



IBEX TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FISCAL 2011

NINE MONTHS ENDED APRIL 30, 2011

As at June 28, 2011



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MANAGEMENT'S DISCUSSION & ANALYSIS

June 28, 2011

1. PREAMBLE

The following Management Discussion and Analysis ("MD&A") should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the years ended July 31, 2010 and 2009. The Company's audited annual consolidated financial statements and notes thereto are prepared in accordance with Canadian generally accepted accounting principles and using Canadian dollars as its reporting currency. The significant accounting policies upon which these financial statements and information are based are detailed in Note 2 of our audited annual consolidated financial statements. Selected annual information for the three most recently completed financial years and a summary of quarterly results for each of the eight most recently completed quarters is included in this report. 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 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 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.

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: 3rd quarter 2011

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 eleven most recently completed quarters ending at April 30, 2011.

(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 2011					
- Revenue	\$ 513	\$ 376	\$ 597		\$ 1,486
- Net (loss) earnings	(\$ 178)	(\$ 153)	\$ 131		(\$ 200)
- Basic and fully diluted net (loss) profit per common share	(\$ 0.01)	(\$ 0.01)	\$ 0.01		(\$ 0.01)
Fiscal 2010					
- Revenue	\$ 647	\$ 871	\$ 470	\$ 641	\$ 2,629
- Net earnings (loss)	\$ 72	\$ 425	\$ 138	(\$ 128)	\$ 506
- Basic and fully diluted net profit (loss) per common share	\$ 0.00	\$ 0.02	\$ 0.01	(\$ 0.01)	\$ 0.02
Fiscal 2009					
- Revenue Net gain	\$ 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



4.2 Net earnings for the quarter

The Company recorded net earnings of \$131,577 for the third quarter ended April 30, 2011 compared to net earnings of \$137,927 for the third quarter of fiscal year 2010. The decrease in net earnings in this third quarter is mainly attributable to a lower currency gain from the Company's forward contracts as well as an increase in R&D expenses. (See section 8.9 on forward contracts)

Cumulative consolidated foreign exchange (gain) loss			
	Q3, Fiscal 2011	Q2, Fiscal 2011	Q3, Fiscal 2010
Embedded derivatives	(\$ 8,072)	\$-	(\$ 93,469)
Foreign exchange agreements	(\$ 77,223)	(\$ 18,092)	(\$ 278,811)
Other loss (gain) on FX rate	\$-	\$-	\$-
Total of (gain) loss	(\$ 85,295)	(\$ 18,092)	(\$ 370,280)
Balance sheet revaluation			
US Cash	\$ 855	(\$ 49,621)	(\$ 16,471)
Trade receivables	\$ 19,928	\$ 22,462	\$ 11,275
Other US accounts	\$ 4,305	\$ 37,009	\$ 22,447
Total of (gain) loss on revaluation	\$ 25,088	\$ 9,850	\$ 17,251
Net (gain) loss on foreign exchange	(\$ 60,207)	(\$ 8,242)	(\$ 353,029)

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.

Reported sales for the quarter ended April 30, 2011 totaled \$597,074 as compared to \$469,502 for the same period in the prior year. Despite a strong Canadian dollar, sales for this quarter increased by 27%. This increase is attributable to a return to a regular pattern in orders by one of our major customers. Excluding currency impact, sales of enzymes increased by 30% vs. the previous year, and by 63% vs. the previous quarter. Sales of arthritis assays decreased by 28% vs. year ago, and increased 18% vs. the previous quarter.

Sales Variations	Q3-F11 vs. Q3-F10
Currency Impact:	
• Total increase in USD	\$ 86,853
• Currency effects CAD	\$ 40,719
• Total change in CAD	\$ 127,572
Volume/mix/new product Impact:	
• Variation due to volume increase USD	\$ 83,882
• Variation due to product mix USD	\$ 2,971
• Variation due to price USD	\$-
• Variation due to new product(s) USD	\$-
Total of variations due to Volume/mix/new products USD	\$ 86,853



4.4 Selling, General and Administrative expenses

Total expenses in the third quarter of fiscal 2011 increased to \$465,497 from \$331,575 in the same quarter a year ago. Excluding the financial expenses, which includes an extraordinary foreign exchange gain in 2010 and R&D expenses, expenses have decreased by 34% due to a higher inventory allocation (this will be reversed in the 4th quarter). Selling, General and Administrative expenses were slightly lower than last year due to a reduction in compensation expenses as well as directors' professional fees.

