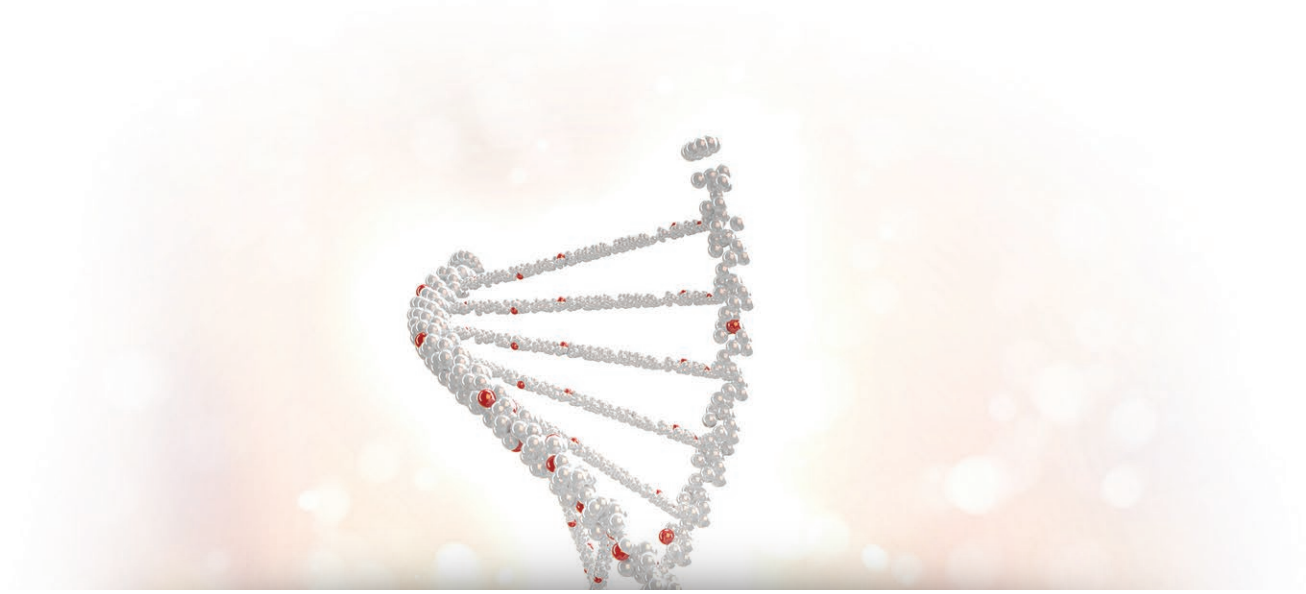
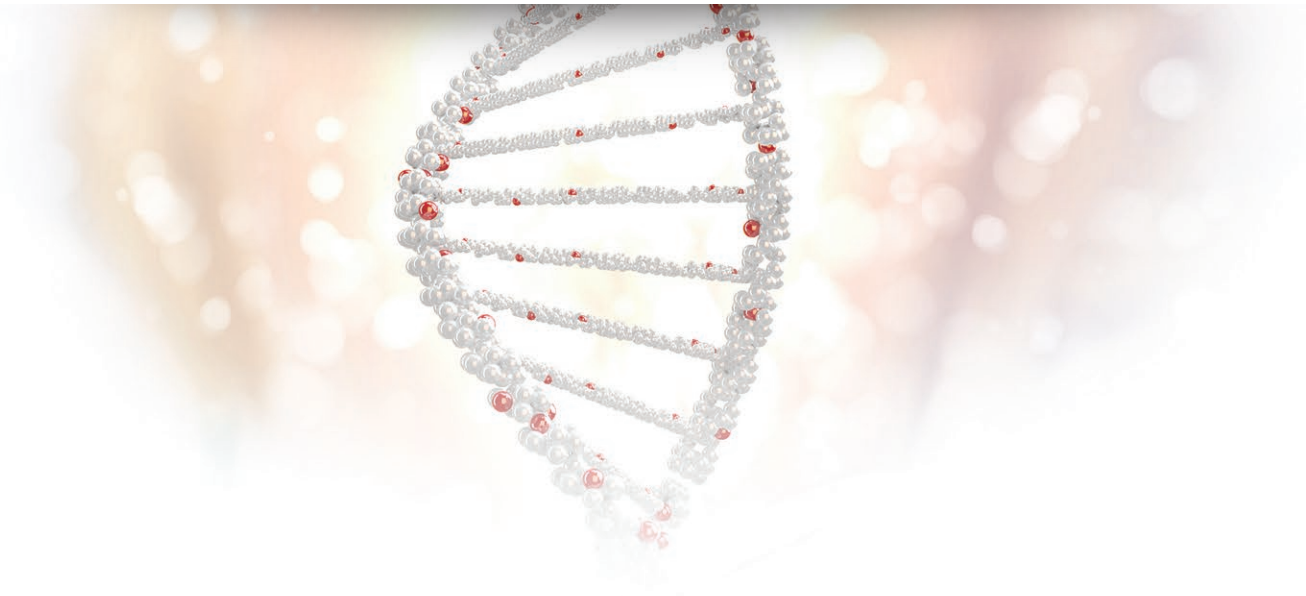


MICROBIX BIOSYSTEMS INC.



FIRST INTERIM REPORT

For the three months ended December 31, 2014

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Message to Shareholders

The first quarter has been very busy for our Virology Products business. Revenue continued to grow at a rate of 8% largely due to a tailwind from the weakening Canadian dollar, contributing to a $100,000 operating profit for the quarter. Construction commenced on the new bioreactor manufacturing process, which will strengthen our competitive position by streamlining our production operation. The bioreactor is expected to be fully operational by September. The work is being funded through our existing equipment loan facility with the Business Development Corporation.

We are in the latter stages of developing commercial antigens for three new strains of dengue fever, which will be available for sale in the spring. Finally, we have just completed development of our first molecular diagnostic (MDx) product offering, which will be available for sale in the second quarter, and we expect to launch additional MDx products in the coming months. All of these activities will ensure that our Virology Products business continues to grow and thrive in the future.

As I reported in December, we have completed the development and successful testing of the LumiSort™ prototype. This was the culmination of ten months of work by our engineers and scientists at Lathrop Engineering, and it has resulted in a significant expansion of our LumiSort patent portfolio based on several innovations that have been incorporated into the prototype. The next phase of LumiSort development will focus on building a pre-commercial instrument, which will be the platform used to conduct field trials. In preparation for this important phase we are in discussions with large animal genetics companies to secure a partner that will help put us in the best position to satisfy the needs of the animal genetics industry. I hope we will be in a position to announce a new LumiSort partnership in the near future.

We continue to support our VIRUSMAX® infringement actions against Novartis Vaccines and Diagnostics in the U.S. and Europe. Both of these actions are at the critical discovery stage, and both are expected to go to trial later this year.

