Excludes related depreciation expense for the purposes of this presentation.
2- PPE = Property, plant and equipment.

4.4.1 Cost of Sales

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's production, the standard-cost method is unsuitable). While the actual-cost method is most suitable to the Company's processes, it does result in wide swings from quarter to quarter in the cost of sales 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 sales consists principally of the costs of supplies, royalties, manufacturing labour and the allocation of fixed overheads.

Cost of sales		
Quarter ended	**July 31, 2018**	July 31, 2017
Revenues	**$1,264,500**	$1,458,588
Cost of sales[3]	**$712,224**	$651,392
Gross margin %	**44%**	55%

3- Includes related depreciation expense 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 July 31, 2018, research and development expenses totaled $103,495 compared to $49,791 in the same period year ago. The increase of $53,704 traces mainly to an increase in contracts and collaborators.

4.4.3 Selling, General and Administrative Expenses

During the quarter ended July 31, 2018, selling, general and administrative (SG&A) expenses totaled $435,355 compared to $653,859 in the same period year ago. The decrease of $218,504 traces mainly to a decrease in salaries and benefits expense of which $179,000 was an accrual for bonuses in the same period year ago.

4.4.4 Income Tax Expense (Recovery)

During the quarter ended July 31, 2018, income tax expense totaled $61,202 compared to a recovery of income taxes of $2,466,176 in the same period year ago. The change of $2,527,378 is related to the recognition of a deferred income tax assets of $2,443,327 during the quarter ended July 31, 2017, as the Company determined it is probable that sufficient taxable profits will be available to allow for certain tax attributes in Canada to be recovered in the future.

5 RESULTS OF OPERATIONS FOR THE YEAR ENDED JULY 31, 2018

5.1 Summary of Year Results

The Company recorded a net loss of $95,189 for the year ended July 31, 2018 compared to net earnings of $2,981,839 for the same period year ago. This change of $3,077,028 can be attributed to several factors including:

- Income tax expense (recovery): For the year ended July 31, 2018, income tax expense totaled $61,202 compared to a recovery of income taxes of $2,466,176 in the same period year ago. As discussed in section 4.4.4, the Company recorded deferred income tax assets of $2,443,327 as of July 31, 2017.

- Earnings before income taxes: The Company recorded a loss before income taxes of $33,987 for the year ended July 31, 2018 compared to earnings before income taxes of $515,663 for the same period year ago. The negative change of $549,650 is primarily attributable to the decrease in revenues of $597,122 (see section 5.3), partially offset by the decrease in expenses of $47,472 (see section 5.4).

Net (loss) earnings		
Year-to-date	**Fiscal 2018**	Fiscal 2017
Revenues	**$4,729,599**	$5,326,721
Net expenses	**$4,763,586**	$4,811,058
(Loss) earnings before income taxes	**($33,987)**	$515,663
Income tax expense (recovery)	**61,202**	($2,466,176)
Net (loss) earnings	**($95,189)**	$2,981,839
(Loss) earnings per share, basic and diluted	**($0.00)**	$0.12

5.2 Foreign Exchange

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

Consolidated cumulative foreign exchange (gain) loss		
Year-to-date	**Fiscal 2018**	Fiscal 2017
Balance sheet revaluation		
• US Cash	**($85,463)**	$94,487
• US Trade receivables	**($26,220)**	$33,615
• Other US accounts	**$824**	($2,413)
Total (gain) loss on revaluation	**($110,859)**	$125,689

Canadian/US dollar		
Year ended	**July 31, 2018**	July 31, 2017
Average rate	**1.2737**	1.3237
Closing rate	**1.3017**	1.2485

For a more detailed explanation of the foreign exchange impact, see Risks and Uncertainties in section 9.9.

5.3 Revenues for the Year

Revenues for the year ended July 31, 2018 totaled $4,729,599 compared to $5,326,721 for the same period year ago. The decrease in revenues of $597,122 traces mainly to a reduction in purchases by one customer who built up inventory in Fiscal 2017 in advance of the launch of one of its new products and in Fiscal 2018 found themselves with excess inventory.

The net decrease in revenues vs. the same period year ago was $597,122, of which $379,904 (US$297,801) can be attributed to an actual decrease in revenues and the balance of $217,218 to the negative currency impact.

The negative variance in revenues came from a product mix variance of US$308,187, offset by a positive variance in volume of US$5,339 and in new products of US$5,047.