Expenses details for the quarter			
Quarter	Q3 Fiscal 2011	Q2 Fiscal 2011	Q3, Fiscal 2010
Cost of goods sold ¹	\$ 105,422	\$ 136,958	\$ 293,951
R&D expenses	\$ 84,263	\$ 83,984	\$ 7,980
SG&A ¹	\$ 296,140	\$ 285,108	\$ 339,545
Amortization	\$ 49,996	\$ 32,285	\$ 25,935
Financial expenses	(\$ 70,324)	(\$ 9,455)	(\$ 335,836)
Total expenses	\$ 465,497	\$ 528,930	\$ 331,575

Cost of Goods Sold and SG&A excludes related amortization expense for the purposes of this presentation.

4.5 Cost of goods sold

Despite the increase in sales, cost of goods sold for the three months ended April 30, 2011 decreased to \$122,024 from \$303,957 for the same period of the preceding fiscal year. This decrease of 60% in cost of goods reflects the required accounting treatment for goods produced in the current quarter for sale in a subsequent quarter. Material and labor for goods produced during a period are captured on the balance sheet as inventory, having the effect in periods when goods are produced in advance of sale, of reducing costs on the P&L; when these goods are sold in a later period, and no corresponding goods are produced to replace that inventory, those costs are transferred back to the P&L.

4.6 Research and Development expenses

Research and development expenses for the quarter ended April 30, 2011, totaled \$84,263 and consisted primarily of personnel expenses, laboratory supplies and external service providers. The research and development expenditures in the same period ended April 30, 2010 totaled \$7,980 as these new projects started in the third quarter of fiscal 2010.

5. RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED APRIL 30, 2011

5.1 Net loss for the nine months ended April 30, 2011

IBEX recorded a net loss of \$199,641 for the nine months ended April 30, 2011 compared to net earnings



of \$634,797 for the same period a year ago. The net loss is attributable to several factors such as:

- Lower sales in the first two quarters of fiscal 2011;
- Lower foreign exchange gain related to forward contracts;
- Increase in research and development expenses for arthritis assays;
- Increase in amortization expense due to investment in new equipment;
- The strengthening of the Canadian dollar against the US dollar which has a negative impact on reported sales.

Net (loss) earnings	Fiscal 2011	Fiscal 2010
Revenue	\$ 1,485,699	\$ 1,987,196
Net (loss) earnings	(\$ 199,641)	\$ 634,797
Basic and fully diluted net (loss) profit per common share	(\$ 0.01)	\$ 0.03

Cumulative consolidated foreign exchange (gain) loss			
	YTD, Fiscal 2011	Q2, Fiscal 2011	YTD Fiscal 2010
Embedded derivatives	(\$ 8,072)	\$-	(\$ 40,645)
Foreign exchange agreements	(\$ 288,917)	(\$ 211,694)	(\$ 709,062)
Other loss (gain) on FX rate	\$ 223,364	\$ 223,364	\$ 301,480
Total of (gain) loss	(\$ 73,625)	\$ 11,670	(\$ 448,227)
Balance sheet revaluation			
US Cash	(\$ 47,630)	(\$ 48,485)	(\$ 18,630)
Trade receivables	\$ 45,632	\$ 27,075	(\$ 31,590)
Other US accounts	\$ 42,860	\$ 37,184	\$ 60,459
Total of (gain) loss on revaluation	\$ 40,862	\$ 15,773	\$ 10,239
Net (gain) loss on foreign exchange	(\$ 32,763)	\$ 27,444	(\$ 437,989)

For a more detailed explanation of the foreign exchange impact, see other risks Section 8.9.

5.2 Revenue for the nine months ended April 30, 2011

Reported sales for the nine months ended April 30, 2011 were \$1,485,699 compared to \$1,987,196 for the same period in the prior year, representing a decrease of 25%. The net decrease of \$501,497 in sales vs. year ago is mainly due to a downturn in unit volume and a change in currency.

The net decrease in sales vs. year ago was \$501,497, of which USD\$458,655 can be attributed to real



decrease and a negative impact of \$42,842 due to currency effect. The negative volume variance of USD\$393,470 was partially affected by a negative variance in product mix of USD\$65,185.

Sales variations	April 30, 2011 vs. April 30, 2010
Currency impact:	
• Total decrease in USD	(\$ 458,655)
• Currency effects CAD	(\$ 42,842)
• Total change in CAD	(\$ 501,497)
Volume/mix/new product Impact:	
• Variation due to volume decrease USD	(\$ 393,470)
• Variation due to product mix USD	(\$ 65,185)
• Variation due to new product(s) USD	\$-
Total of variations due to volume/mix/new products USD	(\$ 458,655)

5.3 Selling, General & Administrative expenses for the nine months ended April 30, 2011

Operating expenses for the nine months ended April 30, 2011, totaled \$1,685,340 compared to \$1,352,399 for the same period a year ago. Excluding financial and R&D expenses, operating expenses decreased to \$1,503,495 from \$1,762,712 when compared to the same period in last fiscal year and is mainly attributable to a higher inventory allocation. Reduction of Selling, General and Administrative expenses, as mentioned previously in section 4.4, is attributable to a reduction in compensation expenses as well as reduced director fees.

