



IBEX Technologies Inc. / Technologies IBEX Inc.
Unaudited Condensed Interim Consolidated Financial Statements
Second Quarter ended January 31, 2020 and 2019

Condensed Interim Consolidated Financial Statements

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**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
March 25, 2020

Richard Collin, CPA, CA
Director of Finance

Montréal, Canada
March 25, 2020



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Condensed Interim Consolidated Statements of Financial Position

In Canadian dollars

	Notes	January 31, 2020 \$	July 31, 2019 \$
Assets			
Current assets			
Cash and cash equivalents		3,003,781	2,579,859
Trade and other receivables	4	328,481	898,905
Inventories	5	239,422	145,915
Prepaid expenses		61,744	89,319
Total current assets		3,633,428	3,713,998
Non-current assets			
Property, plant, equipment and intangible assets	6	2,145,710	2,230,413
Right-of-use assets	2-7	593,746	-
Deferred income tax assets		2,442,313	2,442,313
Total assets		8,815,197	8,386,724
Liabilities			
Current liabilities			
Trade and other payables		587,591	820,305
Current portion of long-term debt	8	57,089	55,520
Current portion of lease liabilities	2-7	156,216	-
Total current liabilities		800,896	875,825
Non-current liabilities			
Long-term debt	8	914,564	937,127
Non-current portion of lease liabilities	2-7	445,361	-
Total liabilities		1,359,925	1,812,952
Equity			
Share capital	12	52,672,258	52,672,258
Contributed surplus		759,709	713,011
Deficit		(47,277,048)	(47,312,508)
Accumulated other comprehensive income		499,457	501,011
Total liabilities and equity		8,815,197	8,386,724

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



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Condensed Interim 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		-	-	35,460	-	35,460
Share-based compensation	12	-	46,698	-	-	46,698
Cumulative translation adjustments		-	-	-	(1,554)	(1,554)
As at January 31, 2020		52,672,258	759,709	(47,277,048)	499,457	6,654,376
As at July 31, 2018		52,672,258	674,840	(46,044,826)	487,481	7,789,753
Net loss		-	-	(165,943)	-	(165,943)
Share-based compensation	12	-	16,976	-	-	16,976
Cumulative translation adjustments		-	-	-	7,350	7,350
As at January 31, 2019		52,672,258	691,816	(46,210,769)	494,831	7,648,136

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

In Canadian dollars

		For the three-month period ended January 31		For the six-month period ended January 31	
	Notes	2020 \$	2019 \$	2020 \$	2019 \$
Revenues		1,004,861	1,432,632	2,083,601	2,472,105
Cost of sales	9	544,204	834,155	1,009,297	1,579,733
Research and development expenses	9	24,537	114,400	87,805	173,148
Selling, general and administrative expenses	9	467,316	428,321	938,415	900,170
Operating earnings (loss)		(31,196)	55,756	48,084	(180,946)
Foreign exchange (gain) loss	9	(16,363)	9,002	(13,297)	(14,005)
Finance expenses - net	9	14,170	3,956	25,921	9,002
Other gains	9	-	-	-	(10,000)
Earnings (loss) before income taxes		(29,003)	42,798	35,460	(165,943)
Provision for income taxes		-	-	-	-
Net earnings (loss)		(29,003)	42,798	35,460	(165,943)
Other comprehensive (loss) gain					
Foreign currency translation adjustments – (loss) gain		(1,246)	966	(1,554)	7,350
Comprehensive income (loss)		(30,249)	43,764	33,906	(158,593)
Basic and diluted net earnings (loss) per share		0.00	0.00	0.00	(0.01)

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Condensed Interim Consolidated Statements of Cash Flows

