



IBEX TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FISCAL 2012

FIRST QUARTER ENDED OCTOBER 31, 2011

As at December 21, 2011



MANAGEMENT DISCUSSION AND ANALYSIS
FIRST QUARTER ENDED OCTOBER 31, 2011

December 21, 2011

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MANAGEMENT'S DISCUSSION & ANALYSIS

December 21, 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, 2011 and 2010. 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.

The interim unaudited consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). The transition to IFRS had no significant impact on the Company's reported financials. Note 3 of the October 31, 2011 interim consolidated financial statements provides a summary of the impacts resulting from the transition to IFRS. 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 develops, 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. These assays are a result of both internal Research and Development and in-licensing new 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. The marketing of these diagnostic kits is done through distributors in Europe and Japan, and directly by IBEX in the rest of the World (including North America). The kits are produced in IBEX facilities.



4. RESULTS OF OPERATIONS: 1st QUARTER FISCAL 2012

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, 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 2012					
- Revenue	\$ 752				
- Net earnings	\$ 145				
- Basic and fully diluted net profit per common share	\$ 0.01				
Fiscal 2011					
- Revenue	\$ 513	\$ 376	\$ 597	\$ 758	\$ 2,244
- Net (loss) earnings	(\$ 178)	(\$ 153)	\$ 131	\$ 303	\$ 103
- Basic and fully diluted net (loss) profit per common share	(\$ 0.01)	(\$ 0.01)	\$ 0.01	\$ 0.01	\$ 0.00
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

Net earnings for the Quarter

The Company recorded net earnings of \$144,752 for the first quarter ended October 31, 2011 compared to a net loss of \$177,888 for the first quarter of fiscal year 2011. The increase in net earnings is attributable to an increase of 47% in sales as well as the effect of building inventory in this quarter for sale in subsequent quarters.



4.2 Foreign exchange

The table below shows the fluctuation in the Canadian / US exchange rates which have a significant impact on net earnings. Average rates are used to translate sales and expenses for the period mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities.

Consolidated foreign exchange loss (gain)			
	Q1, Fiscal 2012	Q4, Fiscal 2011	Q1, Fiscal 2011
Embedded derivatives	\$-	(\$ 3,120)	\$-
Foreign exchange agreements	\$ 109,835	(\$ 209,818)	(\$ 193,602)
Other loss on FX rate	\$-	\$ -	\$ 223,364
Total of loss (gain)	\$ 109,835	(\$ 212,938)	\$ 29,762
Balance sheet revaluation			
US Cash	(\$ 18,844)	\$ 9,120	\$ 1,136
Trade receivables	(\$ 11,642)	(\$ 5,040)	\$ 3,241
Other US accounts	(\$ 17,254)	\$ 1,537	\$ 1,547
Total of (gain) loss on revaluation	(\$ 47,740)	\$ 5,617	\$ 5,924
Net loss (gain) on foreign exchange	\$ 62,095	(\$ 207,322)	\$ 35,686

Canadian / US dollar			
Quarter ended	October 31, 2011	July 31, 2011	October 31, 2010
Average Rate	1.0198	0.9553	1.0180
Closing Rate	0.9667	0.9555	1.0158

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

Reported sales for the quarter ended October 31, 2011 totaled \$752,464 as compared to \$512,975 for the same period in the prior year. Despite a strong Canadian dollar, net sales for this quarter increased by 47%.

Sales Variations	Q1-F12 vs. Q1-F11
Currency Impact:	
• Total increase in USD	\$ 279,211
• Currency effects CAD	(\$ 39,722)
• Total change in CAD	\$ 239,489
Volume/mix/new product Impact:	
• Variation due to volume increase USD	\$ 120,551
• Variation due to product mix USD	\$ 158,660
• Variation due to price USD	\$ -
• Variation due to new product(s) USD	\$ -
Total of variations due to Volume/mix/new products USD	\$ 279,211

4.4 Selling, General and Administrative expenses

Total expenses in the first quarter of fiscal 2012 decreased to \$ 607,712 from \$ 690,863 in the same quarter a year ago. This decrease in total expenses is mainly attributable to the Statement of Comprehensive Income, to the effect of building inventory in this quarter for sale in subsequent quarters, as well as to an accrual for an R&D tax credit.