Expenses detail		
Nine months ended	April 30, 2011	April 30, 2010
Cost of good sold ²	\$ 544,705	\$ 719,102
R&D expenses	\$ 225,021	\$ 7,980
SG&A	\$ 841,135	\$ 949,933
Amortization	\$ 117,655	\$ 93,676
Financial expenses	(\$ 43,176)	(\$ 418,293)
Total	\$ 1,685,340	\$ 1,352,399

² Cost of Goods Sold excludes amortization expense for the purposes of this presentation.

5.4. Cost of goods sold and Gross margin for the nine months ended April 30, 2011

Cost of goods sold consists principally of the costs of supplies, royalties, manufacturing labor and the allocation of fixed overheads, of which the allocation of fixed overheads is by far the largest component. Gross margin remained stable.

Cost of goods sold		
Nine months ended	April 30, 2011	April 30, 2010
Sales	\$ 1,485,699	\$ 1,987,196
Cost of goods sold	\$ 577,684	\$ 767,806
Gross margin %	61%	61%



5.5 Research and development expenses

Through a focused effort to improve our technology, the Company has hired, in the third quarter of fiscal 2010, new scientific specialists to work on its arthritis assays product line. Research and development expenses for the nine months ended April 30, 2011 totaled \$225,021 and were \$7,980 in the nine months ended April 30, 2010.

6. LIQUIDITY AND CAPITAL RESOURCES

6.1 Overview

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 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.

The Company is well capitalized to cover its obligations, in that it has cash and cash equivalents and marketable securities of \$1,986,434, and liabilities of only \$199,793.

During the nine-month period ended April 30, 2011, the Company used cash to finalized its capital expenditure investment project which ended during the second quarter of fiscal year 2011.

As of April 30, 2011, the Company had a net working capital of \$2,750,754 compared to a net working capital of \$2,598,828 as of January 31, 2011. When compared to the previous quarter of fiscal year 2011, the increase in net working capital is due to an increase in current assets such as inventory and accounts receivable.

As at:	April 30, 2011	Jan. 31, 2011	Oct. 31, 2010	July 31, 2010	April 30, 2010
Cash, cash equivalents and marketable securities	\$ 1,986,434	\$ 2,231,287	\$ 2,853,555	\$ 3,033,556	\$ 2,973,894
Net working capital	\$ 2,750,754	\$ 2,598,828	\$ 3,007,680	\$ 3,278,875	\$ 3,482,086

6.2 Contractual obligations

Contractual obligations, other than those pertaining to employment contracts which are more fully explained in the proxy as of April 30, 2011 are currently limited to lease payments.

(In thousands of dollars)	Total	2011	2012	2013	2014
Operating leases*	\$ 466	\$ 122	\$ 122	\$ 126	\$ 96
Total	\$ 466	\$ 122	\$ 122	\$ 126	\$ 96

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

7. LOOKING FORWARD

Fiscal 2011 looks to be a difficult year for IBEX due to softness in the US business environment and the strong Canadian dollar.



Despite a difficult outlook for Fiscal 2011 we have made two important investments in our future. IBEX has recently completed a project to add additional enzyme-related manufacturing capacity, and has also re-established a small R&D group with the object of adding to our line of arthritis immunoassay and also improving our existing assays. We expect to introduce new assays in calendar 2011, with financial benefits accruing in the second half of Fiscal 2012.

7.1 Glycobiology Enzymes

To improve its productivity, IBEX has invested approximately \$500,000 in production during Fiscal 2011. This investment includes the purchase of a new freeze-dryer to add capacity for future growth of lyophilized devices, and importantly, as a backup to the existing freeze drying equipment.

7.2 Arthritis Assays

In Fiscal 2010 we initiated a new Assay Development Lab which will serve as added technical support to our customers, but also as a development resource for new versions of our existing assays and the addition of new assays to the IBEX product line.

8. RISKS AND UNCERTAINTIES

8.1 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 currency and as such, the Company is highly exposed to currency fluctuations.

8.2 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.

8.3 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.

8.4 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.

8.5 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.

8.6 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.

8.7 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.

8.8 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.