In Canadian dollars

	Notes	For the six-month period ended January 31, 2020	For the six-month period ended January 31, 2019
		\$	\$
Cash flows (used) generated from operating activities			
Net earnings (loss)		35,460	(165,943)
Adjustments for non-cash income and expenses			
Depreciation of property, plant, equipment and intangible assets	6	118,033	141,069
Depreciation right-of-use assets	7	84,425	-
Share-based compensation	12	46,698	16,976
Accretion expenses on lease liabilities	7	12,641	-
		297,257	(7,898)
Changes in non-cash working capital balances			
Decrease in trade and other receivables		571,206	151,962
(Increase) decrease in inventories		(93,507)	170,991
Decrease in prepaid expenses		24,524	20,892
Decrease in trade and other payables		(232,649)	(92,694)
Net changes in non-cash working capital balances		269,574	251,151
Net cash generated from operating activities		566,831	243,253
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	(27,345)	(26,238)
Principal payments of leases liabilities	7	(89,235)	-
Net cash used in financing activities		(116,580)	(26,238)
Net change in cash and cash equivalents		423,922	187,030
Cash and cash equivalents at beginning of year		2,579,859	3,140,372
Cash and cash equivalents at end of second quarter		3,003,781	3,327,402
Interest paid		21,267	22,261
Interest received		20,198	23,019

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



Notes to Condensed Interim 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 March 25, 2020 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.

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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 six-month period ended January 31, 2020, 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 (loss) and comprehensive income (loss), 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 January 31, 2020 and 2019, 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 January 31, 2020 and July 31, 2019 were as follows:

	January 31, 2020		July 31, 2019	
	CA\$	US\$	CA\$	US\$
Cash and cash equivalents	1,690,838	1,277,744	754,512	573,861
Trade and other receivables	316,867	239,452	526,285	400,277
Trade and other payables	39,551	29,888	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 \$98,408 recorded in net earnings loss for the six-month period ended January 31, 2020 (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 8).

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 (loss) for the six-month period ended January 31, 2020.

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 January 31, 2020 was as follows:

Trade receivables	\$	%
Current	120,115	38
Past due 31–90 days	196,752	62
Over 90 days	-	-
	316,867	100



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

	January 31, 2020 %	July 31, 2019 %
Customer 1	35	29
Customer 2	15	-
Customer 3	15	-
Customer 4	12	-
Customer 5	-	19
Customer 6	-	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 January 31, 2020.

	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	587,591	587,591	587,591	-	-	-
Long-term debt obligations ¹	971,653	1,266,977	97,460	194,920	194,920	779,677
Lease liabilities ¹	601,577	661,187	181,435	444,654	35,098	-
	2,160,821	2,515,755	866,486	639,574	230,018	779,677

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 \$934,596 (US\$706,262) as at January 31, 2020 based on discounted future cash flows, using market interest rates available as at January 31, 2020 (July 31, 2019 - \$933,982 (US\$710,361)).



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4 Trade and other receivables

	January 31, 2020 \$	July 31, 2019 \$
Trade	316,867	832,553
Sales tax	11,614	9,940
Other receivable	-	56,412
	<u>328,481</u>	<u>898,905</u>

5 Inventories

	January 31, 2020 \$	July 31, 2019 \$
Finished goods – Enzymes	85,171	111,020
Finished goods – Arthritis diagnostic kits	62,555	34,895
Work in process – Enzymes	91,696	-
	<u>239,422</u>	<u>145,915</u>

6 Property, plant, equipment and intangible assets

	January 31, 2020 \$	January 31, 2019 \$
Opening July 31, 2020 and 2019		
Cost	6,618,731	6,530,188
Accumulated depreciation	(4,388,318)	(3,759,146)
Net book amount	<u>2,230,413</u>	<u>2,771,042</u>
Six-month period ended January 31, 2020 and 2019		
Opening net book amount	2,230,413	2,771,042
Additions	26,329	29,985
Depreciation charge	(118,033)	(141,069)
Effect of exchange rate variations	7,001	14,556
Closing net book amount	<u>2,145,710</u>	<u>2,674,514</u>
Ending January 31, 2020 and 2019		
Cost	6,664,272	6,588,945
Accumulated depreciation	(4,518,562)	(3,914,431)
Net book amount	<u>2,145,710</u>	<u>2,674,514</u>

7 Right-of Use Assets and Lease Liabilities

	January 31, 2020 \$
<i>Right-of-Use Assets</i>	
Cost	
As at July 31, 2019	-
Recognition upon adoption of IFRS 16	678,171
As at January 31, 2020	<u>678,171</u>
Accumulated depreciation	
As at July 31, 2019	-
Depreciation	(84,425)
As at January 31, 2020	<u>(84,425)</u>
Net book value as at January 31, 2020	<u>593,746</u>
<i>Lease Liabilities</i>	
As at July 31, 2019	-
Recognition upon adoption of IFRS 16	678,171
Accretion expense	12,641
Payments	(89,235)
As at January 31, 2020	<u>601,577</u>
Current portion of lease liabilities	156,216
Long term portion of lease liabilities	445,361
Total lease liabilities as at January 31, 2020	<u>601,577</u>

