MICROBIX
BIOSYSTEMS INC.

FIRST INTERIM REPORT

For the three months
ended December 31, 2016

MICROBIX

Message to Shareholders

In 2016 Microbix recorded its fourth consecutive year of record sales and improved profitability. In order to continue this successful track record, we need to establish a new growth platform for the Company. Two recently completed initiatives are helping to drive the Company's future growth potential: (1) the recent start-up of the bioreactor process is enabling expanded production capacity and improved cost efficiencies, and (2) the implementation of the new credit facility is helping to provide the source of funds required to grow the Virology business.

These initiatives are beginning to have an impact in early fiscal 2017. Sales in the first quarter increased more than 80% compared to the same quarter last year. Generally, customer orders in early 2017 are exceeding last year's levels; and we expect the order volume to continue growing in the second quarter and beyond as we kick-off the recently announced partnership with Meridian Life Sciences to supply antigens to their customers in the Asia-Pacific market. As a result, we anticipate 2017 will be another record-breaking year in terms of sales revenue for the Company.

We recently started the development of our new line of molecular control products, while we continue to upgrade the manufacturing and quality process standards that will make our operation compliant with the ISO13485; this is the regulatory standard that must be met in order to supply medical device manufacturers in both the U.S. and European Union. We expect to begin shipping product in the fall of 2017.

In late January, Microbix formally requested a Type B meeting with the U.S. Food and Drug Administration. The objective of a Type B meeting is to obtain FDA input on our proposed clinical development plan for the return of urokinase to the U.S. market. Type B meetings with the FDA typically occur within 60 days of submitting the formal meeting request. We expect to receive important feedback on the proposed clinical development program that will help our prospective partners, including lead and secondary investors, license partners and various government agencies, gain a better understanding of the clinical and regulatory risks of re-launching this life saving drug in the U.S. market. As an outcome of this meeting, we would anticipate prospective partners will be better informed to advance discussions with Microbix regarding potential partnership terms to re-launch Kinlytic®.

Finally, we continue to evaluate partnership options for completing the development and commercialization of the LumiSort technology. As I have previously communicated, there are complexities that continue to extend the timeline for consummation of a partnership, namely the challenging legal landscape in the animal genetics industry. Nevertheless, LumiSort is game-changing technology that can ultimately help to provide the livestock industry with superior yields and throughput of sexed semen, which we believe can unlock significant value for the industry. We will continue to provide updates as developments materialize.

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 quarter ended December 31, 2016, 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 13, 2017.

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 owns Kinlytic®, an FDA approved human 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, provides for operating and debt service costs, and funding for the Company's development programs.

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 **Canadian Funds**

THREE MONTHS ENDING DECEMBER 31, 2016

Total revenue was $1,952,502, an 84% increase over 2016's first quarter revenue of $1,063,405. Included was Virology product revenue of $1,886,824, 87% higher than Q1 2016, due to strong growth into Asian markets and increased sales to our key customers. Revenue from royalties were $65,678 (2016 - $54,089).

Gross margin increased by $457,075 or 228%, due to increased revenues as outlined above and a change in the product mix.

Operating expenses increased by $3,395,127 compared to the first quarter last year. This was primarily due to one-time costs related to (1) a non-cash adjustment of $2,582,526 to restructure the Company's convertible debentures as part of our debt refinancing initiative that was necessary in order to implement an enhanced revolving credit facility for the Company, and (2) the settlement of a dispute with the buyer of the Company's WFI business in 2012 in the amount of $258,540. In addition, last year the Company capitalized development costs related to completion of the new bioreactor manufacturing process, which was successfully commissioned in the fourth quarter of fiscal 2016; in the first quarter of fiscal 2017 these costs were included in operations.

As a result, the Company experienced a net loss for the period of $3,216,472 (2016 – ($338,420). Adjusting for one-time costs, the net loss before debt restructuring and WFI settlement expenses was $525,406 for the quarter compared to a net loss of $428,420 in the same period last year.

Cash generated from operations in this quarter was $309,542 compared to cash used of $31,698 in Q1 2016. Cash used in investing activities was $205,741 (2015 - $676,784), due to decreased spending on internal development of intangible assets. Cash generated from financing activities was ($107,536) (2016 - $670,735), primarily due to repayment of shareholder loans and no issuance of common shares in this quarter vs. Q1 2016. Net cash flow was $3,735 negative in the first quarter of 2017 (2016 - $37,747 negative).

CHANGES IN FINANCIAL POSITION

	As at Dec 31, 2016 $	As at Dec 31, 2015 $
Total Revenue	1,952,502	1,063,405
Operating income (loss) before debt restructuring and settlement expenses	(525,406)	(428,420)
Operating (loss)	(3,366,472)	(428,420)
Cash	1,680	66,433
Accounts receivable	1,081,314	646,618
Total current assets	5,042,192	5,109,114
Total assets	24,883,685	23,532,918
Total current liabilities	5,036,001	4,123,302
Total liabilities	9,603,189	9,577,913
Total shareholders' equity	15,280,496	13,955,005
Current ratio	1.00	1.24
Debt to equity ratio	0.63	0.69

SELECTED QUARTERLY FINANCIAL INFORMATION **Canadian Funds**

	Mar-31-15 $	Jun-30-15 $	Sep-30-15 $	Dec-31-15 $	Mar-31-16 $	Jun-30-16 $	Sep-30-16 $	Dec-31-16 $
SALES	2,544,900	2,219,019	2,114,160	1,063,405	2,729,779	2,253,373	3,470,580	1,952,502
Operating Income (Loss)	86,335	147,769	123,434	(428,420)	161,979	(141,082)	555,930	(3,366,472)

(1) Operating income represents net operating income and comprehensive operating income for the year as reported on the Company's consolidated statement of comprehensive income.

OUTLOOK

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

Virology product revenues are expected to continue growing in the coming years. The Company continues to expand its conventional antigen product line and recently announced the launch of its molecular diagnostic products. The Company continues to invest in new process technologies to improve its manufacturing cost base and expand its production capacity. In light of all of these developments, management expects to realize improved profitability from the Virology business.

Management is preparing to meet with the FDA in the near future to confirm its specific clinical and regulatory plans for the re-introduction of Kinlytic® to the U.S. market. Management is optimistic about closing a partnership in fiscal 2017 with prospective partners awaiting the outcome of the meeting with the FDA.

The Lumisort™ prototype was successfully built and tested in 2015 and partnering discussions with global animal genetics companies continued through 2016. However, ongoing patent litigation among the three largest animal genetics companies in the U.S. has caused significant uncertainty within the A.I. industry, which has resulted in slower paced discussions with potential LumiSort partners. Management will continue to advance discussions towards closing a partnership arrangement in 2017 to complete the development of LumiSort.

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 historical losses resulting in an accumulated deficit of $26,513,221 as at December 31, 2016. However, each of the past four fiscal years have been profitable with an accumulated net income of $1,532,748. Management continuously monitors the financial position of the Company with respect to working capital needs, as well as long-term capital requirements compared to the annual operating budget. Variances are highlighted and actions are taken to ensure the Company is appropriately capitalized.

During the quarter the Company arranged a new secured revolving credit facility jointly with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The new credit facility is being used to fund the Company's need for working capital to expand its existing business, including the recently announced expansion of Virology product sales in the Asia Pacific region, as well as the launch of the Company's new molecular controls product line later in the calendar year. The new credit arrangement offers the flexibility to expand the available credit based on a semi-annual review of the Company's business plans, sales projections and general financial position by the TD Bank and EDC. Management expects this new facility will satisfy the Company's liquidity needs and help manage the liquidity risk going forward.