We continue to meet with different groups that are interested in partnering with Microbix to return Kinlytic® to the U.S. and Canadian markets. Each of these groups is at a different stage in terms of completing their assessment of the various risks in this venture, however they are all very interested in the commercial potential of re-launching Kinlytic in North America. The primary reason for their interest is that there remains a significant unmet medical need in the thrombolytic market in both countries. I remain optimistic that Microbix will secure a new Kinlytic® partner in the coming months.

Finally, in 2015 I will continue to present Microbix' business strategy to the Canadian and U.S. investment communities. Not only is the biotech sector attracting greater attention, more importantly, these investors like our story and they believe our Company is significantly undervalued.

Vaughn C. Embro-Pantalony
President and Chief Executive Officer

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, 2014, 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.

The Management Discussion and Analysis is dated February 10, 2015.

COMPANY OVERVIEW

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX) develops biological products and technologies. The Company has a Virology Products (Virology) business including the manufacturing and sale of cell culture-based biological products, including one of the world's most expansive sources of Infectious Disease Antigens targeted at the diagnostics market. The Company also has VIRUSMAX® (a virus yield enhancement technology), and Kinlytic® (a thrombolytic drug), and is developing LumiSort™ a semen sexing technology.

Revenue from the Virology business which is expected to continue growing for the foreseeable future, is used for operating and debt service costs, and to fund the Company's development program. Additional equity and/or debt may be raised to finance development of the pipeline technology. Management has discretion to reduce development investment to manage the liquidity needs of the Company.

The Company owns and operates a Virology manufacturing facility at 265 Watline Avenue in Mississauga, Ontario. The facility has an infectious diseases biological license from the Canadian Food Inspection Agency. The Company's administrative offices are located at 211 Watline Avenue.

FINANCIAL OVERVIEW
FIRST QUARTER ENDING DECEMBER 31, 2014 OF FISCAL 2015

Virology product revenue in the first quarter was $1,876,431 or 8% higher than the same period last year (2013 - $1,739,516). This improvement was mainly attributable to the weakening Canadian currency year over year. Total revenue in the first quarter improved by 4% to $1,995,833 (2013 – $1,927,885).

Operating income in the first quarter was $90,553 compared to an operating income of $214,406 in the first quarter of fiscal 2014. The lower operating income is the result of increased operating expenses to support the pipeline projects during the quarter.

Cash generated from operations was $195,206 positive in the first quarter ($91,454 negative in 2014) primarily due to lower accounts receivable compared to the first quarter last year. Cash from financing activities was $1,208,497 in the first quarter (2013 - $126,078), primarily due to the exercising of warrants and stock options of $641,887 and to the net proceeds of a new equipment loan of $613,684. Cash used in investing activities was $1,160,306 (2013 - $86,397) primarily due to development of the LumiSort prototype instrument. In summary, the first quarter's net cash flow was $244,037 positive (2013 - $51,773 negative).

CHANGES IN FINANCIAL POSITION

	As at Dec 31, 2014 $	As at Dec 31, 2013 $
Cash	791,393	208,275
Accounts receivable	1,599,732	982,241
Total current assets	4,481,235	2,373,295
Total assets	18,842,233	12,441,899
Total current liabilities	2,121,935	1,102,712
Total liabilities	8,228,633	6,604,374
Total shareholders' equity	10,613,600	5,838,525
Current ratio	3.42	2.40
Debt to equity ratio	0.78	1.14

SELECTED QUARTERLY FINANCIAL INFORMATION

	Mar-31-13 $	**Jun-30-13 $**	**Sep-30-13 $**	**Dec-31-13 $**	**Mar-31-14 $**	**Jun-30-14 $**	**Sep-30-14 $**	**Dec-31-14 $**
Sales	**2,103,426**	**1,906,652**	**2,468,899**	**1,927,885**	**2,073,097**	**2,039,935**	**2,355,879**	**1,995,833**
Operating Income	**308,471**	**(22,687)**	**571,932**	**214,406**	**269,620**	**294,561**	**(302,963)**	**90,553**

LIQUIDITY, CASH FLOW AND CAPITAL RESOURCES

The consolidated interim 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 $24,657,200 as at December 31, 2014. 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

Overall, the Company realized an improvement in its closing cash balance from $547,356 at the end of September 30, 2014 to $791,393 at the end of December 31, 2014. However, the sources and uses of cash changed significantly from the prior year.

Cash provided by operations in the first quarter of fiscal 2015 was $195,206 versus cash used by operations of $91,454 in 2014. Most of this change was due to a decrease in accounts receivable of $541,775 offset by a $511,622 decrease in accounts payable and accrued liabilities. Management expects cash provided/used in operations to continue over the year, moderately positive.

Cash used in investing activities for new manufacturing equipment, new intellectual property development, patents and Lumisort™ engineering and equipment totaled $1,160,306 in the first quarter of fiscal 2015. Projected capital spending in fiscal 2015 is $1.5 million for Lumisort™ and $1.1 million to upgrade the Company's manufacturing processes.

Cash of $1,208,497 provided by financing activities arose mainly from two sources: 1) Proceeds from an equipment loan of $613,684 to finance upgrades to the Company's manufacturing processes and, 2) conversion of warrants and stock options for proceeds of $641,887. The company is projecting additional cash receipts from the conversions of warrants and stock options in fiscal 2015.

b) Future Liquidity and Capital Needs

Microbix funds new product development activities and capital expenditures through profits earned from its Virology business and, periodically, from additional equity and/or debt. The Virology business is expected to continue to generate profits, some of which will be re-invested in new product development and manufacturing equipment.

c) Commitments and Contingencies

Over the next five years the Company has long-term commitments as at December 31, 2014 as described in the following tables:

i) Lease commitments

	$
2015	65,515
2016	35,646
2017	4,776
2018	3,306
2019	1,378
	110,621

ii) Payments on convertible and non-convertible debentures

	$
2015	694,284
2016	694,284
2017	638,034
2018	604,284
2019	604,284
	3,235,170

d) Outstanding Share Capital

Share capital issued and outstanding as at February 10, 2015 was $29,279,832 for 79,478,301 common shares, an increase of $1,617,720 and 3,523,843 common shares since September 30, 2014.

RELATED PARTIES

During the first quarter of fiscal 2015, the Company paid interest of $156,707, ($123,750 – 2014) on the convertible debentures issued to related party shareholders.

LONG-TERM ASSETS

a) Tangible Assets

During first quarter of fiscal 2015 the Company spent $1,121,980 Lumisort engineering and equipment and Virology production equipment.

b) Intangible Assets

Capital Spending

During first quarter of fiscal 2015 the Company spent $ 38,326 on its patent estate.

Technology Investment - Lumisort™

In 2005 the Company acquired Sequent Biotechnologies Inc. which was 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 ongoing research program and new patents, accepted and pending.