Revenues Variations – Year-to-date	Fiscal 2018 Vs. Fiscal 2017
Volume/mix/new products impact:	
• Increase due to volume USD	$5,339
• Decrease due to product mix USD	($308,187)
• Increase due to new products USD	$5,047
Total decrease due to volume/mix/new products USD	($297,801)
Currency impact:	
• Total decrease due to volume/mix/new products CAD	($379,904)
• Currency negative effects in CAD	($217,218)
• Total decrease in CAD	($597,122)

5.4 Total Expenses for the Year

Total expenses for the year ended July 31, 2018 totaled $4,763,586 compared to $4,811,058 for the same period year ago. The decrease in operating expenses of $47,472 is mainly attributable to the swing in the foreign exchange of $236,548 (gain of $110,859 in the current year vs. loss of $125,689 for last year), a decrease in compensation expenses of $139,100, partially offset by an increase in contracts and collaborators' expense of $192,927, and in selling, administration and all other expenses of $124,909.

Expense details		
Year-to-date	**Fiscal 2018**	Fiscal 2017
Cost of sales[4]	**$2,688,896**	$2,399,009
R&D expenses[4]	**$247,683**	$201,871
SG&A expenses[4]	**$1,685,410**	$1,845,485
Depreciation of PPE	**$284,376**	$273,613
Foreign exchange (gain) loss	**($110,859)**	$125,689
Financial expenses - net	**$33,080**	$56,202
Total expenses	**$4,828,586**	$4,901,869
Other gains	**($65,000)**	($90,811)
Total expenses after other gains	**$4,763,586**	$4,811,058

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

5.4.1 Cost of Sales

Cost of sales 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 sales, see section 4.4.1 above.

Cost of sales		
Year-to-date	**Fiscal 2018**	Fiscal 2017
Revenues	**$4,729,599**	$5,326,721
Cost of sales[5]	**$2,925,395**	$2,611,321
Gross margin %	**38%**	51%

5- Includes related depreciation expense 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 year ended July 31, 2018 totaled $247,683 compared to $201,871 for the same period year ago. The increase of $45,812 traces mainly to an increase in contracts and collaborators.

5.4.3 Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses for the year ended July 31, 2018 totaled $1,685,410 compared to $1,845,485 for the same period year ago. The decrease of $160,075 is mainly due to a decrease in salaries and benefits expense of $298,270, partially offset by an increase in share-based compensation expense of $78,335 and board compensation of $29,245.

The decrease in salaries and benefits expense of $298,270 is related mainly to a combination of:

- a decrease in accrual for bonuses of $179,000. The bonus related to the year ended July 31, 2017; and
- a one-time costs associated with the termination of one employee in the year ended July 31, 2017.

5.4.4 Income tax Expense (Recovery)

Income tax expense totaled $61,202 compared to a recovery of income taxes of $2,466,176 in the same period year ago. The change of $2,527,378 is related to the recognition of a deferred income tax assets of $2,443,327 for the year ended July 31, 2017, as the Company determined it is probable that sufficient taxable profits will be available to allow for certain tax attributes in Canada to be recovered in the future.

6 ASSETS UNDER CONSTRUCTION

Assets under construction mentioned in the MD&A for the year ended July 31, 2017 related to a bacterial fermentation suite being constructed in Montréal. The fermentation suite was completed in the second quarter of the year ended July 31, 2018. These assets totaled $739,586 and consist of Machinery and Equipment of $582,251 and Leasehold Improvements of $157,335. The Company started recording depreciation charge on these assets during the second quarter of the year ended July 31, 2018.

Total cost of the capital project is $739,586. In the MD&A for the year ended July 31, 2016, we referred to the fermenter purchase price plus installation cost of approximately $400,000. The variance of $339,586 is related to all other equipment and leasehold improvement needed in the fermentation suite in addition to the fermenter itself.

The bacterial fermentation suite is currently operational, but no products produced in this facility are permitted to be sold until approved by Environment Canada. One such product has been approved, and we expect approval of the other products over the next few months.

7 LIQUIDITY AND CAPITAL RESOURCES

7.1 Overview

Liquidity risk is the potential risk that the Company will not be able to meet its financial liabilities when due. The Company's financial liabilities include its accounts payable and accrued liabilities presented on the consolidated 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 July 31, 2018, the Company had net working capital of $3,619,456 compared to net working capital of $3,349,055 as at July 31, 2017. Cash and cash equivalents increased by $135,745 during the fiscal year to $3,140,372.

As at:	**July 31, 2018**	April 30, 2018	January 31, 2018	October 31, 2017	July 31, 2017
Cash and cash equivalents	**$3,140,372**	$2,696,404	$2,708,984	$3,108,941	$3,004,627
Net working capital	**$3,619,456**	$3,512,390	$3,216,453	$3,501,390	$3,349,055

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.

7.2 Contractual Obligations

Contractual obligations are operating lease commitments and the Company's long-term debt.

(in thousands of dollars)	Year ending July 31,					
	Total	2019	2020	2021	2022	2023
Contractual obligations	$274	$164	$50	$51	$9	$0
Long-term debt[6]	$1,390	$96	$96	$96	$96	$96
Total	$1,664	$260	$146	$147	$105	$96

6- Includes interest and principal.

