MICROBIX BIOSYSTEMS INC.

SECOND INTERIM REPORT

For the three months
ended March 31, 2014

Message to Shareholders

I am very pleased with our 2014 first-half financial results. When compared to the first-half of last year, virology products revenue grew 44%, total expenses declined 13% and the bottom line improved more than $800,000 resulting in a profit of nearly $500,000 for the first six months of 2014.

We have had a strong vote of confidence from one of our largest customers who has committed to ordering significantly higher volumes of antigen over the next several years. In the first six months, we also experienced the full effect of our many cost savings initiatives that were implemented in early 2013. Both of these factors contributed to a significant turnaround in our bottom line and improvement in net cash flow.

We have also experienced steady improvement in our overall financial position with the repayment of our operating bank loan, and improvements in both liquidity and inventory turnover, as well as ongoing improvement in our debt to equity position.

We have had a very busy spring highlighted by the kick-off of our LumiSort™ instrument development program. The first phase of the program is focused on building a compelling demonstration instrument so the industry can experience the game-changing advantages of our technology including speed, accuracy and fertility by the end of 2014. Our partner, Lathrop Engineering in California, the preeminent engineering firm in its field, is providing Microbix with unparalleled expertise to help achieve our technical goals. I look forward to providing updates as we work to complete this stage of development by the end of the year.

I am pleased to confirm that we have had several expressions of interest in Kinlytic®, after the decision by Zydus to terminate our license agreement late last year. Several candidates have signed confidentiality agreements and are evaluating the opportunity to return Kinlytic to the U.S. market. The evaluation of the Kinlytic opportunity typically requires a considerable period of assessment. I will provide updates as these discussions advance.

Also, we are working very closely with our lawyers on the VIRUSMAX® infringement action against Novartis in Texas. This action is in its preliminary stages and could ultimately reach the trial stage in late 2015. We plan to vigorously enforce our patents following our unequivocal success at the EPO in Munich earlier in the year.

For investors, of course, the ultimate measure is share price performance. In March Microbix ranked #1 among Canadian Biotech stocks for 2014 as determined by the writers of Can Tech Investment Letter following a 194% increase in share price from its low in mid December. Our management team continues to work diligently to ensure that the share price ultimately reflects the full value of the Company's activities.

V.C. Embro-Pantalony

Vaughn C. Embro-Pantalony
President and Chief Executive Officer

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

FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2014 AND 2013

The Company's Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited Consolidated Interim Financial Statements and notes and should also be read in conjunction with the audited Consolidated Financial Statements, notes and MD&A for the year ended September 30, 2013, prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on Sedar. Additional information relating to the Company, including its Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com. Reference to "we", "us", "our", or the "Company" means Microbix Biosystems Inc. unless otherwise stated. All amounts are presented in Canadian dollars unless otherwise stated. Statements contained herein, which are not historical facts, are forward looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth or implied. These forward-looking statements involve risks and uncertainties, including the difficulty in predicting product approvals, acceptance of and demand for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, regulatory enforcement, changes in operating results and other risks, some or any of which could make the results differ materially from those discussed or implied in the forward-looking statements. The Company disclaims any intent or obligation to update these forward looking statements.

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

COMPANY OVERVIEW

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

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

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

FINANCIAL OVERVIEW
SECOND QUARTER ENDING MARCH 31, 2014

Revenue in the second quarter was $2,073,097, about 1% below the comparative quarter in fiscal 2013. However, as revenue from Virology Products made up 100% of sales in the quarter, an 8% increase in gross margin was realized with a 13% increase in Virology Product sales. Additionally, the Company realized an operating income of $265,981 in the quarter, a 62% increase over the comparative quarter in 2013 after backing out the effect of a $145,266 gain from the disposal of assets in 2013.

For the six months ending March 31, 2014, Virology Products revenue was $3,812,613, or an increase of 44% compared to the first six months of 2013. Total revenue for the six months ending March 31, 2014 was $4,000,982, an increase of 25% compared to the same period in 2013. For the six months ending March 31, 2014, the Company realized an operating income of $484,026, compared to an operating loss of $321,034 for the same period in 2013, representing an improvement in the bottom line of $805,060.

CHANGES IN FINANCIAL POSITION

	As at Mar 31, 2014 $	As at Mar 31, 2013 $
Cash	1,149,667	174,685
Accounts receivable	1,753,709	634,864
Total current assets	4,414,988	2,447,274
Total assets	14,995,154	12,731,660
Total current liabilities	1,416,509	2,146,989
Total liabilities	7,906,511	8,920,287
Total shareholders' equity	7,088,642	5,002,042

SELECTED QUARTERLY FINANCIAL INFORMATION

	Jun-30-12 $	**Sep-30-12 $**	**Dec-31-12 $**	**Mar-31-13 $**	**Jun-30-13 $**	**Sep-30-13 $**	**Dec-31-13 $**	**Mar-31-14 $**
Sales	**1,413,531**	**1,884,801**	**1,095,615**	**2,103,426**	**1,906,652**	**2,468,900**	**1,927,885**	**2,073,097**
Operating Income	**(960,587)**	**(301,309)**	**(629,505)**	**308,471**	**(18,345)**	**507,558**	**214,406**	**269,620**

Revenue fluctuates quarterly due to seasonality and timing of customer orders.