Technology Investment - Lumisort™

In 2005 the Company acquired Sequent Biotechnologies Inc. which was 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 ongoing research program and new patents, accepted and pending.

Technology Investment – Urokinase/Kinlytic®

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. That calculation uses risk adjusted cash flow projections based on probability weighted financial budgets approved by management covering an 11-year period, and a discount rate of 10% per cent. Management made assumptions based on probabilities of technical, regulatory and clinical acceptances and financial support. Management also believes that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

LONG-TERM DEBT

Business Development Corporation Debt

In fiscal 2009 the Company negotiated a series of loans totalling $3,410,000 with the Business Development Bank (BDC) for the original purchase and build-out of its manufacturing facility.

	$
Purchase of the building	1,500,000
Construction of manufacturing facility	1,500,000
Purchase of equipment for facility	410,000
	3,410,000

The loans are secured with the building and equipment.

For loans totalling $3,350,000, consecutive monthly principal payments of $9,260 are due to February 2037 on the outstanding balance of $2,574,280 (Sept 30, 2014 – $2,602,060).

For loans totalling $60,000, consecutive monthly principal payments of $725 are due to February 2017 on the outstanding balance of $18,850 (Sept 30, 2014 - $21,025).

During the first quarter of fiscal 2015, the Company received an additional $613,684 loan (net of costs) from BDC with a maturity of July, 2020 with monthly repayments of principal and interest of $10,250 starting in August, 2015. The funds from this loan are being used to upgrade the Company's production process.

All of the above loans have a floating interest rate based on BDC's Floating Base Rate plus 0.5%. At December 31, 2014 the Floating Base Rate was 5.0%.

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 have not been discussed in this Management Discussion and Analysis dated February 10, 2015.

OUTLOOK

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

Demand for Virology products in fiscal 2015 is projected to be at least equal to or higher than fiscal 2014, which was already a 25% improvement over fiscal 2013. Combined with the expectation of the exchange rate moving in our favour with the recent decline in the value of the Canadian dollar, management is projecting continued profitability in the Virology business.

The Company is also launching its initial offering in molecular diagnostics assay control products (or pathogens or molecular diagnostics quality control products).

Advanced discussions underway with a select group of potential investors interested in returning Kinlytic to the U.S., Canadian and other markets. Management believes there is a reasonable opportunity to close on a partnership during fiscal 2015.

With the recent completion of the Lumisort prototype, the Company has commenced partnering discussions with select global animal genetics companies in order to fund the pre-commercial phase of development that will be initiated later in 2015. This will be followed by field trials currently projected for early in fiscal 2016.

Finally, the Company is involved in litigation relating to its VIRUSMAX technology. There are two actions wherein the Company is alleging infringement of its VIRUSMAX patents in the U.S. and Europe. Both of these actions are expected to reach the trial stage in late 2015.

RISKS AND UNCERTAINTIES

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

The majority of the Company's Virology product sales are made to a relatively small number of key customers globally. Since these products contributed most of the revenue during the first quarter of fiscal 2015, the loss of a key customer or, restrictions on export, import, international transportation of its products, raw materials or insufficient marketing resources, could materially impact revenue and profitability.

Environmental, safety and other regulatory

Microbix' research and manufacturing operations involves potentially hazardous materials. The Company takes the necessary precautions to appropriately manage such materials 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 could adversely impact its operations. Microbix' diagnostic products are not regulated by governments in Canada or other jurisdictions. Commercialization of certain products requires approval of regulatory agencies such as the FDA, in which case Microbix will not receive revenue until regulatory approval is obtained.

Manufacturing of Kinlytic®

The Company has entered into confidentiality agreements with several parties and advanced discussions are continuing with a select group of potential partners interested in returning Kinlytic to the U.S. and Canadian markets, and ultimately to Europe, Asia and developing world markets. There is no assurance the Company will be successful in this endeavour.

Vaccine technology

The market for the Company's Vaccine technology (VIRUSMAX) is limited to a small number of influenza vaccine manufacturers. This technology is protected by a global patent estate. In January 2014 the Company successfully defended its European patents at the European Patent Office Hearing, following the filing of an Opposition by Novartis Vaccines & Diagnostics. The Company has filed lawsuits against Novartis alleging infringement in the United States and Europe. These legal actions require significant investment and there is no assurance that the Company will prevail.

Products in development

The Company has several products under development, however, it is impossible to ensure 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 the related research and development, and investment.

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 negotiate acceptable terms.

RISKS AND UNCERTAINTIES (continued)

Operating and capital requirements

Microbix believes that cash generated from operations is sufficient to meet normal operating and capital needs. However, additional funding needs may depend upon several factors including: progress of research and development programs; costs associated with regulatory processes; collaborative and license arrangements with third parties; cost of filing, prosecuting and enforcing patent claims and other intellectual property rights; potential acquisitions, and technology and market developments. The Company earns a profit on the sales of its Virology products, which is a major source of funding for its research and development activities. However, the Company may need to raise additional funds, from time to time, to meet new funding requirements of current research and development programs. Additional financing may not be available, and even if available, may not be on acceptable terms.

The Company's success depends on the successful commercialization of its 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 of market acceptance.

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. There is no 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 divert the efforts of its scientific 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, life sciences companies and academic and research institutions is significant. Many competitors have substantially greater product development capabilities and financial, scientific, manufacturing, sales and marketing resources than Microbix. While the Company continues to expand its technological capabilities in order to remain competitive, Microbix' competitors are also investing in research and development activities, and in intellectual property, which could make it more difficult for Microbix to commercialize technologies and products.

FINANCIAL RISK MANAGEMENT

The primary risks affecting the Company are summarized below and have not changed during the three months ended December 31, 2014. 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 current 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, 2014, four customers accounted for 83% (2013 - 50%) of revenue. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $1,018 (2013 - $51,433).

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 31, 2014, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	Dec 31, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Cash and cash equivalents	319,439	96,067	-	-
Accounts receivable	432,887	471,478	723,238	489,349
Accounts payable and and accrued liabilities	564,246	197,008	105,903	5,257

The impact of a 1 cent increase in the Canadian dollar against the US dollar would result in a revenue loss of about 1%. The impact of a 1 cent increase in the Canadian dollar against the Euro would result in a revenue loss of about 0.7%.

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.

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 approximately $32,000 per year for BDC and about $5,000 on the line at full credit usage.

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 our products meet critical customer results.

Fair value

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.

As at December 31, 2014 the Company had only the financial instruments in Level 1 which were cash and cash equivalents for an amount of $791,393 (Sept 30, 2014 - $547,356) which are considered to be Level 1 instruments. 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of these consolidated interim 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 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:

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, 2014 have met the criteria for impairment.

Non-Convertible and 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.

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.

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, 2014, 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, 2014.

