



IBEX TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FISCAL 2010

FIRST QUARTER ENDED OCTOBER 31, 2009

AS AT DECEMBER 10, 2009



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December 10, 2009

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MANAGEMENT'S DISCUSSION & ANALYSIS

December 10, 2009

1. PREAMBLE

The following Management Discussion and Analysis ("MD&A") should be read in conjunction with the Company's unaudited consolidated interim financial statements for the three months ended October 31, 2009 as well as the audited consolidated financial statements and notes thereto for the year ended July 31, 2009 and 2008 which are prepared in accordance with Canadian generally accepted accounting principles. These interim unaudited consolidated financial statements have not been reviewed by the Company's auditors. This MD&A provides a review of the performance of the Company for the three-month period ended October 31, 2009 as compared to the three-month period ended October 31, 2008. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Where "IBEX" or the "Company" is used, it is referring 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 risk factors section of the MD&A.

3. INTRODUCTION TO IBEX

The Company manufactures and markets a series of proprietary enzymes (heparinases and chondroitinases) for use in pharmaceutical research, including Heparinase I, which is used in many leading hemostasis monitoring devices.

IBEX also manufactures and markets a series of arthritis assays which are widely used in pharmaceutical research by our customers. These assays are based on the discovery of a number of specific molecular biomarkers associated with collagen synthesis and degradation.

3.1 Glycobiology / Haematology Enzymes

IBEX produces Heparinase I, Heparinase II, Heparinase III, Chondroitinase AC and Chondroitinase B via a proprietary recombinant expression system. This system allows the economic production of high purity recombinant forms of these GAG lyases. These enzymes and their uses are protected by an extensive patent suite.

These enzymes are sold directly by IBEX 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

IBEX

heparinoids, drugs commonly used in hospitals. *Heparinase I* recognizes and cleaves a pentasaccharide sequence which occurs in both heparin and the low molecular weight heparins, thereby neutralizing their anticoagulant activity.

IBEX produces its enzymes at its own site and at third party outside manufacturing facilities monitored by IBEX personnel.

IBEX and its partners have developed several diagnostic applications of *Heparinase I*, principally in the point-of-care market. Key customers include Abbott Point of Care, Medtronic, Siemens, Haemoscope and Pentapharm.

The Company also works with third parties in the development of new applications for its glycobiology enzymes.

3. 2 Arthritis Assays

IBEX manufactures and sells arthritis assays which enable the study of both the *synthesis* and *degradation* of cartilage components and are powerful tools in the study of osteo- and rheumatoid arthritis.

IBEX Arthritis Diagnostic kits and services are marketed and sold for research use only ("RUO") to pharmaceutical companies, clinical research organizations and academic institutions. The marketing of these diagnostic kits is done directly in North America and through a distributor in Europe.

The assays are produced in IBEX facilities.



4. RESULTS OF OPERATIONS: 1st Quarter 2010

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 nine most recently completed quarters ending at October 31, 2009.

(in thousands of dollars, excluding per share amounts)	First Quarter Oct 31	Second Quarter Jan 31	Third Quarter April 30	Fourth Quarter July 31	Full Year
Fiscal 2010					
Revenue	\$ 647				
Net earnings	\$ 72				
Basic and fully diluted net profit per Common Share	\$ 0.00				
Fiscal 2009					
Revenue	\$ 612	\$ 996	\$ 1,073	\$ 863	\$ 3,544
Net earnings	\$ 337	\$ 289	\$ 243	\$ 475	\$ 1,344
Basic and fully diluted net profit per Common Share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.05
Fiscal 2008					
Revenue	\$ 555	\$ 549	\$ 713	\$ 510	\$ 2,327
Net earnings (loss)	\$ (188)	\$ 88	\$ 259	\$ 189	\$ 348
Basic and fully diluted net earnings (loss) per Common Share	\$ (0.01)	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01

4.2 Net Earnings for the Quarter

4.2.1 **As compared to year ago:** net earnings for the first quarter of fiscal year 2010 were \$71,877 (\$0.00 per share) compared to net earnings of \$337,414, (\$0.01 per share), for the first quarter of fiscal year 2009.

