MICROBIX BIOSYSTEMS INC.

FIRST INTERIM REPORT

For the three months ended December 31, 2013

Message to Shareholders

Our first quarter financial results for 2014 were very strong. Revenue doubled in comparison to the first quarter of last year, driven primarily by growth of the Virology Products business. We earned a solid operating profit of more than 10% of revenue, building on our strong performance in the fourth quarter of 2013. We continue to experience good cost control and sound working capital management, which have contributed to our solid cash position.

The past several weeks have been very exciting at Microbix, beginning with the release of our 2013 Annual Report highlighting our first annual operating profit in several years. The feedback from all stakeholders has been very positive with the knowledge that the Company is now financially stable.

We announced that we have financed the development of the LumiSort® prototype raising total new money of $2.75 million through an existing debenture holder. We also announced that we have engaged Lathrop Engineering in California to help build and test the prototype, with completion expected in late 2014.

In conjunction with the LumiSort® financing we announced the refinancing of a significant portion of the Company's long-term debt, which will result in reduced interest carrying costs. We have also negotiated more flexible repayment terms on a large portion of this debt which, when exercised, will result in a stronger balance sheet.

In early January the Company filed a patent litigation complaint against Novartis Vaccines and Diagnostics headquartered in Basel, Switzerland alleging infringement of the VIRUSMAX® technology patents. The complaint was filed in the Eastern District of Texas. We are working closely with our legal counsel through the early stages of this action.

On January 23rd we successfully defended all of our VIRUSMAX® European patent claims at the European Patent Office Tribunal in Munich, Germany. The patent challenge was launched by Novartis in 2011. The EPO Tribunal reaffirmed that all of Microbix' patent claims are, in fact, novel and inventive, which is a very important validation of our VIRUSMAX® patent estate.

In January we met with a new group investors that is interested in exploring the Kinlytic® opportunity following the decision by our former partner to terminate the license agreement in December. I will provide further updates as these discussions advance.

With the Company now in a financially stable position, 2014 will be a transformational year as we focus on our key strategic priorities –
(1) growing the Virology business,
(2) developing the LumiSort® prototype,
(3) supporting the VIRUSMAX® legal action, and
(4) re-partnering Kinlytic®.

Vaughn C. Embro-Pantalony
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2013 AND 2012

The Company's Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited Consolidated Interim Financial Statements and notes and should also be read in conjunction with the audited Consolidated Financial Statements, notes and MD&A for the year ended September 30, 2013, prepared in accordance with International Financial Reporting Standards ("IFRS") 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 involve risks and uncertainties, including the difficulty in predicting product approvals, acceptance of and demand for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, regulatory enforcement, changes in operating results and other risks, some or any of which could make the results differ materially from those discussed or implied in the forward-looking statements. The Company disclaims any intent or obligation to update these forward looking statements.

This Management Discussion and Analysis is dated February 13, 2014.

COMPANY OVERVIEW

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX) develops biological products and technologies. The Company has a Virology Products business including the manufacturing and sale of cell culture-based biological products and the licensing of technologies. The Company has also developed VIRUSMAX® (a virus yield enhancement technology), and Kinlytic® (a thrombolytic drug), and is developing LumiSort® a semen sexing technology.

Revenue from the Virology Products business is used to pay operating costs, debt service costs, and to fund the Company's development program. Additional funds may be raised by way of equity or debt offerings. Management believes the Virology Products income will continue to grow for the foreseeable future. Management has discretion to reduce investment in new products to manage the liquidity needs of the Company.

The Company owns and operates a Virology Products manufacturing facility at 265 Watline Avenue, Mississauga, Ontario. The Watline manufacturing facility has an infectious diseases biological license from the Canadian Food Inspection Agency. This facility also houses the Company's administrative and sales offices.

FINANCIAL OVERVIEW
FIRST QUARTER ENDING DECEMBER 31, 2013

Revenue in the first quarter was $1,927,885 or more than double the $904,413 of 2012. Virology Products represented 90% of revenue in the first quarter or $1,739,516 compared to $812,571 in the first quarter last year. Research and Development contract revenue in the first quarter was $188,369 compared to $91,842 in the first quarter last year. Operating expenses declined to $888,778 in the first quarter compared to $1,039,117 last year due to numerous productivity improvement initiatives focused on reducing the Company's cost base. The Company realized an operating income of $214,406 in the first quarter compared to an operating loss of $629,505 in the same period in 2012.

CHANGES IN FINANCIAL POSITION

	As at Dec 31, 2013 $	As at Dec 31, 2012 $
Cash	208,275	174,685
Accounts receivable	982,241	634,864
Total current assets	2,373,295	2,447,274
Total assets	12,441,899	12,731,660
Total current liabilities	1,102,712	2,146,989
Total liabilities	6,604,374	8,920,287
Total shareholders' equity	5,837,525	5,002,042

SELECTED QUARTERLY FINANCIAL INFORMATION

	Mar-31-12 $	Jun-30-12 $	Sep-30-12 $	Dec-31-12 $	Mar-31-13 $	Jun-30-13 $	Sep-30-13 $	Dec-31-13 $
Sales	**1,896,947**	**1,413,531**	**1,884,801**	**904,413**	**2,103,426**	**1,906,652**	**2,468,899**	**1,927,885**
Operating Income	**(609,425)**	**(960,587)**	**(301,309)**	**(629,505)**	**246,415**	**(20,523)**	**571,791**	**214,406**

Revenue fluctuates quarterly due to seasonality and timing of customer orders. Net losses reflect the ongoing investment in the development pipeline.

LIQUIDITY, CASH FLOW 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 operating losses resulting in an accumulated deficit of $24,711,958 at December 31, 2013. Management continuously monitors the financial position of the Company with respect to working capital needs, as well as long-term capital needs compared to the annual budget. Variances are highlighted and actions are taken to ensure the Company is appropriately capitalized. The current annual operating budget confirms the Company is on target and able to support its planned activities.

a) Sources and Uses of Cash

During the first quarter of fiscal 2014, the closing cash balance declined by $51,773 to $208,275 from the previous fiscal quarter. Reasons for the decline are as follows:

1) Cash used by operations $91,454 (68,776 negative in 2013) resulted from management's continued focus towards a reduction of its contractual obligations.
2) Cash used in investing activities was $86,397 for new equipment.
3) Cash provided by financing activities was positive at $126,078 mainly from temporary use of the Company's operating line.

b) Future Liquidity and Capital Needs

Microbix funds its new product development activities and capital expenditures through profits earned from its Virology Products business and, periodically, from additional equity and/or debt. The virology business is expected to continue to generate a profit, which will be invested in new product development and production equipment.

c) Contractual Obligations

The Company had certain contractual obligations and commercial commitments at December 31, 2013 described in the following table:

Payments due	**Total $**	**Less than One year $**	**2-3 Years $**	**4-5 Years $**	**After 5 years $**
Bank indebtedness	156,032	156,032	-	-	-
Accounts payable	826,860	826,860	-	-	-
Convertible debenture	11,743,750	495,000	1,484,375	1,326,875	8,437,500
Operating leases	5,354	5,354	-	-	-
Long-term debt	2,655,215	119,820	236,740	222,240	2,076,415
Total Contractual Obligations	**15,387,211**	**1,603,066**	**1,721,115**	**1,549,115**	**10,513,915**

Of the $8,437,500 payments on convertible debentures after five years, $5,500,000 is principal. With respect to off-balance sheet arrangements, the Company has operating lease obligations that total $5,354 ($99,946 – 2012) for office equipment. The long-term debt total of $2,655,215 ($2,763,600 – 2012) represents the mortgage for the Watline manufacturing facility. Total contractual obligations to maturity decreased by $525,060 in the first quarter of fiscal 2014.

d) Outstanding Share Capital

Share capital issued and outstanding as at the date of this Management Discussion and Analysis, February 13, 2014 was $24,613,754 for 67,952,850 common shares, an increase of $314,160 and 1,268,500 common shares since December 31, 2013. As the average market share price in this period exceeded the conversion price of some of the outstanding warrants and share options issued in previous fiscal periods, all of this increase was due to the conversion of warrants (1,236,500) and share options (32,000) to common shares.

RELATED PARTIES

During the first quarter of fiscal 2014, the Company paid interest of $123,750 ($123,750 – 2013) on the convertible debentures issued to related party shareholders.

LONG-TERM DEBT

a) Convertible Debentures:

Convertible debenture principal balances and terms remained unchanged in the first quarter of fiscal 2014.

b) Business Development Corporation Debt:

In 2008 the Company assumed a $3,000,000 30-year mortgage from the Business Development Corporation (BDC) to acquire its new Virology Products manufacturing facility. The mortgage is secured by the building. The interest rate is based on BDC's Floating Base Rate plus 1.35%. At December 31, 2013 the Floating Base Rate was 5%. Principal is paid monthly in the amount of $9,260 and continues until 2037. As a condition of the mortgage, BDC continues to withhold $250,000 as security, until the Company reaches certain performance targets. At December 31, 2013 the Company had not yet met the criteria to have the remaining $250,000 released.

An additional loan from BDC of $350,000 was assumed in 2008 to acquire equipment for the new facility. The outstanding balance of this loan at the end of the quarter was $23,200. The interest rate on this loan is based on BDC's Floating Base Rate plus 1.8% over a term of 8 years. At December 31, 2013 the Floating Base Rate was 5.00%. Principal is paid monthly in the amount of $725 ending in August 2016.

INTANGIBLE ASSETS

a) Technology Investment - Lumisort®

In 2005 the Company acquired Sequent Biotechnologies Inc. involved in the development and commercialization of semen-sexing technology. The fair value of the technology acquired was established as an intangible asset. New intellectual property has been added as a result of our ongoing research program and new patents are pending.

b) Technology Investment - Urokinase

On September 23, 2008, Microbix completed a $2,770,529 acquisition of all Kinlytic assets from ImaRx Therapeutics, Inc. The recoverable amount of the Urokinase intangible has been determined based on a fair value less cost to sell calculation. Management made assumptions based on probabilities of technical, regulatory and clinical acceptances and financial support. Management also believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

SUBSEQUENT EVENTS

1) On January 6, 2014, the Company commenced a patent litigation complaint against Novartis Vaccines and Diagnostics, headquartered in Basel, Switzerland, alleging infringement of its VIRUSMAX® technology patent. The complaint was filed in the Eastern District of Texas.
2) On January 22, 2014 the Company signed a letter of intent to finance development of its LumiSort® prototype instrument for semen-sexing technology. The new financing agreement represents total new money of $2.75 million comprised of a $1.5 million convertible debenture at 9% interest due in 2029 convertible into Microbix common shares at $0.35 a share, and $1.25 million payable, to be drawn down at the option of the Company, upon the achieving certain development milestones.
3) On January 23, 2014, the Company announced it had successfully defended all of its VIRUSMAX® patent claims against a challenge by Novartis Vaccines and Diagnostics at the European Patent Office (EPO) in Munich, Germany. The EPO Tribunal upheld that all of Microbix' patent claims are novel and inventive.
4) On February 7, 2014 the Business Development Bank advised the Company it had met the performance criteria required to release the restricted cash of $250,000 (See Note 6).

TREND INFORMATION

Historical spending patterns are no indication of future expenditures. Investment in the pipeline projects is at the discretion of management. The Company is not aware of any material trends related to its business that has not been discussed above.

OUTLOOK

The business of Microbix described in these documents is the result of many years of manufacturing expansion that has delivered products and technologies that have received wide customer acceptance and continued growth in demand. Microbix has both the facilities and the scientific staff to support this growth, including its continuous demand for process improvements as well as new products.

RECENT ACCOUNTING PRONOUNCEMENTS

Financial Instruments

IFRS 9, *"Financial Instruments"*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, "Financial Instruments – Recognition and Measurement", for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is effective for annual periods beginning after January 1, 2015. The Company has not yet assessed the impact of adopting this standard.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements,* which replaces IAS 27 *Consolidation and Separate Financial Statements* and SIC-12 Consolidation—Special Purpose Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. This new standard is effective for the Company's interim and annual consolidated financial statements beginning January 1, 2013.

Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities.* IFRS 12 is a comprehensive new standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard is effective for the Company's interim and annual consolidated financial statements beginning January 1, 2013.

Fair Value Measurement

IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. This standard is effective for annual periods beginning on or after January 1, 2013.

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 Canadian GAAP and International Financial Reporting Standards ("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:

Going-concern

These consolidated financial statements have been prepared in accordance with 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 ordinary course of its business. The Company has incurred losses resulting in an accumulated deficit of $24,711,958 at December 31, 2013. The Company's ability to continue as a going concern depends upon the continued activity of its Virology Products business and the successful completion of agreements for pipeline project developments. Management continuously monitors the financial position of the Company with respect to working capital requirements as well as long-term capital needs in relation to a budget for the year. Deviations are highlighted and actions are taken to ensure the Company is appropriately capitalized. The current operating budget shows the Company is on target and able to support its planned activities for at least the next twelve months given its ongoing ability to raise new financing if required for pipeline related costs.