Expenses details for the quarter			
Quarter	Q1 Fiscal 2012	Q4 Fiscal 2011	Q1, Fiscal 2011
Cost of goods sold ¹	\$ 200,164	\$ 409,302	\$ 302,416
Net R&D expenses ¹	\$ 58,408	\$ 34,855	\$ 56,774
SG&A ¹	\$249,494	\$ 180,633	\$ 259,746
Amortization	\$ 41,019	\$ 41,218	\$ 35,374
Financial expenses	\$ 58,627	(\$ 211,048)	\$ 36,553
Total expenses	\$ 607,712	\$ 454,960	\$ 690,863

¹- Cost of Goods Sold, R&D and SG&A exclude related amortization expense for the purposes of this presentation.



4.5 Cost of goods sold

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.

Cost of goods sold decreased by 31% when compared to the same period a year ago and by 49% when compared with the fourth quarter of fiscal year 2011. This decrease reflects the required accounting treatment for goods produced in the current quarter for sale in subsequent quarters. Material and labor for goods manufactured during this quarter were captured on the Consolidated Statement of Financial Position as inventory, having the effect in the period when goods are produced in advance of sale of reducing the costs on the Consolidated Statement of Comprehensive Income. When these goods are sold in a future period, those costs are recorded in the costs of sales.

Cost of goods sold			
Quarter ended	October 31, 2011	July 31, 2011	October 31, 2010
Sales	\$ 752,464	\$ 758,203	\$ 512,975
Cost of goods sold	\$ 213,576	\$ 420,194	\$ 312,535

4.6 Research and Development expenses

Research and development expenses consisted primarily of personnel expenses, laboratory supplies and external service providers. During the quarter ended October 31, 2011, net research and development expenses totaled \$58,969 (gross R&D expenses for the three months ended October 31, 2011 were \$74,692, which were partially offset by the recognition of an accrual for an R&D tax credit of \$15,723). The research and development expenditures in the same period ended October 31, 2010 totaled \$56,774.

5. LIQUIDITY AND CAPITAL RESOURCES

5.1 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 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.



The Company is well capitalized to cover its obligations, in that it has cash and cash equivalents and marketable securities of \$2,425,920 and liabilities of only \$255,202. As of October 31, 2011, the Company had a net working capital of \$2,988,091 compared to a net working capital of \$2,818,873 as of July 31, 2011.

As at:	October 31, 2011	July 31, 2011	April 30, 2011	Jan. 31, 2011	Oct. 31, 2010
Cash, cash equivalents and marketable securities	\$2,425,920	\$2,213,302	\$1,986,434	\$2,231,286	\$2,983,555
Net working capital	\$2,988,091	\$2,818,873	\$2,350,754	\$2,598,828	\$3,007,680

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, 2011, are currently limited to lease payments.

(In thousands of dollars)	Total	2012	2013	2014	2015	2016
Operating leases*	\$ 354	\$ 128	\$ 128	\$ 98	\$ 8	\$ 8
Total	\$ 354	\$ 128	\$ 128	\$ 98	\$ 8	\$ 8

*IBEX Pharmaceuticals' current lease (which is renewable) runs out in April of 2014.

6. LOOKING FORWARD

6.1 Glycobiology Enzymes

To improve its manufacturing capacity, IBEX has invested approximately \$700,000 in production-related capital expenses during fiscal years 2010 and 2011. This investment includes the purchase of a new freeze-dryer to add capacity for future growth of lyophilized disposable component devices, and importantly, as a backup to the existing freeze-drying equipment. This investment was made on the expectation that additional sales from current and new customers would be forthcoming over the next few years, although there can be no assurance that such sales will in fact materialize.

6.2 Arthritis Assays

In Fiscal 2010 we formed a new assay research and development capability which will not only serve as added technical support to our customers, but also as a research source of new products and the development of new and improved versions of our existing assays.