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, 2014 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

RECENT ACCOUNTING PRONOUNCEMENTS

Periodically new standards, interpretations, amendments and improvements to existing standards are issued by the International Accounting Standards Board (IASB) or IFRS Interpretation Committee (IFRIC) that become mandatory at certain dates. Management routinely assesses the impact of these pronouncements on the Company. There are no pending standards that may be applicable to the Company.

IFRS 7 – Financial Instruments: Disclosures

In December 2011, the IASB amended IFRS 7 to provide additional information about offsetting of financial assets and financial liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013. There was no impact to the financial statements as a result of the adoption of this update.

IFRS 9 – Financial Instruments

IFRS 9, issued in November 2009 and amended in October 2010, introduced new requirements for the classification and measurement of financial assets and the classification and measurement of financial liabilities and for their de-recognition.

All recognized financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are to be subsequently measured at amortized cost or fair value. Specifically, debt investments that have contractual cash flows that are solely payments of principal and interest are generally measured at amortized cost at the end of subsequent periods. All other debt and equity investments are measured at their fair value at the end of subsequent periods.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

The directors anticipate that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 10 - Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes International Accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements and Standing Interpretations Committee ("SIC") 12, Consolidation – Special Purpose Entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. There was no impact to the Company's interim financial statements as a result of adopting this standard.

IFRS 11 - Joint Arrangements

In May 2011, the IASB issued IFRS 11, Joint Arrangements. This standard separates joint arrangements into joint ventures and joint operations and provides guidance on accounting for these types of arrangements. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. There was no impact to the Company's interim financial statements as a result of adopting this standard.

IFRS 12 - Disclosures of interests in other entities

In May 2011, the IASB issued IFRS 12, which outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flows. IFRS 12 supersedes IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special Purpose Entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. There was no impact to the Company's interim financial statements as a result of adopting this standard.

IFRS 13 - Fair value measurement

In May 2011, the IASB issued IFRS 13, Fair Value Measurement. This standard defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. This IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied. Disclosure requirements do not need to be applied to the comparative periods prior to initial application. There were no impacts to the consolidated interim financial statements as a result of the adoption of this standard.

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.

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Unaudited	As at December 31, 2014 $	As at September 30, 2014 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	791,393	547,356
Accounts receivable (note 22)	1,599,732	2,141,508
Inventory (note 4)	1,651,013	1,598,429
Prepaid expenses and other assets (note 5)	280,342	276,107
Investment tax credit receivable	158,754	143,626
TOTAL CURRENT ASSETS	4,481,235	4,707,026
LONG-TERM ASSETS		
Deferred tax asset	265,000	265,000
Prepaid expenses (note 5)	232,019	221,704
Property, plant and equipment (note 6)	9,796,070	8,751,760
Intangible assets (note 7)	4,067,909	4,053,438
TOTAL LONG-TERM ASSETS	14,360,998	13,291,902
TOTAL ASSETS	18,842,232	17,998,928
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	1,301,922	1,825,614
Current portion of obligation under capital lease	5,908	-
Current portion of long-term debt (note 10)	119,820	119,820
Current portion of debentures (note 9)	694,284	694,284
TOTAL CURRENT LIABILITIES	2,121,934	2,639,718
Non-convertible debenture (note 9)	677,933	680,416
Convertible debentures (note 9)	1,929,121	1,920,844
Long-term debt (note 10)	3,086,994	2,503,265
Deferred revenue (note 11)	412,650	412,650
TOTAL LONG-TERM LIABILITIES	6,106,698	5,517,175
TOTAL LIABILITIES	8,228,632	8,156,893
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 12)	28,397,555	27,662,112
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (note 9)	2,351,425	2,351,425
CONTRIBUTED SURPLUS (note 13)	4,521,820	4,487,638
ACCUMULATED DEFICIT	(24,657,200)	(24,659,140)
TOTAL SHAREHOLDERS' EQUITY	10,613,600	9,842,035
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	18,842,232	17,998,928

WILLIAM J. GASTLE
DIRECTOR

VAUGHN EMBRO-PANTALONY
DIRECTOR

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

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

Unaudited	Three months ended Dec 31 2014 $	2013 $
SALES		
Virology products and technologies	1,876,431	1,739,516
Research and development contracts	119,402	188,369
Total Sales	1,995,833	1,927,885
COST OF GOODS SOLD		
Virology products and technologies (note 4, 17)	843,768	729,557
Research and development contracts	23,880	95,144
Total Cost of Goods Sold	867,648	824,701
GROSS MARGIN	1,128,185	1,103,184
EXPENSES		
Selling and business development (note 17)	237,756	223,180
General and administrative (note 17)	583,336	468,407
Research and development (note 17)	50,762	22,119
Financial expenses (note 19)	165,779	175,072
Total Expenses	1,037,632	888,778
NET COMPREHENSIVE OPERATING INCOME FOR THE PERIOD	90,553	214,406
INCOME TAXES		
Current income tax	88,613	98,245
NET COMPREHENSIVE INCOME FOR THE PERIOD	1,940	116,161
NET COMPREHENSIVE INCOME PER SHARE		
Basic (note 16)	0.000	0.002
Diluted (note 16)	0.000	0.000

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

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Unaudited	Three months ended Dec 31 2014 $	2013 $
OPERATING ACTIVITIES		
NET INCOME FOR THE PERIOD	1,940	116,161
Items not affecting cash		
Amortization (Note 17)	101,524	96,064
Accretion of debentures (Note 9)	5,794	10,400
Stock options expense	127,738	-
Change in non-cash working capital balances (Note 18)	(41,790)	(314,079)
CASH PROVIDED BY (USED) IN INVESTING ACTIVITIES	195,206	(91,454)
INVESTING ACTIVITIES		
Purchase of property and equipment and intangible assets (Note 6, 7)	(1,160,306)	(86,397)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(1,160,306)	(86,397)
FINANCING ACTIVITIES		
Decrease in bank indebtedness	-	156,033
Repayments of long term debt (Note 10)	(29,955)	(29,955)
Repayments of debentures (Note 9)	(16,864)	
Payments of capital lease	(255)	-
Proceeds from equipment loan, net of costs (Note 10)	613,684	-
Proceeds from exercise of warrants (Note 14)	548,977	-
Proceeds from exercise of stock options (Note 15)	92,910	-
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,208,497	126,078
Effect of foreign currency exchange rate changes on cash and cash equivalents	640	-
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	244,037	(51,773)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	547,356	260,048
CASH AND CASH EQUIVALENTS - END OF PERIOD	791,393	208,275

