



IBEX TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FISCAL 2020

**NINE MONTHS ENDED
APRIL 30, 2020**

As at June 23, 2020

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED APRIL 30, 2020
June 23, 2020**

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MANAGEMENT DISCUSSION AND ANALYSIS

June 23, 2020

1 PREAMBLE

The following Management Discussion and Analysis (“MD&A”) and the unaudited condensed interim consolidated financial statements (“interim financial statements”) of IBEX Technologies Inc. (the “Company”) were approved by the Audit Committee and the Board of Directors on June 23, 2020. This MD&A provides a review of the developments and results of operations of the Company during the third quarter ended April 30, 2020 compared with the third quarter ended April 30, 2019.

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, 2019 and 2018.

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

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

2 FORWARD-LOOKING STATEMENTS

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

3 INTRODUCTION TO IBEX

3.1 Enzymes

The Company, through its wholly owned subsidiary, IBEX Pharmaceuticals Inc., manufactures and markets enzymes for biomedical use.

Up to July 31, 2019, IBEX produced its enzymes at its sites in Montreal, Quebec, and in North Liberty, Iowa, as well as at a third party manufacturing facility monitored by IBEX personnel. As of July 31, 2019, the Iowa facility was closed and production of products produced at that site was transferred to the Montreal site.

The Company's products 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.

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: Q3 FISCAL 2020

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)	April 30		January 31		October 31		July 31		Full Year	
	2020 \$	2019 \$	2020 \$	2019 \$	2019 \$	2018 \$	2019 \$	2018 \$	2020 \$	2019 \$
- Revenues	1,679	669	1,005	1,433	1,079	1,039	1,167	1,265	4,930	4,406
- Net (loss) earnings	626	(519)	(29)	43	64	(209)	(583)	(19)	78	(704)
- (Loss) earnings per common share	0.02	(0.02)	-	-	-	(0.01)	(0.02)	-	-	(0.03)
- Comprehensive (loss) income	613	(508)	(30)	44	64	(202)	(588)	(8)	59	(674)

Net Earnings for the Quarter

The Company recorded a net earnings of \$626,437 during the third quarter ended April 30, 2020 compared to net loss of \$518,700 for the same period year ago. This positive change of \$1,145,137 is related mainly to an increase in revenues of \$1,010,900 (see section 4.3) and a decrease in expenses of \$134,237 (see section 4.4).

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		
Quarter ended	April 30, 2020	April 30, 2019
Balance sheet revaluation		
• US cash	(\$60,038)	(\$37,766)
• US Trade receivables	(\$9,396)	(\$6,875)
• Other US accounts	(\$16,902)	(\$4,694)
Total gain on revaluation	(\$86,336)	(\$49,335)

Canadian/US dollar		
Quarter ended	April 30, 2020	April 30, 2019
Average rate	1.3766	1.3317
Closing rate	1.3910	1.3423

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 April 30, 2020 totaled \$1,679,409, an increase of \$1,010,900 (151%) compared to the same period year ago. The increase in revenues traces mainly to changes in quarterly purchasing patterns on the part of several of our major customers. It is possible that some customers may have advanced their order due to the COVID-19 situation.

The net increase of \$1,010,900 in revenues vs. the same period year ago can be attributed to an actual increase in revenues of \$984,899 (US\$715,458) and a positive variance of \$26,001 due to the impact of currency exchange.

The positive variance of US\$715,458 vs. the same quarter in the previous year can be attributed to volume of US\$618,556 and product mix of US\$96,902.