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 a very strong and profitable global Virology Products manufacturing business, offering the widest range of native antigens compared to any competitor, for over 50 different infectious diseases, for the global diagnostics industry. These products are sold primarily to large, multi-national diagnostic and healthcare companies in the U.S., Europe and Asia. In addition, the Company invests heavily in a new product pipeline that leverages the underlying scientific platform of the Virology Business. It is the ongoing investment in these pipeline products that has generated the historic operating losses resulting in an accumulated deficit of $24,518,086 as at March 31, 2014. Management continuously monitors the financial position of the Company with respect to working capital and long-term capital needs compared to the annual operating budget. Variances are highlighted and actions are taken to ensure the Company is appropriately capitalized. The current annual operating budget confirms the Company is on target and able to support its planned activities.

a) Sources and Uses of Cash

During the second quarter of fiscal 2014, the closing cash balance increased $941,391 to $1,149,667 from the previous fiscal quarter. Reasons for the increase are as follows:

1) Cash used by operations of $312,696 (414,211 used in 2013) resulted from a 52% increase in accounts receivable due to the last month of the quarter with 60% of its sales and a $222,000 refundable deposit to initiate the Lumisort™ development project. .
2) Cash used in investing activities was $863,245 for new equipment, for patents and for the Lumisort™ engineering and equipment.
3) Release of $250,000 from restricted cash.
4) Cash provided by financing activities was positive at $1,867,332 due to the following:
   i) Issuance of the new $1,500,000 convertible debenture to finance the Lumisort™ project.
   ii) Proceeds of $357,725 from the exercise of warrants and $185,610 from the exercise of stock options.
   iii) Partially offset by debt repayment of $176,003.

b) Future Liquidity and Capital Needs

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

c) Contractual Obligations

The Company had certain contractual obligations and commercial commitments at March 31, 2014 described in the following table:

Payments due	**Total $**	**Less than One year $**	**2-3 Years $**	**4-5 Years $**	**After 5 years $**
Accounts payable	1,296,689	1,296,689	-	-	-
Debentures	14,119,964	694,242	2,365,984	1,208,484	9,851,254
Long-term debt	4,523,770	235,706	548,660	502,721	3,236,634
Operating leases	119,998	54,370	59,292	6,337	-
Total Contractual Obligations	**20,060,421**	**2,281,007**	**2,973,936**	**1,717,542**	**13,087,888**

Of the $14,119,964 payments on debentures, $7,000,000 is principal. Of the $4,523,770 payments on long-term debt, $2,633,070 is principal.

d) Outstanding Share Capital

Share capital issued and outstanding as at the date of this Management Discussion and Analysis, May 13, 2014 was $24,518,086 for 68,597,475 common shares, an increase of $687,201 and 1,913,125 common shares since December 31, 2013. All of this increase was due to the conversion of warrants (1,348,125) and share options (565,000) to common shares.

RELATED PARTIES

During the second quarter of fiscal 2014, the Company paid interest of $116,413 ($123,750 – 2013) on the convertible debentures issued to related party shareholders.

On January 31, 2014, the Company issued a $1,500,000 convertible debenture to a shareholder of the Company. See Note 11 e) for further detail on this transaction.

LONG-TERM DEBT

a) Non-convertible Debentures:

During the second quarter, the Company issued a $2,000,000 debenture to a shareholder of the Company, with principal and interest payable at 9% per annum on a quarterly basis, and having a maturity date of January 31, 2029. The debenture is secured against the real property and the personal property of the Company including without limiting the foregoing, a registered second mortgage on the property at 265 Watline Avenue, Mississauga, Ontario in favour of the Holder, its successors and assigns subordinate only to indebtedness to a Canadian chartered bank or similar financial institution on normal commercial terms up to the maximum principal amount of $2,000,000.

As the issuance of the non-convertible debenture and the cancellation of the $2,000,000 convertible debenture, (see Note 11 b), were transacted with the same shareholder and represent a substantial modification in the terms of the $2,000,000 debt instrument, the non-convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of issue. The debt component was valued first with the residual to shareholders' equity.

b) Convertible Debentures

During the second quarter, the Company cancelled the $2,000,000 convertible debenture issued on September 10, 2008 and replace it with a non-convertible debenture. See Note 10 for further details on the non-convertible debenture.

On January 31, 2014, the Company issued a $1,500,000 convertible debenture to a shareholder of the Company, with interest only payable at 9% per annum on a quarterly basis, and having a maturity date of January 31, 2029. The debenture is convertible into Common Shares at the option of the holder at any time on or prior to the maturity at a conversion price of $0.35 per common share. The debenture is secured against the real property and the personal property of the Company including without limiting the foregoing, a registered second mortgage on the property at 265 Watline Avenue, Mississauga, Ontario in favour of the Holder, its successors and assigns subordinate only to indebtedness to a Canadian chartered bank or similar financial institution on normal commercial terms up to the maximum principal amount of $1,500,000.