During the first quarter of fiscal 2014 management's restructuring efforts brought the following improvements in the financial position of the Company:

Financial performance changes in the first quarter of fiscal 2014 versus the comparative quarter in fiscal 2013 were:

1) Net income before tax of $214,406 vs. a net loss of $629,505 in 2012.
2) Taxable income was $ 370,736 vs. a taxable loss of $352,608 in 2012.
3) Operating expenses declined 14% or $150,339 compared to 2012.
4) Cash flow from operations in the first quarter of fiscal 2014 was negative at $91,454, due to management's continued focus towards a reduction of its contractual obligations.
5) Total debt declined $390,298 during the first quarter of fiscal 2014.

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. Intangible assets with indefinite lives are not amortized but are assessed for impairment on an annual basis.

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 indefinite lives, and 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. Management has determined that no long-lived assets of the Company as at December 31, 2013 have met the criteria for impairment.

Convertible Debentures

Management determines the fair value of the convertible 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.

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 options that are unvested are reversed in the period that the employee leaves.

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 and 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.

FINANCIAL RISK MANAGEMENT

The primary risks affecting the Company are summarized below and have not changed during the quarter. 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 and cash equivalents are held in accounts or short-term interest bearing accounts at a major Canadian chartered bank. Management perceives the credit risk to be low. There is a concentration of accounts receivable risk due to a few large customers comprising the Company's international customer base. There are no bad debts over the past several years and accordingly management has recorded an allowance of $51,433 ($69,243 - 2012). Accounts receivable at December 31, 2013 was $982,241 ($634,864 – 2012), which is mainly due to the timing of sales during the quarter. The increased accounts receivable reflects the significantly increased sales in the first quarter of fiscal 2014.

a) Currency risk:
The Company is exposed to currency risk through fluctuations in the exchanges rate affecting sales and receivables denominated in US dollars and Euros. The Company does not use financial instruments to hedge these risks. At December 31, 2013 the Company had US dollar balances in cash, accounts receivable and accounts payable and Euro balances in accounts receivable and accounts payable.

b) Liquidity risk:
Liquidity risk is the risk that the Company will not be able to meets its financial obligations as they fall due. To manage this situation, the Company projects and monitors its cash requirements to accommodate changes in liquidity needs.

c) Interest rate risk:
Financial instruments that expose the Company to cash flow interest rate risk are those assets and liabilities with a variable interest rate. Interest risk exposure is primarily on the BDC debt that has a variable rate pegged to the bank rate. The rate can be fixed, if the outlook for interest rates is higher. Also the Company has a $500,000 line of credit that bears a variable interest rate of prime plus 2.25%. A 1% increase in the bank rate would cost the Company about $26,000 per year for BDC and about $5,000 on the line of credit, if the line were fully utilized.

d) Market risk:
Market risk reflects changes in product prices based on changes in supply and demand, currency and interest rates and the affect on the Company's income or value of financial instruments held. Microbix' products are valuable components of our customers' products and are not easily replaced. The Company works closely with customers to ensure its products satisfy critical customer needs.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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 December 31, 2013, 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 December 31, 2013.

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 December 31, 2013 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

RISKS AND UNCERTAINTIES

The Company is exposed to a wide variety of risks due to its business activities. These risks are managed so that there is no unacceptable financial exposure, but still allowing the business to progress and prosper. Risk factors known and unknown, which may or may not affect the operations of Microbix, are discussed as follows:

Virology Product sales are dependent on key clients, open borders, international transportation systems, access to raw materials and customers.

The majority of the Company's sales of Virology Products are made to a relatively small number of key customers located all over the world. As these products contributed the greatest proportion of the revenue in quarter ended December 31, 2013, any or a combination of the loss of two or three key customers or, restrictions on export, import, international transportation of its products, raw materials or insufficient marketing resources, could significantly adversely affect revenue and profitability.

Environmental, safety and other regulatory

Although Microbix' research and manufacturing operations involve hazardous materials, the Company believes it takes the necessary precautions to appropriately contain such materials in operations as required by applicable environmental and safety regulations. Changes to environmental and safety legislation may limit the Company's activities or increase costs. An environmental accident may have adverse consequences for its operations. Microbix' diagnostic products and use of its Lumisort® technology are not regulated by governments in Canada or other jurisdictions. Commercialization of certain products requires approval of regulatory agencies such as the FDA and Microbix will not receive revenue on sales until regulatory approval is obtained. Government regulations may cause a delay in the introduction of our therapeutic products to market

Manufacturing of Kinlytic®

In 2012 the Company signed a license agreement with Zydus Cadila to return Kinlytic® to the market. Zydus Cadila assumed responsibility for the investment capital required to manufacture Kinlytic® at their facility in India. Both companies worked on developing a detailed project plan with the objective of gaining site transfer approval from the FDA, within a 36 month timeframe However, in December of 2013 Microbix' license partner, Zydus, advised Microbix that it is terminating the Kinlytic® license agreement due to a change in their strategic priorities.

Vaccine technology

The market for the Company's Vaccine technology is limited to a small number of flu vaccine manufacturers. In order to sell or license this technology, it must be validated as to commercial applicability. There is no assurance, vaccine producers or non-commercial users will replicate the Company's results or use the technology or incur the costs necessary to integrate the technology into their manufacturing processes.

Products in development

The Company has some products under development, however, it is impossible to ensure that these development activities will result in the completion of a commercial product. If the Company is unable to develop and commercialize products, it will be unable to recover the related research and development and other expenses.

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 other pharmaceutical and biotechnology companies. The Company may not be able to form acceptable strategic relationships.

Operating and capital requirements

Microbix believes that its cash generated from operations is sufficient to meet operating and capital needs. However, funding needs may depend upon several factors including: progress of research and development programs; costs associated with the regulatory process; collaborative and license arrangements with third parties; cost of filing, prosecuting and enforcing patent claims and other intellectual property rights; potential acquisitions and technological and market developments. The Company earns most of its profit from sales of its Virology Products and technologies and thus it is a major source of funding for research and development activities. However the Company may, from time to time, need to raise additional funds to satisfy the funding of current research and development programs. Additional financings may not be available, and even if available, may not be on acceptable terms. Financing from additional capital through an offering of common shares, or debt, may result in dilution or the issuance of securities with rights senior to the rights of the holders of common shares

Success depends on the successful commercialization of our technology

The successful commercialization of products under development is key to Microbix' success. Product development in the pharmaceutical and biotechnology industry is highly uncertain and there is no guarantee that there will be market acceptance of them.

Failure to obtain and protect intellectual property could adversely affect business

Microbix' success will depend, 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 and there is no complete assurance that it will be able to protect its trade secrets. 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. Involvement in intellectual property litigation could result in significant expenses, adversely affecting the development of products or sales of the challenged product or intellectual property and diverting the efforts of its technical and management personnel, whether or not such litigation is resolved in the Company's favour.

Microbix faces and will continue to face significant competition

Competition from pharmaceutical companies, biotechnology companies and academic and research institutions is significant. Many competitors have substantially greater product development capabilities and financial, scientific, manufacturing, sales and marketing resources and experience than Microbix. While the Company continues to expand its technological capabilities in order to remain competitive, there is a risk that research and development by others will render its technology or products obsolete or non-competitive.

