MICROBIX BIOSYSTEMS INC.

THIRD INTERIM REPORT

For the nine months
ended June 30, 2023

MICROBIX

Message to Shareholders

Results for the third quarter of fiscal 2023 ended June 30, 2023 ("Q3") were mixed. Q3 realized strong total revenues of $5.5M, but a meaningful net loss of $0.8M. Looking at the top-line, regular product sales and royalties of $4.2M were boosted by recognition of half of an initial Kinlytic® urokinase partnering agreement fee of $2.7M (i.e., $1.35M was recognized). Expenses-wise, increases in COGS and G&A, plus a sizeable write-off of aging DxTM™ inventory, led to the Q3 net loss incurred. In aggregate, Q3 financial results were unusual and need some added context to properly interpret.

By sales category, Antigens (ingredients) continued to recover and posted a strong result at $2.6M, QAPs™ were below target @ $1.5M due to delays in clients' regulatory approvals and launches, while DxTM sales stayed at zero due to Ontario resuming importation for all its needs for this product. Lastly, partnering of Kinlytic started what should ultimately become a large stream of revenues to Microbix. In aggregate, the outlook for all cash-generating units except DxTM is healthy and positive.

Several types of expenses ran higher in Q3, of which none were unjustified. By far the largest such item was a write-off of aging DxTM (~$1.0M), followed by increases in COGS mainly related to product-mix (~$0.5M), expenses related to the Kinlytic agreement (~$0.4M), and G&A relating principally to IT systems upgrades and FX losses (~$0.3M). Collectively, these largely one-time items moved an otherwise break-even quarter to a net loss. In summary, the sales level at which we reach profits has risen, but we continue to carefully assess the merit of all new overheads to avoid any unnecessary costs.

Microbix's QAPs to support accuracy of diagnostic tests for infectious disease remains our main route to sales growth. Our engagement with multinational diagnostics makers is intense and we are becoming a critical sole-source supplier to a growing number of them. However, timing of their new test launches remains outside of our control, making it difficult for us to precisely forecast our sales growth. Progress in QAPs is best measured by noting there are now 23 products in active development for our customers.

Kinlytic also advanced via the agreement executed with a portfolio company of a top-tier U.S.-based investment firm specializing in life sciences. Their due-diligence confirmed the opportunity for Kinlytic to return to market and, subject to the U.S. FDA not repudiating prior guidance, they will provide all the needed project spend – estimated at about $50M. Refreshed FDA guidance is expected by the end of 2023 and, if positive, Microbix will receive further up-front payments, as well as become eligible for later milestone payments and royalties. This non-dilutive partnership funding should enable Kinlytic to at-last create material value for Microbix shareholders.

Microbix has also successfully upgraded its software logistics systems. Specifically, implementing new IT systems for ERP (Enterprise Resource Planning) and e-QMS (electronic Quality Management System). Such modernization was essential to support the growing scale and complexity of Microbix's business and to achieve the target of $100M in revenues. Every department is ably supporting these complex IT projects, which are being completed as intended.

With full candor, 2023 has proven to be a frustrating year: Microbix continues to make great strides in adding new customers and products, but big sales growth has been slow to materialize and we have also needed to replace nearly $5.0M in revenues previously generated from DxTM. Additionally, aggressive interest rate hikes have hit share prices of "small-cap" firms like Microbix. Regardless of such headwinds, our team of professionals continues to create real and lasting value for all our shareholders.

To conclude, we continue to build relationships with leading firms across the global diagnostics industry by offering innovative, proprietary, and branded products and services that meaningfully improve health outcomes. In so doing, we are very grateful to have access to the people, equipment, systems, and capital to realize our value-creation goals and look forward to reporting on our continuing progress.

Personally and on behalf of our team, I thank you for your continuing support and wish you all the best.

Cameron L. Groome
Chief Executive Officer and President

The Company's Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited Consolidated Financial Statements and notes for the year ended September 30, 2022, prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and filed on SEDAR. Additional information relating to the Company, including its Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com. Reference to "we", "us", "our", or the "Company" means Microbix Biosystems Inc. unless otherwise stated. All amounts are presented in Canadian dollars unless otherwise stated. Statements contained herein, which are not historical facts, are forward looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth or implied. These forward-looking statements include, without limitation, discussion of financial results or the outlook for the business, risks associated with its financial results and stability, its antigens, quality assessment products, and viral transport medium businesses, development projects such as those referenced herein, sales to foreign jurisdictions, engineering and construction, production (including control over costs, quality, quantity and timeliness of delivery), foreign currency and exchange rates, maintaining adequate working capital and raising further capital on acceptable terms or at all, and other similar statements concerning anticipated future events, conditions or results that are not historical facts. These statements reflect management's current estimates, beliefs, intentions and expectations; they are not guarantees of future performance. The Company cautions that all forward looking information is inherently uncertain and that actual performance may be affected by a number of material factors, many of which are beyond the Company's control. Accordingly, actual future events, conditions and results may differ materially from the estimates, beliefs, intentions and expectations expressed or implied in the forward looking information. All statements are made as of the date of this disclosure and represent the Company's judgment as of that date and the Company disclaims any intent or obligation to update such forward-looking statements.

The Management Discussion and Analysis is dated August 8, 2023.

COMPANY OVERVIEW

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX, OTCQX: MBXBF) is an award-winning life sciences innovator, manufacturer, and exporter making critical biological ingredients that enable the production of clinical diagnostics (antigens), creating and manufacturing medical devices, including quality assessment products that help ensure test accuracy (also known as QAPs™), and viral transport medium for enabling the collection of patient samples to test for pathogens such as the virus causing COVID-19 disease (branded as DxTM™). In the context of Microbix's business, antigens are purified and inactivated bacteria, viruses, or their components which are used in the immunoassay format of medical tests to assess exposure to, or immunity from, those pathogens. QAPs are inactivated and stabilized samples of a pathogen or an analogue to a pathogen, that are created to resemble patient samples in order to support one or more of (i) the proficiency testing of clinical labs (usually unbranded "white label"), (ii) incorporated into kits of test consumables by multinational diagnostics companies (usually unbranded "white label"), (iii) test development, instrument validation and technician training (often branded PROCEEDx®), or (iv) the quality management of patient test-workflows by clinical laboratories (branded as REDx®). Microbix' antigens and QAPs are sold to more than 100 customers worldwide, primarily to multinational diagnostics companies and laboratory accreditation organizations. Sales of antigens and QAPs are ongoing to the respective customer categories described. The first private sector sales of Microbix's DxTM™ were recorded in fiscal Q2, 2021 followed by a material initial first order from the Province of Ontario received in April, 2021 and a material reorder secured in December, 2021. While further DxTM re-orders from Ontario are being pursued along with other private-sector and governmental customers, no material sales of DxTM have been recorded since the quarter ending June, 2022.

Canadian Funds

COMPANY OVERVIEW (Continued)

Microbix also applies its biological expertise and infrastructure to develop other proprietary products and technologies, most notably Kinlytic® urokinase (Kinyltic), a biologic thrombolytic drug used to treat blood clots. An agreement to provide funding for the return of Kinlytic to the United States market was signed in May, 2023.

The COVID-19 pandemic and its health, economic, and societal impacts have affected all industries, including medical diagnostics. As a result, trend discussions here may be disrupted. For example, from early fiscal 2020 sales of antigens were reduced due to fewer patients seeking or receiving care in relation to diseases other than COVID-19. As of the end of calendar 2022 however, Microbix has been seeing evidence of antigen demand recovering toward pre-COVID levels.

Management now believes COVID has transitioned from pandemic to endemic, leading revenue from the antigens and QAPs business (Antigens & QAPs) to resume growth for the foreseeable future. Antigen sales growth may be largely driven by certain public health tests becoming more widely used in the Asia Pacific region and, more recently, increased global testing for multiple respiratory pathogens. QAPs sales growth are expected to be driven by several factors, namely (i) Microbix's creation of new value-added and proprietary products for test-makers and clinical laboratories, (ii) by increasing American, European and international quality-management regulation of clinical laboratories, and by increasing adoption of molecular testing (e.g., "PCR") by laboratories and at the point-of-care. Sales of DxTM began in fiscal Q2 of 2021 and, based on multiple purchase orders from representatives of the Province of Ontario and interest in supply-chain security from other parties across Canada, became a material new product category for Microbix. However, production and sales of DxTM are currently paused – due in large part to an ongoing reorganization of the procurement systems of the Province of Ontario. As a result it is unclear when sales of DxTM will resume or the extent to which Microbix will be called to supply the needs of the Province of Ontario.

The sales resulting from antigens, QAPs, and DxTM activities are targeted to provide free cash flow to cover operating and debt service costs, and funding for business initiatives that leverage Microbix's expertise.

Microbix owns and operates a biologicals manufacturing facility at 265 Watline Avenue in Mississauga, Ontario. For that facility, Microbix has a Pathogen and Toxin license issued by the Public Health Agency of Canada. The Company's administrative offices, along with further company-created production and lab spaces, are in a leased building located at 235 Watline Avenue, Mississauga, Ontario. A third adjacent site at 275 Watline Avenue was leased as of July, 2021 and renovations have since been ongoing to support DxTM production, quality-control laboratory space, workstations, and warehousing. Microbix is ISO 9001 & 13485 accredited, FDA & Health Canada establishment licensed, Australian TGA registered, and provides CE marked products.

FINANCIAL OVERVIEW

For the three months ending June 30, 2023 ("Q3")

Q3 revenue was $5,530,152, an increase of 10% from Q3 2022 revenues of $5,011,025. Antigen revenues of $2,608,521 grew 14% vs. Q3 2022 revenues of $2,283,621. QAPs revenues were $1,456,905 (2022 - $1,305,896). In turn, revenue from DxTM was zero in Q3 (2022 - $1,326,410), and royalties were $116,226 (2022 - $95,099). In Q3, there were also, Kinlytic-related revenues of $1,348,500 realized in relation to a license and funding agreement (Agreement) with Sequel Pharma, LLC that was announced on May 16, 2023 and recognized during the quarter. This Agreement-related licensing revenue offset the lack of Ontario-driven deliveries of DxTM in Q3 compared to the prior year.

Q3 gross margin was 42%, down from 55% in Q3 2022, due to a greater proportion of lower margin antigen product-ingredient sales, lack of DxTM sales and, most notably a writedown of aging DxTM

FINANCIAL OVERVIEW (Continued)

For the three months ending June 30, 2023 ("Q3") (Continued)

inventory of $949,256. This was partially offset by the $1,348,500 of margin recognized on the Kinlytic license revenues. In addition, we continue to see double digit increases in our supply-chain costs, which can only be passed-through to end-customers over time.

