



**IBEX TECHNOLOGIES INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**FISCAL 2021**

**THREE MONTHS ENDED  
OCTOBER 31, 2020**

**As at December 09, 2020**



**MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS ENDED OCTOBER 31, 2020**

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## MANAGEMENT DISCUSSION AND ANALYSIS

December 09, 2021

### 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 December 09, 2020. This MD&A provides a review of the developments and results of operations of the Company during the first quarter ended October 31, 2020 compared with the first quarter ended October 31, 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, 2020 and 2019.

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](http://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: Q1 FISCAL 2021

### 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)	October 31		July 31		April 30		January 31		Full Year	
	2020 \$	2019 \$								
- Revenues	1,165	1,079	1,447	1,167	1,679	669	1,005	1,433	5,296	4,348
- Net earnings (loss)	150	64	304	(583)	626	(519)	(29)	43	1,003	(995)
- Earnings (loss) per common share	-	-	0.01	(0.02)	0.02	(0.02)	-	-	0.03	(0.04)
- Comprehensive income (loss)	150	64	316	(588)	613	(508)	(30)	44	1,001	(988)

## Net Earnings for the Quarter

The Company recorded net earnings of \$150,066 during the first quarter ended October 31, 2020 compared to net earnings of \$64,463 for the same period last fiscal year. This positive change of \$85,603 relates mainly to an increase in revenues of \$85,918 (see section 4.3) as well as other gains of \$48,168, partially offset by an increase in expenses of \$48,483 (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 loss (gain)		
Quarter ended	October 31, 2020	October 31, 2019
Balance sheet revaluation		
• US cash	\$3,318	\$2,522
• US Trade receivables	(\$18,241)	(\$3,605)
• Other US accounts	\$19,850	\$4,149
Total loss (gain) on revaluation	\$4,927	\$3,066

Canadian/US dollar		
Quarter ended	October 31, 2020	October 31, 2019
Average rate	1.3222	1.3236
Closing rate	1.3318	1.3160

### 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 October 31, 2020 totaled \$1,164,658, an increase of \$85,918 (8 %) compared to the same period last fiscal year.

The net increase in revenues vs. the same period last year can be attributed to an actual increase in revenues of \$96,428 (US\$72,930) and a negative impact of \$10,510 due to the currency exchange.

The positive variance of US\$72,930 vs. the same quarter in the previous year can be attributed to an increase in volume of US\$60,068 as well as an increase in product mix of US\$12,862.

Revenues Variations – Quarter ended	October 31, 2020 vs. October 31, 2019
Volume/mix/new products impact:	
• Increase due to volume USD	\$60,068
• Increase due to product mix USD	\$12,862
Total increase due to volume/mix USD	\$72,930
Currency impact:	
• Total increase due to volume/mix CAD	\$96,428
• Currency negative effects in CAD	(\$10,510)
• Total increase in CAD	\$85,918

During first quarter ended October 31, 2020, the average currency rate was 1.3222 to 1.3236 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 first quarter of fiscal 2021 totalled \$1,018,598 compared to \$1,014,277 in the same quarter last fiscal year. The small increase of \$4,321 is due to an increase in Cost of sales and SG&A offset by a decrease in R&D expenses as well as other gains relating to the Canada Emergency Wage Subsidy (CEWS).

Expense details		
Quarter ended	October 31, 2020	October 31, 2019
Cost of sales <sup>1</sup>	\$486,771	\$417,409
R&D expenses	\$7,218	\$63,049
SG&A expenses <sup>1</sup>	\$462,371	\$418,351
Depreciation of PPE <sup>2</sup>	\$49,968	\$58,439
Depreciation of right-of-use assets	\$45,928	\$42,212
Foreign exchange loss (gain)	\$4,927	\$3,066
Financial expenses - net	\$9,583	\$11,751
Total expenses before other gains	\$1,066,766	\$1,014,277
Other gains	(48,168)	-
Total expenses <sup>3</sup>	\$1,018,598	\$1,014,277

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

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

3- Total expenses excludes a \$4,006 tax refund received in September 2020. The refund is included in the net earnings in Section 4.1.

#### 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	October 31, 2020	October 31, 2019
Revenues	\$1,164,658	\$1,078,740
Cost of sales <sup>4</sup>	\$532,601	\$465,093
Gross margin %	54%	57%

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

#### 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 October 31, 2020, research and development expenses totaled \$7,218 compared to \$63,049 in the same period year ago. The decrease is a result of vacancy in our R&D staffing.

#### 4.4.3 Selling, General and Administrative Expenses

During the quarter ended October 31, 2020, selling, general and administrative (SG&A) expenses totaled \$462,371 compared to \$418,351 in the same period a year ago. The increase of \$44,020 relates mainly to an increase in Administration salaries due to overlapping personnel during a time of transition this quarter.