8 Long-term debt

	<u>January 31, 2020</u>		<u>July 31, 2019</u>	
	US\$	CA\$	US\$	CA\$
Term loan	734,265	971,653	754,980	992,647
Less: current portion	43,141	57,089	42,227	55,520
	<u>691,124</u>	<u>914,564</u>	<u>712,753</u>	<u>937,127</u>



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9 Expense by nature

	January 31, 2020	January 31,
	\$	2019
		\$
Salaries and benefits expense	1,145,773	1,344,691
Share-based compensation expense	46,698	16,976
Board compensation	49,881	55,427
Contracts and collaborators	59,796	98,461
Professional fees	94,520	102,610
Shareholders' relation fees	7,653	8,021
Occupancy costs	100,865	190,483
Insurance	53,041	58,257
Royalties	13,845	12,028
Sales, administration and all other expenses	354,494	454,292
Foreign exchange gain	(13,297)	(14,005)
Accretion expense – lease	12,641	-
Finance expense	33,534	32,215
Finance revenue	(20,254)	(23,213)
Changes in inventory allocation, work in process and finished goods	(93,507)	170,736
Depreciation of property, plant, equipment and intangible assets	118,033	141,069
Depreciation right-of-use assets	84,425	-
Other gains	-	(10,000)
	2,048,141	2,638,048

10 Key management compensation

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

	January 31, 2020	January 31,
	\$	2019
		\$
Salaries, share-based compensation and employee benefits	521,306	479,958



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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 six-month period ended January 31, 2020, 66% of its sales derived from its top three customers (July 31, 2019 – 62%).

	January 31, 2020	July 31, 2019
	%	%
Customer A	50	41
Customer B	9	-
Customer C	7	-
Customer D	-	11
Customer E	-	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 six-month period ended January 31, 2020 and the year ended July 31, 2019 were as follows:

	January 31, 2020	July 31, 2019
	%	%
Canada	19	18
United States	63	54
United Kingdom	4	15
Other	14	13
	100	100

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

	January 31, 2020	July 31, 2019
	\$	\$
Canada	1,063,301	1,143,073
United States	1,082,409	1,087,340
	2,145,710	2,230,413



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12 Share capital

Issued and fully paid

	January 31, 2020		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 six-month period ended January 31, 2020 and the year ended July 31 2019:

	January 31, 2020		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	455,000	0.14	300,000	0.15
Expired	(530,000)	0.23	(160,000)	0.22
Forfeited	(50,000)	0.20	-	-
Ending balance	1,520,000	0.17	1,645,000	0.20

The following table summarizes the IBEX stock options outstanding as at January 31, 2020:

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	3.88
0.08	50,000	50,000	3.42
0.14	455,000	-	9.99
0.15	300,000	100,000	8.90
0.20	625,000	550,000	7.89
0.24	70,000	70,000	7.22
	1,520,000	790,000	



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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 second quarter ended January 31, 2020

Risk-free interest rate	1.55%
Expected dividend yield	nil
Expected life of the options	10 years
Expected volatility	89.43%

During the second quarter ended January 31, 2020, the fair value of the options granted at an exercise price of \$0.135 is \$52,507.

13 SUBSEQUENT EVENT

Subsequent to the end of the second quarter, the Company accepted an offer from a third party to purchase the land, buildings, and equipment owned by the Company's Bio-Research Products subsidiary in Iowa.

The transaction is expected to close on May 1, 2020 subjected to normal closing conditions.

If the sale is completed as is, the Company will record an impairment of approximately \$100,000. Since the property is secured by a \$734,265 USD mortgage, the transaction will have a modest positive cash impact.

From an operational point of view, the Company expects an annual reduction in expenses of approximately \$170,000 USD per annum as a result of this sale of assets.

As previously reported, the production of all major products which IBEX acquired during the purchase of BRP have been moved to Montreal and represent an important augmentation to the IBEX product portfolio.