Beyond cost of goods sold, operating expenses in Q3 increased by 46% relative to Q3 2022, principally due to increased investment in IT infrastructure to support our continued growth objectives – namely start-up costs relating to our "ERP" and "eQMS" software system implementations. Such IT systems start-up costs of $225,517 were heaviest in Q3, as Microbix drove toward a targeted "go-live" for its new ERP system in Q4 2023. In addition, foreign exchange gains in Q3 2022 were replaced by losses for an unfavourable difference of $275,698 in Q3 and $350,513 of consulting and legal fees relating to the signing of the Kinlytic agreement were recognized. Finance expenses were lower than the prior year due to repayment of debentures and long-term debt during fiscal 2022 and short-term investment of cash balances. Overall, Q3 sales led to an operating loss and net income of $769,108 versus a Q3 2022 operating income and net income of $638,502. Cash provided by operating activities was $2,131,358 in Q3, compared to cash provided by operating activities of $2,709,545 in Q3 2022, with the majority of the change coming from a relatively greater deployment of cash into working capital account balances during the quarter.

Nine Months Ending June 30, 2023 ("YTD")

YTD revenue was $12,250,547, a 17% decrease from YTD 2022 revenues of $14,747,189. Included were antigen revenues of $6,615,040 (2022 - $5,658,007), up 17% from last year. QAPs revenues of $3,892,090 largely flat year-over-year (2022 - $ 3,773,429), due in large-part to delays in the test finalization and launch timelines of customers intending to incorporate Microbix QAPs in their kits of test consumables. YTD Kinlytic revenues were $1,350,517 compared to zero in YTD 2022, the majority of which is due to the announced Agreement related to the product. In turn, YTD revenue from DxTM was zero (2022 - $ 5,004,359) due to the Province of Ontario unexpectedly returning to imported product for all its needs, and royalties were $392,898 (2022 - $ 311,394). In summary, the lower YTD sales result was driven by the lack of any deliveries of DxTM for the Province of Ontario.

YTD gross margin was 49%, down from 62% in YTD 2022, due to the lack of DxTM sales, the material writedown of DxTM inventory and the effects of a greater proportion of antigen sales that have lower margins than QAPs or DxTM. In addition, we continue to see double-digit materials price increases across our supply chain, which take time to pass-through in product pricing to Microbix customers.

Operating expenses in YTD increased by 18% relative to YTD 2022, due to increased investment in IT infrastructure, unfavourable foreign exchange impact vs. 2022 and the recognition of Kinlytic consulting costs. This was partly offset by lower finance expenses due to repayment of debentures and long-term debt during fiscal 2022 and short-term investment of cash balances. Overall, weaker YTD sales led to an operating loss and net loss of $2,036,756 versus a YTD 2022 operating income and net income of $2,252,769. Cash provided by operating activities was $361,635, compared to cash provided by operating activities of $3,318,763 in YTD 2022, with much of the change coming from the change in operating income and the repurchase of shares through our NCIB.

At the end of Q3, Microbix's current ratio (current assets divided by current liabilities) was 4.39 and its debt-to-equity ratio (total debt over shareholders' equity) was 0.51.

Canadian Funds

Financial Highlights

For the three months and nine months ended	Three months ended June 30, 2023	Three months ended June 30, 2022	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Total Revenue	$ 5,530,152	$ 5,011,025	$ 12,250,547	$ 14,747,189
Gross Margin	2,342,885	2,766,146	6,056,140	9,104,303
SG&A Expenses	2,098,382	1,569,790	6,320,005	4,882,447
R&D Expense	531,121	387,400	1,482,004	1,354,758
Financial Expenses	102,490	170,454	290,887	614,329
Operating Income (Loss) for the period	(769,108)	638,502	(2,036,756)	2,252,769
Net Income (Loss) and Comprehensive Income (Loss) for the period	(769,108)	638,502	(2,036,756)	2,252,769
Cash Provided (Used) by Operating Activities	2,131,358	2,709,545	361,635	3,318,763

As at	June 30, 2023	September 30, 2022
Cash	13,409,156	13,488,075
Accounts receivable	3,347,154	3,057,797
Total current assets	23,499,042	22,408,372
Total assets	34,295,095	33,145,196
Total current liabilities	5,351,089	2,650,521
Total liabilities	11,651,812	8,206,541
Total shareholders' equity	22,643,283	24,938,655
Current ratio	4.39	8.45
Debt to equity ratio	0.51	0.33

SELECTED QUARTERLY FINANCIAL INFORMATION

	Sep-30-21 $	Dec-31-21 $	Mar-31-22 $	Jun-30-22 $	Sep-30-22 $	Dec-31-22 $	Mar-31-23 $	Jun-30-23 $
Total Revenue	5,629,694	4,855,600	4,880,564	5,011,025	4,329,052	2,502,072	4,218,323	5,530,152
Net Income (Loss) and Comprehensive Income (Loss)	778,929	880,778	733,489	638,502	(464,080)	(1,299,262)	31,616	(769,108)
Operating Income (Loss) before Impairment of Assets, Interest Accretion Expense and Finance Expenses	1,580,553	1,121,528	936,614	808,956	(256,885)	(1,202,184)	122,935	(666,618)

OUTLOOK

Microbix's business was started over 30 years ago by our founder, Bill Gastle, a skilled virologist. The first products were types of the growth media used in cell-culturing, which were sold to public health laboratories and research-oriented customers across Ontario. Eventually, this was followed by such regional lab customers asking Microbix to do some of their bacteriological, cellular, and viral culturing work. In due course, international manufacturers of diagnostic tests learned of Microbix's abilities and approached the company to grow such organisms on an industrial scale, then purify and inactivate them to become "antigens" – the biological ingredients at the heart of "immunoassay" tests used to diagnose infection with, exposure to, or immunity from, bacteria and viruses.

That test-ingredients business remained Microbix's only major source of revenues for many years, and underpins its deep expertise in matters relating to infectious disease diagnostics. During those years, Microbix sought to branch out into other areas of healthcare, such as into the production of biological therapeutics and vaccines. Although it had much of the expertise required for such initiatives, it could not gain access to the capital required to bring those projects to fruition. That being recounted, one asset from that era remains in the Microbix portfolio, a well-validated biological "clot-buster" drug called Kinlytic® urokinase. Kinlytic is not currently assigned value on Microbix's balance sheet, but, in May 2023, took a big step forward toward generating meaningful revenues by way of the partnering Agreement with a better-funded entity. As a first step of that Agreement, Microbix received an initial licensing fee of US$ 2.0 million, of which half was recognized as revenues in Q3 2023. Microbix will recognize the balance of that payment as revenues and be eligible for further milestone payments and eventual royalties should a renewed consultation with the United States Food and Drug Administration (FDA) and redevelopment work have positive outcomes. If the FDA consultation is positive, a prior Kinlytic asset-value writedown may be reversed.

Microbix's antigen test-ingredients business had been 90% or more of sales for many years. Over the past five years however, Microbix has sought to more broadly employ its deep diagnostics industry expertise and thereby incrementally build its revenues. This effort has succeeded, with test-ingredients comprising only 43% of Microbix's sales in fiscal 2022 due to its creating and growing other revenue streams. While test ingredients sales are now resuming a growth trajectory, their proportion of overall company sales is expected to continue to decline – as a result of faster-growing sales of other product categories, such as QAPs.

Notably, Microbix has been successfully transformed from being a manufacturer of less-regulated test-ingredients, into the producer of a catalogue of fully-regulated medical devices relating to infectious-disease diagnostic tests. The Company has thereby created new opportunities for both increasing sales and expanding gross margins. Specifically, Microbix medical devices products are innovative, proprietary, and branded – permitting access to new markets and customers at better margins than are usual for test-ingredients. Upgrading to the ISO 13485 medical devices quality standard, obtaining a Health Canada Medical Devices Establishment License, and taking the necessary steps to be able to sell into the EU, US, and other markets were integral to those goals.

In medical devices, the first category of Microbix products are its diagnostic-test quality assessment products, which are branded as "QAPs™" and colloquially known as test-controls. The QAPs business started with providing mimics of positive patient-samples to enable assessment of the proficiency of clinical laboratories by industry accreditation agencies. Sales of Microbix QAPs were largely limited to that customer base and had come to exceed C$ 1.0 million per year (i.e., about 10% of sales) when the COVID-19 pandemic began (the "Pandemic").

While respiratory virus tests were not the principal focus of QAPs in early 2020, Microbix suspected the Pandemic in January of that year and validated its first COVID-related product by the end of March, 2020. Microbix has since supported governments and industry with many QAPs products related to testing for respiratory pathogens – to lab accreditation agencies, international test-makers, governments and hospitals, clinical labs, and many workplaces and schools. Respiratory disease has become an important portion of QAPs sales, but the Microbix portfolio has been expanded to include QAPs for many bacteria, viruses, and parasites that can cause acute sickness, chronic disease, and even cancers. Collectively, QAPs comprised 28% of sales across fiscal 2022 and Microbix expects this segment to be its fastest-growing revenue source for the foreseeable future.

OUTLOOK (Continued)

As the Pandemic emerged, Microbix was also quick to recognize the fragility of supply-chains for testing-related medical supplies. This alertness extended to noting pending shortages of viral transport medium (“VTM”), a medical device that is essential for stabilizing collected patient-samples in order that they remain intact while transported to, and when processed at, the central laboratories conducting most PCR-based tests. Having decades of expertise in producing complex cell-culturing media, Microbix volunteered to begin domestic production of VTM for the province of Ontario. With the assistance of a grant from the Ontario Together Fund of the Ministry of Economic Development, Job Creation, and Trade, Microbix created a VTM formulation to meet the exacting requirements of Public Health Ontario, perfected its methods, scaled its production, and became the only fully-regulated and validated local supplier to the Province. Sales of Microbix’s “DxTM™” brand VTM began in fiscal 2021 and comprised 26% of Microbix’s revenues in fiscal 2022. However, production and sales of DxTM are currently paused – due in large part to an ongoing reorganization of the procurement systems of the Province of Ontario. At present, the procurement authorities of the Province of Ontario have returned to purchasing imported VTM to satisfy all testing needs, a practice that seems at odds with political leaders’ stated objectives of security of supply and domestic manufacturing. As a result it is unclear if or when sales of DxTM will resume or the extent to which Microbix may be called to supply the needs of the Province of Ontario. Equipment purchased for DxTM production, much of which was acquired with direct encouragement and funding from government, will be redeployed for production of products for other, non-governmental, customers.