The decrease in reported net earnings in the first quarter of Fiscal 2010 as compared to the first quarter of Fiscal 2009 is mainly attributable to the foreign exchange impact. This quarter, a loss of \$44,712 was recorded in the foreign exchange account compared to a gain of \$211,619 recorded in the previous fiscal year. (See below for more details).

Excluding the foreign exchange impact, net earnings for the quarter were \$116,589, down \$9,206 or 7% versus \$125,795 in the same quarter of Fiscal 2009.

4.2.2 **As compared to previous quarter:** reported net earnings of \$71,877 for the first quarter of Fiscal 2010 were down \$402,755 versus the net earnings of \$474,632 (\$0.01 per share) seen in fourth quarter of Fiscal 2009. This difference traces mainly to currency effects due to a gain in hedging (\$408,710) and offset by a charge due to embedded derivatives (\$107,618).



In the first quarter of fiscal 2010 the company recorded a loss of \$44,712 in foreign exchange as the US dollar at the end of the current quarter (\$1.0819) closed higher than it did at the end of the previous quarter (\$1.0775), although lower than the first quarter ended October 31, 2008 (\$1.2045). This change has a negative impact on the book value of US cash accounts and receivables and on Embedded Derivatives (mainly the future value of IBEX long term supply contracts with certain customers). During the prior three quarters, the Company was obliged to write up the value of these contracts as the US dollar was increasing in value vs. the Canadian dollar, and now with a declining value of the US dollar, the Company is obliged to write down the value of these same contracts.

Quarterly Consolidated foreign exchange loss (gain)			
Quarter	Q1, Fiscal 2010	Q4, Fiscal 2009	Q1, Fiscal 2009
Embedded Derivatives	\$107,618	\$153,534	(\$75,992)
Foreign exchange agreements	(\$48,354)	(\$386,536)	-
Other loss (gain)	-	\$906	-
Total of loss (gain)	\$59,264	(\$232,096)	(\$75,992)
Balance sheet revaluation			
US Cash	(\$7,053)	\$48,684	(\$98,587)
Trade receivables	\$2,007	\$6,497	(\$55,745)
Other US accounts	(\$9,506)	\$27,154	\$18,705
Total of (gain) loss on revaluation	(\$14,552)	\$82,335	(\$135,627)
Net loss (gain) on foreign exchange	\$44,712	(\$149,761)	(\$211,619)

4.3 Revenue 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 US / Canadian exchange rate have a significant impact on the reported sales figures.

Revenues for the three-month period ended October 31, 2009 totaled \$646,656 compared to \$612,430 in same period year ago, representing an increase of 5.6%.

The sales increase of \$34,226 versus the same quarter a year ago, is mainly attributable to a currency effect of \$42,259 offset by a negative growth of US\$8,033. Based on average exchange rates, the US dollar strengthened against the Canadian dollar by 5.4% when compared to same quarter of the prior year. During the 2008 fiscal year, the US and Canadian dollar were mostly at par. The US dollar remarkably strengthened from \$1.0240 in July 2008 to \$1.2045 in October 2008. It maintained a high value which varied from \$1.2045 to \$1.2723 until



March 2009 dropping down to \$1.1930 in April 2009 and down again to \$1.0819 in October 2009.

Sales Variations	Q1-F10 vs. Q1-F09
Currency Impact:	
• Total increase in USD	(\$8,033)
• Currency effects CAD	\$42,259
• Total change in CAD	\$34,226
Volume/mix/new product Impact:	
• Variation due to volume increase USD	\$45,705
• Variation due to product mix USD	\$-
• Variation due to price USD	(\$59,238)
• Variation due to new product(s) USD	\$5,500
Total of variations due to Volume/mix/new products USD	(8,033)

4.4 Cost of Goods Sold

4.4.1 **As compared to year ago:** for the three months ended October 31, 2009, cost of goods sold increased to \$254,813 from \$247,751 for the same period of the preceding fiscal year. This increase of 2.9% in cost of goods traces to an increase in amortization expense.