8.9 Other risks

Foreign exchange risks

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:

\$	Settlement date	Foreign exchange
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
US\$ 500,000	December 20, 2011	CAD\$ 1.07
US\$ 500,000	February 6, 2012	CAD\$ 1.07
US\$ 500,000	May 10, 2012	CAD\$ 1.05



On April 30, 2011, the average of the forward exchange rates for these contracts was approximately CAD\$1.07 and the value of the forward exchange contracts on April 30, 2011 was \$110,217. This compares to the value as at July 31, 2010 of \$223,364 which was taken into profit in fiscal 2010 with an offset recorded in other receivables.

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 April 30, 2011 and July 31, 2010 were as follows:

	April 30, 2011		July 31, 2010	
	CAD\$	US\$	CAD\$	US\$
Cash and cash equivalents	21,655	22,882	240,848	234,288
Accounts receivable	275,131	291,182	162,124	157,735
Accounts payable and accrued liabilities	-	-	13,586	13,216

Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk consist of marketable securities, which consist of guaranteed certificates of investment held on highly rated institutions with variable interest rates and maturities at the date of purchase of four months or more. 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 April 30, 2011.

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. When the Company invests in marketable securities, they shall consist of guaranteed certificates of investment held on highly rated institution and mutual funds. The Company's policy is to invest in investments held by highly rated institutions with maturities at the date of purchase of up to four months or more. 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 April 30, 2011 was as follows:

	CAD\$	%
Current	180,407	66
Past due 0-30 days	94,624	34
Past due 31-90 days	100	-
Past due over 90 days	-	-
	<u>275,131</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:

	April 30, 2011	July 31, 2010
	%	%
Customer 1	34	45
Customer 2	25	27
Customer 3	14	-

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 approximate fair value.

Certain of the Company's financial instruments are recorded at their fair value. Fair value is used to determine the values at which these instruments could be traded in a current transaction between willing parties. When these financial instruments are not traded in public markets, their fair value is established based on a set of predetermined criteria, which minimizes the subjectivity of valuation. The Company categorizes its financial instruments according to three hierarchical levels:

- Level 1 - Measurement based on quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 - Valuation techniques based primarily on observable market data; and
- Level 3 - Valuation techniques not based primarily on observable market data.

The following table shows the breakdown of the fair-value valuation of the financial instruments among the three levels.

	Level 1	Level 2	Level 3	2011
	\$	\$	\$	Total
				\$
Cash and cash equivalent	1,986,434			1,986,434
Account receivable			110,217	110,217

9. RELATED PARTY TRANSACTIONS

During the quarter ended April 30, 2011, the Company did not have any related party transactions.

10. 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.



10.1 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 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.

10.2 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.

11. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

Financial instrument disclosure

The Canadian Institute of Chartered Accountants ("CICA") issued amendments to Handbook Section 3862, "Financial Instruments – Disclosures", which apply to years ending after September 30, 2009. These amendments require the disclosure, in the notes to the financial statements, of fair values of financial instruments broken down using three levels: (1) fair values based on quoted prices for the instrument; (2) fair values based on quoted prices for a similar instrument or fair values based on valuation techniques for which significant inputs are based on observable market data; and (3) fair values based on valuation techniques for which significant inputs are not all based on observable market data. A reconciliation of opening and closing balances is required for Level 3.

This standard, which affects disclosure only, has been applied by the Company to its consolidated financial statements as at July 31, 2010 without any impact on its financial results.

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 labor



and attributable overhead. For the nine months ended April 30, 2011 the Company recognized an expense of \$577,684 in cost of products sold (April 30, 2010: \$767,806).

Inventories	April 30, 2011	July 31, 2010
	\$	\$
Assay kits	35,454	14,419
Enzymes	395,853	197,130
Work in process - enzymes	20,922	14,815
Total inventory	452,229	226,364

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 make 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" replaced 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.

12. NEW ACCOUNTING STANDARDS ISSUED AND NOT ADOPTED

12.1 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 (IASB), would replace Canadian Generally Accepted Accounting Principles (GAAP) for Canadian 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.

The Company is currently determining which differences are of relevance to its operations and the quantitative impact these differences will have on its financial statements. The Company has also undertaken the necessary steps to develop processes to identify differences to ensure their timely reporting.

In the period leading up to the changeover, the Company continues to monitor standards to be issued by the IASB, because the IASB work plan expects the completion of several projects in calendar years 2011 and 2012.



The Company is tracking Canadian GAAP to IFRS divergences and will develop model financial statements that are IFRS compliant to ensure seamless transition, and to ensure their timely reporting.