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

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

c) Business Development Corporation Debt:

In 2008 the Company assumed a $3,000,000 30-year mortgage from the Business Development Corporation (BDC) to acquire its new Virology Products manufacturing facility. The mortgage is secured by the building. The interest rate is based on BDC's Floating Base Rate plus 1.35%. At March 31, 2014 the Floating Base Rate was 5%. Principal is paid monthly in the amount of $9,260 and continues until 2037. As a condition of the mortgage, BDC withheld $250,000 as security, until the Company reached certain profitability performance targets. On February 7, 2014 the Business Development Bank advised the Company it had met the performance criteria required to release the restricted cash of $250,000.

Additionally, the BDC offered a 6 month deferral of principal payments on the mortgage beginning with the month of April, 2014. The deferral amounts to $55,560. The Company has accepted the deferred offer.

An additional loan from BDC of $350,000 was assumed in 2008 to acquire equipment for the new facility. The outstanding balance of this loan at the end of the quarter was $23,200. The interest rate on this loan is based on BDC's Floating Base Rate plus 1.8% over a term of 8 years. At March 31, 2014 the Floating Base Rate was 5.00%. Principal is paid monthly in the amount of $725 ending in August 2016.

INTANGIBLE ASSETS

a) Technology Investment - Lumisort™

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

b) Technology Investment - Urokinase

On September 23, 2008, Microbix completed a $2,770,529 acquisition of all Kinlytic® assets from ImaRx Therapeutics, Inc.

The recoverable amount of the Urokinase intangible has been determined based on a fair value less cost to sell calculation. Management made assumptions based on probabilities of technical, regulatory and clinical acceptances and financial support. Management also believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

SUBSEQUENT EVENTS

On May 1, 2014 the European Patent Office received a formal Notice of Appeal from Novartis regarding the EPO's decision in January to uphold all of Microbix' VIRUSMAX patent claims in Europe. The appeal could take 2 to 3 years to reach a formal hearing and resolution.

TREND INFORMATION

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

OUTLOOK

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

RECENT ACCOUNTING PRONOUNCEMENTS

Financial Instruments

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

Consolidated Financial Statements

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

Disclosure of Interests in Other Entities

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

Fair Value Measurement

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

CRITICAL ACCOUNTING ESTIMATES

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

Going-concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which presumes the Company will continue operating for the foreseeable future and will be able to realize a return on its assets and discharge its liabilities and commitments in the ordinary course of its business. The Company has incurred losses resulting in an accumulated deficit of $24,518,086 at March 31, 2014. The Company's ability to continue as a going concern depends upon the continued activity of its Virology Products business and the successful completion of agreements for pipeline project developments. Management continuously monitors the financial position of the Company with respect to working capital requirements as well as long-term capital needs in relation to a budget for the year. Deviations are highlighted and actions are taken to ensure the Company is appropriately capitalized. The current operating budget shows the Company is on target and able to support its planned activities for at least the next twelve months given its ongoing ability to raise new financing if required for pipeline related costs.

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

Financial performance changes in the second quarter of fiscal 2014 were:

1) Operating income was $269,620, a 62% increase over the comparative quarter in 2013 after backing out the effect of a $145,266 gain from the disposal of assets in 2013.

2) Operating expenses declined 3% compared to the comparative quarter of 2013, again, after backing out the effect of a $145,266 gain from the disposal of assets in 2013.

3) The Company's current ratio increased by 50% over the first quarter of fiscal 2014.

4) During the quarter, the Company received $2,293,325 from financing activities and the release of restricted cash. $1,500,000 of these receipts was derived from a new $1,500,000 convertible debenture for the funding of the Lumisort project. Of the balance, $523,335 was due to conversions of warrants and stock options to common stock by various holders and $250,000 was due to the release of restricted cash by the Business Development Bank (See Note 6).

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 March 31, 2014 have met the criteria for impairment.

Convertible Debentures

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

Deferred Income Taxes

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

Share-Based Payments

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

FINANCIAL INSTRUMENTS

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

The carrying amounts of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these instruments.

Based on available market information, the fair value of the obligation under capital lease approximates its carrying value.

The fair value of the long-term debt is based on rates currently available for items with similar terms and maturities. The fair value of the liability for each convertible debenture has been calculated and the residual is accounted for in equity.

The Company does not have any off balance sheet financial instruments.

FINANCIAL RISK MANAGEMENT

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

Credit risk:

The Company's cash and cash equivalents are held in accounts or short-term interest bearing accounts at a major Canadian chartered bank. Management perceives the credit risk to be low. There is a concentration of accounts receivable risk due to a few large customers comprising the Company's international customer base. The Company has had virtually no bad debts over the past several years and accordingly management has recorded an allowance of $10,000 ($69,243 – 2013).