Revenues Variations – Quarter ended	April 30, 2020 vs. April 30, 2019
Volume/mix/new products impact:	
• Increase due to volume USD	\$618,556
• Increase due to product mix USD	\$96,902
Total increase due to volume/mix USD	\$715,458
Currency impact:	
• Total increase due to volume/mix CAD	\$984,899
• Currency positive effects in CAD	\$26,001
• Total increase in CAD	\$1,010,900

During third quarter ended April 30, 2020, the average currency rate was 1.3766 compared to 1.3317 in the same quarter last year. This translates to a gain 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 third quarter of fiscal 2020 decreased to \$1,015,972 compared to \$1,187,209 in the same quarter year ago. The decrease of \$171,237 is related mainly to the closing of the North Liberty, Iowa production facility on July 31, 2019 for \$110,322.

Expense details		
Quarter ended	April 30, 2020	April 30, 2019
Cost of sales ¹	\$565,833	\$535,149
R&D expenses ¹	\$25,055	\$75,839
SG&A expenses ¹	\$398,305	\$553,668
Depreciation of PPE ²	\$56,862	\$69,453
Depreciation of right-of-use assets	\$42,561	-
Impairment of PPE ² (see section 13)	\$37,000	-
Foreign exchange (gain) loss	(\$86,337)	(\$49,335)
Financial expenses - net	\$13,693	\$2,435
Total expenses before other gains	\$1,052,972	\$1,187,209
Other gains	-	-
Total expenses	\$1,052,972	\$1,187,209

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

2- PPE = Property, plant and equipment and intangible assets.

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	April 30, 2020	April 30, 2019
Revenues	\$1,679,409	\$668,509
Cost of sales ³	\$611,463	\$594,105
Gross margin %	63.6%	11%

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

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

The increase of gross margin also reflects a decrease in the cost of sales related to the closing of the North Liberty, Iowa production facility on July 31, 2019.

4.4.2 Research and Development Expenses

Research and development (R&D) expenses consisted primarily of personnel expenses, laboratory supplies and external service providers. During the quarter ended April 30, 2020, research and development expenses totaled \$25,055 compared to \$75,839 in the same period year ago. The decrease of \$50,784 traces mainly to the closing of the North Liberty, Iowa production facility on July 31, 2019 and a reduction in staff due to retirement at the Montreal facility (at least one of the open positions will be filled in the fourth quarter).

4.4.3 Selling, General and Administrative Expenses

During the quarter ended April 30, 2020, selling, general and administrative (SG&A) expenses totaled \$398,305 compared to \$553,668 in the same period year ago. The decrease of \$155,363 traces mainly to the new IFRS presentation requirement dealing with depreciation of right-of-use assets related to our leases rather than a real decrease in expenses (the depreciation of right-of-use assets in the amount of \$42,561 are now reported on a separate line in the table in section 4.4), and to the closing of the North Liberty, Iowa production facility on July 31, 2019.

5 RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED APRIL 30, 2020

5.1 Summary of Results

The Company recorded net earnings of \$698,897 for the nine months ended April 30, 2020 compared to a net loss of \$684,643 for the same period year ago. This positive change of \$1,383,540 is primarily attributable to the decrease in expenses of \$761,144 (see section 5.4), and the increase in revenues of \$622,396 (see section 5.3).

Net earnings (loss)		
Year-to-date	Fiscal 2020	Fiscal 2019
Revenues	\$3,763,010	\$3,140,614
Net expenses	\$3,101,113	\$3,825,257
Net earnings (loss)	\$661,897	(\$684,643)
Earnings (loss) per share, basic and diluted	\$0.02	(\$0.03)

5.2 Foreign Exchange

The table below shows the fluctuation in the Canadian/US 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		
Year-to-date	Fiscal 2020	Fiscal 2019
Balance sheet revaluation		
• US Cash	(\$69,349)	(\$39,593)
• US Trade receivables	(\$17,108)	(\$6,949)
• Other US accounts	(\$13,176)	(\$16,798)
Total gain on revaluation	(\$99,633)	(\$63,340)

Canadian/US dollar rates		
Year ended	April 30, 2020	April 30, 2019
Average rate	1.3389	1.3219
Closing rate	1.3910	1.3423

5.3 Revenues

Revenues for the nine months ended April 30, 2020 totaled \$3,763,010 compared to \$3,140,614 for the same period year ago. The increase in revenues traces mainly to changes in quarterly purchasing patterns on the part of several of our major customers. It is possible that some customers may have advanced their order due to the COVID-19 situation.