Set out below are the key areas where changes in accounting policies may impact the Company's consolidated financial statements. The summary below is intended to highlight those areas the Company believes to be most significant.

IFRS 1 – First-time adoption of IFRS

The adoption of IFRS will require the application of “First-time adoption of International Financial Reporting Standards”, which provides entities adopting IFRS for the first time with a number of optional exemptions in certain areas, to the general requirement for full retrospective application of IFRS. Most adjustments required on transition to IFRS will be made against opening retained earnings as of the date of the first comparative balance sheet.

The Company has identified share-based payment as a significant exemption and is currently assessing the impact of it.

IFRS 2 – Share-based payment

IFRS requires the use of the graded vesting method which requires that each installment be treated as a separate grant with its own separate value. Canadian GAAP allows an entity the option of either using the graded vesting method or the straight-line method which uses a single pool approach and recognizes expenses over the vesting period. The Company is currently using the straight-line method.

The Company is currently evaluating the use of the graded vesting method and does not expect it will result in a material impact.

IAS 12 – Income taxes

Deferred income taxes refer to a future income tax under Canadian GAAP. IFRS and Canadian GAAP are consistent in the conceptual approach by utilizing the liability method in assessing the impact of temporary differences arising from differences between tax bases for income tax purposes and carrying values for financial reporting purposes. The Company is currently evaluating the impact of this requirement. Potential impacts are expected to be related to other adjustments made upon transition to IFRS.

IAS 16 – Property, plant and equipment (PP&E)

IFRS requires a component approach. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately over its estimated useful life.

IAS 16 permits PP&E to be measured based on either a cost model or a revaluation model.

The PP&E review and analysis has been completed. The useful lives of certain PP&E have been revised and the Company plans to continue to use the cost model under IFRS.

With regards to fixed assets and the need for componentization, the Company's current accounting information systems support the ability, with minor modification, to record components of individual assets. As such, the Company will not incur significant incremental cost in addressing this issue. The actual IT infrastructure is capable of supporting componentization in the fiscal 2011 year.



IAS 32 & IAS 39 – Financial instruments presentation, recognition and measurement

IAS 32 and 39 establish the recognition and measurement criteria for financial assets and liabilities, including classification criteria. The Company does not expect any material impact in the IFRS transition.

IAS 36 – Impairment of assets

Under IFRS, an asset is impaired when its carrying value exceeds its recoverable amount. Though this concept is similar under Canadian GAAP, the definition and calculation of recoverable amount differs. IFRS defines recoverable amount as the greater of fair value less costs to sell and value in use which represents the discounted value of future cash flows. The Canadian GAAP prescribes a two-step approach; the first step is the carrying value of the asset as compared to its undiscounted cash flows. Under the second step, where the carrying amount exceeds the undiscounted cash flows in step one, the asset is written down to its fair value. Based on discounted cash flows, IAS 36 does allow an entity to reverse impairment losses when the conditions leading to impairment no longer exist.

Identification and resolution of key information technology (IT) and data systems requirements

The Company has performed an initial analysis of its data system infrastructure and has concluded that transition to IFRS will not result in a material modification to any of its IT processes resulting from divergences noted previously. It should be noted however that future amendments to IFRS may result in IT infrastructure complexities not considered at the time of writing of this management analysis.

Internal control over financial reporting

The Company is currently in the process of assessing the impact the divergences noted above will have on its internal control and financial reporting structure. Further updates to this key element will be made upon finalization of this assessment. It is the Company's intention to have controls in place that address the divergences noted above by the quarter ended October 31, 2011.

Business combinations

In January 2009, the CICA issued Handbook Section 1582 "Business Combinations" which replaced 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 replaced 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.

13. 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 April 30, 2011, have concluded that the Company's disclosure controls and procedures are adequate and effective enough to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

14. 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 April 30, 2011, have identified certain weaknesses in internal controls over financial reporting:

- i) owing to the limited number of staff at the Company, it is not feasible to achieve complete segregation of incompatible duties;
- ii) owing 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 arise.

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

- i) increased oversight and diligence by the CEO, Controller, Audit committee 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.

15. OUTSTANDING SHARE DATA

15.1 Authorized:

At June 28 2011, 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.

15.2 Issued and outstanding:

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

15.2.1 Common shares

As of June 28 2011 the Company has 24,703,244 common shares outstanding.



15.2.2 Stock options

As at June 28 2011 the Company has 1,315,500 stock options outstanding with exercise prices ranging from \$0.06 to \$0.70 and expiry dates ranging from December 2011 to December 2019.

At June 28 2011, on an if-converted basis, these stock options would result in the issuance of 1,315,500 common shares at an aggregate exercise price of \$312,755.

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