Accounts receivable at March 31, 2014 increased to $1,753,709 ($1,117,139 – 2013), mainly due to a 57% increase and to the timing of sales during the quarter.

a) Currency risk:

The Company is exposed to currency risk through fluctuations in the exchanges rate affecting sales and receivables denominated in US dollars and Euros. The Company does not use financial instruments to hedge these risks. At March 31, 2014 the Company had US dollar balances in cash, accounts receivable and accounts payable and Euro balances in accounts receivable and accounts payable.

b) Liquidity risk:

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

c) Interest rate risk:

Financial instruments that expose the Company to cash flow interest rate risk are those assets and liabilities with a variable interest rate. Interest risk exposure is primarily on the BDC debt that has a variable rate pegged to the bank rate. The rate can be fixed, if the outlook for interest rates is higher. Also the Company has a $500,000 line of credit that bears a variable interest rate of prime plus 2.25%. A 1% increase in the bank rate would cost the Company about $30,000 per year for BDC and about $5,000 on the line of credit.

d) Market risk:

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in the National Instrument 52-109 Certification of Disclosure in Issuer's Annual Filings (NI 52-109F1). As at March 31, 2014, management has concluded that the disclosure controls are effective in providing reasonable assurance that information required to be disclosed in the Company's reports is recorded, processed summarized and reported within the time periods specified in the Canadian Securities Administrator's rules and forms.

Internal Controls over Financial Reporting

The design of internal controls over financial reporting ("ICFR") within the company is a management responsibility to provide reasonable assurance that the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with generally accepted accounting principles of IFRS. While the CEO and CFO believe that the internal controls are adequate to provide the above information, the process to evaluate and document all policies and procedures that could impact financial reporting is continuously reviewed with consultation with the Audit Committee. Shareholders should be aware that Microbix is a small company without the department resources associated with larger firms. Management is using the Committee of Sponsoring Organization of the Treadway Commission ("COSO") Framework and has concluded that the Internal Control over Financial Reporting ("ICFR") as defined in NI 52-109 is effective as at the period ended March 31, 2014.

Examination by the Chief Executive Officer and the Chief Financial Officer showed that there were no changes to the internal controls over financial reporting during the period ended March 31, 2014 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

RISKS AND UNCERTAINTIES

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

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

The majority of the Company's sales of Virology Products are made to a relatively small number of key customers located all over the world. As these products contributed all the revenue in quarter ended March 31, 2014, any or a combination of the loss of two or three key customers or, restrictions on export, import, international transportation of its products, raw materials or insufficient marketing resources, could significantly adversely affect revenue and profitability.

Environmental, safety and other regulatory

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

Manufacturing of Kinlytic®

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

Vaccine technology

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

Products in development

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

Product commercialization requires strategic relationships

To commercialize large market products in development, Microbix may need to establish strategic partnerships, joint ventures or licensing relationships with other pharmaceutical and biotechnology companies. The Company may not be able to form acceptable strategic relationships.

Operating and capital requirements

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

Success depends on the successful commercialization of our technology

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

Failure to obtain and protect intellectual property could adversely affect business

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

Microbix faces and will continue to face significant competition

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

NOTICE TO READER OF THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited interim financial statements of Microbix Biosystems Inc. (the "Company") for the three months and six months ended March 31, 2014 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and are the responsibility of the Company's management. They have been prepared by management and approved by the Audit Committee and Board of Directors of the Company, and have not been audited or reviewed on behalf of the shareholders by the independent external auditors, BDO Canada LLP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited	As at March 31, 2014 $	As at September 30, 2013 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,149,667	260,048
Accounts receivable	1,753,709	1,150,982
Inventory (note 4)	1,097,501	1,072,151
Prepaid expenses and other assets (note 5)	304,408	75,827
Investment tax credit receivable	109,603	78,757
TOTAL CURRENT ASSETS	4,414,988	2,637,765
LONG-TERM ASSETS		
Restricted cash (note 6)	-	250,000
Property and equipment (note 7)	6,354,739	5,929,168
Intangible assets (note 8)	4,225,426	3,899,103
TOTAL LONG-TERM ASSETS	10,580,165	10,078,271
TOTAL ASSETS	14,995,154	12,716,036
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 9)	-	-
Accounts payable and accrued liabilities	1,296,689	1,353,635
Current portion of long-term debt (note 12)	119,820	119,820
TOTAL CURRENT LIABILITIES	1,416,509	1,473,455
LONG-TERM LIABILITIES		
Non-Convertible debenture (note 10)	945,494	-
Convertible debentures (note 11)	2,618,609	2,545,392
Long-term debt (note 12)	2,513,250	2,563,175
Deferred revenue	412,650	412,650
TOTAL LONG-TERM LIABILITIES	6,490,003	5,521,217
TOTAL LIABILITIES	7,906,511	6,994,672
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 13)	24,986,795	24,299,594
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES	3,203,670	2,699,368
CONTRIBUTED SURPLUS (note 14)	3,416,264	3,550,521
ACCUMULATED DEFICIT	(24,518,086)	(24,828,119)
TOTAL SHAREHOLDERS' EQUITY	7,088,642	5,721,364
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	14,995,154	12,716,036