4.4.2 **As compared to the previous quarter:** cost of goods as a percent of sales remained stable from the previous quarter and from the first quarter of the previous fiscal year.

Cost of Goods Sold			
Quarter	Q1, Fiscal 2010	Q4, Fiscal 2009	Q1, Fiscal 2008
Sales	\$646,656	\$863,691	\$612,430
Cost of Goods	\$254,813	\$310,584	\$247,751
Gross Margin %	61%	64%	60%

4.5 Expenses

4.5.1 **As compared to year ago:** total expenses in the first quarter of Fiscal 2010 increased to \$574,779 from \$275,016 in the same quarter a year ago. The increase in expenses was due primarily to the foreign exchange loss recorded in this quarter. At the end of the first quarter of fiscal 2009, the US currency closed at \$1.2045 which generated a gain of \$211,619. Excluding the foreign exchange impact, the expenses increased by 9% due to increased employee-related costs and an increase in the level of business activity.



Expenses			
Quarter	Q1 Fiscal 2010	Q4, Fiscal 2009	Q1, Fiscal 2009
Cost of Goods Sold ¹	\$240,148	\$303,073	\$242,510
SG&A	\$254,976	\$215,283	\$246,400
Amortization	\$32,768	\$25,322	\$15,200
Gain on disposal	\$-	(\$7,277)	(\$6,104)
Financial expenses	\$46,887	(\$147,343)	(\$222,990)
Total expenses	\$574,779	\$389,058	\$275,016

Selling, general and administrative expenses (excluding amortization, gains on disposal and financial expenses) for the three-month period ended October 31, 2009 were \$254,976 versus \$246,400 in the same period a year ago. As compared to previous quarter: SG&A increased 18% up from \$215,283 to \$254,976. As mentioned above, this increase is due to the raise of employee-related cost and the activity level. A strong Canadian dollar negatively impacts the Company's results. On October 31, 2009, the closing rate of the US dollar was 10.2% lower than the closing rate on October 31, 2008.

5. LIQUIDITY AND CAPITAL RESOURCES

5.1 Overview

As of October 31, 2009, IBEX had \$2,661,569 in cash, cash equivalents and marketable securities. This represents an increase of \$401,225 vs. the previous quarter (\$2,260,344) and \$985,530 when compared to a year ago (\$1,676,039). The Company manages liquidity risk by maintaining adequate cash to discharge its liabilities when due.

As of October 31, 2009, the Company had a net working capital of \$2,930,953 compared to a net working capital of \$2,881,146 as at July 31, 2009 and \$2,163,018 as at October 31, 2008.

As at:	October 31, 2009	July 31, 2009	April 30, 2009	January 31, 2009	October 31, 2008
Cash, cash equivalents and Marketable	\$2,661,569	\$2,260,344	\$2,118,086	\$1,848,936	\$1,676,039
Working Capital	\$2,930,953	\$2,881,146	\$2,557,888	\$2,390,884	\$2,163,018

¹ Cost of Goods Sold excludes amortization expense for the purposes of this presentation.



5.2 Contractual Obligations

Contractual Obligations (other than those pertaining to Employment Contracts which are more fully explained in the Proxy) as of October 31, 2009 are currently limited to lease payments.

(In thousands of dollars)	Total	2010	2011	2012	2013	2014
Operating leases*	\$ 453	\$ 82	\$ 94	\$ 93	\$ 92	\$ 71
TOTAL	\$ 453	\$ 82	\$ 94	\$ 93	\$ 92	\$ 71

* The current lease (which is renewable) runs out in April of 2014.

6. LOOKING FORWARD

IBEX has been successful in bringing its existing business to profitability and is now turning its attention to pursuing growth opportunities, including further growing its base business and maximizing shareholder value through strategic initiatives with companies where increased market strength and synergies might be obtained.