Looking ahead, Microbix believes that it has considerable opportunities to continue growing its sales to the global diagnostics and clinical laboratory industries. Most notable among its business segments is QAPs, for which it has identified the Point-of-Care-Test (“PoCT”) companies as its most promising customers. While PoCT has been a promised innovation for many years, the Pandemic resulted in major investments to roll-out sophisticated and high-quality testing beyond central-lab settings. Today, table-top sized and portable PCR-based or antigen-based PoCT instruments are coming into widespread usage in settings such as local clinics, long-term care homes, pharmacies, schools, and workplaces. However, such PoCTs require accompanying test-controls to satisfy health regulators that errors relating to operators, consumables, or instruments will be quickly and reliably identified. Microbix QAPs are ideally-suited for that purpose, most notably when formatted onto the FLOQSwab™ flocked-swabs of Copan Italia S.p.A., made using Microbix’s innovative techniques, and protected by the intellectual property of each firm.

The largest of such opportunities involves FLOQswab-based QAPs being incorporated into kits of PoCT cartridges at fixed ratios (e.g., 1 QAP per 20 PoCT tests) for use to help ensure test or test-workflow accuracy. With major international test-makers intending to sell millions of cartridges per month across multiple pathogen categories, it is not difficult to see how revenues may build for Microbix in this industry area. A first such alliance was announced by Microbix in August 2022, and meaningful revenues are expected as that multinational test-maker, and others, wend their way through the needed design optimizations, regulatory approvals, and marketing launches for instruments and test kits. Further alliances of this nature are being developed by Microbix, with the intention of formalizing and disclosing them in due course.

Microbix is also enhancing infrastructure to support its growth objectives and expectations. Such enhancements include investments into people, equipment, and systems. Concerning people, the Company continues to work to retain our current great team, while adding new members with further skills and capabilities. For equipment, Microbix is investing to improve reliability, enhance capacity, and remove drudgery. With systems, the Company is making material investments into modernized and scalable Enterprise Resource Planning (ERP) software, alongside moving to a paperless Quality Management System (eQMS) – both of which are essential for Microbix continuing to grow the business. In the immediate term such investments tend to compress margins, but Management is convinced of their mid- and long-term benefits.

OUTLOOK (Continued)

We thereby come to Microbix today and tomorrow. Already, a Company approaching C$ 20 million in annual sales with deep and broad life sciences capabilities that has achieved profitability for two consecutive years (fiscal 2021 and 2022) and attained a strong financial position. Now a fully-fledged medical devices firm poised to benefit from medical diagnostics being used more effectively and frequently than ever, via over 100 established international customer relationships. Management's near-term goals comprise still higher and more consistent sales volumes at expanding gross margins to drive growth in net earnings, free cash flow, and the value of Microbix's common stock for all shareholders.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") on a going concern basis, which presumes the Company will continue operating for the foreseeable future and will be able to realize a return on its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred historical losses resulting in an accumulated deficit of $38,908,686 as at June 30, 2023. Management continuously monitors the financial position of the Company with respect to working capital needs, as well as long-term capital requirements compared to the annual operating budget. Variances are highlighted and actions are taken to ensure the Company is appropriately capitalized.

Future Liquidity and Capital Needs

The Company primarily funds new product development activities and capital expenditures from profits earned by its business and, periodically from additional equity and/or debt.

Over the course of fiscal 2023, cash flow is expected to improve due to: 1) continued growth in overall product sales, 2) improvements in product pricing or other sales terms, 3) greater sales of higher percentage gross margin products, and 4) other business development and financial initiatives. Management expects these developments will continue to significantly improve the overall liquidity position, as the Company's plans come to fruition.

On July 29, 2019, the Company signed an agreement with Federal Economic Development Agency for Southern Ontario to provide a repayable government contribution where the Federal Development Agency has agreed to contribute funding for 30% of the Business Scale-up and Productivity Project expenditures made by the Company, up to $2,752,500 over the following four years. The Company is required to submit eligible expenses on a quarterly basis to receive the interest-free contributions. On February 14, 2023 the Company agreed to an amendment to the original agreement providing an additional $840,000 of repayable contributions, increasing the total funding up to $3,592,500. Repayment of all contributions does not begin until December 15, 2024.

To support the continued growth of the business, on January 30, 2020, the Company completed a non-brokered private placement offering of an aggregate of 11,800,000 units for total gross proceeds of $2,360,000. Each unit consisted of one common share of Microbix and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at an exercise price of $0.36 for five years. The financing was non-brokered. Cash commissions of $104,300 were paid and an aggregate of 521,500 Broker's Warrants were issued in the private placement offering. Each Broker's Warrant entitles the holder to purchase one unit at a price of $0.36 for a period of five years. All securities issued under the private placement were subject to a hold period which expired four months and one day from the date of closing.

In addition, on May 19, 2021, the Company completed a public offering and concurrent private placement offering of an aggregate of 11,500,000 units for total gross proceeds of $6,900,000, and net proceeds of $6,131,568 after share issuance costs of $768,432. Each unit consisted of one common share

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES (Continued)

***Future Liquidity and Capital Needs* (Continued)**

of Microbix and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $0.80 for two years. The financing was a "bought deal", with co-lead underwriters of the Offering (iA Private Wealth Inc. and Bloom Burton Securities Inc.). Cash commissions of $402,500 were paid and an aggregate of 670,833 Broker's Warrants were issued in the public offering. Each Broker's Warrant entitles the holder to purchase one unit at a price of $0.60 for a period of two years. All securities issued under the concurrent private placement were subject to a hold period which expired four months and one day from the date of closing.

On October 13, 2020, the Company announced a grant agreement with the Ontario Together Fund ("OTF") of the Ministry of Economic Development, Job Creation and Trade (the "Grant"). The Grant of $1,445,000 was to cover 50% of the cost to automate production of the Company's quality assessment products (QAPs™) that help ensure the accuracy of infectious disease diagnostic testing, and enable local, secure, and cost-effective automated production of the quantities of viral transport medium (generically "VTM" and branded "DxTM™") needed for Ontario's lab-based testing for COVID-19 disease or other tests of concern to public health or safety. An initial Grant disbursement, upon execution of the agreement, in the amount of $867,000, was received on October 13, 2020. The remaining $578,000 of the grant was paid upon project completion and a review of Eligible Project Expenditures incurred during the project, up to February 28, 2022. During the year ended September 30, 2021 the Company recognized $717,587 (2020 - nil) of grant income. The company also recorded a $680,202 reduction in capital asset costs.

During the year ending September 30, 2022, the Company received $2,637,330 from the exercise of 7,480,293 warrants and received $806,800 from the exercise of 2,960,00 options. In addition, a $500,000 debenture was converted to 2,173,913 shares during the fourth quarter of fiscal 2022.

During fiscal 2022, the Company made an early repayment of the remaining outstanding principal relating to a $2.0 million non-convertible 9% interest debenture. A payment of $1,331,758, including accrued interest, was made on October 1, 2021. In addition, in April 2022 the Company repaid a non-convertible $500,000 debenture when it came due.

On December 3, 2021 the Company prepaid in full the outstanding balance including accrued interest for a BDC loan, totaling $266,094. See the long-term debt note for further details.

On March 20, 2023, the Company announced an additional grant agreement with the Ontario Together Fund ("OTF") of the Ministry of Economic Development, Job Creation and Trade (the "Grant"). The Grant of $840,000 is to cover 50% of the cost to further expand our capabilities and capacity for manufacturing specialized products relating to diagnostic testing for infectious diseases. The Government of Ontario is supporting the expansions at Microbix's three adjacent sites in Mississauga. An initial Grant disbursement, upon execution of the agreement, in the amount of $504,000, was received on March 13, 2023. The remaining $356,000 of the grant will be paid upon project completion following a review of Eligible Project Expenditures incurred during the project.

Microbix will continue to monitor and manage its cash position, with the objective of anticipating and meeting all current and future liquidity and capital needs.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES (Continued)

Outstanding Share Capital

Share capital issued and outstanding as at June 30, 2023 was $49,097,340 for 137,303,874 common shares and September 30, 2022 was $49,918,916 for 138,991,373 common shares. The Company continues to repurchase shares through our NCIB, as outlined in the section below.

Global pandemic

In early 2020, a novel Corona virus (SARS-COV-2) was identified to be spreading in human populations around the world and on March 11, 2020, the World Health Organization declared a global pandemic (The "Pandemic"). The Pandemic has since caused significant health, social, and economic harms and instability that continues to be felt worldwide.

Microbix has reviewed, and continues to review, the effects of the Pandemic and its aftermath on its operations. Such effects may include impacts on the Company's business that cannot be predicted, including upon the estimates, judgments, and assumptions used in the preparation of its financial statements, the setting of strategic objectives, or the realization of such objectives.

See the "Risks and uncertainties" section of this MD&A for a further discussion of the COVID-19 pandemic.

Normal Course Issuer Bid ("NCIB")

On October 3, 2022 the Company initiated Normal Course Issuer Bid ("NCIB") program for the repurchase and cancellation of outstanding common shares. In accordance with the rules of the Toronto Stock Exchange and as detailed in the Company's news release of September 28, 2022, the NCIB enables the Company to repurchase up to 5% of its common shares over a 12-month period. During the first nine months of fiscal 2023 the Company repurchased 2,276,500 shares at a cost of $948,939 and cancelled 2,138,500 shares.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

TREND INFORMATION

Historical spending patterns are no indication of future expenditures. Investment in the new products and technologies is at the discretion of management and the board of directors. The Company is not aware of any material trends related to its business that have not been discussed in this Management Discussion and Analysis dated June 30, 2023.