Future Liquidity and Capital Needs

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

In fiscal 2017 cash flow is expected to improve as the year progresses due to: 1) continued growth in Virology sales, 2) implementation of the new credit facility negotiated with the Company's bank and EDC, 3) improved profit contribution

LIQUIDITY, CASH FLOW AND CAPITAL RESOURCES (continued) **Canadian Funds**

Future Liquidity and Capital Needs (continued)

from the Virology business due to increased sales, lower material costs and higher efficiencies as the Company continues to work with customers to commercialize its new bioreactor production process, and 4) completing the independent funding of both Lumisort™ and Kinlytic® through partnership arrangements. Management expects these developments will significantly improve the Company's overall liquidity position in fiscal 2017.

Implementation of the new credit facility noted above will reduce the need to use private placement offerings to fund growth opportunities for the Company's Virology products business in the future and thereby reduce the risk of share dilution.

Contractual Obligations

Settlement of Dispute

On December 30, 2016 Microbix reached a final settlement with Irvine Scientific Inc. over a dispute related to the sale of the Company's Water-for-Injection business to Irvine in December 2012. Microbix has agreed to pay Irvine (U.S.) $192,500 in three installments as follows -

December 30, 2016	$64,167
March 31, 2017	$64,167
June 30, 2017	$64,166

Outstanding Share Capital

Share capital issued and outstanding as at February 13, 2017 was $31,299,416 for 84,704,257 common shares versus 84,704,257 common shares at September 30, 2016.

SUBSEQUENT EVENT

On January 12, 2017, the Company announced that it has appointed Meridian Life Science, Inc. as its distributor of Virology products in the Asia Pacific region. Under terms of the Agreement, Meridian will receive exclusive distribution rights to Microbix' branded antigen products for China, Hong Kong, Taiwan and Macau. Additionally, Microbix will also provide bulk-finished product to Meridian to be sold under Meridian-label to customers in the Asia Pacific region (China, Macau, Hong Kong and Taiwan, India, Singapore, Malaysia, Australia, New Zealand, Thailand, Vietnam, the Philippines and Pakistan). The relationship will enable Microbix to leverage its expanding manufacturing capacity and Meridian's substantial commercial presence to better serve the region's diagnostic customers. Overall, the distribution collaboration is expected to significantly expand the business relationship between the two companies, and serve as a platform for the continued growth and expansion of their respective products and services.

TREND INFORMATION

Historical spending patterns are no indication of future expenditures. Investment in the new products and technologies 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 13, 2017.

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.

A significant share of the Company's Virology products sales are sold to a few key customers globally. These products

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

contributed a significant share of the revenue in 2016. The loss of a key customer, or restrictions on export, import, or international transportation of its products, raw materials or insufficient marketing resources, could materially impact revenue and profitability.

Environmental, safety and other regulatory

Microbix' research and manufacturing operations involves potentially hazardous materials. The Company takes extensive precautions to appropriately manage these materials as regulated by the applicable environmental and safety authorities. 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.

LumiSort™ technology

The Company has developed a proprietary semen sexing technology that has a global patent estate. In 2015 the Company successfully completed a prototype instrument that confirms the key patent claims. The Company is currently working to secure a partner within the animal genetics industry to fund the next stage of development, to build a commercial instrument and conduct field trials. There is no assurance the Company will be successful in this endeavour.

Products in development

The Company has several products under development. 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 pharmaceutical, biotechnology or animal genetics companies. It is possible the Company may be unable to negotiate mutually acceptable terms.

Operating and capital requirements

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

The Company's 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 uncertain and there is no guarantee of market acceptance.

Failure to obtain and protect intellectual property could adversely affect business

Microbix' future success depends, in part, on its ability to obtain patents, or licenses to patents, maintain trade secret protection and enforce its rights against others. The Company's intellectual property includes trade secrets and know-how that may not be protected by patents. There is no assurance that the Company will be able to protect its trade 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 costs, adversely affecting the development of products or sales of the challenged product, or intellectual property, and divert the efforts of its scientific and management personnel, whether or not such litigation is resolved in the Company's favour.

Microbix will continue to face significant competition

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

FINANCIAL RISK MANAGEMENT

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

Credit risk

The Company's customers are primarily large multi-national companies with very high quality credit ratings. Given this track record, management perceives the credit risk to be low. Typically the outstanding accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. At December 31, 2016, five customers accounted for 74% (2016 – five for 73%) of the outstanding balance. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $10,000 (2015 - $18,295).

Currency risk

The Company is exposed to currency risk given its global customer base. Over 90% of its revenue is denominated in either U.S. dollars or Euros. The Company does not use financial instruments to hedge this currency risk. At December 31, 2016, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	2016	2015	2016	2015
Cash	7,448	107,094	85	489
Accounts receivable	423,030	500,626	229,658	-
Accounts payable and and accrued liabilities	369,592	542,726	21,587	568

Currency risk (continued)

The impact of a 5% increase in the Canadian dollar against the US dollar would result in an annual revenue loss of about 4.7%. The impact of a 5% increase in the Canadian dollar against the Euro would result in an annual revenue loss of about 5%.

Liquidity risk

Liquidity risk measures the Company's ability to meet its financial obligations when they fall due. To manage this situation, the Company projects and monitors its cash requirements to accommodate changes in liquidity needs. In addition, during the quarter the Company announced that it has arranged a new secured revolving credit facility with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The new credit facility is being used to fund the Company's need for working capital to expand its existing business, including the recently announced expansion of Virology product sales in the Asia Pacific region, as well as the launch of the Company's new molecular controls product line later in the calendar year. The new credit arrangement offers the flexibility to expand the available credit based on a semi-annual review of the Company's business plans, sales projections and general financial position by the TD Bank and EDC. Management expects this new facility will satisfy the Company's liquidity needs and help manage the liquidity risk going forward.

Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk include those assets and liabilities with a variable interest rate. Exposure to interest rate risk is primarily on the BDC debt that has a variable rate pegged to the bank rate. The rate can be fixed, if the outlook indicates interest rates will move higher. The only other variable debt the Company has is the $1,000,000 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 $30,000 per year for BDC and about $10,000 on the line of credit usage if it were fully used throughout the fiscal year.

Market risk

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

Fair value

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

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

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

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 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, 2016 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, 2016, 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, 2016.

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, 2016 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED **Canadian Funds**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or IFRS Interpretation Committee (IFRIC) that are mandatory at certain dates or later. Management is still assessing the effects of the pronouncements on the Company. The standards impacted that may be applicable to the Company are following:

IAS 1 - Presentation of Financial Statements

IAS 1, Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of the financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information presented in the financial disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

IAS 16 and IAS 38 – Property, Plant and Equipment and Intangible Assets

IAS 16 and IAS 38, Property, Plant and Equipment and Intangible Assets were amended by IASB in December 2013. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset are not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

IFRS 9 – Financial Instruments

IFRS 9, Financial Instruments was issued in final form by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

Most requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements.

The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. In addition, a single, forward-looking expected loss impairment model is introduced, which will require more timely recognition of expected credit losses. IFRS 9 is effective for annual period beginning on or after January 1, 2018. Earlier application is permitted.

The Company will continue to assess any impact on the classification and measurement of the Company's financial assets, as well as any impact on the classification and measurement of its financial liabilities.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers was issued by IASB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple- element arrangements. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue – Barter Transactions Involving Advertising Services.

The Company has commenced a review process to assess any impact on its current revenue recognition policies and reporting processes.

IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16, which outlines requirements for lessees to recognize assets and liabilities for most leases. Lessees are required to recognize the lease liability for the obligations to make lease payments and a right- of-use asset for the right to use the underlying asset for the lease term. Lease liability is measured at the present value of lease payments to be made over the term of the lease. The right-of-use asset is initially measured at the amount of the lease liability and adjusted for prepayments, direct costs and incentives received.

The new standard will be effective for annual periods beginning on or after January 1, 2019. Early recognition is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16. The Company has commenced a review process to assess any impact on its current revenue recognition policies and reporting processes.

NOTICE TO READER OF THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS **Canadian Funds**

Pursuant to National Instrument 51-102, Part 4, sub section 4.3(3)(a) issued by the Canadian Securities Administrators, if an audit 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

As at December 31, 2016 and September 30, 2016 — **Canadian Funds**

	As at December 31, 2016 $	As at September 30, 2016 $
ASSETS		
Current Assets		
Cash	1,680	5,415
Accounts receivable	1,081,314	2,021,872
Inventory (note 5)	3,674,424	3,395,993
Prepaid expenses and other assets (note 6)	62,376	55,541
Investment tax credit receivable (note 18)	222,398	182,398
Total Current Assets	5,042,192	5,661,219
Long-term Assets		
Deferred tax asset (note 18)	1,280,000	1,130,000
Property, plant and equipment (note 7)	12,214,333	12,251,984
Intangible assets (note 8)	6,347,160	6,204,260
Total Long-term Assets	19,841,493	19,586,244
Total Assets	24,883,685	25,247,463
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	1,965,191	1,898,515
Current portion of finance lease obligation	1,647	1,647
Current portion of long-term debt (note 10)	1,059,199	1,069,455
Current portion of debentures (note 9)	1,102,284	1,595,882
Deferred revenue (note 11)	907,680	683,494
Total Current Liabilities	5,036,001	5,248,993
Finance lease obligation	9,365	11,012
Non-convertible debenture (note 9)	637,413	635,020
Convertible debentures (note 9)	1,064,039	1,127,657
Long-term debt (note 10)	2,856,371	2,933,040
Total Long-term Liabilities	4,567,189	4,706,729
Total Liabilities	9,603,189	9,955,722
SHAREHOLDERS' EQUITY		
Share Capital (note 12)	31,299,416	31,299,416
Equity Component Of Convertible Debentures (note 9)	2,903,791	2,351,425
Contributed Surplus (note 13)	7,590,510	4,937,649
Accumulated Deficit	(26,513,221)	(23,296,749)
Total Shareholders' Equity	15,280,496	15,291,741
Total Liabilities & Shareholders' Equity	24,883,685	25,247,463

Commitments and Contingencies (Note 28)

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 (LOSS)

For the Three Months Ended December 31 **Canadian Funds**

	2016 $	2015 $
SALES		
Virology products and technologies	1,886,824	1,009,316
Royalties	65,678	54,089
Total Sales	1,952,502	1,063,405
COST OF GOODS SOLD		
Virology products and technologies (note 17)	1,115,610	687,375
Royalties	22,363	18,576
Total Cost of Goods Sold	1,137,973	705,951
GROSS MARGIN	814,529	357,454
EXPENSES		
Selling and business development (note 17)	142,932	141,379
General and administrative (note 17)	776,956	425,672
Research and development (note 17)	201,150	39,190
Financial expenses (note 19)	218,897	179,633
NET COMPREHENSIVE OPERATING INCOME (LOSS) BEFORE DEBT RESTRUCTURING AND SETTLEMENT EXPENSES	(525,406)	(428,420)
Debt restructuring expense (note 9)	2,582,526	-
Settlement expense (note 27)	258,540	-
NET COMPREHENSIVE OPERATING INCOME (LOSS) FOR THE PERIOD	(3,366,472)	(428,420)
INCOME TAXES		
Deferred income taxes	(150,000)	(90,000)
Current income taxes	-	-
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	(3,216,472)	(338,420)
NET COMPREHENSIVE INCOME PER SHARE		
Basic (note 16)	(0.038)	(0.004)
Diluted (note 16)	(0.038)	(0.004)

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

For the Three Months Ended December 31 **Canadian Funds**

	2016 $	2015 $
Operating Activities		
Net Comprehensive Income (Loss) For The Period	(3,216,472)	(338,420)
Items not affecting cash		
Amortization and depreciation	101,465	101,780
Accretion of debentures	30,293	5,870
Stock options expense (Note 15)	55,576	84,841
Deferred revenue	224,186	8,720
Debt restructuring expense (Note 27)	2,582,256	-
Deferred tax asset	(150,000)	(90,000)
Change in non-cash working capital balances (Note 18)	681,968	195,511
Cash Provided By (Used In) Operating Activities	309,542	(31,698)
Investing Activities		
Purchase of property and equipment (Note 7)	(38,949)	(234,829)
Additions from internal development of intangible assets (Note 8)	(166,792)	(441,955)
Cash Used In Investing Activities	(205,741)	(676,784)
Financing Activities		
Repayments of long term-debt (Note 10)	(81,925)	(60,705)
Repayments of convertible and non-convertible debentures (Note 9)	(18,964)	(18,432)
Repayments of shareholders' loans	(200,000)	-
Repayments of finance lease	(1,647)	(1,487)
Proceeds (repayments) of credit facility (Note 10)	195,000	(30,315)
Proceeds from equipment loans (Note 10)	-	250,000
Issue of common shares, net of issue costs	-	531,674
Cash Provided By (Used In) Financing Activities	(107,536)	670,735
Net Change In Cash - During the Period	(3,735)	(37,747)
Cash - Beginning of Period	5,415	104,180
Cash - End of Period	1,680	66,433

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

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

As at December 31, 2016 and September 30, 2016 **Canadian Funds**

	Share Capital (note 12)					
	Number of Shares	Stated Capital $	Contributed Surplus $	Deficit $	Equity Component of Debenture $	Total Shareholders' Equity $
Balance, September 30, 2015	**83,204,257**	**30,990,459**	**4,380,182**	**(24,045,156)**	**2,351,425**	**13,676,910**
Share issuances pursuant to private placement	1,500,000	362,069				362,069
Issuance of warrants pursuant to private placement			237,931			237,931
Share issue costs pursuant to private placement		(53,112)	(15,214)			(68,326)
Stock option expense			84,841			84,841
Net comprehensive income (loss) for the period			(338,420)		(338,420)	
Balance, December 31, 2015	**84,704,257**	**31,299,416**	**4,687,740**	**(24,383,576)**	**2,351,425**	**13,955,005**
Stock option expense			249,909			249,909
Net comprehensive income (loss) for the period			1,086,827		1,086,827	
Balance, September 30, 2016	**84,704,257**	**31,299,416**	**4,937,649**	**(23,296,749)**	**2,351,425**	**15,291,741**
Stock option expense			55,576			55,576
Issuance of warrants pursuant to refinancing of convertible debentures			245,860			245,860
Conversion of a convertible debenture to a non convertible debenture			86,680		(86,680)	-
Extinguishment of convertible debentures			2,264,745		(2,264,745)	-
Refinancing of convertible debentures					2,903,791	2,903,791
Net comprehensive income (loss) for the period			(3,216,472)		(3,216,472)	
Balance, December 31, 2016	**84,704,257**	**31,299,416**	**7,590,510**	**(26,513,221)**	**2,903,791**	**15,280,496**

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

1. NATURE OF THE BUSINESS

Microbix Biosystems Inc. ("Microbix" or the "Company") (TSX: MBX) is incorporated under the laws of Province of Ontario. The Company 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 two technologies for large markets including the thrombolytic drug, Kinlytic® (Urokinase), and an animal reproductive technology in development, LumiSort™. The Company continually invests in Virology to adopt current technologies and standards. The manufacturing facility operates under an infectious diseases biological license from the Canadian Food Inspection Agency.