To improve its productivity, IBEX will invest approximately between \$350,000 to \$500,000. in new lab and production equipment during Fiscal 2010. This investment includes the purchase of a new freeze-dryer to accommodate our increasing sales of lyophilized devices.

Operationally, IBEX continues to focus on developing value from its enzyme and arthritis business. Notable items in 2010 are expected to be:

6.1 Glycobiology

- increased sales from current enzyme customers;
- the investment in additional freeze drying capability.

6.2 Arthritis Assays

- the development of additional assays using third party resources;
- sales of current assays at around the same level as 2009 (however, the arthritis assay business is volatile and cyclical, depending as it does on the timing of major studies, and there can be no assurance that 2010 sales will reach the level of 2009).

6.3 Other

- a decline in value of the US dollar (projected average exchange of \$1.05 in Fiscal 2010 vs. \$1.1758 in 2009) which will have a negative impact on reported sales and actual net income, despite the fact that the Company has hedged some of its future income (see section 10.2);
- reduced occupancy costs as the full benefits of the Fiscal 2009 reorganization flows through.



7. RISKS AND UNCERTAINTIES

7.1 General Risk Factors

IBEX products are sold to device makers, pharmaceutical companies for pre-clinical research and contract research organizations for clinical studies. As such, IBEX is dependent on the successful marketing by the device makers and the frequency and size of pre-clinical and clinical studies.

IBEX products are sold in US\$ and as such, the Company is highly exposed to currency fluctuations.

7.2 Market Demand

Changes in market demand could affect sales of the Company's enzyme reagents and sales of its arthritis assays into research applications. A decrease in demand for such products could have a material adverse effect on the Company.

7.3 Regulatory Approval

The current line of IBEX products are not subject to regulatory approval. However, there is no guarantee that this may not change in the future. Any such changes may have the effect of significantly increasing the cost of doing business for IBEX.

7.4 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 patents 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.

7.5 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.

7.6 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.



7.7 Reliance on Key Personnel

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

7.8 Contingencies

In the normal course of operations, claims may arise against the Company pertaining to undesired side effects 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 the Company's results of operations or financial position.

7.9 Other Risks

The Company is exposed to market risks related to volatility in interest rates for the Company's investment portfolio and foreign currency exchange rates related to sales revenue and purchases of supplies and services made in US dollars. In addition, the Company's share price is subject to equity market risk, which may result in significant speculation and volatility of trading due to the uncertainty inherent in the Company's business and in the biotechnology industry in general. The expectations of the Company made by securities analysts could also have a significant impact on the trading price of IBEX's common shares.

8. RELATED PARTY TRANSACTIONS

During the quarter ended October 31, 2009, the Company did not have any related party transactions.

9. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results can 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.

9.1 Valuation Allowance for Future Tax Assets

The Company has recorded a valuation allowance on future tax assets primarily related to the carry-forward of operating losses, research and development expenses and federal research and development income tax credits. The Company has determined that it is more likely than not, at this time, that these carry-forward amounts will not be realized based on historical results and estimated future taxable income. The generation of future taxable income or the implementation of tax planning strategies could result in the realization of some or all of the carry-forward amounts, which could result in a material change in our net income (loss) through the recovery of future income taxes.



9.2 Stock Based Compensation

When the Company issues stock options to certain employees, directors and officers of the Company, a fair value is derived for the stock options using the Black-Scholes pricing model. The application of this pricing model requires management to make assumptions regarding several variables, including the expected life of the options, the price volatility of the Company's stock over a relevant timeframe, the determination of a relevant risk free interest rate and an assumption regarding the Company's dividend policy in the future.

10. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

10.1 Capital Disclosures

During the year ended July 31, 2008, the Company early adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures", as permitted by the standard. The standard requires the disclosure of both qualitative and quantitative information that enables the users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital.