RISKS AND UNCERTAINTIES

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed, including through the use of financial instruments where appropriate. Further discussion of the management of such risks is included in note 21 to the audited consolidated financial statements for the year ended September 30, 2022.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES (Continued)

COVID-19 Pandemic

As previously discussed, the Company's business may be negatively impacted by the sequelae of the COVID-19 pandemic, which has created, and continues to create, significant societal and economic disruptions. The changing and evolving after-effects of the COVID-19 pandemic – the duration, extent and severity of which are currently unknown – on investors, businesses, the economy, government bodies, society and the financial markets could, among other things, add volatility to the global stock markets and change interest rate environments. The COVID-19 pandemic pricing, availability and measures to prevent its spread and associated government economic policies may negatively impact the Company, its customers, counterparties, employees, third-party service providers and other stakeholders, as applicable, in a number of ways, including, but not limited to, by: (i) adversely affecting the business operations of the Company, including the Company's planned sales and marketing processes for its approved products; (ii) disrupting the Company's supply chain, including the materials needed for its products; (iii) adversely affecting local, national or international economies and employment levels; (iv) causing business interruptions, including as a result of steps taken by the Company in compliance with government recommendations and orders, such as requiring employee to work remotely, which may cause strain on such existing resources as information technology systems, and suspension of all non-essential travel; (v) disrupting public and private infrastructure, including communications and financial services, which could disrupt the Company's normal business operations; (vi) disrupting health care delivery; disrupting or prolonging business development initiatives such as the partnering of Kinlytic® urokinase. At this point, the extent to which the COVID-19 pandemic after-effects will or may impact the Company is uncertain and these factors are beyond the Company's control; however, any of these events, in isolation or in combination, could have a material adverse effect on the Company's business, results of operations and financial condition and the market price of the Company's securities. The Company is exposed to business risks, both known and unknown, which may or may not affect its operations. Management works continuously to mitigate unacceptable risk, while still allowing the business to grow and prosper. These risk factors include the following:

A significant portion of Antigens Product sales are dependent on key clients, open borders, international transportation systems, and access to raw materials.

A significant share of the Company's antigen product sales are sold to a few key customers globally. These products contributed a significant share of the revenues. The loss of a key customer, or restrictions on export, import, or international transportation of its products, raw materials or insufficient marketing resources, could materially impact revenue and profitability, as well as the value of inventories and other assets.

Environmental, safety and other regulatory

Microbix' research and manufacturing operations involve potentially hazardous materials. The Company takes extensive precautions to appropriately manage these materials as regulated by the applicable environmental and safety authorities. Changes in environmental and safety legislation may limit the Company's activities or increase costs. An environmental accident could adversely impact its operations. Microbix' antigen products are considered a production ingredient and not directly regulated by governments in Canada or other jurisdictions. Commercialization of certain quality assessment products require approval of regulatory agencies such as the FDA, in which case Microbix will not receive revenue until regulatory approval is obtained.

RISKS AND UNCERTAINTIES (Continued)

Quality Assessment Products in development

The Company has multiple quality assessment products under development, with the goal of building its sales of this category of product. There is no assurance that these development activities will result in the completion of new commercial products. If the Company is unable to develop and commercialize products, it will be unable to recover its related product development investments.

Viral Transport Medium Products (DxTM)

Microbix's DxTM is principally reliant upon sales to designates of the Government of Ontario. There is no assurance that sales to such designates will be ongoing or that other customers will be secured.

Product commercialization requires strategic relationships

To commercialize large market products in development, Microbix may need to establish strategic partnerships, joint ventures or licensing relationships with pharmaceutical, biotechnology or animal genetics companies. It is possible the Company may be unable to negotiate mutually acceptable terms.

Operating and capital requirements

Microbix seeks to earn a profit on the sale of its Antigens, QAPs and DxTM products, which is a major source of funding for its new product oriented research and development activities. The Company believes that cash generated from operations is sufficient to meet normal operating and capital requirements. However, the Company may need to raise additional funds, from time to time for several reasons including, to expand production capacity, to advance its current research and development programs, to support various collaboration initiatives with third parties, to underwrite the cost of filing, prosecuting and enforcing patents and other intellectual property rights, to invest in acquisitions, new technologies and new market developments. Additional financing may not be available, and even if available, may not be offered on acceptable terms.

Future success may depend on successfully commercializing new products or technologies

In the nearer term, Microbix must maintain and grow its existing product sales. To survive and prosper over the longer term, Microbix may need to commercialize new products or technologies. Such work is inherently uncertain and there is no guarantee that Microbix will be successful with its efforts.

Failure to obtain and protect intellectual property could adversely affect business

Microbix' future success depends, in part, on its ability to obtain patents, or licenses to patents, maintain trade secret protection and enforce its rights against others. The Company's intellectual property includes trade secrets and know-how that may not be protected by patents. There is no assurance that the Company will be able to protect its trade know-how. To help protect its intellectual property, the Company requires employees, consultants, advisors and collaborators to enter into confidentiality agreements. However, these agreements may not adequately protect trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Protection of intellectual property may also entail prosecuting claims against others who the Company believes are infringing its rights or securing its freedom to operate relative to the rights of other parties. Involvement in intellectual property litigation could result in significant costs, adversely affecting the development of products or sales of the challenged product, or intellectual property, and divert the efforts of its scientific and management personnel, whether or not such litigation is resolved in the Company's favour.

RISKS AND UNCERTAINTIES (Continued)

Microbix will continue to face significant competition

Competition from life sciences companies, and academic and research institutions is significant. Many competitors have substantially greater resources and may have greater general capabilities in the areas of scientific and product development, legal review, manufacturing, sales and marketing, and financial support than Microbix. While the Company continues to expand its technological, commercial, legal and financial capabilities in order to remain competitive, Microbix' competitors may also be making significant investments in all of these areas, which could make it more difficult for Microbix to commercialize its products and technologies.

FINANCIAL RISK MANAGEMENT

The primary risks affecting the Company are summarized below and have not changed during the fiscal year. The list does not cover all risks, nor is there an assurance that the strategy of management to mitigate the risks is sufficient to eliminate the risk.

Credit risk:

The Company's cash is held in accounts or short-term interest-bearing accounts at one of the major Canadian chartered banks. Management perceives the credit risk to be low. Typically the outstanding accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. As at June 30, 2023, five customers accounted for 85% (September 30, 2022 - five customers accounted for 56%) of the outstanding balance. In addition, for the quarter ended June 30, 2023, five customers accounted for 53% (June 30, 2022 - five customers accounted for 75%) of revenues. The Company has had minimal bad debts over the past several quarters and accordingly management has recorded an allowance of $35,000 (September 30, 2022 - $35,000).

Currency risk:

The Company is exposed to currency risk given its global customer base. 60-70% of its revenue is denominated in either U.S. dollars or Euros. The Company does not use financial instruments to hedge this currency risk. At June 30, 2023 and September 30, 2022, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	U.S. dollars		**Euros**	
	June 30 2023	September 30 2022	June 30 2023	September 30 2022
Cash	**$ 2,765,557**	$ 302,698	**$ 1,191**	$ 87,613
Accounts receivable	**$ 2,497,335**	$ 1,645,040	**$ 525,925**	$ 1,221,837
Accounts payable and accrued liabilities	**$ 181,519**	$ 126,716	**$ -**	$ 45,994

Based upon 2022 results, the impact of a 5% increase in the U.S. dollar against the Canadian dollar would result in an increase in annual U.S. dollar based revenue of approximately $478,300 Cdn. The impact of a 5% increase in the Euro against the Canadian dollar would result in an increase in annual Euro based revenue of approximately $165,800. Correspondingly, the impact of a 5% decrease in the U.S. dollar against the Canadian dollar would result in a loss in annual U.S. dollar based revenue of approximately $478,300 Cdn. The impact of a 5% decrease in the Euro against the Canadian dollar would result in a loss in annual Euro-based revenue of approximately $165,800.

FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

Liquidity risk measures the Company's ability to meet its financial obligations when they fall due. To manage this situation, the Company projects and monitors its cash requirements to accommodate changes in liquidity needs. In addition, during fiscal 2017 the Company announced that it has arranged a secured revolving credit facility with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The credit facility is being used to fund the Company's need for working capital to grow its existing business. When employed, this facility has helped to satisfy the Company's liquidity needs and to manage the liquidity risk.

Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk include those assets and liabilities with a variable interest rate. Exposure to interest rate risk is primarily on the BDC debt that has a variable rate pegged to the bank rate. The rate can be fixed, if the outlook indicates interest rates will move higher. The only other variable debt the Company has is the $2,000,000 line of credit that bears interest at the bank's prime lending rate plus 2.0%. As at June 30, 2023 the Company has not drawn on this line of credit. A 1% increase in the bank rate would cost the Company approximately $17,000 per year for BDC and about $20,000 on the line of credit usage if it were fully used throughout the fiscal year.

Market risk

Market risk reflects changes in pricing for both Antigens & QAPs and raw materials based on supply and demand criteria; also market forces can affect foreign currency exchange rates as well as interest rates which could affect the Company's financial performance or the value of its financial instruments. Microbix products are valuable components in our customers' products and cannot be easily replaced. The Company works closely with customers to ensure its products meet their specific criteria.

Fair value

The fair value of a financial instrument is approximated by the consideration that would be agreed to in an arm's length transaction between willing parties and through appropriate valuation methods, but considerable judgement is required for the Company to determine the value. The actual amount that could be realized in a current market exchange could be different than the estimated value. The fair values of financial instruments included in current assets and current liabilities approximate their carrying values due to their short-term nature.

The fair value of the long-term debt is based on rates currently available for items with similar terms and maturities. The convertible and non-convertible debenture fair values are not readily determinable as the convertible debentures have been issued to shareholders of the Company. The fair values of financial instruments in other long-term liabilities approximate their carrying values as they are recorded at the net present values of their future cash flows, using an appropriate discount rate.

FINANCIAL RISK MANAGEMENT (Continued)

CRITICAL ACCOUNTING ESTIMATES

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company's audited consolidated financial statements are prepared in accordance with IFRS and the reporting currency is Canadian dollars. On an on-going basis, management bases its estimates on historical and other experience and assumptions, which it believes are reasonable in the circumstances. The significant accounting policies that the Company believes are the most critical in fully understanding and evaluating the reported financial results include:

Intangible Assets
Intangible assets include technology costs, patents, trademarks and licenses. Each is recorded at cost and amortized on a straight-line basis over the term of the agreements or useful life of the asset. Amortization commences when the intangible asset is available for use. Intangibles with definite lives but not yet available for use are assessed at least annually for impairment or more frequently if there are indicators of impairment.

Impairment of Long-lived Assets
The Company reviews the carrying value of non-financial assets with definite lives for potential impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of non-financial assets with definite lives but are not ready for use, are assessed at least annually for impairment based on the impairment test on cash-generating units (CGUs). The impairment test on CGUs is carried out by comparing the carrying amount of the CGU and its recoverable amount. The recoverable amount of a CGU is the higher of fair value less costs to sell and its value in use. This complex valuation process entails the use of methods such as the discounted cash method which requires numerous assumptions to estimate future cash flows.