NOTICE TO READER OF THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to National Instrument 51-102, Part 4, sub section 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that they have not been reviewed by the auditor.

The accompanying unaudited interim financial statements of Microbix Biosystems Inc. (the "Company") for the three months ended December 31, 2013 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and are the responsibility of the Company's management. They have been prepared by management and approved by the Audit Committee and Board of Directors of the Company, and have not been audited or reviewed on behalf of the shareholders by the independent external auditors, BDO Canada LLP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited	As at December 31, 2013 $	As at September 30, 2013 $
ASSETS		
CURRENT ASSETS		
Cash	208,275	260,048
Accounts receivable	982,241	1,150,982
Inventory (note 4)	1,000,846	1,072,151
Prepaid expenses and other assets (note 5)	87,754	75,827
Investment tax credit receivable	94,180	78,757
TOTAL CURRENT ASSETS	2,373,295	2,637,765
LONG-TERM ASSETS		
Restricted cash (note 6)	250,000	250,000
Property and equipment (note 7)	5,943,300	5,929,168
Intangible assets (note 8)	3,875,303	3,899,103
TOTAL LONG-TERM ASSETS	10,068,604	10,078,271
TOTAL ASSETS	12,441,899	12,716,036
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 9)	156,032	-
Accounts payable and accrued liabilities	826,860	1,353,635
Current portion of long-term debt (note 11)	119,820	119,820
TOTAL CURRENT LIABILITIES	1,102,712	1,473,455
LONG-TERM LIABILITIES		
Convertible debentures (note 10)	2,555,792	2,545,392
Long-term debt (note 11)	2,533,220	2,563,175
Deferred revenue (note 12)	412,650	412,650
TOTAL LONG-TERM LIABILITIES	5,501,662	5,521,217
TOTAL LIABILITIES	6,604,374	6,994,672
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 13)	24,299,594	24,299,594
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (note 10)	2,699,368	2,699,368
CONTRIBUTED SURPLUS (note 14)	3,550,521	3,550,521
ACCUMULATED DEFICIT	(24,711,958)	(24,828,119)
TOTAL SHAREHOLDERS' EQUITY	5,837,525	5,721,364
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	12,441,899	12,716,036

WILLIAM J. GASTLE
DIRECTOR

VAUGHN EMBRO-PANTALONY
DIRECTOR

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three months ended Dec 31	
	2013	2012
Unaudited	$	$
SALES		
Virology products and technologies	1,739,516	812,571
Research and development contracts	188,369	91,842
Total Sales	1,927,885	904,413
COST OF GOODS SOLD		
Virology products and technologies (note 4, 18)	729,557	479,296
Research and development contracts	95,144	15,505
Total Cost of Goods Sold	824,701	494,801
GROSS MARGIN	1,103,184	409,612
EXPENSES		
Selling and business development	223,180	183,518
General and administrative (note 18)	468,407	510,627
Research and development (note 18)	22,119	142,017
Financial expenses (note 21)	175,072	202,955
Total Expenses	888,778	1,039,117
NET COMPREHENSIVE OPERATING INCOME (LOSS) FOR THE PERIOD	214,406	(629,505)
INCOME TAXES		
Current income tax	98,245*	-
Deferred income tax	-	-
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	116,161	(629,505)
ACCUMULATED DEFICIT - BEGINNING OF PERIOD	(24,828,119)	(24,829,497)
ACCUMULATED DEFICIT - END OF PERIOD	(24,711,958)	(25,459,002)
NET COMPREHENSIVE INCOME (LOSS) PER SHARE		
Basic and diluted	0.002	(0.010)
Weighted average number of common shares outstanding Basic and diluted	66,684,350	65,964,350

*The Company has Income Tax Credits sufficient to offset the Current Income Tax liability.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended Dec 31	
	2013	2012
Unaudited	$	$
OPERATING ACTIVITIES		
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	116,161	(629,505)
Items not affecting cash		
Amortization	96,064	102,679
Accretion on liability component of convertible debenture	10,400	8,716
Accretion of asset retirement obligation	-	3,097
Unrealized foreign exchange loss (gain)	-	(2,919)
Stock options expense	-	98,216
Change in non-cash working capital balances (Note 19)	(314,079)	350,940
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(91,454)	(68,776)
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	156,033	(241,283
Payments on debt	(29,955)	(20,695)
Payment of capital leases	-	(2,064)
Proceeds from exercise of warrants	-	10,000
Proceeds from issuance of Common Shares, net of costs	-	280,870
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	126,078	26,828
INVESTING ACTIVITIES	26,828	180,161
Purchase of property and equipment	(86,397)	(14,715)
CASH USED IN INVESTING ACTIVITIES	(86,397)	(14,715)
Effect of foreign currency exchange rate changes on cash	-	2,919
NET CHANGE IN CASH DURING THE PERIOD	(51,773)	(53,743)
CASH - BEGINNING OF PERIOD	260,048	228,429
CASH - END OF PERIOD	208,275	174,685

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES INSHAREHOLDERS' EQUITY

Unaudited	Share Capital – Number of Shares	Share Capital – Stated Capital	Contributed Surplus	Deficit	Equity Component of Debenture	Total Shareholders' Equity
Balance, September 30, 2012	**65,594,350**	**24,033,710**	**3,338,881**	**(24,829,497)**	**2,699,368**	**5,242,464**
Share issuances pursuant to private placement	1,050,000	315,000				315,000
Share issue costs, private placement		(59,118)	24,986			(34,132)
Share issuances exercise of warrants	40,000	10,000				10,000
Stock option expense			98,216			98,216
Net loss for the period (Restated – Note 27)				(629,505)		(629,505)
Balance, December 31, 2012	**66,684,350**	**24,299,594**	**3,462,083**	**(25,459,002)**	**2,699,368**	**5,002,043**
Share issuances pursuant to private placement						
Share issue costs, private placement						
Share issuances exercise of warrants						
Stock option expense			88,438			88,438
Net income for the period				630,883		630,883
Balance, September 30, 2013	**66,684,350**	**24,299,594**	**3,550,521**	**(24,828,119)**	**2,699,368**	**5,721,364**
Share issuances pursuant to private placement						
Share issue costs, private placement						
Share issuances exercise of warrants						
Stock option expense						
Net income for the period				116,161		116,161
Balance, December 31, 2013	**66,684,350**	**24,299,594**	**3,550,521**	**(24,711,958)**	**2,699,368**	**5,837,525**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013

1. NATURE OF THE BUSINESS AND GOING CONCERN ASSUMPTION

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX), develops biological products and technologies. The Company has a Virology Products business which includes the sale of cell culture-based biological products and technologies. The Company also has a Virus Yield Enhancement Technology called VIRUSMAX®) and a thrombolytic drug called Kinlytic® (Urokinase). In addition, the Company has an animal reproductive technology in development called LumiSort®. New products and technologies are funded with income earned from the Virology Products business and additional cash flows from equity and debt issuance as required. Development of biological products and technologies is supported with technical expertise in the Virology Products business. The Company invests in the Virology Products business to improve manufacturing techniques and develop new products. Revenue generated by the Virology Products business is used to meet operational costs and to service the Company's debt.

