IBEX Technologies Inc. / Technologies IBEX Inc.
Unaudited Condensed Interim Consolidated Financial Statements
First Quarter ended October 31, 2019 and 2018

Condensed Interim Consolidated Financial Statements

Condensed Interim Consolidated Statements of Financial Position 2

Condensed Interim Consolidated Statements of Changes in Equity 3

Condensed Interim Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) 4

Condensed Interim Consolidated Statements of Cash Flows 5

Notes to Condensed Interim Consolidated Financial Statements 6

NOTICE TO THE READER OF THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Management's Statement of Responsibility for Financial Information

The condensed interim 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 condensed interim consolidated financial statements and for ensuring that this information is consistent, where appropriate, with the information and data included in the condensed interim 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 condensed interim consolidated financial statements have not been audited by the Company's independent auditor, PricewaterhouseCoopers LLP.

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 condensed interim 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
December 11, 2019

Richard Collin, CPA, CA
Director of Finance

Montréal, Canada
December 11, 2019

Condensed Interim Consolidated Statements of Financial Position

In Canadian dollars

	Notes	**October 31, 2019 $**	July 31, 2019 $
Assets			
Current assets			
Cash and cash equivalents		**2,499,542**	2,579,859
Trade and other receivables	4	**769,225**	898,905
Inventories	5	**220,141**	145,915
Prepaid expenses		**114,968**	89,319
Total current assets		**3,603,876**	3,713,998
Non-current assets			
Property, plant, equipment and intangible assets	6	**2,199,329**	2,230,413
Right-of-use assets	2-7	**635,959**	-
Deferred income tax assets		**2,442,313**	2,442,313
Total assets		**8,881,477**	8,386,724
Liabilities			
Current liabilities			
Trade and other payables		**614,288**	820,305
Current portion of long-term debt	8	**56,169**	55,520
Current portion of lease liabilities	2-7	**153,423**	-
Total current liabilities		**823,880**	875,825
Non-current liabilities			
Long-term debt	8	**923,772**	937,127
Non-current portion of lease liabilities	2-7	**485,333**	-
Total liabilities		**2,232,985**	1,812,952
Equity			
Share capital	12	**52,672,258**	52,672,258
Contributed surplus		**723,576**	713,011
Deficit		**(47,248,045)**	(47,312,508)
Accumulated other comprehensive income		**500,703**	501,011
		6,648,492	6,573,772
Total liabilities and equity		**8,881,477**	8,386,724

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

In Canadian dollars

	Notes	**Share capital $**	**Contributed surplus $**	**Deficit $**	**Accumulated other comprehensive income $**	**Total $**
As at July 31, 2019		**52,672,258**	**713,011**	**(47,312,508)**	**501,011**	**6,573,772**
Net earnings		**-**	**-**	**64,463**	**-**	**64,463**
Share-based compensation	**12**	**-**	**10,565**	**-**	**-**	**10,565**
Cumulative translation adjustments		**-**	**-**	**-**	**(308)**	**(308)**
As at October 31, 2019		**52,672,258**	**723,576**	**(47,248,045)**	**500,703**	**6,648,492**
As at July 31, 2018		52,672,258	674,840	(46,044,826)	487,481	7,789,753
Net loss		-	-	(208,741)	-	(208,741)
Share-based compensation	12	-	7,780	-	-	7,780
Cumulative translation adjustments		-	-	-	6,384	6,384
As at October 31, 2018		52,672,258	682,620	(46,253,567)	493,865	7,595,176