The recoverable amount is impacted significantly by the discount rate selected to be used in the discounted cash flow model, as well as the quantum and timing of risk-adjusted future cash flows and the growth rate used for the extrapolation. The impairment loss is calculated as the difference between the fair value of the asset and its carrying value.

Convertible Debentures
Management determines the fair value of the debenture using valuation techniques. Those techniques are significantly affected by the estimated assumptions used, including discount rates, expected life and estimates of future cash flows.

Deferred income taxes
Deferred income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective income tax bases. Deferred income tax assets and liabilities are measured using tax rates expected to be in effect when the temporary differences are expected to be recovered or settled. The effects of changes in income tax rates are reflected in future income tax assets and liabilities in the year that the rate changes are substantively enacted.

CRITICAL ACCOUNTING ESTIMATES (Continued)

Share-based payments

The Company applies the fair value method of accounting for stock-based compensation for awards granted to officers, directors, employees and consultants of the Company. The fair value of the award at the time of granting is determined using the Black-Scholes option pricing model, and recognized as a compensation expense on a straight- line basis over the vesting period with an offsetting amount recorded to contributed surplus. The amount of the compensation cost recognized at any date at least equals the value of the portion of the options vested at that date. When stock options are exercised, the consideration paid by employees or directors, together with the related amount in contributed surplus, is credited to capital stock. When an employee leaves the Company, vested options must be exercised within 90 days, or the options expire. Any unvested options pertaining to departing employees are reversed in the reporting period during which that employee leaves the Company.

FINANCIAL INSTRUMENTS

The fair value of a financial instrument is approximated by the consideration that would be agreed to in an arm's length transaction between willing parties and through appropriate valuation methods, but considerable judgment is required for the Company to determine the value. The actual amount that could be realized in a current market exchange could be different than the estimated value.

The carrying amounts of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these instruments. Based on available market information, the fair value of the obligation under capital lease approximates its carrying value.

The fair value of the long-term debt is based on rates currently available for items with similar terms and maturities. The fair value of the liability for each convertible debenture has been calculated and the residual is accounted for in equity. The Company does not have any off balance sheet financial instruments.

Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in the National Instrument 52-109 Certification of Disclosure in Issuer's Annual Filings (NI 52-109F1). As at June 30, 2023, management has concluded that the disclosure controls are effective in providing reasonable assurance that information required to be disclosed in the Company's reports is recorded, processed summarized and reported within the time periods specified in the Canadian Securities Administrator's rules and forms.

Internal Controls Over Financial Reporting

The design of internal controls over financial reporting ("ICFR") within the company is a management responsibility to provide reasonable assurance that the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with generally accepted accounting principles of IFRS. While the CEO and CFO believe that the internal controls are adequate to provide the above information, the process to evaluate and document all policies and procedures that could impact financial reporting is continuously reviewed with consultation with the Audit Committee. Shareholders should be aware that Microbix is a small company without the department resources associated with larger firms. Management is using the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). Framework and has concluded that the Internal Control over Financial Reporting ("ICFR") as defined in NI 52-109 is effective as at the period ended June 30, 2023. Examination by the Chief Executive Officer and the Chief Financial Officer showed that there were no changes to the internal controls over financial reporting during the period ended June 30, 2023 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

IMPACT OF NEW ACCOUNTING STANDARDS NOT YET ADOPTED

Amendments to IAS 1

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on after January 1, 2023. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendment to IAS 1 requires companies to disclose their material accounting policy information rather than significant accounting policies. The amendment also clarifies that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied prospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 12 – Income Taxes ("IAS 12")

Amendments to IAS 12 were issued in May 2021, IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amends IAS 12. The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offset temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively.

Amendments to IAS 37: Onerous Contracts ("IAS 37")

In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, to specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The new guidance will be effective for annual periods beginning on or after January 1, 2022 and is to be applied to contracts that have unfulfilled obligations as at the beginning of that period. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

Notice of no auditor review of condensed interim consolidated financial statements

Under Part 4, subsection 4.3(3)(a) of National Instrument 51-102 – Continuous Disclosure Obligations, if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of Microbix Biosystems Inc. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

As at June 30, 2023 and September 30, 2022

Canadian Funds

	As at June 30 2023	As at September 30 2022
ASSETS		
CURRENT ASSETS		
Cash	$ 13,409,156	$ 13,488,075
Accounts receivable	3,347,154	3,057,797
Inventories (Note 4)	6,050,353	5,284,920
Prepaid expenses and other assets	636,113	546,318
Investment tax credit receivable	56,266	31,262
TOTAL CURRENT ASSETS	23,499,042	22,408,372
LONG-TERM ASSETS		
Long-term deposits	332,250	332,250
Property, plant and equipment (Note 5)	9,080,600	8,906,256
Intangible assets	1,383,203	1,498,318
TOTAL LONG-TERM ASSETS	10,796,053	10,736,824
TOTAL ASSETS	$ 34,295,095	$ 33,145,196
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 2,516,741	$ 1,828,539
Current portion of long-term debt (Note 7)	111,120	111,120
Current portion of lease liability (Note 5)	152,906	156,231
Deferred revenue (Note 18)	2,570,332	554,631
TOTAL CURRENT LIABILITIES	5,351,089	2,650,521
Debentures (Note 6)	1,744,506	1,628,262
Lease liability (Note 5)	738,835	846,114
Long-term debt (Note 7)	3,817,382	3,081,644
TOTAL LONG-TERM LIABILITIES	6,300,723	5,556,020
TOTAL LIABILITIES	$ 11,651,812	$ 8,206,541
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	$ 49,097,340	$ 49,918,916
Equity component of convertible debentures (Note 6)	2,272,566	2,272,566
Contributed surplus	10,182,063	9,619,104
Accumulated deficit	(38,908,686)	(36,871,931)
TOTAL SHAREHOLDERS' EQUITY	$ 22,643,283	$ 24,938,655
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 34,295,095	$ 33,145,196

Commitments and Contingencies (Note 20)

(Signed) "Martin Marino"
MARTIN MARINO
DIRECTOR

(Signed) "Cameron L. Groome"
CAMERON L. GROOME
DIRECTOR

The accompanying notes and summary of significant accounting policies are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) **Unaudited**

For the three months and nine months ended June 30 **Canadian Funds**

	2023	2022	2023	2022
SALES				
Antigens, QAPs and DxTM	$ 4,065,426	$ 4,915,926	$ 10,509,148	$ 14,435,795
Royalties/Other	1,464,726	95,099	1,741,399	311,394
TOTAL SALES (Notes 17, 18)	5,530,152	5,011,025	12,250,547	14,747,189
COST OF GOODS SOLD				
Antigens, QAPs and DxTM	3,171,667	2,232,114	6,131,701	5,593,392
Royalties	15,600	12,765	62,706	49,494
TOTAL COST OF GOODS SOLD (Note 4)	3,187,267	2,244,879	6,194,407	5,642,886
GROSS MARGIN	2,342,885	2,766,146	6,056,140	9,104,303
EXPENSES				
Selling and business development	374,357	435,534	1,112,844	1,154,581
General and administrative	2,104,025	1,134,256	5,207,161	3,727,866
Research and development	531,121	387,400	1,482,004	1,354,758
Financial expenses (Note 14)	102,490	170,454	290,887	614,329
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ (769,108)	$ 638,502	$ (2,036,756)	$ 2,252,769
NET INCOME (LOSS) PER SHARE				
Basic (Note 12)	$ (0.006)	$ 0.005	$ (0.015)	$ 0.016
Diluted (Note 12)	$ (0.006)	$ 0.004	$ (0.015)	$ 0.016

The accompanying notes and summary of significant accounting policies are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS **Unaudited**

For the three months and nine months ended June 30 **Canadian Funds**

	2023	2022	2023	2022
OPERATING ACTIVITIES				
Net Income (Loss) for the Period	$ (769,108)	$ 638,502	$(2,036,754)	$ 2,252,769
Items not affecting cash				
Amortization and depreciation (Note 17)	304,219	263,922	847,943	745,298
Accretion of debentures (Note 6)	41,667	39,842	116,244	169,368
Stock options expense (Note 11)	202,445	187,928	562,959	466,019
Accretion Interest expense (Note 14)	53,585	38,810	133,376	88,633
Change in non-cash working capital balances (Note 13)	2,298,550	1,540,541	737,868	(403,324)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,131,358	2,709,545	361,635	3,318,763
INVESTING ACTIVITIES				
Purchase of property, plant and equipment (Note 5)	(215,114)	(264,660)	(898,379)	(818,315)
CASH USED IN INVESTING ACTIVITIES	(215,114)	(264,660)	(898,379)	(818,315)
FINANCING ACTIVITIES				
Repayments of long-term debt (Note 7)	(27,780)	(27,780)	(83,340)	(362,850)
Proceeds from Government Loan and Grant (Note 7)	-	-	1,507,393	1,072,102
Repayments of convertible and non-convertible debentures (Note 6)	-	(500,000)	-	(1,816,821)
Payment of lease liabilities	(45,613)	(59,922)	(144,652)	(186,130)
Repurchase of common shares	(166,050)	-	(926,836)	-
Proceeds from exercise of warrants and options (Note 10, 11)	10,750	105,000	105,260	2,970,130
CASH PROVIDED BY FINANCING ACTIVITIES	(228,693)	(482,702)	457,825	1,676,431
NET CHANGE IN CASH - DURING THE PERIOD	1,687,551	1,962,183	(78,919)	4,176,879
CASH - BEGINNING OF PERIOD	11,721,605	12,201,008	13,488,075	9,986,312
CASH - END OF PERIOD	$ 13,409,156	$14,163,191	$13,409,156	$ 14,163,191

The accompanying notes and summary of significant accounting policies are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited

For the three months ended June 30, 2023 and 2022

Canadian Funds

	Share Capital (Note 9)					
	Number of Shares	Stated Capital	Contributed Surplus	Deficit	Equity Component of Debentures	Total Shareholders' Equity
Balance, September 30, 2021	**126,377,167**	**$43,609,601**	**$10,703,374**	**$(38,660,620)**	**$2,903,789**	**$18,556,144**
Stock option expense	-	-	466,019	-	-	466,019
Share Issuance pursuant to						
Exercise of Warrants	7,030,294	3,604,673	(1,096,343)	-	-	2,508,330
Exercise of Options	1,710,000	781,070	(319,270)	-	-	461,800
Conversion of Debenture	2,173,913	1,131,222	-	-	(631,223)	500,000
Net income and comprehensive income for the period	-	-	-	2,252,769	-	2,252,769
Balance, June 30, 2022	**137,291,374**	**$49,126,566**	**$9,753,780**	**$(36,407,851)**	**$2,272,566**	**$24,745,062**
Share-based compensation expense	-	-	183,674	-	-	183,674
Share Issuance pursuant to						
Exercise of Warrants	450,000	203,399	(74,400)	-	-	128,999
Exercise of Options	1,250,000	588,950	(243,950)	-	-	345,000
Net income and comprehensive income for the period	-	-	-	(464,079)	-	(464,079)
Balance, September 30, 2022	**138,991,374**	**$49,918,915**	**$9,619,104**	**$(36,871,930)**	**$2,272,566**	**$24,938,655**
Stock option expense	-	-	562,959	-	-	562,959
Share Issuance pursuant to						
Exercise of Warrants	21,000	7,561	-	-	-	7,561
Exercise of Options	430,000	97,700	-	-	-	97,700
Repurchase of Shares	(2,138,500)	(926,836)	-	-	-	(926,836)
Net income and comprehensive income for the period	-	-	-	(2,036,756)	-	(2,036,756)
Balance, June 30, 2023	**137,303,874**	**$49,097,340**	**$10,182,063**	**$(38,908,686)**	**$2,272,566**	**$22,643,283**

The accompanying notes and summary of significant accounting policies are an integral part of these interim condensed consolidated financial statements.

1. NATURE OF THE BUSINESS

Microbix Biosystems Inc. and its subsidiaries (the "Company" or "Microbix"), incorporated under the laws of the Province of Ontario, develops and commercializes proprietary biological and technology solutions for human health and well-being. Microbix manufactures a wide range of critical biological materials and medical devices for the global diagnostics industry, notably test ingredients (Antigen business) used in immunoassays, quality assessment products to help ensure test and test-workflow accuracy (QAPsTM business), and sample-collection devices such as viral transport medium (DxTMTM business).

The registered office and principal place of business of the Company is located at 265 Watline Avenue, Mississauga, Ontario, L4Z 1P3.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and are presented in Canadian dollars. The accounting policies used in the preparation of these interim condensed consolidated financial statements conform with those in the Company's audited annual consolidated financial statements for the year ended September 30, 2022, except as set out in note 3. These interim consolidated financial statements do not include all of the information and disclosures required in annual financial statements and, accordingly, should be read in conjunction with the Company's annual consolidated financial statements for the year ended September 30, 2022.

The Board of Directors approved these interim condensed consolidated financial statements on August 8, 2023.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates and judgments

The timely preparation of the interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the interim condensed consolidated financial statements.

Global pandemic

In early 2020, a novel Coronavirus (named "SARS-CoV-2" and causing the disease "COVID-19") was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a global pandemic. As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic and its public health, economic, and geopolitical aftermaths, the Company has reviewed and continues to review, the estimates, judgments and assumptions used in the preparation of its financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets and the credit risk of its counterparties.

The extent to which the COVID-19 pandemic or another geopolitical crisis impacts the Company's business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of a current or future pandemic or crisis and the societal actions required to continue to contain the pandemic or crisis or remedy its impact, among others.

Any of these developments, and others, have had a material adverse effect on the Company's business, financial condition, operations and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in the Company's financial statements will change and the effect of any such changes could be material, which could result in, among other things, an impairment of inventories or long-lived assets or a change in the estimated credit losses on accounts receivable. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business. The COVID-19 pandemic and its health, economic, and political impacts continue to evolve, as do the effects of the downstream government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting standards and amendments issued but not yet adopted

Amendments to IAS 1
In January 2020, the IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")
In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendment to IAS 1 requires companies to disclose their material accounting policy information rather than significant accounting policies. The amendment also clarifies that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied prospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 12 – Income Taxes ("IAS 12")
Amendments to IAS 12 were issued in May 2021, IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amends IAS 12. The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offset temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively.

Amendments to IAS 37: Onerous Contracts ("IAS 37")
In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, to specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The new guidance will be effective for annual periods beginning on or after January 1, 2022 and is to be applied to contracts that have unfulfilled obligations as at the beginning of that period. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

4. INVENTORIES

Inventories consist of the following:

	June 30, 2023	September 30, 2022
Raw materials	$ 1,849,434	$ 1,106,113
Work in process	1,811,829	1,716,451
Finished goods	2,389,090	2,462,356
	$ 6,050,353	$ 5,284,920

During the quarter ended June 30, 2023, inventories in the amount of $3,171,667 (June 30, 2022 - $2,232,114) were recognized as an expense through cost of goods sold. That amount of expensed inventory included $949,256 for DxTM inventory that was determined likely to expire before it could be sold, thereby increasing the allowance for inventory impairment as at June 30, 2023 to $1,229,219 (September 30, 2022 - $279,963). This impairment of DxTM was unexpected and related to a change in the purchasing practices of agents of the Government of Ontario, which inexplicably returned to their pre pandemic practice of importing all of the province's needs for viral transport medium. Prior to this change in purchasing practices, agents of the Government of Ontario had been Microbix's principal customer for DxTM.

5. PROPERTY, PLANT, AND EQUIPMENT AND LEASES

The freehold land and buildings have been pledged as security for bank loans under a mortgage (see Note 7). Property, plant and equipment consists of:

	Building and Leasehold Improvements	Research and Development Equipment	Other Equipment and Fixtures	Right of Use Assets	Land	Total
COST						
Balance, as at September 30, 2022	$ 6,198,311	$ 600,258	$ 7,072,624	$ 1,697,014	$ 800,000	$ 16,368,206
Additions	100,807	94,493	703,079	8,796	-	907,175
Balance, as at June 30, 2023	**6,299,118**	**694,750**	**7,775,703**	**1,705,810**	**800,000**	**17,275,381**
ACCUMULATED DEPRECIATION						
Balance, as at September 30, 2022	2,221,807	472,737	4,249,204	518,203	-	7,461,950
Depreciation	333,331	8,721	257,746	133,033	-	732,831
Balance, as at June 30, 2023	**2,555,138**	**481,457**	**4,506,950**	**651,236**	**-**	**8,194,781**
NET BOOK VALUE						
Balance, September 30, 2022	3,976,504	127,521	2,823,420	1,178,811	800,000	8,906,256
Balance, as at March 31, 2023	**$ 3,743,980**	**$ 213,293**	**$ 3,268,753**	**$ 1,054,574**	**$ 800,000**	**$ 9,080,600**

Activity within right-of-use assets and lease liabilities during the year were as follows:

	Right-of-Use Assets		
	Property	Equipment	Lease Liabilities
Balance, September 30, 2022	$ 941,619	$ 235,944	$ 1,002,346
Additions	8,795	1	-
Depreciation Expense	(113,390)	(18,395)	-
Interest Accretion	-	-	17,079
Payments	-	-	(127,684)
Balance, June 30, 2023	**$ 837,024**	**$ 217,550**	**$ 891,741**
Current Portion			$ 152,906
Non-current portion			738,835

5. PROPERTY, PLANT, AND EQUIPMENT AND LEASES (Continued)

Lease liabilities for leases that were entered during the period ended June 30, 2023 were discounted using an incremental borrowing rate of 7.0% (June 30, 2022 – 3.5%).

Lease obligations as at June 30, 2023 are:

		Amount
2023	$	45,665
2024		182,662
2025		153,410
2026		98,451
2027		95,606
2028 and thereafter		445,081
Total	**$**	**1,020,876**

6. DEBENTURES

The Company has convertible debentures issued and outstanding as at June 30, 2023. The carrying values of the debt component of these debentures are as follows:

	Convertible debentures (a)	Convertible debentures (b)	Total convertible debentures
Date of issue	Oct, 2016	Oct, 2016	
Face value	$ 1,500,000	$ 2,500,000	$ 4,000,000
Liability component at the date of issue	461,550	780,750	-
Balance, September 30, 2022	596,208	1,032,054	1,628,262
Accretion	40,697	75,547	116,244
Repayments	-	-	-
Balance, June 30, 2023	**636,905**	**1,107,601**	**1,744,506**
Less: current portion	-	-	-
Non-current portion	636,905	1,107,601	1,744,506
Balance, June 30, 2023	**$ 636,905**	**1,107,601**	**1,744,506**
Equity component at June 30, 2023	**574,435**	**1,698,131**	**2,272,566**
Conversion price per common share	$ 0.23	$ 0.23	
Effective interest rate charged	31.07%	30.85%	
Payment frequency	Quarterly	Quarterly	
Maturity of financial instrument	Jan, 2029	Sep, 2028	
Stated interest rate	9%	9%	
Terms of repayment	Interest only	Interest only	
Blended quarterly repayment	N/A	N/A	

6. DEBENTURES (Continued)

The debentures denoted as (a), and (b) above are secured against the real property and the personal property of the Company including, without limiting the foregoing, a registered second mortgage on the property at 265 Watline Avenue, Mississauga, Ontario, in favour of the holder, its successors and assigns subordinate only to indebtedness to a Canadian chartered bank or similar financial institution on normal commercial terms up to their maximum principal.

The convertible debentures are convertible at the option of the holder, at any time, into fully paid and non-assessable common shares of the Company at the conversion price then in effect.

All of the debentures were issued to shareholders of the Company. Over the term of the convertible debentures, the debt components are being accreted to the face value of the debentures by the recording of additional interest expense using the effective interest rate, as detailed above.

During fiscal 2022, the Company made an early repayment of a 9% interest non-convertible debenture, repaying in full. A payment of $1,331,758, including accrued interest, was made on October 1, 2021. In addition, on February 15, 2022 a $500,000 convertible debenture was converted into 2,173,913 common shares. During Q3 of fiscal 2022, a $500,000 non-convertible debenture was fully repaid on maturity at the end of April 2022.