The Company operates the Virology Business in its owned manufacturing facility at 265 Watline Avenue, Mississauga, Ontario, L4Z 1P3.

2. BASIS OF PREPARATION

The Company's management prepared these 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 for the three months ended December 31, 2016. The Board of Directors approved these consolidated financial statements on February 13, 2017.

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. For each entity, the Company determines the functional currency and items included in the financial statements of each entity are measured using the functional currency, which represents the currency of the primary economic environment in which each entity operates. The consolidated financial statements are presented in Canadian dollars.

Basis of consolidation
These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Crucible Biotechnologies Limited, which the Company has control. Control exists when the entity is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The non-controlling interest component, if any, of the Company's subsidiaries is included in equity.

The financial statements of the Company's subsidiary is prepared for the same reporting period as the Company, using consistent accounting policies. All intra-company balances, transactions, unrealized gains and losses resulting from intra-company transactions and dividends are eliminated in full.

There has been no business activity in the subsidiary during the three months ended December 31, 2016 and 2015. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of estimates and judgements
The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from estimates and such differences could be material.

Key areas of managerial judgements and estimates are as follows:

i) **Property, plant and equipment:**
Measurement of property, plant and equipment involves the use of estimates for determining the expected useful lives of depreciable assets. Management's judgement is also required to determine depreciation methods and an asset's residual value and whether an asset is a qualifying asset for the purposes of capitalizing borrowing costs.

ii) **Internally generated intangible assets:**
Management monitors the progress of each internal research and development project. Significant judgement is required to distinguish between the research and development phases. Development costs are recognized as an asset when the following criteria are met: (i) technical feasibility; (ii) management's intention to complete the project; (iii) the ability to use or sell; (iv) the ability to generate future economic benefits; (v) availability of technical and financial resources; (vi) ability to measure the expenditures reliably. Research costs are expensed as incurred. Management also monitors whether the recognition requirements for development assets continue to be met and whether there are any indicators that capitalized costs may be impaired.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and judgements (continued)

iii) Financial assets and liabilities:

Estimates and judgements are also made in the determination of fair value of financial assets and liabilities and include assumptions and estimates regarding future interest rates, the relative creditworthiness of the Company to its counterparties, the credit risk of the Company's counterparties relative to the Company, the estimated future cash flows and discount rates.

iv) Income taxes:

The Company recognizes deferred tax assets, related tax-loss carry-forwards and other deductible temporary differences where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. This requires significant estimates and assumptions regarding future earnings, and the ability to implement certain tax planning opportunities in order to assess the likelihood of utilizing such losses and deductions.

v) Fair value of share-based compensation:

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, dividend yield and forfeiture rates and making assumptions about them.

Revenue recognition

Revenues from product sales are recognized when persuasive evidence of an arrangement exists, the product is shipped, received or accepted by the customer, there are no future performance obligations, the purchase price is fixed and determinable, and collectability is reasonably assured.

Revenues from licensing are recognized when the service is rendered or the deliverables are substantially complete and other revenue recognition criteria are met.

For upfront, non-refundable payments received in accordance with the execution of licensing and collaboration agreements, revenue is deferred and recognized over the performance period, the period over which the Company maintains substantive contractual obligations.

Amounts the Company expects to earn in the current year are included in the current portion of deferred revenue and amounts expected to be earned in subsequent periods are included in deferred revenue. The term over which upfront fees are recognized is revised if the period over which the Company maintains substantive contractual obligations changes.

Milestone payments are immediately recognized as licensing revenue when the condition is met, if the milestone is not a condition to future deliverables and collectability is reasonably assured. Otherwise, they are recognized over the remaining term of the agreement or the performance period.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash
Cash consists of cash on hand and deposits with banks and investments in highly liquid instruments with original maturities of three months or less. There are no cash equivalents held at December 31, 2016 or 2015.

Financial assets and liabilities
All financial instruments, including derivatives, are included on the consolidated statement of financial position and are measured either at fair market value or, in limited circumstances, at cost or amortized cost. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications as follows:

- Held-for-trading financial assets, measured at fair value with subsequent changes in fair value recognized in current period net income;
- Held-to-maturity assets, loans and receivables and other financial liabilities, initially measured at fair value and subsequently measured at amortized cost with changes recognized in current period net income; and
- Available-for-sale financial assets, measured at fair value with subsequent gains or losses included in other comprehensive income until the asset is removed from the consolidated statements of financial position.

The following summarizes the Company's classification and measurement of financial assets and liabilities as at December 31:

	Classification	Measurement	2016	2015
			$	$
Financial assets:				
Cash	Held-for-trading	Fair value	1,680	66,433
Accounts receivable	Loans and receivables	Amortized cost	1,081,314	646,618
Financial liabilities:				
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	1,965,191	2,042,224
Finance lease obligation	Other liabilities	Amortized cost	11,012	17,353
Non-convertible debentures	Other liabilities	Amortized cost	1,334,697	919,111
Convertible debentures	Other liabilities	Amortized cost	1,469,039	2,419,209
Long-term-debt	Other liabilities	Amortized cost	3,915,570	3,981,745
Total Financial liabilities			8,695,509	9,379,642

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or financial liabilities, other than financial assets and financial liabilities measured at fair value through profit and loss ("FVTPL"), are accounted for as part of the carrying amount of the respective asset or liability at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Transaction costs on financial assets and financial liabilities measured at FVTPL are expensed in the period incurred. Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred. All derivative instruments, including embedded derivatives, are recorded in the financial statements at fair value.

Inventories
Inventory is carried at the lower of cost and market. Cost consists of direct materials, direct labour and an overhead allocation and is determined on a first-in, first-out basis. Market is defined as net realizable value, which is defined as the summation of the estimated selling price less the cost to complete less the cost to sell. Management reviews its reserve for obsolete inventory annually for finished goods and work-in-process.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment
Property and equipment are measured at cost less accumulated depreciation and impairment (if any). Cost includes the cost of material, labour and other costs directly attributable to bringing the asset to a working condition for its intended use.

Depreciation is calculated at rates which will reduce the original cost to estimated residual value over the estimated useful life of each asset. Depreciation commences once the asset is available for use.

Depreciation is provided for at the following basis and rates:

Research and development equipment	Declining balance, 10-100%
Other equipment and fixtures	Declining balance, 10-30%
Buildings	Straight line, 50 years

Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

Finance lease obligation
Leases that transfer substantially all of the benefits and risks of ownership of the asset to the Company are accounted for as finance leases. At the time a finance lease is entered into, an asset is recorded together with its related long-term obligation, reflecting the fair value of future lease payments, discounted at the appropriate interest rates. Finance lease obligations are amortized over their estimated useful lives at the same rates used for other equipment and fixtures. All other leases are classified as operating leases and expensed on a straight-line basis.

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

Impairment of long-lived assets
An impairment charge is recognized for long-lived assets, including intangible assets with definite lives, when an event or change in circumstances indicates that the assets' carrying value may not be recoverable. The impairment loss is calculated as the difference between the carrying value of the asset and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use.

Management has determined that no long-lived assets of the Company as at December 31, 2016 have met the criteria for impairment.

Share-based compensation
The Company applies the fair value method of accounting for share-based compensation for awards granted to officers, directors and employees 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 over the vesting period with an offsetting amount recorded to contributed surplus. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value.