The net increase in revenues vs. the same period year ago was \$622,396, of which \$593,453 (US\$418,051) can be attributed to an actual increase in revenues and the balance of \$28,943 to the positive currency impact.

The positive variance in revenues came from a volume variance of US\$237,939, and a positive variance in product mix of US\$180,112.

Revenues Variations – Year-to-date	Fiscal 2020 vs. Fiscal 2019
Volume/mix/new products impact:	
• Increase due to volume USD	\$237,939
• Increase due to product mix USD	\$180,112
Total increase due to volume/mix USD	\$418,051
Currency impact:	
• Total increase due to volume/mix CAD	\$593,453
• Currency positive effects CAD	\$28,943
• Total increase in CAD	\$622,396

5.4 Total Expenses

Total expenses for the nine months ended April 30, 2020 totaled \$3,064,113 compared to \$3,825,257 for the same period year ago. The decrease of \$761,144 is related mainly to the closing of the North Liberty, Iowa production facility on July 31, 2019 (\$648,531) and the positive impact of inventory allocation (\$140,795).

Expense details		
Year-to-date	Fiscal 2020	Fiscal 2019
Cost of sales ⁴	\$1,479,167	\$1,995,734
R&D expenses ⁴	\$112,421	\$248,987
SG&A expenses ⁴	\$1,230,664	\$1,431,917
Depreciation of PPE	\$174,895	\$210,522
Depreciation of right-of-use assets	\$126,986	-
Impairment of PPE (see section 13)	\$37,000	-
Foreign exchange gain	(\$99,634)	(\$63,340)
Financial expenses - net	\$39,614	\$11,437
Total expenses before other gains	\$3,101,113	\$3,835,257
Other gains	-	(\$10,000)
Total expenses	\$3,101,113	\$3,825,257

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 2020	Fiscal 2019
Revenues	\$3,763,010	\$3,140,614
Cost of sales ⁵	\$1,620,760	\$2,173,838
Gross margin %	57%	31%

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

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

The increase of gross margin also reflects a decrease in the cost of sales related to the closing of the North Liberty, Iowa production facility on July 31, 2019.

5.4.2 Research and Development Expenses

Research and development (R&D) expenses for the nine months ended April 30, 2020 totaled \$112,421 compared to \$248,987 for the same period year ago. The decrease of \$136,566 traces mainly to a decrease in contracts and collaborators expenses, the closing of the North Liberty, Iowa production facility on July 31, 2019 and a reduction in staff due to retirement at the Montreal facility (at least one of the open positions will be filled in the fourth quarter).

5.4.3 Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses for the nine months ended April 30, 2020 totaled \$1,230,664 compared to \$1,431,917 for the same period year ago. The decrease of \$201,253 traces mainly to the new IFRS presentation requirement dealing with depreciation of right-of-use assets related to our leases rather than a real decrease in expenses (the depreciation of right-of-use assets in the amount of \$126,986 are now reported on a separate line in the table in section 5.4), and to the closing of the North Liberty, Iowa production facility on July 31, 2019.

6 LIQUIDITY AND CAPITAL RESOURCES

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

As at April 30, 2020, the Company had net working capital of \$3,603,324 compared to net working capital of \$2,838,173 as at July 31, 2019. Cash and cash equivalents increased by \$263,271 to \$2,843,130 compared to \$2,579,859 as at July 31, 2019.