WILLIAM J. GASTLE
DIRECTOR

VAUGHN EMBRO-PANTALONY
DIRECTOR

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three months ended Mar 31		Six months ended Mar 31	
	2014	2013 (Restated - See Note 26)	2014	2013 (Restated - See Note 26)
Unaudited	$	$	$	$
SALES				
Virology products and technologies	2,073,097	1,838,850	3,812,613	2,651,421
Research and development contracts	-	264,576	188,369	547,620
Total sales	2,073,097	2,103,426	4,000,982	3,199,041
COST OF GOODS SOLD				
Product sales (notes 4, 18)	977,261	791,494	1,706,818	1,287,485
Research and development contracts	-	293,056	95,144	403,983
Total Cost Of Goods Sold	977,261	1,084,550	1,801,962	1,691,468
GROSS MARGIN	1,095,836	1,018,876	2,199,021	1,507,573
EXPENSES				
Selling and business development (note 18)	95,035	155,589	318,216	455,399
General and administrative (note 18)	520,047	495,146	988,455	992,373
Research and development (note 18)	35,780	72,295	57,899	214,312
Gain on disposal of assets	-	(145,266)	-	(145,266)
Financial expenses (note 21)	175,354	132,641	350,426	311,789
Total Expenses	826,217	710,405	1,714,995	1,828,607
NET COMPREHENSIVE OPERATING INCOME (LOSS) FOR THE PERIOD	269,620	308,471	484,026	(321,034)
INCOME TAXES				
Current income taxes	75,748	60,034	173,993	60,034
Deferred income taxes				
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	193,872	248,437	310,033	(381,068)
ACCUMULATED DEFICIT - BEGINNING OF PERIOD	(24,711,958)	(25,459,002)	(24,828,119)	(24,829,497)
ACCUMULATED DEFICT - END OF PERIOD	(24,518,086)	(25,210,565)	(24,518,086)	(25,210,565)
NET PROFIT (LOSS) AND COMPREHENSIVE PROFIT (LOSS) PER SHARE (note 17)				
Basic	0.0029	0.0037	0.0046	(0.0054)
Diluted	0.0028	0.0037	0.0045	(0.0057)
Weighted average number of common shares outstanding	67,788,207	66,684,350	67,788,207	66,684,350

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited	Three months ended Mar 31 (Restated - See Note 26) 2014 $	2013 $	Six months ended Mar 31 (Restated - See Note 26) 2014 $	2013 $
OPERATING ACTIVITIES				
Net income (loss) for the year	193,872	248,437	310,033	(381,068)
Items not affecting cash				
Amortization (Note 18)	101,684	105,463	197,748	208,142
Accretion on liability component of convertible debenture	12,613	7,028	(23,013)	15,744
Accretion of asset retirement obligation	-	(143,805)	-	(140,708)
Unrealized foreign exchange loss (gain)	-	(8,668)	-	(11,587)
Stock options expense	9,609	18,169	9,609	116,385
Gain on sale of assets	-	(145,266)	-	(145,266)
Change in non-cash working capital balances (Note 19)	(630,473)	(495,570)	(944,552)	(144,630)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(312,696)	(414,211)	(404,149)	(482,988)
INVESTING ACTIVITIES				
Restricted cash	250,000	-	250,000	-
Proceeds from sale of business	-	185,791	-	185,791
Purchase of property and equipment and intangibles	(863,245)	(46,021)	(949,642)	(60,737)
CASH USED IN INVESTING ACTIVITIES	(613,245)	139,770	(699,642)	125,054
FINANCING ACTIVITIES				
Increase (decrease) in bank indebtedness	(156,033)	245,736	-	4,453
Payments on debt	(19,970)	(29,955)	(49,925)	(50,650)
Payment of capital leases	-	-	-	(2,064)
Proceeds from issuance of convertible debenture	1,500,000	-	1,500,000	-
Proceeds from exercise of warrants	357,725	-	357,725	10,000
Proceeds from issuance of Common Shares, net of costs	185,610	-	185,610	280,870
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,867,332	215,781	1,993,410	242,609
Effect of foreign currency exchange rate changes on cash and cash equivalents	-	8,668	-	11,587
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	941,391	(49,992)	889,619	(103,736)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	208,276	174,685	260,048	228,429
CASH AND CASH EQUIVALENTS - END OF THE PERIOD	1,149,667	124,693	1,149,667	124,693