8 LOOKING FORWARD

As always, future results for the Company are difficult to predict since the Company's customers have wide swings in their purchase patterns. Based on what we see at the moment, management expects that revenues and profitability in Fiscal 2019 will be lower than the current year.

That notwithstanding, 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.

9 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.

9.1 Dependence on Key Customers

IBEX is highly dependent on a few key customers. A change in their needs due to changes in technology, production efficiencies or market demand can have a significant effect on the profitability of the Company.

9.2 Market Demand

IBEX products are sold to device manufacturers, pharmaceutical companies for pre-clinical research, and contract research organizations for clinical studies. As such, IBEX is dependent on successful marketing by device manufacturers and, in the case of our arthritis assays, the frequency and size of pre-clinical and clinical studies. A decrease in demand for such products could have a material adverse effect on the Company.

9.3 Regulatory Approval

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

9.4 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 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.

9.5 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.

9.6 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.

9.7 Reliance on Key Personnel

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

9.8 Contingencies

In the normal course of operations, claims may arise against the Company 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 its results of operations or financial position.

9.9 Foreign Exchange Risks

The Company is exposed to currency risks due to its export of goods manufactured in Canada. A change in the currency exchange rate between the Canadian dollar and the US dollar could have a material effect on its consolidated results of operations, financial position or cash flows. The Company strives to mitigate such risks by using foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. As at July 31, 2018, the Company had no outstanding forward contracts.

As mentioned above, the Company is exposed to foreign exchange risk primarily as a result of revenues denominated in US dollars. Monetary balances denominated in foreign currencies as at July 31, 2018 and July 31, 2017 were as follows:

	July 31, 2018		July 31, 2017	
	CA$	**US$**	CA$	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

9.10 Interest Rate Risk

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

The interest rate was revised to 4.20% (previously at 4.25%) for five years in January 2018.

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.

9.11 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 accounts receivable as at July 31, 2018 was as follows:

	CA$	%
Current	607,662	89
Past due 31-90 days	76,649	11
Past due over 90 days	-	-
	684,311	100

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

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

9.12 Fair Value of Financial Instruments

The Company has evaluated the fair value of its financial instruments based on the current interest rate environment, related market values and current pricing of financial instruments with comparable terms. The carrying value of its financial instruments is considered to approximate fair value 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, as compared to $970,575 (US$777,393) on July 31, 2017, based on discounted future cash flows, using market interest rates available as at July 31, 2018 and 2017.

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 minimize the subjectivity of valuation. The Company categorizes its financial instruments according to three hierarchical levels:

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

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

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

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

10 RELATED PARTY TRANSACTIONS

During the years ended July 31, 2018 and 2017, other than the transactions and amounts described in Note 9 in our audited consolidated financial statements, the Company did not have any other related party transactions.

11 CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance 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. It is possible that actual results could 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.

11.1 Valuation of Unrecognized Tax Attributes

Periodically, judgment is required in determining whether deferred income tax assets are recognized on the statement of financial position. Deferred income tax assets require management to assess the probability that the Company will generate taxable profits in future periods in order to utilize deferred income tax assets. Once the evaluation is completed, if the Company believes that it is probable that some portion of deferred income tax assets will be realized, a deferred income tax asset is recognized on the balance sheet. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred income tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit its ability to obtain tax deductions in future periods.

Management judgment is required in determining whether a deferred income tax liability is recognized on temporary differences arising on investments in subsidiaries. Judgment is necessary in assessing management's intentions about the reinvestment of undistributed profit in the foreseeable future. Estimates on reinvestments are based on forecasts and on estimates of financial requirements of both the Company and its subsidiaries. To the extent that future results and financial requirements differ significantly from estimates, the deferred income tax liability provided on temporary differences arising from investments in subsidiaries recorded at the reporting date could be impacted.

11.2 Impairment of Non-Financial Assets

Assets are reviewed for an indication of impairment at each statement of financial position date upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable and when criteria of assets held for sale are met. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends and current, historical or projected losses that demonstrate continuing losses, decrease in market capitalization and deferral of capital investments.

The Company's recoverable amount measurement with respect to the carrying amount of non-financial assets are based on numerous assumptions and may differ significantly from actual recoverable amount.

12 ACCOUNTING STANDARDS AND AMENDMENTS

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 International Accounting Standards Board ("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, derecognition 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.

13 OUTSTANDING SHARE DATA

13.1 Authorized

As at November 7, 2018, 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; and
- Common shares.

13.2 Issued and Outstanding

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

13.2.1 Common Shares

As at November 7, 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 common shares were issued for $12,180.

13.2.2 Stock options

The number of common shares reserved for issuance under the stock option plan went from 2,000,000 to 2,400,000 during the third quarter ended April 30, 2018.

As at November 7, 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 November 7, 2018, on an if-converted basis, these stock options would result in the issuance of 1,505,000 additional common shares at an aggregate exercise price of $312,375.