In summary, the Virology Products business is expected to continue to generate a profit which can be invested in the research and development pipeline, but does not fund it entirely. As such, the Company may seek additional capital needed to maintain its current level of investment in the research and development pipeline. If necessary, management and the Board of Directors have the discretion to reduce or suspend investment in the development pipeline depending on the cash/liquidity needs of the Company.

The Company operates out of its Virology Products manufacturing facility located at 265 Watline Avenue, Mississauga, Ontario. The manufacturing facility has an infectious diseases biological license from the Canadian Food Inspection Agency.

Going concern

These consolidated financial statements have been prepared in accordance with 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 ordinary course of its business. The Company has incurred losses resulting in an accumulated deficit of $24,711,958 at December 31, 2013. The Company's ability to continue as a going concern depends upon the continued activity of its virology business and the successful completion of agreements for pipeline project developments. Management continuously monitors the financial position of the Company with respect to working capital requirements as well as long-term capital needs in relation to a budget for the year. Deviations are highlighted and actions are taken to ensure the Company is appropriately capitalized.

The current operating budget shows the Company is on target and able to support its planned activities for at least the next twelve months given its ongoing ability to raise new financing as required for pipeline related costs. If the Company is unable to obtain additional financing when and if required, the Company may be unable to continue operations.

2. BASIS OF PREPARATION

Statement of Compliance

The Company's management prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) applicable to the preparation of financial statements. The Board of Directors approved these Consolidated Financial Statements as of February 13, 2014.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. Items included in the financial statements of each consolidated entity in the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Basis of presentation

These consolidated financial statements for Microbix Biosystems Inc. are management's responsibility and have been approved by the Company's Board of Directors.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary Crucible Biotechnologies Limited. There has been no business activity in the subsidiary during the period ended December 31, 2013.

Significant Accounting Policies

All significant accounting policies have been applied on a basis consistent with those followed in the most recent audited annual consolidated financial statements. The policies applied in these consolidated interim financial statements are based on IFRS issued and outstanding at February 13, 2014, the date the Board of Directors approved these consolidated interim financial statements.

Accounting Standards Issued But Not Yet Applied

Certain new standards, interpretations and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee ("IFRC") that are mandatory for fiscal periods July 1, 2012 or later. The standards are described in the Company's annual consolidated financial statements for the year ended September 30, 2013 and there have not been any additional standards applicable to the Company issued since.

4. INVENTORY

Inventory consists of the following, as at:

	Ded 31, 2013 $	Sept 30, 2013 $
Raw material	230,191	195,801
Work in process	165,375	207,076
Finished goods	605,280	669,274
	1,000,846	1,072,151

During the period ended December 31, 2013 inventory in the amount of 364,934 was recognized as cost of sales.

5. PREPAID EXPENSES AND OTHER ASSETS

At December 31, 2013 prepaid expenses were $87,754 compared to $75,827 at September 30, 2013. They mainly related to insurance policy premiums.

6. RESTRICTED CASH

As a condition of the loan agreement with the Business Development Bank for the new manufacturing facility, $250,000 is restricted and held as an irrevocable, unconditional Letter of Credit. At December 31, 2013, the Company had not yet met the criteria to release the restricted cash. The release decision is reviewed annually based on the audited financial statements.

7. PROPERTY AND EQUIPMENT

Property plant and equipment consists of:

	research & development equipment	other equipment & fixtures	land	leasehold improvements	building	total
	$	$	$	$	$	$
Cost						
Balance, Sept 30, 2013	738,526	3,285,816	800,000	94,810	4,533,518	9,452,670
Additions	-	86,397	-	-	-	86,397
Balance, Dec 31, 2013	738,526	3,372,213	800,000	94,810	4,533,518	9,539,067
Accumulated depreciation						
Balance, Sept 30, 2013	471,654	2,319,075	-	94,810	637,964	3,523,503
Depreciation	6,776	27,413	-	-	38,075	72,264
Balance, Dec 31, 2013	478,430	2,346,488	-	94,810	676,039	3,595,767
Carrying value						
Sept 30, 2013	266,872	966,110	800,000	-	3,895,554	5,929,168
Dec 31, 2013	260,096	1,025,725	800,000	-	3,857,479	5,943,300

In the period ended December 31, 2013, the Company acquired property and equipment in an aggregate amount of $86,397 ($14,715 – 2012).

8. INTANGIBLE ASSETS

Intangible assets consist of:

	financial charges	license agreement - Lumisort	technology investment - Lumisort	technolgy investment - Urokinase	total
	$	$	$	$	$
Cost					
Balance, Sept 30, 2013	18,646	278,528	1,463,015	2,770,529	4,530,718
Additions	-	-	-	-	-
Balance, Dec 31, 2013	18,646	278,528	1,463,015	2,770,529	4,530,718
Accumulated depreciation					
Balance, Sept 30, 2013	3,021	171,401	457,193	-	631,615
Depreciation	156	5,356	18,288	-	23,800
Balance, Dec 31, 2013	3,177	176,757	475,481	-	655,415
Carrying value					
Sept 30, 2013	15,624	107,127	1,005,823	2,770,529	3,899,103
Dec 31, 2013	15,469	101,771	987,534	2,770,529	3.875.303

9. BANK INDEBTEDNESS

The Company has a revolving line of credit of $500,000 with its Canadian chartered bank that bears interest at the bank's prime lending rate plus 2.25%. Accounts receivable are pledged as collateral for the bank credit facility. As at December 31, 2013, this line of credit was at $156,032 compared to nil at September 30, 2013.