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

CONSOLIDATED INTERIM STATEMENTS OF CHANGES INSHAREHOLDERS' EQUITY

Unaudited	Share Capital (note 12) Number of Shares	Share Capital (note 12) Stated Capital $	Contributed Surplus $	Deficit $	Equity Component of Debenture $	Total Shareholders' Equity $
Balance, September 30, 2014	**75,954,458**	**27,662,112**	**4,487,638**	**(24,659,140)**	**2,351,425**	**9,842,035**
Share issuances pursuant to stock options exercised	265,000	92,910	(93,556)			(646)
Share issuances pursuant to conversion of warrants	1,796,658	548,977				548,977
Stock option expense		93,556	127,738			221,294
Net income (loss) for the period				1,940		1,940
Balance, December 31, 2014	**78,016,116**	**28,397,555**	**4,521,820**	**(24,657,200)**	**2,351,425**	**10,613,600**

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

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
DECEMBER 31, 2014

1. NATURE OF THE BUSINESS

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX), develops biological products and technologies. The Virology Business (Virology) manufactures and develops cell culture-based biological products and technologies. The Company has developed and acquired three technologies for large markets including Virus Yield Enhancement Technology, VIRUSMAX® the thrombolytic drug, Kinlytic® (Urokinase), and an animal reproductive technology in development, LumiSort™. The development of new products and technologies are funded with income earned from Virology and additional cash flows from equity and debt issuance. Microbix has substantial capability, both in technical expertise and laboratory facilities for development. Microbix is providing materials for diagnoses of infectious diseases. The same expertise and competencies involved are applicable to developing materials to facilitate treatment. The Company continually invests in Virology to adopt current technologies and standards, upgrading capabilities to support its customers. Revenue generated from Virology is used to meet operational costs, the development program and to service the Company's debt.

Virology is expected to continue to generate a profit, part of which will be invested in the development pipeline. The Company may seek additional capital needed to maintain its current level of investment in the development pipeline. If necessary, management and the Board of Directors have the discretion to reduce or suspend investment in development depending on the cash/liquidity needs of the Company.

The Company owns and operates a Virology manufacturing facility at 265 Watline Avenue, Mississauga, Ontario. The facility operates under an infectious diseases biological license from the Canadian Food Inspection Agency.

2. BASIS OF PREPARATION

Statement of Compliance
The Company's management prepared these consolidated interim 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 interim financial statements on February 10, 2015.

These unaudited consolidated interim financial statements do not include all of the information and notes required by IFRS for annual financial statements and therefore should be read in conjunction with the audited financial statements and notes for the Company's year ended September 30, 2014 that are filed on SEDAR at www.sedar.com.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

Basis of Measurement
The consolidated interim 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 interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

Basis of consolidation
These consolidated interim 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 fiscal period ended December 31, 2014.

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 for the year ended September 30, 2014. The policies applied in these consolidated interim financial statements are based on IFRS issued and outstanding at February 10, 2015, 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, 2014 and there have not been any additional standards applicable to the Company issued since.

Income tax provision
The Company calculates its current income tax provision based on taxable income. As the Company is entitled to Canadian federal and provincial investment tax credits which are earned as a percentage of eligible research and development expenditures incurred in each taxation year and its current carried forward income tax credit balance is in excess of its current tax liability, the latter is reduced to nil by utilization of the income tax credit. The use of investment tax credits are recognized as a reduction of the related expenditure for items of a current nature and a reduction of the related asset cost for items of a long-term nature, provided that the Company has reasonable assurance that the tax credits will be realized.

4. INVENTORY

Inventory consists of the following, as at:

	Dec 31, 2014 $	Dec 31, 2013 $
Raw material	461,051	195,801
Work in process	455,102	207,076
Finished goods	734,860	669,274
	1,651,013	1,072,151

During the period ended December 31, 2014, inventories in the amount of $487,096 (2013 - $364,934) were recognized as an expense through cost of sales. The cost of inventories recognized as an expense includes $Nil (2013 -$Nil) in respect of write-downs of inventory to net realizable value. The allowance for inventory impairment as at December 31, 2014 was $27,933 (2013 - $27,933).

5. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses as at December 31, 2014 were $512,361 ($280,342 in Current Assets and $232,019 in Long-term Assets), (September 30, 2014 - $497,811) and primarily consist of insurance policy premiums, a contractually required refundable deposit with a research and development partner, and retainers with the Company's legal counsel.

6. PROPERTY, PLANT AND EQUIPMENT

The freehold land and buildings have been pledged as security for bank loans under a mortgage (see Note 10). The Company is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

Property plant and equipment consists of:

	Building	Research & development equipment	Other equipment & fixtures	Land	Leasehold improvements	Total
Cost	**$**	**$**	**$**	**$**	**$**	**$**
Balance, Sep 30, 2014	4,536,288	3,581,508	3,570,596	800,000	-	12,488,392
Additions	-	911,598	210,382	-	-	1,121,980
Disposals	-	-	-	-	-	-
Balance, Dec 31, 2014	4,536,288	4,493,106	3,780,978	800,000	-	13,610,372
Accumulated depreciation						
Balance, Sep 30, 2014	790,320	501,115	2,445,197	-	-	3,736,632
Depreciation	37,998	7,084	32,588	-	-	77,670
Reversals	-	-	-	-	-	-
Balance, Dec 31, 2014	828,318	508,199	2,477,785	-	-	3,814,302
Carrying value						
Sept 30, 2014	3,745,968	3,080,393	1,125,399	800,000	-	8,751,760
Dec 31, 2014	3,707,970	3,984,907	1,303,193	800,000	-	9,796,070

Included in Research and development equipment is $3,754,579 and in Other equipment and fixtures $196,230, related to assets not yet available for use. These assets are not subject to depreciation.

7. INTANGIBLE ASSETS

Intangible assets are depreciated on a straight line basis at the following rates:

License agreement, LumiSort™ (Note 7a)	5%
Technology investments	
LumiSort™ (Note 7a)	5%
Kinlytic® (Note 7b)	0%

Intangible assets consist of:

	Capitalized development	Patents and trademarks		Licenses	
	LumiSort™	Kinlytic®	LumiSort™	LumiSort™	Total
Cost	**$**	**$**	**$**	**$**	**$**
Balance at September 30, 2014	86,685	2,770,529	1,644,635	278,528	4,780,377
Additions from internal developments	38,326	-	-	-	38,326
Balance at December 31, 2014	**125,011**	**2,770,529**	**1,644,635**	**278,528**	**4,818,703**
Accumulated amortization					
Balance at September 30, 2014	**3,769**	**-**	**530,344**	**192,826**	**726,939**
Amortization expense	210	-	18,289	5,356	23,855
Balance at December 31, 2014	**3,979**	**-**	**548,633**	**198,182**	**750,794**
Carrying value					
Net carrying amount, September 30, 2014	82,916	2,770,529	1,114,291	85,702	4,053,438
Net carrying amount, December 31, 2014	121,032	2,770,529	1,096,002	80,346	4,067,909

(a) LumiSort™

The Company acquired a license agreement from Sequent Biotechnologies Inc. ("Sequent"), a biotechnology company solely involved in the development and commercialization of the Lumisort™ technology under license. New intellectual property with the issue of patents has resulted from this research program. These assets are in the process of being developed and new patents are pending and under development.