7. LONG-TERM DEBT, BANK INDEBTEDNESS AND OTHER DEBT

a) The Company has used term loans with the Business Development Bank (“BDC”) for a variety of purposes. The following summarizes these loans as at June 30, 2023:

Term Loans with the Business Development Bank (“BDC”)	(a)	(b)	Total
Effective date of loan	Jun, 2008	Jul, 2018	
Initial Loan Amount	$ 3,000,000	$ 323,906	$ 3,773,906
Balance, September 30, 2021	1,824,220	279,510	2,103,730
Proceeds from loan	-	-	-
Loan repayments during the period	(111,120)	(279,510)	(390,630)
Balance, September 30, 2022	$ 1,713,100	$ -	$ 1,713,100
Proceeds from loan	-	-	-
Loan repayments during the period	(83,340)	-	(83,340)
Balance, June 30, 2023	**$ 1,629,760**	**-**	**$ 1,629,760**
Current Portion	$ 111,120	-	$ 111,120
Non-current portion	1,518,640	-	1,518,640

7. LONG-TERM DEBT, BANK INDEBTEDNESS AND OTHER DEBT (Continued)

The remaining BDC loan has a floating interest rate based on BDC's floating base rate less 1.0%. At June 30, 2023, the rate was 8.05% (2022 – 3.8%). The loan is secured with the building and equipment. On December 3, 2021 the Company prepaid in full the outstanding balance including accrued interest for loan (b) above, totalling $266,094.

As at June 30, 2023, the commitments for the next five fiscal years and thereafter for the BDC loan is as follows:

	Amount
2023	$ 27,780
2024	111,120
2025	111,120
2026	111,120
2027	111,120
2028 and thereafter	$ 1,157,500

b) The Company has a $2,000,000 line of credit with its Chartered Bank that is available for use. This line of credit bears interest at prime plus 2% (8.95% on June 30, 2023). As at June 30, 2023 the Company had no funds drawn on the facility (September 30, 2022- nil). The Company's availability and usage of this facility varies across its manufacturing, sales and Accounts Receivable collection cycles.

c) On July 29, 2019, the Company signed an agreement with Federal Economic Development Agency for Southern Ontario to provide a repayable government contribution where the Federal Development Agency has agreed to contribute funding for 30% of the Business Scale-up and Productivity Project expenditures made by the Company, up to $2,752,500 over the following four years. The Company is required to submit eligible expenses on a quarterly basis to receive the interest-free contributions. On February 14, 2023 the Company agreed to an amendment to the original agreement providing an additional $840,000 of repayable contributions, increasing the total funding up to $3,592,500. Repayment of all contributions does not begin until December 15, 2024. As at June 30, 2023, the Company has received contributions totalling $3,161,996 (June 30, 2022 – $2,158,603). The Company determined that the "Loan" consists of two components: an obligation to repay; and a government grant in the form of exemption from interest. The Company fair valued the obligation to repay at $2,253,333 (June 30, 2022 – $1,352,426), based on a discount rate of 8%, which represents management's best estimate of fair value. The residual amount of $908,663 (June 30, 2022 – $806,178) is allocated to the associated government grant and recognized as income over the period in which the related costs they are intended to compensate are recognized. As at June 30, 2023, the carrying value of the Loan is $2,253,333 (June 30, 2022 – $1,449,466) and $444,578 is recognized as a deferred grant within deferred revenue on the statement of financial position (June 30, 2022– $365,725).

The Company is in compliance with the covenants associated with this loan as at June 30, 2023.

The estimated repayments on the existing term facilities in future fiscal years are as follows:

Fiscal Years	Amount
2025	$ 526,999
2026	632,399
2027	632,399
2028	632,399
2029	632,399
2030	105,401

8. GOVERNMENT GRANT

On October 13, 2020, the Company announced a grant agreement with the Ontario Together Fund ("OTF") of the Ministry of Economic Development, Job Creation and Trade (the "Grant"). The Grant of $1,445,000 was to cover 50% of the cost to automate production of the Company's quality assessment products (QAPs™) that help ensure the accuracy of infectious disease diagnostic testing, and enable local, secure, and cost-effective automated production of the quantities of viral transport medium (generically "VTM" and branded "DxTM™") needed for Ontario's lab-based testing for COVID-19 disease or other tests of concern to public health or safety.

An initial Grant disbursement, upon execution of the agreement, in the amount of $867,000, was received on October 13, 2020. The remaining $578,000 of the grant was paid upon project completion following a review of Eligible Project Expenditures incurred during the project, up to February 28, 2022. During the year ended September 30, 2021 the Company recognized $717,587 of grant income. The company also recorded a $680,202 reduction in capital asset costs. The excess claims of $578,000 for the remainder of the grant have been previously recognized in accounts receivable. During Q3 of fiscal 2022, a final review of the project was completed and the contractual $578,000 holdback was received by Microbix during April 2022.

On March 20, 2023, the Company announced an additional grant agreement with the Ontario Together Fund ("OTF") of the Ministry of Economic Development, Job Creation and Trade (the "Grant"). The Grant of $840,000 is to cover 50% of the cost to further expand our capabilities and capacity for manufacturing specialized products relating to diagnostic testing for infectious diseases. The Government of Ontario is supporting the expansions at Microbix's three adjacent sites in Mississauga. An initial Grant disbursement, upon execution of the agreement, in the amount of $504,000, was received on March 13, 2023. The remaining $356,000 of the grant will be paid upon project completion following a review of Eligible Project Expenditures incurred during the project. During the quarter $22,450 of grant income was recognized.

9. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares with no par value and an unlimited number of preference shares with no par value.

On October 3, 2022 the Company initiated Normal Course Issuer Bid ("NCIB") program for the repurchase and cancellation of outstanding common shares. In accordance with the rules of the Toronto Stock Exchange and as detailed in the Company's news release of September 28, 2022, the NCIB enables the Company to repurchase up to 5% of its common shares over a 12-month period. During the first nine months of fiscal 2023 the Company repurchased 2,276,500 shares at a cost of $948,939 and cancelled 2,138,500 shares.

The number of issued and outstanding common shares and the stated capital of the Company are presented below:

	Number of Shares	Stated Capital
Balance, as at September 30, 2022	138,991,374	$ 49,918,916
Exercise of Warrants	21,000	7,560
Exercise of stock options	430,000	97,700
Stock repurchase and cancellation	(2,138,000)	(926,836)
Balance, as at June 30, 2023	**137,303,874**	**$ 49,097,340**

10. COMMON SHARE PURCHASE WARRANTS

A continuity of the Company's warrants outstanding as at June 30, 2023 is presented in the following table:

	Units	Weighted average exercise price
Balance, September 30, 2022	15,573,397	$ 0.53
Warrants Exercised	(21,000)	0.36
Expired	(920,833)	0.52
Balance, June 30, 2023	**14,631,564**	**$ 0.53**

A summary of the Company's warrants outstanding as at June 30, 2023 and September 30, 2022 is presented in the following table:

	June 30, 2023			September 30, 2022		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life
			years			years
Range of exercise prices:						
$0.60 to $0.80	5,750,000	$ 0.80	0.89	6,420,833	$ 0.78	0.63
$0.30 to $0.36	8,881,564	0.36	1.59	9,152,564	0.36	2.29
	14,631,564	$ 0.53	1.32	15,573,397	$ 0.53	1.61

11. STOCK OPTION PLAN

Under the Company's stock option plan, the Company may grant options to purchase common shares up to a maximum of 10% of the Company's issued and outstanding common shares. Under the plan as at June 30, 2023, the Company has a total of 11,959,000 options (September 30, 2022– 9,724,000) issued and is eligible to issue up to a total of 13,730,387 options.

The exercise price of each option equals no less than the market price at the date immediately preceding the date of the grant. In general, the Company's stock option plan vests options in equal amounts across a period following their issue date. The options granted during this year and future options grants will generally be vested in a single step on the third anniversary date following their issue. Management does not expect any remaining unvested stock options at the year-end to be forfeited before they vest.

The activity under the Company's stock option plan for period ended June 30, 2023 is as follows:

	Units	Weighted average exercise price
Balance, September 30, 2022	9,724,000	$ 0.44
Stock options exercised	(430,000)	$ 0.23
Stock options issued	2,815,000	$ 0.37
Stock options forfeited	(150,000)	$ 0.63
Balance, June 30, 2023	**11,959,000**	**$ 0.43**
Exercisable, June 30, 2023	**4,025,000**	**$ 0.24**

The exercise price of each option equals the closing market price of the Company's capital stock on the day preceding the grant date. The following table reflects the number of options, their weighted average price and the weighted average remaining contract life for the options grouped by price range as of June 30, 2023 and September 30, 2022:

	June 30, 2023			September 30, 2022		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life
			years			years
Range of exercise prices:						
$0.46 to $0.73	5,319,000	$ 0.60	3.18	5,444,000	$ 0.61	3.94
$0.215 to $0.37	6,665,000	$ 0.29	2.70	4,280,000	$ 0.22	1.98
	11,984,000	$ 0.43	3.03	9,724,000	$ 0.44	3.08

Stock options are assumed to be exercised at the end of the option's life, as management believes the probability of an early exercise is remote. During the quarter, the fair value of the options vested in the quarter were expensed and credited to contributed surplus. During the quarter, the Company recorded share-based compensation expense of $202,445 (2022 - $187,928).