7. RISKS AND UNCERTAINTIES

7.1 General Risk Factors

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



IBEX products are mainly sold in US currency 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

Since IBEX produces assays for research and development and device components for third parties, the cost of regulatory compliance, while not insignificant, is manageable within the context of IBEX turnover to remain competitive. However, there is no guarantee that this may not change in the future. Any such changes might 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

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:

\$	<u>Settlement date</u>	<u>Foreign exchange</u>
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 October 31, 2011, the average of the forward exchange rates for these contracts was approximately CAD\$0.9967 and the value of the forward exchange contracts on October 31, 2011 was \$98,700. This compares to the value as at July 31, 2011 of \$261,435 which was taken into profit in fiscal 2011 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 October 31, 2011 and July 31, 2011 were as follows:

	October 31, 2011		July 31, 2011	
	CAD\$	US\$	CAD\$	US\$
Cash and cash equivalents	523,553	525,287	260,134	272,249
Accounts receivable	408,256	409,608	430,318	450,359
Accounts payable and accrued liabilities	28,349	28,443	11,706	12,251

Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk consist of marketable securities, specifically, Guaranteed Certificates of Investment (“GCI”) 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 October 31, 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 institutions 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 October 31, 2011 was as follows:

	CAD\$	%
Current	363,203	89
Past due 0-30 days	46,405	11
Past due 31-90 days	-	-
Past due over 90 days	-	-
	408,256	100

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, 2011	July 31, 2011
	%	%
Customer 1	54	41
Customer 2	18	36
Customer 3	10	-

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.

2011	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Accounts receivable	-	98,700	-	98,700

8. RELATED PARTY TRANSACTIONS

During the quarter ended October 31, 2011, the Company did not have any related party transactions.

9. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS") 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 not 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.

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 the Company's dividend policy in the future.

10. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Company has adopted IFRS for this first quarter 2012 unaudited condensed consolidated interim financial statements. These consolidated financial statements, including the 2011 comparative figures, are prepared in accordance with IFRS 1 and IAS 34 Interim Financial Reporting. During the first quarter of 2012, management finalized its IFRS accounting policy choices. These accounting policies have been disclosed in the consolidated financial statements for the three-month period ended October 31, 2011, and have been approved by the Company's Audit Committee. In addition, the Company has finalized its opening balance sheet as well as the unaudited consolidated financial statements for each of the 2011 quarters based on these accounting policies.

The Company has also completed the changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting. No material change in business processes, financial systems, disclosure controls and internal controls over financial reporting resulted from the adoption and implementation of IFRS.

Reconciliations prepared in accordance with IFRS 1, First-Time adoption for International Financial Reporting Standards are provided in note 3 to the consolidated financial statements for the three-month period ended October 31, 2011.

Initial elections upon adoption

IFRS 1 optional exemptions

- a) Business combinations – IFRS 1 indicates that a first-time adopter may elect to not apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before the transition date. The Company has taken advantages of this exemption.
- b) Share based payment – IFRS 1 allows a first-time adopter not to apply IFRS 2, Share-based payments to all equity instruments of share-based payments that had vested at the transition date. The Company has elected to take advantage of this exemption and apply IFRS 2 to all stock options.
- c) Income taxes – No specific exemptions are provided for in IFRS 1 for the first time adoption of IAS 12. Under Canadian GAAP, an entity is required to present both current and long-term future income taxes on its balance sheet. Under IFRS, an entity must present them entirely as long-term.

The following is a brief summary of the new standards:

New standards, amendments and interpretations issued but only effective beginning August 1, 2013.

IFRS 9, "Financial Instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October

2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The company has yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1 2013.

IFRS 10, "Consolidated financial statements", builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The company has yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.

IFRS 12, "Disclosures of interest in other entities", includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The company has yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2013.

IFRS 13, "Fair value measurement", aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS, do not extend to use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The company has yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2013.

11. DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Director of finance, together with other members of management, after evaluating the effectiveness of the Company's disclosure controls and procedures as of October 31, 2011, have concluded that the Company's disclosure controls and procedures are sufficiently adequate and effective so as to ensure that material information relating to the Company and its consolidated subsidiaries would have been known to them.

12. INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Director of Finance, 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 International Financial Reporting Standards ("IFRS") as of October 31, 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, Director of Finance, 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.

13. OUTSTANDING SHARE DATA

13.1 Authorized:

At December 21, 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.

13.2 Issued and outstanding:

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

13.2.1 Common shares

As of December 21, 2011 the Company has 24,703,244 common shares outstanding.



13.2.2 Stock options

As at December 21, 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 December 21, 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.

* * * * *