Share options issued to consultants of the Company are based on the fair value of the services provided. 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 share capital. 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. A forfeiture rate is incorporated into the Company's assumptions. Forfeitures are estimated at the time of grant and are based on historical experience. To the extent that the actual forfeiture rate is different from the Company's estimate, share-based compensation related to these awards will be different from the Company's estimate and forfeiture rates for subsequent periods are revised.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation
Foreign currency denominated revenues and expenses are translated by use of the exchange rate in effect at the end of the month in which the transaction occurs. Foreign currency denominated monetary assets and liabilities are translated at the year-end date. Exchange gains and losses arising on these transactions are included in the consolidated statements of comprehensive income for the period.

Income per common share
The Company calculates basic income per share amounts for profit or loss attributable to ordinary equity holders. Basic income per share is calculated using the weighted average number of common shares outstanding during the period. Diluted income per share is calculated in the same manner as basic income per share except for adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares.

Deferred 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 are recognized to the extent that it is probable that future taxable income will be available against which temporary differences can be utilized. 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 deferred income tax assets and liabilities in the year that the rate changes are substantively enacted, with a corresponding charge to income. The amount of deferred tax assets recognized is limited to the amount that is more likely than not to be realized.

Research and development expenses
Costs associated with research and development activities are expensed during the year in which they are incurred net of tax credits earned, except where product development costs meet the criteria under IFRS for deferral and amortization.

Investment tax credits
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. Investment tax credits are accounted for 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. These credits are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the credits in the foreseeable future.

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or IFRS Interpretation Committee ("IFRIC") that are mandatory at certain dates or later. Management is still assessing the effects of the pronouncements on the Company. The standards impacted that may be applicable to the Company are following:

IAS 1 - Presentation of Financial Statements
IAS 1, Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements.

For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of the financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information presented in the financial disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED (continued)

IFRS 9 - Financial Instruments
IFRS 9, Financial Instruments ("IFRS") was issued in final form by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

Most requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements.

The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. In addition, a single, forward-looking expected loss impairment model is introduced, which will require more timely recognition of expected credit losses. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

The Company will continue to assess any impact on the classification and measurement of the Company's financial assets, as well as any impact on the classification and measurement of its financial liabilities.

IFRS 15 - Revenue from Contracts with Customers
IFRS 15, Revenue from Contracts with Customers ("IFRS 15") was issued by the IASB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue - Barter Transactions Involving Advertising Services.

The Company has commenced a review process to assess any impact on its current revenue recognition policies and reporting processes.

IFRS 16, Leases
On January 13, 2016, the IASB issued IFRS 16, which outlines requirements for lessees to recognize assets and liabilities for most leases. Lessees are required to recognize the lease liability for the obligations to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Lease liability is measured at the present value of lease payments to be made over the term of the lease. The right-of-use asset is initially measured at the amount of the lease liability and adjusted for prepayments, direct costs and incentives received.

The new standard will be effective for annual periods beginning on or after January 1, 2019. Early recognition is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16. The Company has commenced a review process to assess any impact on its current revenue recognition policies and reporting processes.

IAS 16 – Property, Plant and Equipment and IAS 38 – Intangibles
In May 2014, the IASB issued amendments to IAS 16 and IAS 38, prohibiting the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016 and is to be applied prospectively. The Company has reviewed these standards and determined there is no material impact on the consolidated financial statements.

5. INVENTORIES

Inventories as at December 31 consist of the following:

	2016 $	2015 $
Raw material	389,109	671,825
Work in process	710,409	787,386
Finished goods	2,574,906	2,560,625
	3,674,424	4,019,836

During the three months ended December 31, 2016, inventories in the amount of $1,137,973, (2015 - $705,951) were recognized as an expense through cost of sales. The allowance for inventory impairment as at December 31, 2016 was $30,561 (2015 - $53,597).

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets as at December 31, 2016 were $62,376 (2015 - $125,977) and primarily consist of insurance policy premiums.

7. PROPERTY, PLANT AND EQUIPMENT

The freehold land and buildings have been pledged as security for bank loans under a mortgage (see Note 10). Property plant and equipment consists of:

	Building	Research & development equipment	Other equipment and fixtures	Land	Total
Cost	**$**	**$**	**$**	**$**	**$**
Balance, Sep 30, 2016	4,562,383	6,794,312	4,472,883	800,000	16,629,578
Additions	-	35,029	3,920	-	38,949
Disposals	-	-	-	-	-
Balance, Dec 31, 2016	4,562,383	6,829,341	4,476,803	800,000	16,668,527
Accumulated depreciation					
Balance, Sep 30, 2016	1,095,112	559,099	2,723,383	-	4,377,594
Disposals	-	-	-	-	-
Depreciation	38,090	5,967	32,543	-	76,600
Balance, Dec 31, 2016	1,133,202	565,066	2,755,926	-	4,454,194
Net book value					
Balance, Sept 30, 2016	3,467,271	6,235,213	1,749,500	800,000	12,251,984
Balance, Dec 31, 2016	3,429,181	6,264,275	1,720,877	800,000	12,214,333

Included in research and development equipment is $6,058,873 not yet available for use. Included in these amounts is directly attributable interest from borrowings to finance these asset additions of $189,521 since inception. These assets are not yet subject to depreciation.

8. INTANGIBLE ASSETS

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

License agreement, LumiSort™ (Note 8a)	5%
Technology investments, patents and trademarks	
LumiSort™ (Note 8a)	5%

Intangible assets consist of:

	Capitalized development costs		Patents and trademarks		Licenses	
	LumiSort™	Bioreactor	Kinlytic®	LumiSort™	LumiSort™	Total
	(a)	(c)	(b)	(a)	(a)	
Cost	**$**	**$**	**$**	**$**	**$**	
Balance at September 30, 2016	30,532	2,000,973	2,770,529	2,041,777	278,528	7,122,339
Additions from internal developments	40,190	-	95,884	30,718	-	166,792
Balance at December 31, 2016	**70,722**	**2,000,973**	**2,866,413**	**2,072,495**	**278,528**	**7,289,131**
Accumulated amortization						
Balance at September 30, 2016	**5,757**	**-**	**-**	**676,646**	**235,676**	**918,079**
Amortization expense	248	-	-	18,288	5,356	23,892
Balance at December 31, 2016	**6,005**	**-**	**-**	**694,934**	**241,032**	**941,971**
Net book value						
Balance, September 31, 2016	24,775	2,000,973	2,770,529	1,365,131	42,852	6,204,260
Balance, December 31, 2016	**64,717**	**2,000,973**	**2,866,413**	**1,377,561**	**37,496**	**6,347,160**

(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.

The recoverable amount of the Lumisort intangible has been determined based on its fair value less cost to sell. Key assumptions include growth rates in line with industry expectations and a discount rate determined based on the Company's best estimate of a risk adjusted discount rate.

(b) Kinlytic®

The Company acquired the assets and rights pertaining to development, production, and licensing of Kinlytic® from ImaRX Therapeutics, Inc. 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 financial budgets.

Management made these assumptions based on probabilities of technical, regulatory and clinical acceptances and financial support. Management 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. The discount rate has been determined based on the Company's best estimate of a risk adjusted discount rate.

8. INTANGIBLE ASSETS (continued)

(c) Bioreactor
The Company has internally developed an improved bioreactor production process ("Bioreactor") to increase the efficiency and output of manufacturing certain virology products. As at September 30, 2016, the process development was complete.