As at:	April 30, 2020	January 31, 2020	October 31, 2019	July 31, 2019	April 30, 2019
Cash and cash equivalents	\$2,843,130	\$3,003,781	\$2,499,542	\$2,579,859	\$2,980,584
Net working capital	\$3,603,324	\$2,832,532	\$2,779,996	\$2,838,173	\$3,068,584

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

7 LOOKING FORWARD

As always, the future financial results of the Company are difficult to predict as the Company's customers have significant variations in their purchasing patterns, as can be illustrated in the current year's quarterly results.

Based on what we see at this time, we expect Fiscal 2020 revenues to be somewhat higher than last year, and with the reduction in expenses resulting from the closure of the Iowa production facility, we expect to be net earnings positive for the year.

The Company continues to work on a number of new heparinase-containing clinical device projects with its key customers, some of which may result in additional revenues in Fiscal 2021 and beyond; however, as with all developmental projects, we cannot give any assurances that any of these customer-driven projects will come to market and produce significant revenues.

8 RISKS AND UNCERTAINTIES

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

For more information, and for a complete description of the risk factors that could materially affect the business, please refer to the corresponding sections in the Company's July 31, 2019 MD&A, as they are the same for the nine months ended April 30, 2020.

9 RELATED PARTY TRANSACTIONS

During the nine months ended April 30, 2020 and 2019, other than the transactions and amounts described in *Note 10* in our interim financial statements, the Company did not have any other related party transactions.

10 CRITICAL ACCOUNTING ESTIMATES

Please refer to *Note 2* of the Company's July 31, 2019 audited consolidated financial statements and the corresponding section of the July 31, 2019 MD&A to review the Company's critical accounting estimates. They were the same as those used in the interim financial statements for the nine months ended April 30, 2020, with the exception of new judgments involved with IFRS 16 adoption as describe in *Note 2* of the interim financial statements.

11 ACCOUNTING STANDARDS AND AMENDMENTS

On August 1, 2019, the Company adopted IFRS 16 "Leases" 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.

The cumulative effect of initially applying IFRS 16 was recognized as a \$678,171 right-of-use assets with a corresponding lease liabilities.

Please refer to *Note 2* of the Company's April 30, 2020 interim financial statements.

12 OUTSTANDING SHARE DATA

12.1 Common Shares

As at June 23, 2020, the Company has 24,773,244 common shares outstanding.

12.2 Stock options

As at June 23, 2020, the Company has 1,475,000 stock options outstanding with exercise prices ranging from \$0.08 to \$0.24 and expiry dates ranging from July 2023 to January 2030.

As at June 23, 2020, on an if-converted basis, these stock options would result in the issuance of 1,475,000 additional common shares at an aggregate exercise price of \$245,375.

13 OTHER EVENTS

SALE OF BRP'S ASSETS

The Company closed operations at its North Liberty, Iowa production facility on July 31, 2019 and the facility was put up for sale. During the third 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 closed on June 19, 2020.

Therefore, as at April 30, 2020, criteria for their classification as assets held for sale has been met. The assets have been stated at the lower of carrying value and fair value less costs to sell. The Company has taken a non-cash impairment of approximately \$37,000 related to the land, buildings and equipment.

The sale will have a small positive cash impact after transaction fees and paying off the \$723,527 USD mortgage.

From an operational point of view, the Company expects the sale of the site will reduce annual expenses by approximately \$170,000 USD per annum.

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

COVID-19

As an "Essential Service" (producing reagents and components for critical care diagnostic tests), IBEX has remained operational, albeit with significant changes in the way we operate (administrative staff work mainly from home and production and lab staff are on site on an as-needed basis) and COVID-19 has not thus far impacted our ability to produce and sell.

Our financial picture has actually improved over the last quarter, as customers have increased their purchases of our products (which mainly end up in diagnostics used in hospitals), however like many

companies in the medical environment we do not have a clear picture of how COVID 19 will impact future sales.

The COVID-19 situation has had an impact on some of our developmental programs which rely heavily on external suppliers, some of which have been closed down as a result of the pandemic. We expect some of these programs to resume in the fourth quarter.

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