The adoption of this Section did not have an impact on the Company's financial position, earnings or cash flows; however, it did result in expanded disclosure.

10.2 Financial Instruments

During the year ended July 31, 2008, the Company adopted the CICA Handbook Section 1530, "Comprehensive Income"; Section 3251, "Equity"; Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3862, "Financial Instruments – Disclosures"; Section 3863, "Financial Instruments – Presentation"; and Section 3865, "Hedges". These standards provide accounting guidelines for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives, as well as the introduction of a new statement of comprehensive income. Section 3865 did not have an impact on the Company as it does not use hedge accounting. The Company elected to early adopt Sections 3862 and 3863, as permitted by the standards.

The Company's adoption of these new financial instrument standards resulted in changes in the accounting for financial instruments, as well as the recognition of certain transitional adjustments that have been recorded in opening deficit. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are as follows:

a) **Comprehensive income (loss)**

Comprehensive income (loss) is defined as the change in equity from transactions and other events and circumstances from sources other than shareholders, and is composed of the Company's net earnings (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains and losses that are recognized in comprehensive income (loss) but excluded from net earnings (loss). The Company does not have any components that qualify as other comprehensive income (loss).



b) Financial assets and financial liabilities

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Financial instruments are initially recognized at fair value and are classified into one of five categories: held for trading, held to maturity, available for sale, loans and receivables, and other financial liabilities. They are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Transaction costs are expensed as incurred.

Held for trading

Financial instruments classified as held for trading are carried at fair value at each balance sheet date with the changes in fair value recorded in net earnings (loss) in the period in which the changes arise.

Available for sale

Financial instruments classified as available for sale are carried at fair value at each balance sheet date with the changes in fair value recorded in other comprehensive income (loss) in the period in which the changes arise. Securities that are classified as available for sale and do not have a readily available market value are recorded at cost. Available-for-sale securities are adjusted to fair value through earnings (loss) whenever it is necessary to reflect other than temporary impairment. Upon derecognition, all cumulative gains or losses are then recognized in net earnings (loss).

Held to maturity, loans and receivables, and other financial liabilities

Financial instruments classified as held to maturity, loans and receivables, and other financial liabilities are carried at amortized cost using the effective interest method, and interest income or expense is included in net earnings (loss) over the expected life of the instrument.

Management has selected the following classifications and bases of accounting for the Company's financial instruments:

Asset / Liability	Classification	Basis of Accounting
Cash and cash equivalents	Held for trading	Fair value
Marketable securities	Held to maturity	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and Accrued liabilities	Other Financial liabilities	Amortized cost

c) Embedded derivatives

All derivative instruments are recorded in the consolidated balance sheet at fair value at each balance sheet date. Derivatives may be embedded in other financial



instruments (the “host instrument”). Prior to the adoption of the new standards; such embedded derivatives were not accounted for separately from the host instrument. Under the new standards, embedded derivatives are treated as separate derivatives if their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value at each balance sheet date with subsequent changes recognized in net earnings (loss) in the period in which the changes arise. The Company selected August 1, 2002 as its transition date for embedded derivatives, which is the latest date allowed by the accounting standard.

The Company enters into certain contracts for the sale of non-financial items that are denominated in currencies other than the Canadian dollar, the Company’s functional currency. In cases where the foreign exchange component is not leveraged, does not contain an option feature and the contract is either denominated in the functional currency of the counterparty, the non-financial item is routinely denominated in the currency of the contract or the currency of the contract is commonly used in the economic environment in which the transaction takes place, the embedded derivative is considered to be closely related and is not accounted for separately. The fair value of financial instruments is determined using recognized valuation models using observable market-based inputs.

During the quarter ended October 31, 2009, the impact of the change in the fair value of the derivatives related to sales contracts (\$84,173) is recorded as a loss in foreign exchange and an offset is recorded in accrued liabilities.