(b) Kinlytic®

The Company acquired the assets and rights pertaining to development, production, and licensing of Kinlytic® from Abbott Laboratories in 2008. These assets are in the process of being developed and new patents are pending and under development. The recoverable amount of the Kinlytic® intangible has been determined based on its fair value less cost to sell. This estimate uses risk-adjusted cash flow projections based on probability-weighted financial budgets.

Management made these assumptions based on probabilities of technical, regulatory and clinical acceptances and financial support. Management believes that any change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

8. 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 and property, plant and equipment are pledged as collateral for the bank credit facility. As at December 31 and September 30, 2014, the line of credit was fully unused.

9. DEBENTURES

The Company has convertible and non-convertible debentures issued and outstanding as at December 31, 2014. The carrying values of the debt component of these debentures are as follows:

	Non-convertible	Convertible				Total
Date of issue	Jan, 2014	Jan, 2014	Feb, 2007	Oct, 2006	Sep, 2008	
Proceeds of issue	$2,000,000	$1,500,000	$500,000	$500,000	$2,500,000	
	$	$	$	$	$	$
Balance, September 30, 2014	**924,700**	**521,886**	**459,703**	**472,238**	**917,017**	**2,370,844**
Accretion expense	41,724	34,605	14,033	13,449	58,690	120,777
Repayments	(44,207)	(33,750)	(11,250)	(11,250)	(56,250)	(112,500)
Balance, December 31, 2014	**922,217**	**522,741**	**462,486**	**474,437**	**919,457**	**2,379,121**
Less: current portion	244,284	135,000	45,000	45,000	225,000	450,000
	677,933	**387,741**	**417,486**	**429,437**	**694,457**	**1,929,121**
Note	(a)	(b)	(c)	(d)	(e)	

The debentures denoted (a), (b), and (e) 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 debentures denoted (c) and (d) are secured by a subordinated security agreement covering all of the Company's property and assets, including its goodwill.

Convertible debentures contain two components: liability and equity elements. The equity element is presented in equity under the heading of "equity component of debenture". Convertible debentures are initially accounted for in accordance with their substance and are presented in the financial statements in their component parts measured at the time of issue. The debt components were valued first with the residual to shareholders' equity. Over the term of the convertible debentures, the debt components will be accreted to the face value of the debentures by the recording of additional interest expense using the effective interest rate, as detailed below.

All of the debentures were issued to a shareholder of the company.

Note	(a)	(b)	(c)	(d)	(e)
Date of issue	Jan, 2014	Jan, 2014	Feb, 2007	Oct, 2006	Sep, 2008
Face value	$ 2,000,000	$ 1,500,000	$ 500,000	$ 500,000	$ 2,500,000
Issue costs	$ -	$ 65,559	$ -	$ -	$ -
Liability component at the date of issue	$ 928,373	$ 517,470	$ 388,958	$ 413,320	$ 885,089
Equity component at the date of issue	N/A	$ 916,971	$ 111,042	$ 86,680	$ 1,614,911
Conversion price per common share	$ -	$ 0.35	$ 0.90	$ 0.90	$ 0.65
Effective interest rate charged	25.69%	25.69%	13.00%	12.00%	25.69%
Payment frequency	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Maturity of financial instrument	Jan, 2029	Jan, 2029	Feb, 2017	Oct, 2016	Sep, 2028
Stated interest rate	9%	9%	9%	9%	9%
Terms of repayment	Principal and interest	Interest only	Interest only	Interest only	Interest only
Blended quarterly payments	$ 61,071	N/A	N/A	N/A	N/A

As the issuance of the non-convertible debenture denoted as (a) and the cancellation of a previous convertible debenture were transacted with the same shareholder and represented a substantial modification in the terms, the non-convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements as new debt, measured at fair value at the time of the issue.

10. LONG-TERM DEBT

In fiscal 2009 the Company negotiated a series of loans totalling $3,410,000 with the Business Development Bank (BDC) for the original purchase and build-out of its manufacturing facility.

Purchase of the building	1,500,000
Construction of manufacturing facility	1,500,000
Purchase of equipment for facility	410,000
	3,410,000

The loans are secured with the building and equipment.

For loans totalling $3,350,000, consecutive monthly principal payments of $9,260 are due to February 2037 on the outstanding balance of $2,574,280 (Sept 30, 2014 - $2,602,060).

For loans totalling $60,000, consecutive monthly principal payments of $725 are due to February 2017 on the outstanding balance of $18,850 (Sept 30, 2014 - $21,025).

During the first quarter of fiscal 2015, the Company received an additional $615,000 loan from BDC with a maturity of July, 2020 with monthly repayments of principal and interest of $10,250 starting in August, 2015. The funds from this loan are being used to upgrade the Company's production process.

All of the above loans have a floating interest rate based on BDC's Floating Base Rate plus 0.5%. At December 31, 2014 the Floating Base Rate was 5.0%.

Following is the commitment for the next five years for the Business Development Corporation loans:

	$
2015	349,792
2016	433,066
2017	406,873
2018	386,914
2019	368,410

11. DEFERRED REVENUE

In 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 had received a non-refundable payment of $400,000 US 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 statement of financial position. The Company will defer recognition of this revenue until all of the deliverables in the agreement are complete. At December 31, 2014, all of the deliverables have not been met and are not expected to be met within the next fiscal year and therefore no amount has been recognized or reclassified to current liabilities.

12. 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. The changes in issued and fully paid common shares are noted in the Consolidated Interim Statement of Shareholder's Equity. The number of issued and outstanding common shares and the stated capital of Microbix as at December 31, 2014 are presented below:

	Number of Shares	Stated Capital ($)
Balance, September 30, 2014	75,954,458	27,662,112
Exercise of stock options	265,000	92,910
Exercise of warrants	1,796,658	548,977
Stock option expense	-	93,556
Balance, December 31, 2014	78,016,116	28,397,555

13. CONTRIBUTED SURPLUS

	$
Balance, September 30, 2014	4,487,638
Stock options exercised	(93,556)
Stock option expense	127,738
Balance, December 31, 2014	4,521,820

14. COMMON SHARE PURCHASE WARRANTS

A continuity of the Company's warrants outstanding as at December 31, 2014 and September 30, 2014 is presented in the following table:

	Units		Weighted average exercise price $
Outstanding, September 30, 2014	**10,133,517**	**$**	**0.48**
Issued	50,000	$	0.33
Exercised	(1,796,658)	$	0.31
Outstanding, December 31, 2014	**8,386,859**	**$**	**0.49**

14. COMMON SHARE PURCHASE WARRANTS (continued)

A summary of the Company's warrants outstanding as at December 31, 2014 and September 30, 2014 is presented in the following table:

	December 31, 2014			September 30, 2014		
	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life
		$	years		$	years
Range of exercise prices:						
$0.26 to $0.39	3,137,095	$ 0.39	0.15	5,550,000	$ 0.36	1.37
$0.40 to $0.47	5,249,763	$ 0.47	2.97	-	$ -	-
	8,386,858	$ 0.39	3.12	5,550,000	$ 0.36	1.37

15. STOCK OPTION PLAN

On March 5, 2013, the shareholders of the Company approved a resolution to amend the Company's stock option plan. This amendment changed the total number of Common Shares available to be issued under the plan from a maximum of 10,000,000 to a maximum of 12,000,000 common shares. Under the plan, the Company has 7,082,000 options issued and pending as at December 31, 2014, (Sept 30, 2014 – 4,354,000).