9. DEBENTURES

The Company has convertible and non-convertible debentures issued and outstanding as at December 31, 2016. The carrying values of the debt component of these debentures are as follows:

	Non-convertible Debentures		Non-convertible Debentures Total			Convertible Debentures	Convertible Debentures Total
Date of issue	Jan, 2014	Oct, 2016		Oct, 2016	Oct, 2016	Oct, 2016	
Proceeds of issue	$2,000,000	$500,000		$1,500,000	$500,000	$2,500,000	
	$	$	$	$	$	$	$
Balance, October 1, 2016	**879,304**	**-**	**879,304**	**537,686**	**492,812**	**949,971**	**1,980,469**
Balance, date of extinguishment	-	500,000	500,000	538,965	497,502	952,564	1,990,245
Fair value of new debentures	-	453,000	453,000	461,550	223,050	780,750	1,465,350
Difference	-	47,000	47,000	77,415	274,452	171,814	524,895
Balance, Prior to accretion/ repayments	**879,304**	**453,000**	**1,332,304**	**461,550**	**223,050**	**780,750**	**1,465,350**
Accretion	41,537	34,563	76,100	34,299	14,786	55,855	104,939
Repayments	(61,071)	(12,636)	(73,707)	(33,750)	(11,250)	(56,250)	(101,250)
Balance, December 31, 2016	**859,770**	**474,927**	**1,334,697**	**462,099**	**226,586**	**780,355**	**1,469,039**
Less: current portion	244,284	453,000	697,284	135,000	45,000	225,000	405,000
Non-current portion	615,486	21,927	637,413	327,099	181,586	555,355	1,064,039
Note	(a)	(b)		(c)	(d)	(e)	

During the quarter the Company arranged a new secured revolving credit facility jointly with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The new credit facility is being used to fund the Company's need for working capital to expand its existing business, including the recently announced expansion of Virology product sales in the Asia Pacific region, as well as the launch of the Company's new molecular controls product line later in the calendar year. The new credit arrangement offers the flexibility to expand the available credit based on a semi-annual review of the Company's business plans, sales projections and general financial position by the TD Bank and EDC.

To accommodate the additional security required by TD Bank and EDC, effective October 12, 2016, the Company negotiated amended terms with the two holders of its issued and outstanding convertible debentures, in exchange for reducing their security position to one of unlimited subordination to the credit facility lenders.

The largest debenture holder has two convertible debentures; a $2.5 million debenture, (e) above, maturing in 2028 that was originally convertible at $0.65 per common share, and a $1.5 million debenture, (c) above, maturing in 2029 that was originally convertible at $0.35 per common share. The conversion price for both of these debentures has been amended to $0.23 per common share, and these debentures are now subject to restricted conversion privileges of a combined total of 1 million shares per year for the next five years, with the remaining balances being eligible for conversion through the end of their expiry dates in 2028 and 2029, respectively.

The second debenture holder has two convertible debentures of $0.5 million each, both originally convertible at $0.90 per common share and maturing on October 12, 2016 and February 15, 2017. Terms of these debentures have also been amended. The October debenture now matures on April 30, 2017 and it becomes non-convertible, shown at (b) above, and the stated interest rate increases from 9% to 12% for the remaining term. The February debenture maturity date has been extended to February 15, 2022, and the conversion price has been revised to $0.23 per common share, see (d) above. The February debenture is callable at the option of the holder at any time after February 15, 2017 for outstanding principal and accrued interest. In addition, the second debenture holder has received 1.5 million common share purchase warrants, with an exercise price of $0.23 per common share and a term of five years.

9. DEBENTURES (continued)

The Company has accounted for the modifications to each of the debentures as an extinguishment with the recognition of a new instrument. Upon extinguishment of the debentures, the Company has recognized a non-cash loss of $2,336,666 in the consolidated statement of income and comprehensive income. The Company measured the non-cash loss based on the change in fair value of the debentures under the original terms and the modified terms. In addition, the Company has recognized the warrants at the time of grant for an amount based on the Black-Scholes option pricing model of $245,860, which is affected by the Company's share price as well as assumptions regarding a number of subjective variables.

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

Convertible debentures contain two components: liability and equity elements. The equity element is presented in equity under the heading of "equity component of debentures". Convertible debentures are initially accounted for in accordance with their substance and are presented in the consolidated financial statements in their component parts measured at the time of issue. The debt components were valued first with the residual to shareholders' equity. The Convertible debentures are convertible at the option of the holder, at any time, into fully paid and non-assessable Common Shares of the Company at the Conversion Price then in effect.

All of the debentures were issued to shareholders of the Company. A holder of a debenture has an economic interest in future earnings of the Lumisort asset and will receive a distribution equal to 5% of any future earnings that are derived from the Lumisort asset. 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.

Note	(a)	(b)	(c)	(d)	(e)
Date of issue	Jan, 2014	Oct, 2016	Oct, 2016	Oct, 2016	Oct, 2016
Face value	$ 2,000,000	$ 500,000	$ 1,500,000	$ 500,000	$ 2,500,000
Liability component at					
the date of issue	$ 928,373	$ 453,000	$ 461,550	$ 223,050	$ 780,750
the report date	$ 859,770	$ 474,927	$ 462,099	$ 226,586	$ 780,355
Equity component reclassifed to					
contributed surplus upon extinguishment	-	$ 86,680	$ 916,971	$ 111,042	$ 1,236,732
Equity component at					
report date	-	$ -	$ 574,435	$ 631,222	$ 1,698,134
Conversion price per common share	$ -	$ -	$ 0.23	$ 0.23	$ 0.23
Effective interest rate charged	25.69%	33.79%	35.02%	33.79%	33.79%
Payment frequency	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Maturity of financial instrument	Jan, 2029	Apr, 2017	Jan, 2029	Feb, 2022	Sep, 2028
Stated interest rate	9%	12%	9%	9%	9%
Terms of repayment	Principal and interest	Interest only	Interest only	Interest only	Interest only
Blended quarterly repayment	$ 61,071	N/A	N/A	N/A	N/A

10. LONG-TERM DEBT

a) In fiscal 2009 the Company negotiated a series of loans totalling $3,061,000 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	61,000
	3,061,000

The loans are secured with the building and equipment. For loans totalling $3,000,000, consecutive monthly principal payments of $9,260 are due to February 2037 on the outstanding balance of $2,352,040 (September 30, 2016 - $2,379,820). For loans totalling $61,000, consecutive monthly principal payments of $725 are due to February 2017 on the outstanding balance of $1,450 (September 30, 2016 – $3,625). Both of the loans have a floating interest rate based on BDC's Floating Base Rate plus 0.5%. At December 31, 2015 the Floating Base Rate was 4.7%.

In fiscal 2015 and 2016 the Company negotiated a series of loans totalling $1,115,000 with the BDC, for process equipment upgrades in its manufacturing facility.

	$
Equipment for bioreactor project	615,000
Construction of manufacturing facility	50,000
Purchase of equipment for facility	200,000
Working capital loan	250,000
	1,115,000

For loans totalling $615,000, consecutive monthly principal payments of $10,250 are due to July 2020 on the outstanding balance of $440,750 (September 30, 2016 - $471,500). or loans totalling $50,000, consecutive monthly principal payments of $1,040 are due to December 2019 on the outstanding balance of $38,480 (September 30, 2016 – $40,560). For loans totalling $200,000, consecutive monthly principal payments of $3,330 are due to December 2020 on the outstanding balance of $163,170 (Sept 30, 2016 – $169,830). On October 9, 2015, the Company entered into a loan agreement with BDC for $250,000, monthly principal payments of $4,160 are due on December 22, 2020 on the outstanding balance of $199,680 (Sept 30, 2016 – $212,160).

All BDC loans have a floating interest rate based on BDC's floating base rate plus 0.5% - 1.8%. At December 31, 2016, the floating base rate was 4.7%.