12. INCOME (LOSS) PER SHARE

Basic income per share is calculated using the weighted average number of shares outstanding. Diluted income per share reflects the dilutive effect of the exercise of stock options, warrants and convertible debt. The following table reconciles the net income and the number of shares for the basic and diluted income per share computations:

	For the three months ended June 30		For the nine months ended June 30	
	2023	2022	2023	2022
Net income (loss) for the period for basic earnings per share	$ (769,108)	$ 638,502	$ (2,036,756)	$ 2,252,769
Net income (loss) for the period for diluted earnings per share	(769,108)	638,502	(2,036,756)	2,369,421
Weighted average common shares outstanding	137,546,693	137,103,874	138,210,977	134,170,883
Dilutive Effect	-	6,382,425	-	25,316,797
Dilutive weighted average common shares outstanding	137,546,693	143,486,299	138,210,977	159,487,680
Net income (loss) per share:				
Basic	($0.006)	$0.005	($0.015)	$0.017
Diluted	($0.006)	$0.004	($0.015)	$0.015

The following represents the warrants, stock options and convertible debentures not included in the calculation of diluted EPS due to their anti-dilutive impact:

	For the three months ended		For the nine months ended	
	2023	2022	2023	2022
Pursuant to warrants	14,631,564	6,420,833	14,631,564	5,750,000
Under stock options	11,959,000	5,344,000	11,959,000	50,000
Pursuant to convertible debentures	17,391,304	17,391,304	17,391,304	-
	43,981,869	29,156,138	43,981,869	5,800,000

13. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended June 30, 2023	Three months ended June 30, 2022	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Accounts receivable	$ (219,400)	$ 2,060,759	$ (289,357)	$ 1,688,092
Inventory	803,590	43,957	(765,433)	(890,954)
Prepaid expenses and other assets	(86,359)	(491,211)	(114,799)	(1,001,279)
Deferred Revenue	1,039,743	(83,797)	1,441,483	311,519
Accounts payable and accrued liabilities	760,976	10,833	465,974	(510,702)
	$ 2,298,550	$ 1,540,541	$ 737,868	$ (403,324)

14. FINANCIAL EXPENSES

	Three months ended June 30, 2023	Three months ended June 30, 2022	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Cash interest:				
Interest on long-term debt	$ 32,574	$ 19,039	$ 93,922	$ 68,413
Interest on debentures	90,000	94,993	270,000	306,269
Interest other	252	(23,783)	866	(23,783)
Interest income	(115,588)	1,553	(323,520)	5,429
Non-cash interest:				
Accretion on debentures	41,666	39,842	116,243	169,368
Accretion interest expense	53,585	38,810	133,376	88,633
Financial expenses	$ 102,490	$ 170,454	$ 290,887	$ 614,329

15. CAPITAL MANAGEMENT

The Company's capital management objective is to safeguard its ability to function as a going concern while also maintaining and growing its operations and funding its development activities. Microbix defines its capital to include any drawn portion of the revolving line of credit, shareholders' equity, long-term debt, and debentures. The capital at June 30, 2023 was $28,316,291 (September 30, 2022 - $29,759,681).

To date, the Company has used cash provided by operating activities, common equity issues, debentures, bank mortgage and other financing to fund its activities. The equity is provided through public offerings or private placements, the debentures are all controlled by private individuals known to the Company and the mortgage and other financing are with the Business Development Bank (BDC), FedDev and TD Bank. If possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including cash provided by operating activities, investment tax credits, grants and interest income. The Company has a revolving line of credit of $2,000,000 with its Canadian chartered bank, per Note 7.

The Company's general policy is to not pay dividends and retain cash to keep funds available to finance the Company's growth. However, the Board of Directors may, from time to time, choose to declare a dividend in cash or other assets if warranted by circumstances. Also, the Board of Directors may, from time to time, choose to initiate a buy-back of issued common shares. There was no change during the year in how the Company defines its capital or how it manages its capital.

16. FINANCIAL INSTRUMENTS

The Company categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observation of the inputs used in the measurement.

For the periods ended June 30, 2023 and September 30, 2022, the Company has carried at fair value financial instruments in Level 1. At June 30, 2023, the Company's only financial instrument measured at fair value is cash and cash equivalents, which are considered to be a Level 1 instrument. There were no transfers between levels during the year.

The three levels are defined as follows:

a) Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets
b) Level 2: Fair value is based on inputs other than quoted prices included within Level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
c) Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities.

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:				
Cash and cash equivalents	30-Jun-23	$ 13,409,156	-	-
Liabilities for which fair values are disclosed:				
Convertible debentures	30-Jun-23	-	1,744,506	-
Long-term-debt and other debt	30-Jun-23	-	3,928,502	-

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:				
Cash and cash equivalents	30-Sep-22	$ 13,488,075	-	-
Liabilities for which fair values are disclosed:				
Convertible debentures	30-Sep-22	-	1,628,262	-
Long-term-debt and other debt	30-Sep-22	-	3,192,764	-

The fair value of a financial instrument is approximated by the consideration that would be agreed to in an arm's length transaction between willing parties and through appropriate valuation methods, but considerable judgment is required for the Company to determine the value. The actual amount that could be realized in a current market exchange could be different than the estimated value.

The fair values of financial instruments included in current assets and current liabilities approximate their carrying values due to their short-term nature.

16. FINANCIAL INSTRUMENTS (Continued)

The fair value of the long-term debt is based on rates currently available for items with similar terms and maturities and is repriced to floating market interest rates and as such, the carrying value of the long-term debt and other debt approximates fair value. The convertible and non-convertible debenture fair values are estimated based on rates for items with similar terms and maturity. The fair values of financial instruments in other long-term liabilities approximate their carrying values as they are recorded at the net present values of their future cash flows, using an appropriate discount rate.

17. SEGMENTED INFORMATION

The Company operates in two ways: (i) the development, manufacturing and sales of products relating to the medical diagnostics industry, namely antigens as test ingredients, quality assessment products to help ensure the accuracy of test workflows and viral transport medium to enable collection of patient test samples and, (ii) the development and commercialization of novel and proprietary products or technologies such as Kinlytic. The following is an analysis of the Company's revenues and profits from continuing operations for the quarter ended June 30, segmented between categories (i) and (ii) (including Kinlytic):

	For the three months		For the nine months	
Segment Revenue	2023	2022	2023	2022
Antigens, QAPs and DxTM	$ 4,065,426	$ 5,011,025	$10,509,148	$14,742,766
Other (Includes Kinlytic®)	1,464,726	-	1,741,399	4,423
Total for continuing operations	$ 5,530,152	$ 5,011,025	$12,250,547	$14,747,189

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2022 - $nil).

	For the three months		For the nine months	
Operating Income (Loss)	2023	2022	2023	2022
Antigens, QAPs and DxTM	$ (1,848,368)	$ 646,179	$ (3,631,334)	$ 2,287,823
Other (Includes Kinlytic®)	1,079,260	(7,677)	1,594,578	(35,054)
Total for continuing operations	$ (769,108)	$ 638,502	$ (2,036,756)	$ 2,252,769

Segment income represents the profit before tax earned by each segment without allocation of central administration costs, directors' fees, and finance costs. These general costs are reflected in category (i) and (ii) segments. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

17. SEGMENTED INFORMATION (Continued)

Segmented assets and liabilities as at June 30 are as follows:

	Segment assets		Segment liabilities	
	June 30 2023	September 30 2022	June 30 2023	September 30 2022
Antigens, QAPs and DxTM	$ 34,295,095	$ 33,145,196	$ 11,321,812	$ 8,206,541
Other (Includes Kinlytic®)	-	-	330,000	-
	$ 34,295,095	$ 33,145,196	$ 11,651,812	$ 8,206,541

All assets are allocated to reportable segments other than interests in associates and current and deferred tax assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments. All liabilities are allocated to reportable segments other than borrowings and current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Segmented depreciation and amortization, impairment of long-lived assets and additions to non-current assets as at June 30 are as follows:

	Depreciation and amortization		Additions to non-current assets	
	2023	2022	2023	2022
Antigens, QAPs and DxTM	$ 304,219	$ 263,922	$ 215,114	$ 264,660
Other (Includes Kinlytic®)	-	-	-	-
	$ 304,219	$ 263,922	$ 215,114	$ 264,660

18. REVENUES AND GEOGRAPHIC INFORMATION

The Company operates in three principal geographical areas – North America (where it is domiciled), Europe, and in other foreign countries. The Company's revenue from external customers is tracked based on the bill-to location. Information about its non-current assets by location of assets are also detailed below. It should be noted that our distribution partner for Asia is based in the United States, so most sales destined to Asia are reflected in the North American total.

	For the three months		For the nine months	
Revenues	2023	2022	2023	2022
North America	$ 4,108,781	$ 3,492,693	$ 8,126,203	$ 10,945,757
Europe	1,419,738	1,514,039	4,120,379	3,787,137
Other foreign countries (directly)	1,633	4,293	3,965	14,296
Total for continuing operations	$ 5,530,152	$ 5,011,025	$ 12,250,547	$ 14,747,189

	Non-current assets	
	June 30, 2023	September 30, 2022
North America	$ 10,796,054	$ 10,736,824
Europe	-	-
Other foreign countries (directly)	-	-
	$ 10,796,054	$ 10,736,824

The following table reflects the movement in the Company's deferred revenues:

For the period ended June 30,	2023	2022
Balance, beginning of the quarter	$ 1,553,898	$ 742,932
Cash payments or advance payments on performance obligations	1,553,262	1,589,314
Revenue recognized during the quarter	(491,070)	(1,277,793)
Deferred government grant and loan (see note 8 and 9)	(45,769)	137,568
Balance, end of quarter	$ 2,570,322	$ 1,192,020

19. RELATED PARTY TRANSACTIONS

Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management includes six independent directors and four key management executive officers. Compensation for the Company's key management personnel was as follows:

	Three months ended June 30, 2023	Three months ended June 30, 2022
Short-term wages, bonuses and benefits	$ 283,477	$ 267,864
Share based payments	116,986	88,080
Total key management compensation	$ 400,464	$ 355,943

20. COMMITMENTS AND CONTINGENCIES

Payments on convertible and non-convertible debentures (Note 6)

	Amount
2023	$ 90,000
2024	360,000
2025	360,000
2026	360,000
2027	360,000
2028 and thereafter	4,399,497
	$ 5,929,497

Contingencies

The Company is not party to any legal proceedings arising out of the normal course of business.

DIRECTORS

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Ontario, Canada
Medical Director
NeuPath Centre for Pain & Spine

Mark A. Cochran [2]
Virginia, USA
Managing Director
Johns Hopkins Medicine

Vaughn C. Embro-Pantalony [1] [2]
Ontario, Canada
Pharmaceutical Executive

Cameron Groome [2]
Ontario, Canada
Chief Executive Officer and President
Microbix Biosystems Inc.

Martin A. Marino [1] [2]
Ontario, Canada
Pharmaceutical Executive

Joseph D. Renner [1] [2]
New Jersey, USA
Pharmaceutical Executive

Jennifer A. Stewart [2]
Ontario, Canada
Chief Executive Officer
Syntax Strategic

(1) Member of Audit Committee.
(2) Member of the Human Resources, Compensation and Governance Committee.

CORPORATE INFORMATION

Corporate Counsel	*Boyle & Co. LLP*
Auditors	*Ernst Young LLP* *Chartered Accountants*
Transfer Agent	*TSX Trust Company*
Bankers	*The Toronto Dominion Bank*
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Chief Executive Officer and President

James S. Currie
Chief Financial Officer

Kenneth Hughes
Chief Operating Officer

Dr. Mark Luscher
Senior Vice-President, Scientific Affairs

Phillip Casselli
Senior Vice-President, Sales & Business Development

Christopher B. Lobb
General Counsel & Secretary

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