The Company operates internationally and its sales are 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 results of operations, financial position or cash flows. In order to take advantage of the improving exchange rate, the Company has outstanding agreements with the Royal Bank of Canada to sell US dollars as follows:

\$	<u>Settlement date</u>	<u>Foreign exchange</u>
US\$500,000	November 18, 2009	CAD\$1.25
US\$500,000	January 4, 2010	CAD\$1.25
US\$500,000	April 1, 2010	CAD\$1.25
US\$500,000	July 2, 2010	CAD\$1.15
US\$500,000	November 19, 2010	CAD\$1.10
US\$500,000	February 18, 2011	CAD\$1.10
US\$500,000	May 19, 2011	CAD\$1.10
US\$500,000	August 19, 2011	CAD\$1.10
US\$500,000	October 28, 2011	CAD\$1.05

On October 31, 2009, the average forward exchange rate for these contracts was approximately CAD\$1.08 and the value of the forward exchange contracts on October 31, 2009 was \$302,050. This compares to the value as at July 31, 2009 of \$408,710 which was taken into profit in Fiscal 2009 (with an offset recorded in Other receivables). The resulting decline in value of the hedge during the quarter resulted in a \$106,660 charge to the foreign exchange account in this quarter.



The Company is exposed to foreign exchange risk primarily as a result of sales revenues denominated in US dollars. Monetary balances denominated in foreign currencies as at October 31, 2009 and July 31, 2009 were as follows:

	<u>October 31, 2009</u>		<u>July 31, 2009</u>	
	CAD\$	US\$	CAD\$	US\$
Cash and cash equivalents	406,865	376,066	604,263	560,756
Accounts receivable	347,313	320,598	551,109	511,728
Accounts payable and accrued liabilities	21,225	19,618	133,968	124,322

Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk consist of marketable securities, which consist of AAA-rated Government of Canada Treasury bills with fixed interest rates and maturities at the date of purchase of four months or less. Therefore, 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 quarter ended October 31, 2009.

Credit risk

Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, marketable securities and accounts receivable. Cash and cash equivalents consist of bank balances maintained at financial institutions with high credit ratings. Marketable securities consist of AAA-rated Government of Canada Treasury bills. The Company's policy is to invest in AAA-rated investments with maturities at the date of purchase of four months or less. Therefore, the Company considers the risk of non-performance for cash, cash equivalents and marketable securities 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 October 31, 2009 was as follows:

	CAD\$	%
Current	123,808,	36
Past due 0-30 days	222,925	64
Past due 31-90 days	679	0
Past due over 90 days	-	0
	<u>347,413</u>	<u>100</u>



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

	October 31, 2009	July 31, 2009
	%	%
Customer 1	52	32
Customer 2	12	14
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 accounts payable and accrued liabilities presented on the consolidated balance sheet, which are due within the next 12 months. The Company manages liquidity risk by maintaining adequate cash balances to discharge its liabilities when due and considers liquidity risk to be low.

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 be approximate fair value.

Inventories

On August 1st, 2008, the Company adopted CICA Handbook section 3031 "Inventories", which provides guidance on the determination of costs and their subsequent recognition as an expense, including the allocation of fixed and variable overheads; narrows the permitted costs formulas; and expands the disclosure requirements to increase transparency. The adoption of this standard has no material impact on the consolidated financial statements.

Inventories are composed of work in process and finished goods, which are valued at the lower of cost and net realizable value determined on a first-in, first-out basis. Inventory cost includes materials, direct labour and attributable overhead. During the quarter ended October 31, 2009 the Company recognized an expense of \$254,813 in cost of products sold.



	October 31, 2009 \$	July 31, 2009 \$
Inventories		
Assay kits	55,425	55,991
Enzymes	241,812	189,475
Work in process - enzyme	-	76,456
Total inventory	<u>297,237</u>	<u>321,922</u>

General Standards of Financial Presentation

The CICA amended section 1400 of the CICA Handbook, "General standards of Financial Statement Presentation", to include a requirement that management makes an assessment of an entity's ability to continue as a going concern when preparing financial statements. In making its assessment, when management is aware of material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, those uncertainties must be disclosed. This Section has no impact on the Company's financial statements.