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

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

In Canadian dollars

	Notes	**For the three-month Period ended October 31, 2019 $**	For the three-month Period ended October 31, 2018 $
Revenues		**1,078,740**	1,039,473
Cost of sales	9	**465,093**	745,578
Research and development expenses	9	**63,268**	58,748
Selling, general and administrative expenses	9	**471,099**	471,849
Operating earnings (loss)		**79,280**	(236,702)
Foreign exchange loss (gain)	9	**3,066**	(23,007)
Finance expenses - net	9	**11,751**	5,046
Other gains	9	**-**	(10,000)
Earnings (loss) before income taxes		**64,463**	(208,741)
Provision for income tax		**-**	-
Net earnings (loss)		**64,463**	(208,741)
Other comprehensive income			
Foreign currency translation adjustments – (loss) gain		**(308)**	6,384
Comprehensive income (loss)		**64,155**	(202,357)
Basic and diluted net earnings (loss) per share	2	**0.00**	(0.01)

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Consolidated Statements of Cash Flows

In Canadian dollars

	Notes	**For the three-month period ended October 31, 2019 $**	For the three-month period ended October 31, 2018 $
Cash flows (used) generated from operating activities			
Net earnings (loss)		**64,463**	(208,741)
Adjustments for non-cash income and expenses			
Depreciation of property, plant, equipment and intangible assets	6	**58,439**	71,167
Depreciation right-of-use assets	7	**42,212**	-
Share-based compensation	12	**10,565**	7,780
Accretion expenses on lease liabilities	7	**5,203**	-
		180,882	(129,794)
Changes in non-cash working capital balances			
Decrease (increase) in trade and other receivables		**130,993**	(113,615)
(Increase) decrease in inventories		**(74,226)**	43,617
Increase in prepaid expenses		**(25,597)**	(39,300)
Decrease in trade and other payables		**(207,731)**	(259)
Net changes in non-cash working capital balances		**(176,561)**	(109,557)
Net cash (used in) generated from operating activities		**4,321**	(239,351)
Cash flows used in investing activities			
Purchase of property, plant and equipment	6	**(26,329)**	(29,985)
Net cash used in investing activities		**(26,329)**	(29,985)
Cash flows used in financing activities			
Repayment of long-term debt	8	**(13,691)**	(13,028)
Principal payments of leases liabilities	7	**(44,618)**	-
Net cash used in financing activities		**(58,309)**	(13,028)
Net change in cash and cash equivalents		**(80,317)**	(282,364)
Cash and cash equivalents at beginning of year		**2,579,859**	3,140,372
Cash and cash equivalents at end of first quarter		**2,499,542**	2,858,008
Interest paid		**10,680**	10,962
Interest received		**10,314**	10,890

The accompanying notes are an integral part of these Condensed Interim 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 unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on December 11, 2019 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

These unaudited condensed interim consolidated financial statements ("interim financial statements") were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and in compliance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Accordingly, certain information and notes disclosures normally included in the audited annual consolidated financial statements have been omitted or condensed. These interim financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended July 31, 2019.

The interim financial statements include all adjustments considered necessary by management to fairly state the Company's results of operations, financial position and cash flows. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

Accounting policies

These interim financial statements have been prepared using the same accounting policies as those presented in the Company's audited annual consolidated financial statements for the year ended July 31, 2019, except as described below.

IFRS 16 "Leases"

On August 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach measuring the right-of-use asset at an amount equal to the lease liability. This approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption of IFRS 16, the Company's lease liabilities related to contracts classified as leases are measured at the discounted present value of the remaining minimum lease payments, excluding short-term and low-value leases. The right-of-use assets recognized were measured at amounts equal to the present value of the lease obligations. The incremental borrowing rate used to determine the lease liability at adoption was 4.75%. The right-of-use assets and lease liability recognized relate to the Company's premises under lease.

The cumulative effect of initially applying IFRS 16 was recognized as $678,171 right-of-use assets with corresponding lease liabilities (Note 7). The leased assets are leased premises.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;

- Account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of low dollar value.

The following table reconciles the difference between the commitments presented in note 13 of the Company annual consolidated financial statements as at July 31, 2019 and the amount recognized as lease liabilities on transition date:

	$
Total commitments disclosed as at July 31,2019	790,304
Future payments related to operating expenses	(39,886)
Discounting effect	(72,247)
Lease liabilities as at August 1, 2019	678,171

Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy effective August 1, 2019:

Leases

A contract is a lease (or may contain a lease) if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset on a straight-line basis over the lease term. Accretion expense is recognized on the lease liability using the effective interest rate method and payments are applied against the lease liability. Payments received for the sublease of right-of-use asset are recognized as sublease revenue.

Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting accretion expense and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

Critical accounting estimates and judgments

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in Note 2 of the Company's audited annual consolidated financial statements for the year ended July 31, 2019 and were the same as those used in the interim financial statements for the three-month period ended October 31, 2019, with the exception of new judgments involved with IFRS 16 adoption as described above.

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 earnings and comprehensive 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 October 31, 2019 and 2018, the Company has no forward foreign exchange contracts outstanding.

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 October 31, 2019 and July 31, 2019 were as follows:

	October 31, 2019		July 31, 2019	
	CA$	**US$**	CA$	US$
Cash and cash equivalents	**1,640,091**	**1,246,270**	754,512	573,861
Trade and other receivables	**464,953**	**353,308**	526,285	400,277
Trade and other payables	**21,198**	**16,108**	58,113	44,199

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 $104,192 recorded in net earnings for the three-month period ended October 31, 2019 (July 31, 2019 gain of $61,134).

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 earnings for the three-month period ended October 31, 2019.

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 and cash equivalents to be low.

The aging of trade receivables as at October 31, 2019 was as follows:

Trade receivables	**$**	**%**
Current	706,590	95
Past due 31–90 days	37,935	5
Over 90 days	-	-
	744,525	100

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

	October 31, 2019 %	July 31, 2019 %
Customer 1	**32**	29
Customer 2	**21**	19
Customer 3	**-**	13

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities when due. The Company's financial liabilities include its 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 October 31, 2019.

	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	614,288	614,288	614,288	-	-	-
Long-term debt obligations[1]	979,941	1,284,219	96,922	193,844	193,844	799,609
Lease liabilities[1]	638,756	705,805	180,475	455,134	70,196	-
	2,232,985	2,604,312	891,685	648,978	264,040	799,609

1- See Note 7 and 8.

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

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 $931,056 (US$707,490) as at October 31, 2019 based on discounted future cash flows, using market interest rates available as at October 31, 2019 (July 31, 2019 - $933,982 (US$710,361)).

4 Trade and other receivables

	October 31, 2019 $	July 31, 2019 $
Trade	**744,525**	832,553
Sales tax	**24,714**	9,940
Other receivable	**(14)**	56,412
	769,225	898,905

5 Inventories

	October 31, 2019 $	July 31, 2019 $
Finished goods – Enzymes	**71,485**	111,020
Finished goods – Arthritis diagnostic kits	**61,059**	34,895
Work in process – Enzymes	**87,597**	-
	220,141	145,915

6 Property, plant, equipment and intangible assets

	October 31, 2019 $	October 31, 2018 $
Opening July 31, 2019 and 2018		
Cost	**6,618,731**	6,530,188
Accumulated depreciation	**(4,388,318)**	(3,759,146)
Net book amount	**2,230,413**	2,771,042
Three-month period ended October 31, 2019 and 2018		
Opening net book amount	**2,230,413**	2,771,042
Additions	**26,329**	29,985
Depreciation charge	**(58,439)**	(71,167)
Effect of exchange rate variations	**1,026**	14,096
Closing net book amount	**2,199,329**	2,743,956
Ending October 31, 2019 and 2018		
Cost	**6,647,772**	6,588,492
Accumulated depreciation	**(4,448,443)**	(3,844,536)
Net book amount	**2,199,329**	2,743,956

7 Right-of Use Assets and Lease Liabilities

Right-of-Use Assets	October 31, 2019 $
Cost	
As at July 31, 2019	-
Recognition upon adoption of IFRS 16	678,171
As at October 31, 2019	678,171
Accumulated depreciation	
As at July 31, 2019	-
Depreciation	(42,212)
As at October 31, 2019	(42,212)
Net book value as at October 31, 2019	635,959