10. CONVERTIBLE DEBENTURES

	Dec 31 2013	Sep 30 2013
	$	$
$2,500,000 convertible debenture, including accumulated accretion of $32,892 (note a)	**908,060**	**905,557**
$2,000,000 convertible debenture, including accumulated accretion of $24,838 (note b)	**734,428**	**732,372**
$500,000 convertible debenture, including accumulated accretion of $50,671 (note c)	**463,988**	**461,396**
$500,000 convertible debenture, including accumulated accretion of $60,358 (note d)	**449,316**	**446,067**
	2,555,792	**2,545,392**

Included in interest expense is actual interest paid on the debentures during the period ended December 31, 2013 of $123,750 ($123,750 – 2012).

a) On September 10, 2008, the Company issued a $2,500,000 debenture to a shareholder of the Company, with interest only payable at 9% per annum on a quarterly basis, and having a maturity date of September 10, 2028. The debenture is convertible into Common Shares at the option of the holder at any time on or prior to the maturity at a conversion price of $0.65 per common share. The debenture was pre-payable by the Company up to September 10, 2010 upon payment of principal, interest accrued thereon and issuance of 1,923,077 Common Shares being at the rate of one Common Share for each $1.30 of principal prepaid. There was an obligation to prepay the principal in the event that the Company obtained $10,000,000 in sales of Urokinase prior to September 10, 2010. No such sale occurred and the prepayment option expired. The debenture is 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 the maximum principal amount of $2,500,000.

   The debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of issue. The debt component was valued first with the residual to shareholders' equity.

   Over the term of the convertible debenture, the debt component will be accreted to the face value of the convertible debenture by the recording of additional interest expense. The effective interest rate on the debt is 25.69%.

b) On September 10, 2008 the Company cancelled the $2,000,000 debenture issued on February 15, 2006 and replaced it with a debenture with a maturity date of September 10, 2028. All other terms of the debenture remained unchanged. This transaction was treated as an extinguishment of debt and the issue of a new convertible debenture, with any differences being charged to income during the period.

   It was issued to a shareholder of the Company, with interest only payable at 9% per annum on a quarterly basis. The debenture is convertible into Common Shares at the option of the holder at any time on or prior to maturity at a conversion price of $0.90 per share and is secured by a subordinated security agreement covering all of the Company's property and assets, including its goodwill.

   The debt component was valued first with the residual to shareholders' equity.

   Over the term of the convertible debenture, the debt component will be accreted to the face value of the convertible debenture by the recording of additional interest expense. The effective interest rate on the debt is 25.69%.

c) On October 15, 2006, the Company issued a $500,000 convertible debenture to a shareholder of the Company, with interest only payable at 9% per annum on a quarterly basis, and a maturity date of October 15, 2016. The convertible debenture was convertible into Common Shares at the option of the holder at any time on or prior to maturity at a conversion price of $0.90 per share and was secured by a subordinated security agreement covering all of the Company's property and assets, including its goodwill.

   The debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of issue. The debt component was valued first with the residual to shareholders' equity.

   Over the term of the convertible debenture, the debt component will be accreted to the face value of the convertible debenture by the recording of additional interest expense. The effective interest rate on the debt is 12.00%.

d) On February 15, 2007, the Company issued a $500,000 convertible debenture to a shareholder of the Company, with interest only payable at 9% per annum on a quarterly basis, and a maturity date of February 15, 2017. The convertible debenture was convertible into Common Shares at the option of the holder at any time on or prior to maturity at a conversion price of $0.90 per share and was secured by a subordinated security agreement covering all of the Company's property and assets, including its goodwill.

   The debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of issue. The debt component was valued first with the residual to shareholders' equity.

   Over the term of the convertible debenture, the debt component will be accreted to the face value of the convertible debenture by the recording of additional interest expense. The effective interest rate on the debt is 13.00%.

11. LONG-TERM DEBT

The Company negotiated a $3,000,000 loan with the Business Development Bank (BDC) for the purchase and build-out of its new manufacturing facility. There was a further loan of $350,000 for the purchase of new equipment. The first $1,500,000 was used in fiscal 2008 to assist with the purchase of the building. During fiscal 2009, the Company acquired a second amount of $1,500,000 from the Business Development Bank for the construction of the Watline facility. The mortgage is secured with the building. The interest rate is floating, based on BDC's Floating Base Rate plus a variance of 1.35%. At December 31, 2013 the Floating Base Rate was 5.00%. Consecutive monthly principal payments of $9,260 are due to February 2037.

As a condition of the loan agreement, BDC required a letter of credit in the amount of $250,000. At December 31, 2013 the Company had not yet met the criteria, which include certain financial covenants, to release the remaining $250,000.

The second BDC loan for the purchase of equipment for the facility was drawn down to $23,200. The interest rate is floating, based on BDC's Floating Base Rate plus a variance of 1.80%, over a term of 8 years. At December 31, 2013 the Floating Base Rate was 5.00%. Consecutive monthly principal payments of $725 are due to August 2016.

12. DEFERRED REVENUE

	Dec 31, 2013 $	Sep 30, 2013 $
Current deferred revenue	-	-
Long-term deferred revenue	412,650	412,650
	412,650	412,650

On June 27, 2007, the Company entered into an agreement with the Animal Fine Breeding Station of Hebei Province in China, as the exclusive distributor of Microbix' proprietary Semen Sexing Technology ("SST"). Under the terms of the agreement, the Company has received a non-refundable payment of $400,000 U.S. and will receive an additional payment upon a milestone achievement. Royalty fees and payment for materials will be made with product sales.

This payment is being accounted for in accordance with its substance and is presented in the financial statements as deferred revenue on the balance sheet. The Company will defer recognition of this revenue until all of the deliverables in the agreement are complete.

At December 31, 2013, all of the deliverables have not been met and therefore no amount has been recognized.

On July 22, 2010, the Company entered into an agreement with a large supplier of livestock reproduction products and services. Microbix may receive cash considerations of up to $2 million US in exchange for two years of regional exclusivity and up to 10% share of annual revenues. An upfront payment of $500,000 US was received upon signing the agreement with additional payments based on achieving certain milestones. Microbix will earn a royalty of 15% of the selling price. A second payment of $250,000 US was received on July 22, 2011.

13. SHARE CAPITAL

Authorized

Unlimited number of Common Shares with no par value
Unlimited number of Preference Shares with no par value

The changes in issued and fully paid common shares in the Consolidated Statement of Shareholder's Equity and are as follows:
As at December 31, 2013 the Company had 66,684,350 common shares outstanding unchanged from September 30, 2013. During the period ended December 31, 2013 there were no issuances of shares or exercises of warrants compared to 1,090,000 units at $0.30 issued in the comparative period ended December 31, 2012.

14. CONTRIBUTED SURPLUS

	Contributed Surplus $
Balance, September 30, 2013	3,550,521
Share issue costs	-
Stock option expense	-
Balance, December 31, 2013	3,550.521

15. COMMON SHARE PURCHASE WARRANTS

The number of warrants outstanding at December 31, 2013 was 8,484,586 down from 11,891,467 at September 30, 2013. A summary of the Company's warrants outstanding at December 31, 2013 is presented below:

	Warrants number	Wt. average exercise price
Outstanding, beginning of period	11,891,468	0.34
Issued	-	-
Exercised	-	-
Expired	(3,406,881)	0.39
Outstanding, end of period	8,484,586	0.32

Of a total of 3,406,881 warrants which expired in the first quarter of fiscal 2014, 3,250,000 warrants had their original expiry date of November 16, 2012 extended by the Company by one year to November 13, 2013 and they had been re-priced from $1.26 to $0.40 per share.