### 5 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 October 31, 2020, the Company had net working capital of \$3,935,924 compared to a net working capital of \$3,805,040 as at July 31, 2020. Cash and cash equivalents increased by \$455,625 during the quarter to \$4,161,142.

As at:	October 31, 2020	July 31, 2020	April 30, 2020	January 31, 2020	October 31, 2019
Cash and cash equivalents	<b>\$4,161,142</b>	\$3,705,517	\$2,843,130	\$3,003,781	\$2,499,542
Net working capital	<b>\$3,935,924</b>	\$3,805,040	\$3,603,324	\$2,832,532	\$2,779,996

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.

## 6 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 it has been illustrated in the quarterly results over the past few years. The impact of COVID-19 adds further uncertainty to the picture.

We do not foresee Fiscal 2021 to be as profitable as Fiscal 2020 as customers who may have advanced purchases in Fiscal 2020 to protect against supply-chain interruptions may reduce some of their inventory in our Fiscal 2021. We did have the benefit of the Canada Emergency Wage Subsidy this quarter which amounted to \$48,168. Due to the extension of the government program to June 2021, we may see further benefits of the program in the upcoming quarters.

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 assurances that any of these customer-driven projects will come to market and produce significant revenues.

*It should be noted that Earnings Before Interest, Tax, Depreciation & Amortization ("EBITDA") is not a performance measure defined by IFRS, but we, as well as investors and analysts, consider that this performance measure facilitates the evaluation of our ongoing operations and our ability to generate cash flows to fund our cash requirements, including our capital expenditures program. Note that our definition of this measure may differ from the ones used by other public corporations. The elements include in the Company's EBITDA are: Net earnings (loss), Depreciation of property, plant, equipment and intangible assets, Depreciation of right-of-use assets, Interest-Net, Income tax expense (recovery).*

## 7 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, 2020 MD&A, as they are the same for the three months ended October 31, 2020.

## **8 RELATED PARTY TRANSACTIONS**

During the three months ended October 31, 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.

## **9 CRITICAL ACCOUNTING ESTIMATES**

Please refer to *Note 2* of the Company's July 31, 2020 audited consolidated financial statements and the corresponding section of the July 31, 2020 MD&A to review the Company's critical accounting estimates. They were the same as those used in the interim financial statements for the three months ended October 31, 2020.

## **10 ACCOUNTING STANDARDS AND AMENDMENTS**

Please refer to *Note 2* of the Company's October 31, 2020 interim financial statements.

New accounting standards, amendments and interpretations issued and effective for the Company beginning on August 1, 2020 are as follows:

*IAS 1, Presentation of Financial Statements ("IAS 1"), and IAS 8, Accounting Policies, Changes in accounting Estimates and Errors ("IAS 8")*

Definition of Material (Amendments to IAS 1, Presentation of Financial Statements, and to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors) is intended to make the definition of material in IAS 1 easier to understand and is not intended to alter the underlying concept of materiality in IFRS Standards. The concept of "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence". The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1.

IAS 1 and IAS 8 are applicable for annual periods beginning on or after January 1, 2020. The Company does not expect any impact in its financial statements upon the amendments of IAS 1 and IAS 8.

## **11 OUTSTANDING SHARE DATA**

### **11.1 Common Shares**

As at December 09, 2020, the Company has 24,773,244 common shares outstanding.

### **11.2 Stock options**

As at December 09, 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 December 09, 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.

## **12 SALE OF IOWA PRODUCTION FACILITY**

The Company closed operations at its North Liberty, Iowa production facility on July 31, 2019 and the facility was sold in June 2020.

The Company has taken a non-cash impairment of \$35,492 in Fiscal 2020 related to the land, building and equipment.

From an operational point of view, the sale of the site is expected to reduce annual expenses by approximately US\$170,000 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.

## **13 COVID-19 IMPACT**

As an “Essential Service” (producing reagents and components for critical care diagnostic tests), IBEX has remained operational throughout the COVID-19 pandemic. To the extent possible, administrative staff work mainly from home and production and lab staff are on site on an as-needed basis. COVID-19 has thus far not impacted our ability to produce and sell.

As noted above, our financial picture has actually improved over the last two quarters, 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 however 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 upcoming months as suppliers partially resume operations.

The Company has met all requirements under the Canada Emergency Wage Subsidy (CEWS) and has submitted claims for a total amount of \$125,762, which was received in September 2020. The CEWS were recorded in “Other income” in the Company’s audited consolidated financial statements and notes as of July 31, 2020.

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