The exercise price of each option equals no less that the market price at the date immediately preceding the date of the grant. In general, options issued under the plan vest and are exercisable in equal amounts in three steps, at the issue date and at the anniversary date in the subsequent two years. Management does not expect any stock options issued in the year and remaining unvested at the year-end to be forfeited before they vest.

The following table reflects the activity under the Company's stock option plan period ended December 31, 2014 and September 30, 2014.

	Units	Weighted average exercise price
		$
Outstanding, September 30, 2014	**4,354,000**	**$ 0.36**
Issued	3,010,000	$ 0.54
Exercised	(265,000)	$ 0.35
Expired or forfeitted	(17,000)	$ 0.35
Outstanding, December 31, 2014	**7,082,000**	**$ 0.43**

The exercise price of each option equals the closing market price of the Company's capital stock on the day preceding the grant date.

15. STOCK OPTION PLAN (continued)

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 at December 31, 2014		
	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life
		$	years
Range of exercise prices:			
$0.26 to $0.39	4,072,000	$0.35	1.08
$0.39 to $0.54	3,010,000	$0.54	4.80

The fair value of options granted during the period ended December 31, 2014 was estimated at the grant date using the Black-Scholes options pricing model, resulting in the following weighted-average assumptions:

Share price on issue date	$0.59
Dividend yield	0.00%
Volatility	93.3%
Risk-free interest rate	1.40%
Expected option life (years)	5
Weighted average fair value of each option ($/option)	0.43

The volatility of the stock for the Black-Scholes options pricing model was based on 5-year historic volatility of the Company's stock price on the Toronto Stock Exchange. Management believes that the historic stock volatility provides a fair and appropriate basis of estimate for the expected future volatility of the stock.

During the period, the fair value of the options vested in the year were expensed and credited to contributed surplus.

16. INCOME 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 loss per share computations:

	As at December 31	
	2014	2013
Numerator		
Net income (loss) available to common shareholders	$1,940	$116,161
Denominator for basic EPS – weighted average common shares outstanding	77,133,616	66,684,350
Effect of dilutive securities:		
Warrants	2,628,377	-
Stock Options	2,811,796	-
Convertible Debentures	5,103,699	-
Denominator for diluted EPS	87,677,488	66,684,350
Earnings per share		
Basic	$0.000	$0.002
Diluted	$0.000	$0.000

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

	As at December 31	
	2014	2013
Pursuant to warrants	-	8,484,586
Under stock options	-	6,535,000
Pursuant to convertible debentures	1,111,111	7,179,487
	1,111,111	25,730,955

17. EXPENSES BY NATURE

The Company has chosen to present its Statements of Comprehensive Income based on the functions of the entity. The Consolidated Statements of Comprehensive Income include the following expenses by nature:

a) Employee costs:	Three months ended Dec 31,2014 $	Three months ended Dec 31,2013 $
Short-term wages, bonuses and benefits	815,574	720,063
Share based payments	127,738	-
Total employee costs	943,312	720,063
Included in:		
Cost of goods sold	536,380	435,578
Research and development	85,646	94,405
General and administrative expenses	242,052	113,896
Selling and business development	79,235	76,184
Total employee costs	943,312	720,063

a) Depreciation and amortization	Three months ended Dec 31,2014 $	Three months ended Dec 31,2013 $
Included in:		
Cost of goods sold	70,586	65,488
General and administrative expenses	210	156
Research and development	30,728	30,420
Total depreciation and amortization	101,524	96,064

18. CHANGES IN NON-CASH WORKING CAPITAL BALANCE

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

	Three months ended Dec 31,2014 $	Three months ended Dec 31,2013 $
Accounts receivable	541,775	168,741
Inventory	(52,584)	71,305
Prepaid expenses & other assets	(4,235)	(11,927)
Investment tax credit receivable	(15,124)	(15,423)
Accounts payable and accrued liabilities	(511,622)	(526,775)
	(41,790)	(314,079)

19. FINANCIAL EXPENSES

	Three months ended Dec 31,2014 $	Three months ended Dec 31,2013 $
Cash interest		
Interest on long-term debt	43,889	41,928
Interest on debentures	156,707	123,750
Interest other	-	801
Interest income	(40,611)	(1,807)
Non-cash interest		
Accretion on debentures	5,794	10,400
Financial expenses	165,779	175,072

20. CAPITAL MANAGEMENT

The Company's capital management objective is to safeguard its ability to function as a going concern to maintain its virology operations and to fund its development activities. Microbix defines its capital to include the revolving line of credit, shareholders' equity, the Business Development Bank capital loan, and the debentures. The capital at December 31, 2014 was $17,621,753 (2013 - $11,426,537).

To date, the Company has used common equity issues, debentures and a bank mortgage to fund its activities. The equity is through private placements, the debentures are all controlled by private individuals known to the Company and the mortgage is with the Business Development Bank. If possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including investment tax credits, grants and interest income. The Company has a revolving line of credit of $500,000 with its Canadian chartered bank, Note 8.

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 assets if warranted by circumstances. There was no change during the year in how the Company defines its capital or how it manages its capital.

21. 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.

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.

22. FINANCIAL RISK MANAGEMENT

The primary risks that affect the Company are set out below and the risks have not changed during the reporting year. 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 current 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, 2014 four customers accounted for 83% (2013 - three customers accounted for 50%) of revenue. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $1,018 (2014 - $51,433).

Trade accounts receivable are aged as follows at December 31:

	Three months ended Dec 31,2014 $	Three months ended Dec 31,2013 $
Current	1,041,738	430,848
0-30 days past due	175,861	250,992
31-60 days past due	68,084	84,904
61 days and over past due	250,103	215,498
	1,535,786	982,241

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 31, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	Dec 31, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
Cash and cash equivalents	319,439	96,067	-	-
Accounts receivable	432,887	471,478	723,238	489,349
Accounts payable and accrued liabilities	564,246	197,008	105,903	5,257

The impact of a 1 cent increase in the Canadian dollar against the US dollar would result in a revenue loss of about 1%. The impact of a 1 cent increase in the Canadian dollar against the Euro would result in a revenue loss of about 0.7%.

22. FINANCIAL RISK MANAGEMENT (continued)

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.