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

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital					
Unaudited	Number of Shares	Stated Capital	Contributed Surplus	Deficit	Equity Component of Debenture	Total Shareholders' Equity
Balance, September 30, 2012	**65,594,350**	**24,033,710**	**3,338,881**	**(24,829,497)**	**2,699,368**	**5,242,464**
Share issuances pursuant to private placement	1,050,000	315,000				315,000
Share issue costs, private placement		(59,118)	24,986			(34,130)
Share issuances exercise of warrants	40,000	10,000				10,000
Stock option expense			116,385			116,385
Net loss for the period				(532,093)		(532,093)
Balance, March 31, 2013	**66,684,350**	**24,299,594**	**3,480,251**	**(25,361,590)**	**2,699,368**	**5,117,620**
Share issuances pursuant to private placement						
Share issue costs, private placement						
Share issuances exercise of warrants						
Stock option expense			70,269			70,269
Net income for the period				533,471		533,471
Balance, September 30, 2013	**66,684,350**	**24,299,594**	**3,550,521**	**(24,828,119)**	**2,699,368**	**5,721,364**
Share issuances pursuant to stock options exercised	530,000	185,610				185,610
Share issue costs, private placement						
Share issuances exercise of warrants	1,383,125	357,725				357,725
Issuances and cancellation of debentures					504,302	504,302
Stock option expense		143,866	(134,257)			9,609
Net income for the period				310,033		310,033
Balance, March 31, 2014	**68,597,475**	**24,986,795**	**3,416,163**	**(24,518,086)**	**3,203,670**	**7,088,642**

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

1. NATURE OF THE BUSINESS AND GOING CONCERN ASSUMPTION

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

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

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

Going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which presumes the Company will continue operating for the foreseeable future and will be able to realize a return on its assets and discharge its liabilities and commitments in the ordinary course of its business. The Company has incurred losses resulting in an accumulated deficit of $24,518,086 at March 31, 2014. The Company's ability to continue as a going concern depends upon the continued activity of its Virology Products business and the successful completion of agreements for pipeline project developments. Management continuously monitors the financial position of the Company with respect to working capital requirements as well as long-term capital needs in relation to a budget for the year. Deviations are highlighted and actions are taken to ensure the Company is appropriately capitalized. The current operating budget shows the Company is on target and able to support its planned activities for at least the next twelve months given its ongoing ability to raise new financing if required for pipeline related costs.

2. BASIS OF PREPARATION

Statement of Compliance

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

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Consolidation
These consolidated financial statements include the accounts of the Company and its subsidiary Crucible Biotechnologies Limited. There has been no business activity in the subsidiary during the period ended March 31, 2014.

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

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

4. INVENTORY

Inventory consists of the following, as at:

	Mar 31, 2014 $	Sept 30, 2013 $
Raw material	316,200	195,801
Work in process	199,514	207,076
Finished goods	581,887	669,274
	1,097,601	1,072,151

During the quarter ended March 31, 2014 inventory in the amount of $401,136 was recognized as cost of sales.

5. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses of $304,408 compared to $75,827 at September 30, 2013 are mainly related to insurance policy premiums and a $222,000 refundable deposit with the principal contractor on the Lumisort project.

6. RESTRICTED CASH

As a condition of the loan agreement with the Business Development Bank for the new manufacturing facility, $250,000 was restricted and held as an irrevocable, unconditional Letter of Credit. On February 7, 2014 the Business Development Bank advised the Company it had met the performance criteria required to release the restricted cash of $250,000.

7. PROPERTY AND EQUIPMENT

Property plant and equipment consists of:

	research & development equipment	other equipment & fixtures	land	building	total
	$	$	$	$	$
Cost					
Balance, Sept 30, 2013	738,526	3,285,816	800,000	4,533,518	9,357,860
Additions	407,566	171,404	-	(3,250)	575,719
Balance, Mar 31, 2014	1,146,093	3,457,219	800,000	4,530,268	9,933,579
Accumulated depreciation					
Balance, Sept 30, 2013	471,655	2,319,075	-	637,964	3,523,503
Depreciation	14,128	59,902	-	76,118	150,148
Balance, Mar 31, 2014	485,783	2,378,976	-	714,081	3,578,840
Carrying value					
Sept 30, 2013	266,872	966,742	800,000	3,895,554	5,929,170
Mar 31, 2014	660,309	1,078,243	800,000	3,816,186	6,354,739

In the quarter ended March 31, 2014, the Company acquired property and equipment in an aggregate amount of $575,719 ($46,022 – 2013).

8. INTANGIBLE ASSETS

Intangible assets consist of:	financial charges	license agreement - Lumisort	technology investment - Lumisort	technolgy investment - Virusmax	technolgy investment - Urokinase	total
	$	$	$	$	$	$
Cost						
Balance, Sept 30, 2013	18,646	278,528	1,463,016	-	2,770,529	4,535,380
Additions	30,334	-	89,551	254,038	-	373,923
Balance, Dec 31, 2014	48,979	278,528	1,552,567	254,038	2,770,529	4,535,380
Accumulated depreciation						
Balance, Sept 30, 2013	3,021	171,401	457,193	-	-	631,615
Depreciation	313	10,713	36,575	-	-	47,601
Balance, Mar 31, 2014	3,333	182,114	493,768	-	-	679,215
Carrying value						
Sept 30, 2013	15,625	107,126	1,005,824	-	2,770,529	3,899,104
Mar 31, 2014	45,647	96,413	1,058,799	254,038	2,770,529	4,225,426

In the quarter ended March 31, 2014, the Company acquired patents and financing charges in an aggregate amount of $373,923 ($ nil – 2013).