Lease Liabilities

As at July 31, 2019	-
Recognition upon adoption of IFRS 16	678,171
Accretion expense	5,203
Payments	(44,618)
As at October 31, 2019	638,756
Current portion of lease liabilities	153,423
Long term portion of lease liabilities	485,333
Total lease liabilities as at October 31, 2019	638,756

8 Long-term debt

	October 31, 2019		July 31, 2019	
	US$	**CA$**	US$	CA$
Term loan	**744,636**	**979,941**	754,980	992,647
Less: current portion	**42,682**	**56,169**	42,227	55,520
	701,954	**923,772**	712,753	937,127

9 Expense by nature

	October 31, 2019 $	October 31, 2018 $
Salaries and benefits expense	**548,973**	667,917
Share-based compensation expense	**10,565**	7,780
Board compensation	**26,000**	32,500
Contracts and collaborators	**55,482**	42,995
Professional fees	**47,542**	41,143
Shareholders' relation fees	**3,180**	3,439
Occupancy costs	**56,605**	92,850
Insurance	**27,060**	29,101
Royalties	**3,350**	4,806
Sales, administration and all other expenses	**194,278**	238,750
Foreign exchange gain	**3,066**	(23,007)
Accretion expense – lease	**5,203**	-
Finance expense	**16,894**	16,043
Finance revenue	**(10,346)**	(10,997)
Changes in inventory allocation, work in process and finished goods	**(74,226)**	43,727
Depreciation of property, plant, equipment and intangible assets	**58,439**	71,167
Depreciation right-of-use assets	**42,212**	-
Other gains	**-**	(10,000)
	1,014,277	1,248,214

10 Key management compensation

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

	October 31, 2019 $	October 31, 2018 $
Salaries, share-based compensation and employee benefits	**239,672**	255,744

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 three-month period ended October 31, 2019, 69% of its sales derived from its top three customers (July 31, 2019 – 62%).

	October 31, 2019 %	July 31, 2019 %
Customer A	**49**	41
Customer B	**13**	-
Customer C	**7**	11
Customer D	**-**	10

Industry

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

Geographic information

The Company currently only has production facilities in Canada; prior to August 1, 2019, the Company had also production facility in the United States, which was closed on July 31, 2019.

The Company's sales by geographic region for the three-month period ended October 31, 2019 and the year ended July 31, 2019 were as follows:

	October 31, 2019 %	July 31, 2019 %
Canada	**23**	18
United States	**60**	54
United Kingdom	**8**	15
Other	**9**	13
	100	100

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

	October 31, 2019 $	July 31, 2019 $
Canada	**1,116,947**	1,143,073
United States	**1,082,382**	1,087,340
	2,199,329	2,230,413

12 Share capital

Issued and fully paid

	October 31, 2019		July 31, 2019	
	Number of common shares	**Book value $**	Number of common shares	Book value $
Beginning balance	**24,773,244**	**52,672,258**	24,773,244	52,672,258
Stock options exercised	**-**	**-**	-	-
Ending balance	**24,773,244**	**52,672,258**	24,773,244	52,672,258

Stock options

The following tables summarize the IBEX stock option plan for the year ended July 31, 2019 and the year ended July 31 2018:

	October 31, 2019		July 31, 2019	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Beginning balance	**1,645,000**	**0.20**	1,505,000	0.21
Granted	**-**	**-**	300,000	0.15
Expired	**-**	**-**	(160,000)	0.22
Ending balance	**1,645,000**	**0.20**	1,645,000	0.20

The following table summarizes the IBEX stock options outstanding as at October 31, 2019:

	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	4.14
0.08	50,000	50,000	3.67
0.15	300,000	-	9.15
0.20	700,000	450,000	8.14
0.23	500,000	500,000	0.13
0.24	75,000	75,000	6.99
	1, 645,000	1,095,000	