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 approximately $32,000 per year for BDC and about $5,000 on the line at full credit usage.

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 our products meet critical customer results.

f) Fair value

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 three months ended December 31, 2014 and 2013, the Company has only the financial instruments in Level 1. At December 31, 2014, the Company`s financial instruments are cash and cash equivalents for an amount of $791,393 (2013 - $208,275) which are considered to be Level 1 instruments. 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.

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.

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment:

	Segment revenue		Segment profit	
	Dec 31, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
	$	$	$	$
Virology Products and Technologies	1,995,833	1,927,885	1,940	116,161
Lumisort ™	-	-	-	-
Kinlytic®	-	-	-	-
Total for continuing operations	1,995,833	1,927,885	1,940	116,161

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2013 - $Nil).

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3. Segment profit represents the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, share of profits of associates, gain recognised on disposal of interest in former associate, investment income, other gains and losses as well as finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

	Segment assets		Segment liabilities	
	Dec 31, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
	$	$	$	$
Virology Products and Technologies	11,039,504	5,811,019	1,720,481	1,239,510
Lumisort ™	5,032,200	1,237,056	-	-
Kinlytic®	2,770,529	2,770,529	-	-
Total for continuing operations	18,842,233	9,818,604	1,720,481	1,239,510

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.

23. SEGMENTED INFORMATION (continued)

	Depreciation and amortization		Additions to non-current assets	
	Dec 31, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
	$	$	$	$
Virology Products and Technologies	77,880	72,420	148,492	86,397
Lumisort ™	23,644	23,644	1,011,814	-
Kinlytic®	-	-	-	-
Total for continuing operations	101,524	96,064	1,160,306	86,397

24. GEOGRAPHIC INFORMATION

The Company operates in three principal geographical areas – North America (country of domicile), Europe and in other foreign countries. The Company's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers		Non-current assets	
	Dec 31, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
	$	$	$	$
North America	263,985	390,154	14,360,999	9,818,604
Europe	1,694,994	1,328,636	-	-
Other foreign countries	36,854	209,095	-	-
	1,995,833	1,927,885	14,360,999	9,818,604

25. RELATED PARTY TRANSACTIONS

During the three months ended December 31, 2014, the Company paid interest of $156,707 (2014 - $123,750) on the convertible debentures issued to related party shareholders.

26. COMMITMENTS AND CONTINGENCIES

a) Lease commitments

	$
2015	65,515
2016	35,646
2017	4,776
2018	3,306
2019	1,378
	110,621

b) Payments on convertible and non-convertible debentures (Note 9)

	$
2015	694,284
2016	694,284
2017	638,034
2018	604,284
2019	604,284
	3,235,170

c) 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 when the loss becomes probable to occur and reasonably measurable.

DIRECTORS

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Lakeridge Health Hospital

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

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Chief Executive Officer and President
Microbix Biosystems Inc.

William J. Gastle [(2)]
Ontario, Canada
Executive Chairman
Microbix Biosystems Inc.

Cameron Groome [(1)]
Ontario, Canada
Pharmaceutical Executive

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

Andrew C. Pollock [(1) (2)]
Ontario, Canada
Marketing Excecutive

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

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

SENIOR MANAGEMENT

William J. Gastle
Executive Chairman

Vaughn C. Embro-Pantalony
President and Chief Executive Officer

Charles S. Wallace
Chief Finanical Officer

Dr. Mark Luscher
Senior Vice-President, Scientific Affairs

Phillip Casselli
Senior Vice-President, Sales & Business Development

Kevin J. Cassidy
Vice President, Biopharmaceuticals

Christopher B. Lobb
General Counsel & Secretary

CORPORATE INFORMATION

Corporate Counsel	*Boyle & Co. LLP*
Auditors	*Collins Barrow Toronto LLP* *Chartered Accountants*
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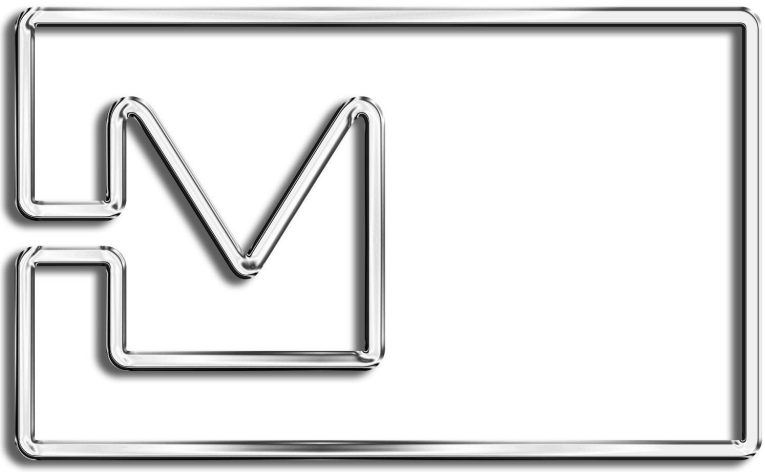
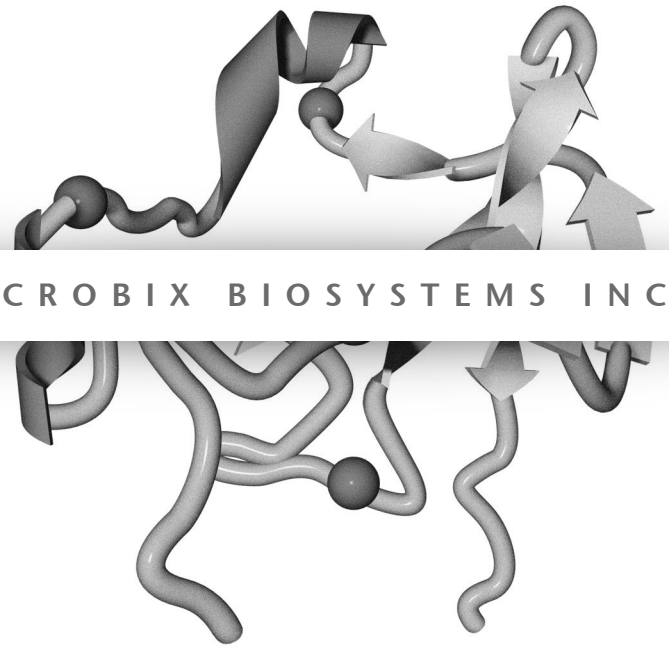
Bankers	*Bank of Montreal*
Head Office	Microbix Biosystems Inc. 265 Watline Avenue, Mississauga, Ontario Canada L4Z 1P3 Tel: 905-361-8910 Fax: 905-361-8911 www.microbix.com

NOTICE OF ANNUAL MEETING

The Annual Meeting of the Shareholders will be held at the University Club, 380 University Avenue, Toronto, Ontario on Tuesday, March 3, 2015 at 1:00 PM.





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