9. BANK INDEBTEDNESS

The Company has a revolving line of credit of $500,000 with its Canadian chartered bank that bears interest at the bank's prime lending rate plus 0.5%. Accounts receivable are pledged as collateral for the bank credit facility. As at March 31, 2014 this line of credit was not being used, (2013 – $499,189).

10. NON-CONVERTIBLE DEBENTURES

	Mar 31 2014	Mar 30 2013
	$	$
$2,000,000 non-convertible debenture	**945,494**	**-**
	945,494	**-**

Included in interest expense is actual interest paid on the debentures during the three months ended March 31, 2014 of $2,619, (n/a – 2013).

a) On January 31, 2014, the Company issued a $2,000,000 debenture to a shareholder of the Company, with principal and interest payable at 9% per annum on a quarterly basis, and having a maturity date of January 31, 2029. The debenture is secured against the real property and the personal property of the Company including without limiting the foregoing, a registered second mortgage on the property at 265 Watline Avenue, Mississauga, Ontario in favour of the Holder, its successors and assigns subordinate only to indebtedness to a Canadian chartered bank or similar financial institution on normal commercial terms up to the maximum principal amount of $2,000,000.

As the issuance of the non-convertible debenture and the cancellation of the $2,000,000 convertible debenture, (see Note 11 b), were transacted with the same shareholder and represent a substantial modification in the terms of the $2,000,000 debt instrument, the non-convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of issue. The debt component was valued first with the residual to shareholders' equity.

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

11. CONVERTIBLE DEBENTURES

	Mar 31 2014 $	Mar 31 2013 $
$2,500,000 convertible debenture, including accumulated accretion of $35,669 (note a)	**910,838**	**901,119**
(Restated See Note 31)		
$2,000,000 convertible debenture, including accumulated accretion of $25,302 (note b)	**-**	**727,832**
$500,000 convertible debenture, including accumulated accretion of $53,341 (note c)	**466,658**	**456,433**
$500,000 convertible debenture, including accumulated accretion of $63,712 (note d)	**452,669**	**440,677**
$1,500,000 convertible debenture, including accumulated accretion of $10,970 (note e)	**788,444**	**-**
	2,618,609	**2,526,061**

Included in interest expense is actual interest paid on the debentures during the six months ended March 31, 2014 of $237,544 ($247,500 – 2013).

a) On September 10, 2008, the Company issued a $2,500,000 debenture to a shareholder of the Company, with interest only payable at 9% per annum on a quarterly basis, and having a maturity date of September 10, 2028. The debenture is convertible into Common Shares at the option of the holder at any time on or prior to the maturity at a conversion price of $0.65 per common share. The debenture is secured against the real property and the personal property of the Company including without limiting the foregoing, a registered second mortgage on the property at 265 Watline Avenue, Mississauga, Ontario in favour of the Holder, its successors and assigns subordinate only to indebtedness to a Canadian chartered bank or similar financial institution on normal commercial terms up to the maximum principal amount of $2,500,000.

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

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

In fiscal 2013 the accumulated accretion was restated on this convertible debenture. See Note 26 for further explanation of this restatement.

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

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

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

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

On January 31, 2014 the Company cancelled the $2,000,000 debenture issued on September 10, 2008 and replace it with a non-convertible debenture. See Note 10 for further details on the non-convertible debenture.

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

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

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

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

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

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

e) On January 31, 2014, the Company issued a $1,500,000 debenture to a shareholder of the Company, with interest only payable at 9% per annum on a quarterly basis, and having a maturity date of January 31, 2029. The debenture is convertible into Common Shares at the option of the holder at any time on or prior to the maturity at a conversion price of $0.35 per common share. The debenture is secured against the real property and the personal property of the Company including without limiting the foregoing, a registered second mortgage on the property at 265 Watline Avenue, Mississauga, Ontario in favour of the Holder, its successors and assigns subordinate only to indebtedness to a Canadian chartered bank or similar financial institution on normal commercial terms up to the maximum principal amount of $1,500,000.

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

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

12 LONG-TERM DEBT

The Company negotiated a $3,000,000 loan with the Business Development Bank (BDC) for the purchase and build-out of its new manufacturing facility. There was a further loan of $350,000 for the purchase of new equipment. The first $1,500,000 was used in fiscal 2008 to assist with the purchase of the building. During fiscal 2009, the Company acquired a second amount of $1,500,000 from the Business Development Bank for the construction of the Watline facility. The mortgage is secured with the building. The interest rate is floating, based on BDC's Floating Base Rate plus a variance of 1.35%. At March 31, 2014 the Floating Base Rate was 5.00%. Consecutive monthly principal payments of $9,260 are due to February 2037.