Goodwill and Intangible Assets

In January 2007, the CICA Handbook Section 3064, "Goodwill and Intangible Assets" replaces the existing Handbook Section 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs". This standard is effective for interim annual financial statements relating to fiscal quarters commencing on or after January 2008. The standard provides guidance on the recognition, measurement and disclosures of goodwill and intangible assets. This Section does not have an impact of the Company's financial statements.

11. NEW ACCOUNTING STANDARDS ISSUED AND NOT ADOPTED

11.1 International Financial Reporting Standards ("IFRS")

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that IFRS, as issued by the International Accounting Standards Board, will replace Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises effective for fiscal years beginning on or after January 1st, 2011. As a result, the Company will be required to changeover to IFRS for its fiscal year 2012 interim and annual financial statements with comparative information for fiscal 2011.

In preparation for the changeover to IFRS, the Company has developed an IFRS transition plan. The Company is currently in the process of completing its initial phase, comprised of a diagnostic process, which involves employee training and a comparison of the Company's current accounting policies under Canadian Generally Accepted Accounting Principles with IFRS. The identified differences will be analyzed and addressed according to the level of impact they will have on the key elements of the transition plan. These key elements include:

- Accounting policies, including choices among policies permitted under IFRS;
- Internal controls over financial reporting; disclosure controls and procedures, including investor relations and external communications plans and business activities;



- Information technology and data systems.

As the IFRS transition plan progresses, the Company will continue to report on the status of the transition plan and provide more detailed information of the impact on the key elements indicated above.

Business combinations

In January 2009, the CICA issued Handbook Section 1582 “Business Combinations” which replaces Section 1581 of the same name. The Section establishes standards for accounting for a business combination and provides the Canadian equivalent to International Financial Reporting Standard 3 (Revised), “Business Combinations”. This Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted.

Consolidated financial statements

In January 2009 the CICA issued Handbook Section 1601, “Consolidated financial statements”, and Section 1602, “Non-controlling Interests”, which together replaces Section 1600, “Consolidated financial statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provision of IAS 27 (Revised), “Consolidated and Separate Financial Statements”. These changes are effective for interim and annual financial statements beginning on January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year.

The Company is evaluating the impact of the adoption of these new accounting standards on its consolidated financial statements.

12. DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Controller, together with other members of management, after evaluating the effectiveness of the Company’s disclosure controls and procedures as of October 31, 2009, have concluded that the Company’s disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

13. INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Controller, together with other members of management, after having designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with the issuer’s GAAP as of October 31, 2009, have identified certain weaknesses in internal controls over financial reporting which are as follows:

- i) due to the limited number of staff at the Company, it is not feasible to achieve complete segregation of incompatible duties;
- ii) due to the limited number of staff, the Company does not have a sufficient number of finance personnel with all the technical accounting knowledge to address all non-routine accounting transactions that may rise.



Management and the Board of Directors work to mitigate the risk that results from these weaknesses as follows:

- i) increased oversight and diligence by the CEO, Controller and the Board to ensure that the risk of a misstatement resulting from this weakness is minimized;
- ii) the Company will, as necessary, engage qualified consultants to assist with the accounting for any complex and non-routine accounting transactions that may arise.

14. OUTSTANDING SHARE DATA

14.1 Authorized:

At December 10, 2009, 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;
- Voting common shares.

14.2 Issued and Outstanding:

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

14.2.1 Common shares

As of December 10, 2009 the Company has 24,703,244 common shares outstanding.

14.2.2 Stock options

As at December 10, 2009 the Company has 769,385 stock options outstanding with exercise prices ranging from \$0.06 to \$0.70 and expiry dates ranging from June 2010 to March 2018. At December 10, 2009, on an if-converted basis, these stock options would result in the issuance of 769,385 common shares at an aggregate exercise price of \$197,058.

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