Range of exercise prices	Number outstanding #	Wt. average remaining contractual life years	Wt. average exercise price $
$0.24 to $0.40	8,484,586	0.83	0.32

16. STOCK OPTION PLAN

The following table reflects the activity under the Company's stock option plan period ended December 31, 2013.

	Warrants Options #	Wt. average exercise price $
Balance, September 30, 2013	6,660,000	0.36
Expired	125,000	0.65
Granted	-	-
Balance, December 31, 2013	6,535,000	0.35

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 December 31, 2013.

Range of exercise prices	Number of options outstanding	Weighted average exercise price $	Weighted average remaining contractual life (years)
$0.28 - $0.57	6,535,000	0.35	1.29

17. INCOME (LOSS) PER SHARE

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

			Dec 31, 2013
	Net profit available to common shareholders $	Weighted average number of shares	Per share amount $
Basic profit (loss) per share	116,161	66,684,350	0.002

			Dec 31, 2012
	Net loss available to common shareholders (Restated – Note 27) $	Weighted average number of shares	Per share amount $
Basic (loss) per share	(629,505)	65,964,350	(0.010)

18. EXPENSES BY NATURE

The Consolidated Statements of Comprehensive Income (Loss) include the following expenses by nature:

a) Employee costs:

	Three months ended Dec 31, 2013 $	Three months ended Dec 31, 2012 $
Short-term wages, bonuses and benefits	**720,063**	**838,453**
Share based payments	-	-
Total employee costs	720,063	838,453
Included in:		
Cost of goods sold	435,578	402,798
Research and development	94,405	120,762
General and administrative expenses	113,896	287,353
Selling and business development	76,184	27,540
Total employee costs	720,063	838,453

b) Depreciation and amortization

	Three months ended Dec 31, 2013 $	Three months ended Dec 31, 2012 $
Cost of goods sold	65,488	64,467
General and administrative expenses	156	5,757
Research and development	30,420	32,455
Total depreciation and amortization	**96,064**	102,679

19. CHANGES IN NON-CASH WORKING CAPITAL BALANCE

The net change in non-cash working capital consists of:

	Three months ended Dec 31, 2013 $	Three months ended Dec 31, 2012 $
Accounts receivable	168,741	812,707
Inventory	71,305	(203,297)
Prepaid expenses & other assets	(11,927)	45,838
Investment tax credit receivable	(15,423)	(19,370)
Accounts payable and accrued liabilities	(526,775)	(284,938)
	(314,079)	350,940

20. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended Dec 31, 2013 $	Three months ended Dec 31, 2012 $
Cash paid for		
Interest	164,672	167,335
Non-cash investing and financing activities		
Fees for equity placements	-	59,116

21. FINANCIAL EXPENSES

	Three months ended Dec 31, 2013 $	Three months ended Dec 31, 2012 $
Cash interest		
Interest on long-term debt	41,928	44,083
Interest on debentures	123,750	123,750
interest other	801	1,771
interest income	(1,807)	(2,269)
Non-cash interest		
accretion on debentures	10,400	8,716
accretion on asset retirement	-	3,097
amortization	-	23,807
Financial expenses	**175,072**	**202,955**

22. 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, accounts receivable, bank indebtedness and 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 convertible debenture fair values are not readily determinable as the convertible debentures have been issued to shareholders of the Company.

Financial Risk Management
The primary risks that affect the Company are set out below and the risks have not changed during the reporting period. The list does not cover all risks to the Company, nor is there an assurance that the strategy of management to mitigate the risks is sufficient to eliminate the risk.

a) Credit risk
The Company's cash and cash equivalents are 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. There is a concentration of accounts receivable risk due to the few large customers comprising the Company's international customer base. In the period ended December 31, 2013, 3 customers accounted for 48% (50% - 2012) of revenue. The Company has had virtually no bad debts over the past several years and accordingly management has recorded an allowance of $51,433 ($69,243 – 2012).

b) Currency risk

Through its global sales the Company is exposed to currency risk, through fluctuations in the exchange rate affecting sales and receivables denominated in US dollars and Euros. The Company does not use financial instruments to hedge these risks. At December 31st the significant balances held in US dollars and Euros are as follows:

	US dollars		Euros	
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012
Cash	96,067	169,691	-	-
Accounts receivable	471,478	365,412	489,349	34,370
Accounts payable and accrued liabilities	197,008	346,072	5,257	-

The impact of a 1 cent decrease or increase in the Canadian dollar against the US dollar would result in a revenue gain or loss, respectively, of about 1.0%. The impact of a 1 cent decrease or increase in the Canadian dollar against the Euro would result in a revenue gain or loss, respectively, of about 0.7%.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meets its financial obligations as they fall due. To manage this situation, the Company projects and monitors its cash requirements to accommodate changes in liquidity needs.

Contractual obligations are as follows:

Payments due	Total $	Less than One year $	2 - 3 years $	4 - 5 years $	After 5 years $
Bank indebtedness	156,032	156,032	-	-	-
Accounts payable	826,860	826,860	-	-	-
Convertible debenture	11,743,750	495,000	1,484,375	1,326,875	8,437,500
Operating leases	5,354	5,354	-	-	-
Long-term debt	2,655,215	119,820	236,740	222,240	2,076,415
Total Contractual Obligations	**15,387,211**	**1,603,066**	**1,721,115**	**1,549,115**	**10,513,915**

d) Interest rate risk

Financial instruments that potentially subject the Company to cash flow interest rate risk are those assets and liabilities with a variable interest rate. Interest risk exposure is primarily on the BDC debt that has a variable rate that is pegged to the bank rate. The rate can be fixed, if the outlook for interest rates should move higher. The only other variable debt the Company has is the $500,000 line of credit that bears interest at the bank's prime lending rate plus 2.25%. A 1% increase in the bank rate would cost the Company about $26,000 per year for BDC and about $5,000 on the line of credit at its full usage of $500,000.

e) Market risk

Market risk is the risk that changes in product prices based on supply and demand criteria, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments held. Microbix products are valuable components in many of our customers' products and not easily replaced. The Company works closely with key customers to ensure its products meet critical customer results.

23. SEGMENTED INFORMATION

The Company operates in two industries: the development, manufacturing and distribution of cell based products and technology and, provision of facility, technical and production personnel for contract research and development. External revenue by segment is attributed to geographic regions based on the location of customers: North America, Europe and Other foreign countries.