The commitment for the next five years for the BDC loans is as follows:

	$
2017	337,930
2018	336,480
2019	336,480
2020	272,750
2021	111,120
2022 and thereafter	1,796,440

10. LONG-TERM DEBT (continued)

b) During the quarter, the Company arranged a new revolving line of credit agreement with its Canadian chartered bank. The new credit arrangement offers the flexibility to expand the available credit, based on a semi-annual review of the Company's business plans, sales projections and general financial position; by the TD Bank and Export Development Corporation. Accounts receivable and inventory are pledged as collateral for the bank credit facility. Currently the Company can draw up to $1,000,000 bearing interest at the bank's prime lending rate plus 2.25%.

At December 31, 2016 the Company had drawn on $720,000 of the facility (2015 - $265,000).

c) On December 31, 2015 the Company issued two outstanding shareholder loans for total proceeds of $200,000. These loans were repaid on December 31, 2016.

11. DEFERRED REVENUE

As at December 31, 2016, the Company has received payment, in the amount of $907,680 (2015 - $198,271), for a portion of product sales which was not yet shipped. This amount has been recognized as deferred revenue under the current liabilities in the consolidated statements of comprehensive income.

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 number of issued and outstanding common shares and the stated capital of the Company as at December 31, 2016 are presented below:

	Number of Shares	Stated Capital ($)
Balance, September 30, 2016	84,704,257	31,299,416
Exercise of warrants	-	-
Exercise of stock options	-	-
Balance, December 31, 2016	84,704,257	31,299,416

13. CONTRIBUTED SURPLUS

Changes in contributed surplus up to December 31, 2016 are described as follows:

	$
Balance, September 30, 2016	4,937,649
Issuance of warrants pursuant to refinancing of convertible debentures	245,860
Reclassification of equity portion of a convertible debenture converted to a non convertible debenture	86,680
Reclassification of equity portion of extinguished convertible debentures	2,264,745
Stock options expensed	55,576
Balance, December 31, 2016	7,590,510

14. COMMON SHARE PURCHASE WARRANTS

A continuity of the Company's warrants outstanding as at December 31, 2016 and September 30, 2016 is presented in the following table:

	Units	Weighted average exercise price
		$
Outstanding, September 30, 2016	**7,024,392**	**$ 0.54**
Issued	1,500,000	$ 0.23
Expired	(193,079)	$ 0.25
Outstanding, September 30, 2016	**8,331,313**	**$ 0.49**

A summary of the Company's warrants outstanding as at December 31, 2016 and September 30, 2016 is presented in the following table:

	December 31, 2016			September 30, 2016		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life
		$	years		$	years
Range of exercise prices:						
$0.55	6,831,313	$ 0.55	2.92	6,831,313	$ 0.55	3.13
$0.23 to $0.40	1,500,000	$ 0.23	4.79	193,079	$ 0.25	0.02
	8,331,313	$ 0.49	3.26	7,024,392	$ 0.54	3.13

15. STOCK OPTION PLAN

On March 5, 2013 and January 16, 2015 the shareholders of the Company approved resolutions to amend the Company's stock option plan. These amendments 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 a total of 4,327,000 options issued and pending (2015 – 4,872,000).

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 activity under the Company's stock option plan for the three months ended December 31, 2016 is as follows:

	Units	Weighted average exercise price
		$
Balance, September 30, 2016	**4,007,000**	**$ 0.47**
Stock options exercised	-	$ -
Stock options issued	**320,000**	$ **0.23**
Balance, December 31, 2016	**4,327,000**	**$ 0.47**
Exercisable, December 31, 2016	**2,253,200**	**$ 0.42**

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, 2016 and September 30, 2016:

	December 31, 2016			September 30, 2016		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life
		$	years		$	years
Range of exercise prices:						
$0.33 to $0.55	2,923,000	$ 0.54	2.42	2,923,000	$ 0.54	2.79
$0.23 to $0.32	1,404,000	$ 0.27	2.78	1,084,000	$ 0.28	2.10
	4,327,000	$ 0.45	2.53	4,007,000	$ 0.47	2.60

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. Stock options are assumed to be exercised at the end of the option's life, as management believes the probability of an early exercise is remote. During the period, the fair value of the options vested in the year were expensed and credited to contributed surplus.

16. INCOME (LOSS) PER SHARE

Basic income (loss) per share is calculated using the weighted average number of shares outstanding. Diluted income (loss) 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	
	2016	2015
Numerator		
Numerator for basic and diluted earnings per share:		
Net income (loss) available to common shareholders ($)	$(3,216,472)	$(338,420)
Denominator for basic earnings per share:		
Weighted average common shares outstanding	84,704,257	84,531,214
Effect of dilutive securities:		
Warrants	-	42,236
Stock Options	-	129,859
Convertible Debentures	-	-
Denominator for diluted net income (loss) per share	84,704,257	84,703,309
Net income (loss) per share		
Basic	($0.038)	($0.004)
Diluted	($0.038)	($0.004)

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	
	2016	2015
Pursuant to warrants	6,831,313	6,831,313
Under stock options	4,007,000	3,788,000
Pursuant to convertible debentures	21,739,130	7,000,000
	32,577,443	17,619,313

17. EXPENSES BY NATURE

The Company has chosen to present its consolidated statements of comprehensive income based on the functions of the entity and include the following expenses by nature:

Depreciation and amortization

	Three months ended Dec 31, 2016 $	Three months ended Dec 31, 2015 $
Included in:		
Cost of goods sold	71,606	70,922
General and administrative expenses	248	258
Research and development	29,611	30,600
Total depreciation and amortization	101,465	101,780

Employee costs

	Three months ended Dec 31, 2016 $	Three months ended Dec 31, 2015 $
Short-term wages, bonuses and benefits	1,027,855	816,745
Share based payments	55,576	84,841
Total employee costs	1,083,431	901,586
Included in:		
Cost of goods sold	591,782	537,284
Research and development	188,561	61,160
General and administrative expenses	216,802	216,751
Selling and business development	86,286	86,391
Total employee costs	1,083,431	901,586

18. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended Dec 31, 2016 $	Three months ended Dec 31, 2015 $
Accounts receivable	940,558	1,045,456
Inventory	(278,431)	(394,568)
Prepaid expenses and other assets	(6,835)	90,412
Investment tax credit receivable	(40,000)	(100,000)
Accounts payable and accrued liabilities	66,676	(445,789)
	681,968	195,511

19. FINANCIAL EXPENSES

	Three months ended Dec 31, 2016 $	Three months ended Dec 31, 2015 $
Cash interest		
Interest on long-term debt	41,046	45,659
Interest on debentures	120,000	121,389
Interest other	27,558	7,329
Interest income	-	(614)
Non-cash investing and financing activities:	-	-
Accretion on debentures	30,293	5,870
Financial expenses	218,897	179,633

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 loans, and the debentures. The capital at December 31, 2016 was $22,004,091 (2015 - $21,353,863).

To date, the Company has used common equity issues, debentures, bank mortgage and other financing 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 and other financing are 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 $1,000,000 with its Canadian chartered bank, Note 10 (b).

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 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, 2016 and 2015, the Company has carried at fair value financial instruments in Level 1. At December 31, 2016, the Company's only financial instrument measured at fair value is cash, which is considered to be a Level 1 instrument. There were no transfers between levels during the year.