Period ended Dec 31, 2013	Virology products and technologies $	Research & Development Contracts $	Total $
Total revenue	1,739,516	188,369	1,927,885
Depreciation of property, plant and equipment and amortization of intangibles	65,644	30,420	96,064
Interest income			1,807
Interest expense			164,672
Net income			116,161
Assets			
Property, plant and equipment	260,097	5,683,203	5,943,300
Additions to property, plant and equipment	86,397	-	86,397

Period ended Dec 31, 2013	Virology products and technologies $	Research & Development Contracts $	Total $
Total revenue	812,571	91,842	904,413
Depreciation of property, plant and equipment and amortization of intangibles	93,869	8,810	102,679
Interest income			2,269
Interest expense			167,335
Net income			(629,505)
Assets			
Property, plant and equipment	5,728,060	335,803	6,063,862
Additions to property, plant and equipment	14,715	-	14,715

Geographic information

The Company's revenue is derived from sales to and licensing revenue derived from external customers located in the following geographic areas:

	Three months ended Dec 31, 2013 $	Three months ended Dec 31, 2012 $
North America	390,154	432,624
Europe	1,328,635	358,852
Other foreign countries	209,096	112,937
Total revenue	1,927,885	904,413

All property and assets of the Company are located in Canada.

Significant customers

For the period ended December 31, 2013, 3 customers accounted for 48% of revenue, compared to 50% for the period ended December 31, 2012

24. RELATED PARTY TRANSACTIONS

During the first quarter of fiscal 2014, the Company paid interest of $123,750 ($123,750 – 2012) on the convertible debentures issued to related party shareholders. The transaction was recorded at the exchange amount.

25. COMMITMENTS AND CONTINGENCIES

a) Lease commitments

		$
Period ending Dec 31, 2013	2014	5,354
	2015	-
	2016	-
Total		5,354
Greater than 5 years		-

b) Contingencies

The Company is party to legal proceedings arising out of the normal course of business. The results of these litigations cannot be predicted with certainty, and management is of the opinion that the outcome of these proceedings is not determinable. Any loss resulting from these proceedings will be charged to operations in the period the loss is determined.

26. SUBSEQUENT EVENTS

1) On January 6, 2014, the Company commenced a patent litigation complaint against Novartis Vaccines and Diagnostics, headquartered in Basel, Switzerland, alleging infringement of its VIRUSMAX® technology patent. The complaint was filed in the Eastern District of Texas.
2) On January 22, 2014 the Company signed a letter of intent to finance development of its LumiSort® prototype instrument for semen-sexing technology. The new financing agreement represents total new money of $2.75 million comprised of a $1.5 million convertible debenture at 9% interest due in 2029 convertible into Microbix common shares at $0.35 a share, and $1.25 million payable, to be drawn down at the option of Microbix, upon the achieving certain development milestones.
3) On January 23, 2014, the Company announced it had successfully defended all of its VIRUSMAX® patent claims against a challenge by Novartis Vaccines and Diagnostics at the European Patent Office (EPO) in Munich, Germany. The EPO Tribunal upheld that all of Microbix' patent claims are novel and inventive.
4) On February 7, 2014 the Business Development Bank advised the Company it had met the performance criteria required to release the restricted cash of $250,000 (See Note 6).

27. RESTATEMENT OF CONVERTIBLE DEBENTURE LIABILITY

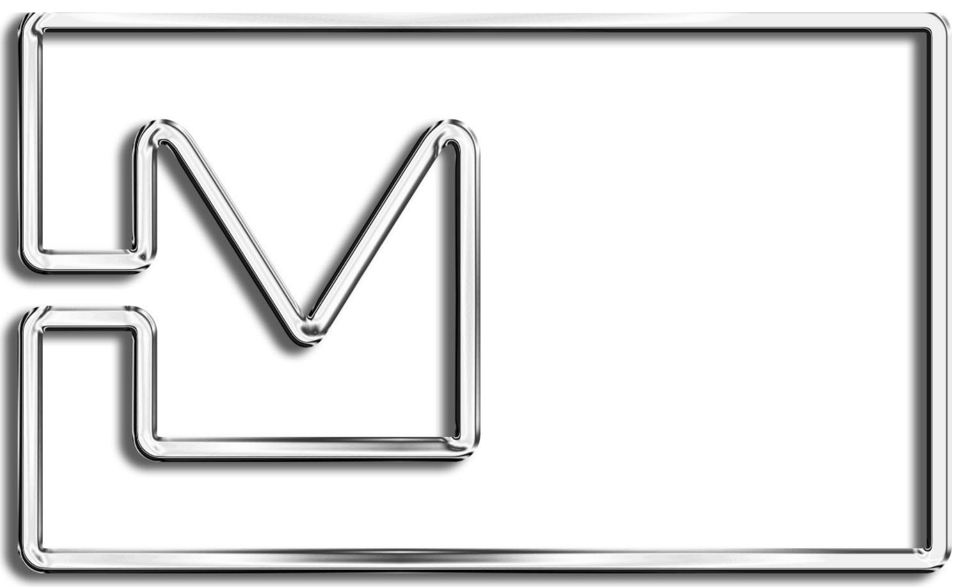
On September 10, 2008, the Company issued a $2,500,000 debenture to a shareholder of the Company, with interest only payable at 9% per annum on a quarterly basis, and having a maturity date of September 10, 2028. The debenture is convertible into Common Shares at the option of the holder at any time on or prior to the maturity at a conversion price of $0.65 per common share. The debenture was pre-payable by the Company up to September 10, 2010 upon payment of principal, interest accrued thereon and issuance of 1,923,077 Common Shares being at the rate of one Common Share for each $1.30 of principal prepaid. There was an obligation to prepay the principal in the event that the Company obtained $10,000,000 in sales of Urokinase prior to September 10, 2010. No such sale occurred and the prepayment option expired.

In determining the amortized cost, the expected timing and amount of payments are to be revised to reflect the actual and revised actual cash flows. The expected timing of payments was not revised for the expiry of the 2010 embedded prepayment option and obligation. At the end of the fiscal year ended September 30, 2013 the financial statements were restated to reflect the expiry of the prepayment option and obligation. For these Consolidated Financial Statements the comparative statements for the period ended December 31, 2012 have also been restated accordingly for the following net comprehensive income (loss) accounts:

			December 31, 2012
	Previously Presented $	Adjustment $	Restated $
Financial Expenses	275,110	(72,155)	202,955
Net Comprehensive Loss	(701,660)	72,155	(629,505)
Net Comprehensive Loss Per Share	(0.011)	-	(0.010)

The preceding restatements had no impact on cash flows.

Copies of press releases of quarterly financial results can be found at www.sedar.com.



Microbix
Biosystems Inc.

265 Watline Avenue,
Mississauga, Ontario
Canada L4Z 1P3
Tel: 905-361-8910
Fax: 905-361-8911
1-800-794-6694
Web Site: www.microbix.com