The three levels are defined as follows:

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

21. FINANCIAL INSTRUMENTS (continued)

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

	Date of valuation	Quoted prices in active markets (Level 1) $	Significant observable inputs (Level 2) $	Significant un observable inputs (Level 3) $
Assets measured at fair value:				
Cash	31-Dec-16	1,680	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	31-Dec-16	-	-	1,334,697
Convertible debentures	31-Dec-16	-	-	1,469,039
Long-term-debt	31-Dec-16	-	3,915,570	-

	Date of valuation	Quoted prices in active markets (Level 1) $	Significant observable inputs (Level 2) $	Significant un observable inputs (Level 3) $
Assets measured at fair value:				
Cash	31-Dec-15	66,433	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	31-Dec-15	-	-	919,111
Convertible debentures	31-Dec-15	-	-	2,419,209
Long-term-debt	31-Dec-15	-	3,981,745	-

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

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

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

22. FINANCIAL RISK MANAGEMENT

The primary risks that affect the Company are set out below and the risks have not changed during the reporting periods. 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.

Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is the responsibility of the corporate finance function. Material risks are monitored and are regularly discussed with the Audit Committee of the Board of Directors.

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 three months ended December 31, 2016, five customers accounted for 76% (2015 - five customers accounted for 73%) of revenue. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $10,000 (2015 - $18,295).

Trade accounts receivable are aged as follows at December 31:

	As at Dec 31, 2016 $	As at Dec 31, 2015 $
Current	673,865	560,318
0-30 days past due	103,134	40,825
31-60 days past due	299,398	43,945
61 days and over past due	4,917	1,530
	1,081,314	646,618

Market risk and foreign currency risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, will affect the Company's income or the value of its financial instruments. The Company's activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products and services to customers invoiced in foreign currencies and the purchase of services invoiced in foreign currencies. The Company does not use financial instruments to hedge these risks. As at December 31 the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	2016	2015	2016	2015
	$	$	$	$
Cash	7,448	107,094	85	489
Accounts receivable	423,030	500,626	229,658	-
Accounts payable and accrued liabilities	369,592	542,726	21,587	568

22. FINANCIAL RISK MANAGEMENT (continued)

Market risk and foreign currency risk (continued)

The Company's revenue and expenses by foreign currency for the quarters ended December 31, 2016 and 2015 are as follows:

	2016	2015
Revenue		
European Euro	32%	39%
U.S. dollars	64%	56%
Expenses		
U.S. dollars	15%	13%

The impact of a 5% increase in the Canadian dollar against the US dollar would result in a revenue loss of about 4.7%. The impact of a 5% increase in the Canadian dollar against the Euro would result in a revenue loss of about 5%.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to help determine the funds required to support the normal operating requirements on an ongoing basis. The Company has financed its cash requirements primarily through issuance of securities, short-term borrowings, long-term debt and debentures. The Company controls liquidity risk through management of working capital, cash flows and the availability of sourcing of financing.

Interest rate risk

Financial instruments that potentially subject the Company to cash flow interest rate risk are those assets and labilities with a variable interest rate. Interest rate 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 at the Company's option, if the outlook for interest rates should move higher. The only other variable debt the Company has is the $1,000,000 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 $30,000 per year for BDC and about $10,000 on the line of credit usage if it were fully used throughout the fiscal year.

23. SEGMENTED INFORMATION

The Company operates in two industries: (i) the development, manufacturing and distribution of cell-based products and technology and, (ii) the 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 profits from continuing operations by reportable segment:

	Segment revenue		Segment profit	
	2016	2015	2016	2015
	$	$	$	$
Virology Products and Technologies	1,952,502	1,063,405	(3,216,472)	(338,420)
Lumisort™	-	-	-	-
Kinlytic®	-	-	-	-
Total for continuing operations	1,952,502	1,063,405	(3,216,472)	(338,420)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2015 - $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.

Segmented assets and liabilities as at December 31 are as follows:

	Segment assets		Segment liabilities	
	2016	2015	2016	2015
	$	$	$	$
Virology Products and Technologies	12,057,623	13,770,412	8,425,429	8,802,529
Lumisort™	8,679,653	6,991,977	457,760	775,384
Kinlytic®	2,866,413	2,770,529	-	-
Total for continuing operations	23,603,689	23,532,918	8,883,189	9,577,913

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)

Segmented depreciation and amortization and additions to non-current assets as at December 31 are as follows:

	Depreciation and amortization		Additions to non-current assets	
	2016	2015	2016	2015
	$	$	$	$
Virology Products and Technologies	77,573	78,136	38,949	478,282
Lumisort™	23,892	23,644	70,908	198,502
Kinlytic®	-	-	95,884	-
Total for continuing operations	101,465	101,780	205,741	676,784

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 customer's operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers		Non-current assets	
	2016	2015	2016	2015
	$	$	$	$
North America	727,396	311,587	19,841,493	18,423,804
Europe	901,691	610,540	-	-
Other foreign countries	323,415	141,278	-	-
	1,952,502	1,063,405	19,841,493	18,423,804

25. RELATED PARTY TRANSACTIONS

Key Management Compensation

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

	Three months ended Dec 31, 2016	Three months ended Dec 31, 2015
	$	$
Short-term wages, bonuses and benefits	189,920	189,055
Termination benefits	-	-
Share based payments	36,406	-
Total key management compensation	226,326	189,055

The Company has issued and outstanding debentures with two shareholders of the Company (see note 9). On December 31, 2015 the Company had issued two shareholder loans for total proceeds of $200,000. On December 31, 2016, the two outstanding shareholder loans were repaid.

26. COMMITMENTS AND CONTINGENCIES

Lease commitments

	Amount $
2016	23,617
2017	6,082
2018	3,096
2019	-
2020	-
	32,795

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

	Amount $
2016	1,169,242
2017	649,242
2018	649,242
2019	649,242
2020	649,242
2021 and thereafter	8,697,089
	12,463,299

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.

27. SETTLEMENT OF DISPUTE – SALE OF MICROBIX' WFI BUSINESS TO IRVINE SCIENTIFIC

On December 30, 2016 Microbix reached a final settlement with Irvine Scientific Inc. over an ongoing dispute related to the sale of the Company's Water-for-Injection business to Irvine Scientific that occurred in December 2012. Irvine Scientific had filed a Notice of Arbitration with the American Arbitration Association in New York as stipulated in its original agreement with Microbix. Prior to initiation of the arbitration proceeding the companies agreed on final settlement terms, namely Microbix will pay Irvine a total amount of (U.S.) $192,500 in the following instalments:

- December 30, 2016 - (U.S.) $64,167
- March 31, 2017 - (U.S.) $64,167
- June 30, 2017 - (U.S.) $64,166

DIRECTORS

Peter M. Blecher
Ontario, Canada
Staff Emergency Physician
Lakeridge Health Hospital

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

Vaughn C. Embro-Pantalony [(1) (2)]
Ontario, Canada
Chief Executive Officer and President
Microbix Biosystems Inc.

William J. Gastle [(1) (2)]
Ontario, Canada
Executive Chairman
Microbix Biosystems Inc.

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

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

Joseph D. Renner [(1) (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

James Currie
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

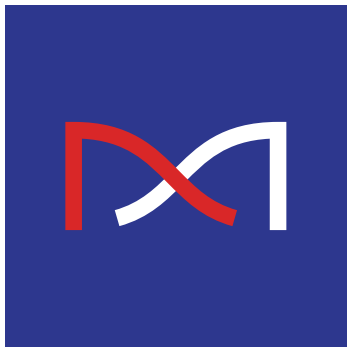
Christopher B. Lobb
General Counsel & Secretary

CORPORATE INFORMATION

Corporate Counsel	*Boyle & Co. LLP*
Auditors	*Ernst Young LLP* *Chartered Accountants*
Transfer Agent	*Canadian Stock Transfer Company Inc.* *as the Administrative Agent for* *CIBC Mellon Trust Company* *416-682-3860 1-800-387-0825*
Bankers	*The Toronto Dominian Bank*
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 Wednesday, March 8, 2017 at 1:00 PM.



MICROBIX

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