The second BDC loan for the purchase of equipment for the facility was $60,000. The interest rate is floating, based on BDC's Floating Base Rate plus a variance of 1.80%, over a term of 8 years. At March 31, 2014 the Floating Base Rate was 5.00%. Consecutive monthly principal payments of $725 are due to August 2016.

13. CAPITAL STOCK

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

The changes in issued and fully paid common shares in the Consolidated Interim Statements of Changes In Shareholders' Equity are as follows:

As at March 31, 2014 the Company had 68,597,475 common shares outstanding compared to 66,684,350 at September 30, 2013 and at March 31, 2013. During the quarter ended March 31, 2014, 1,348,125 Common Shares were issued on the exercise of warrants and 565,000 Common Shares were issued on the exercise of stock options. No common shares were issued in the comparative quarter of fiscal 2013.

14. CONTRIBUTED SURPLUS

	Contributed Surplus $
Balance, September 30, 2013	3,550,521
Share issue costs	9,609
Stock option expense	(143,866)
Balance, March 31, 2014	3,416,263

15. COMMON SHARE PURCHASE WARRANTS

The number of warrants outstanding at March 31, 2014 was 7,101,461 as compared to 11,891,467 at September 30, 2013.

A summary of the Company's warrants outstanding at March 31, 2014 is presented below:

	Number	Expiry date	Wt. average exercise price
Balance - September 30, 2013	11,891,468		0.34
Exercised	(97,125)	Mar 23, 2014	0.36
	(49,500)	Mar 23, 2014	0.40
	(616,500)	Dec 05, 2014	0.24
	(620,000)	Dec 05, 2016	0.25
Issued	-		-
Expired	(3,406,882)		0.39
Balance - March 31, 2014	7,101,461		0.35

Range of exercise prices	Number outstanding #	Wt. average remaining contractual life years	Wt. average exercise price $
$0.24 to $0.40	7,101,461	0.79	0.35

Assumptions	**Dec 2012**
Dividend yield	0.0%
Volatility	95%
Risk-free interest rate	1.0%
Expected option life (years)	2
Weighted average fair value of each option ($/option)	0.13

16. STOCK OPTION PLAN

The following table reflects the activity under the Company's stock option plan for the period ended March 31, 2014.

	Options #	Weighted average exercise price $
Balance, September 30, 2013	6,660,000	0.36
Expired	(887,000)	0.39
Forfeited	(663,000)	0.36
Exercised	(530,000)	0.35
Balance, March 31, 2014	4,580,000	0.37

During the period no options were granted (NIL – 2013), 887,000 options expired (752,666 – 2013), 663,000 options were forfeited (NIL – 2013) and 530,000 options were exercised (NIL – 2013). 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 March 31, 2014.

Range of exercise prices	Number of options outstanding	Weighted average exercise price $	Weighted average remaining contractual life (years)
$0.26 - $0.57	4,580,000	0.37	.42
	4,580,000	0.37	.42

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

17. INCOME (LOSS) PER SHARE

The following table set forth the computation of basic and diluted EPS for the three months ended March 31:

	Mar 31, 2014	Mar 31, 2013
Numerator		
Net income available to common shareholders	$193,872	$248,437
Denominator for basic EPS – weighted average common shares outstanding	67,788,207	66,684,350
Effect of dilutive securities:		
Warrants	487,331	88,650
Stock Options	496,231	14,815
Convertible Debentures	293,040	-
Denominator for diluted EPS	69,064,089	66,787,815
Earnings per share		
Basic	$0.0029	$0.0037
Diluted	$0.0028	$0.0037

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

	Mar 31, 2014	Mar 31, 2013
Pursuant to warrants	5,182,133	12,978,295
Under stock options	1,180,000	6,449000
Pursuant to convertible debentures	4,746,154	7,179,333
	11,108,287	26,606,628

18. EXPENSES BY NATURE

a) Employee costs:

	Three months ended Mar 31, 2014 $	Three months ended Mar 31, 2013 $	Six months ended Mar 31, 2014 $	Six months ended Mar 31, 2013 $
Included in:				
Cost of goods sold	528,990	519,006	964,568	921,804
Research and development	86,990	124,639	181,394	245,401
General and administrative expenses	74,779	105,407	188,675	392,760
Selling and business development	83,836	86,003	160,019	113,543
Total employee costs	774,595	835,055	1,494,657	1,673,508

b) Depreciation and amortization

	Three months ended Mar 31, 2014 $	Three months ended Mar 31, 2013 $	Six months ended Mar 31, 2014 $	Six months ended Mar 31, 2013 $
Included in:				
Cost of goods sold	38,043	41,837	76,118	84,730
Research and development	7,352	8,810	14,128	39,234
General and administrative expenses	32,489	31,009	59,902	40,660
Selling and business development	23,800	23,807	47,601	47,621
Total employee costs	101,684	105,463	197,748	212,245

19. CHANGES IN NON-CASH WORKING CAPITAL BALANCE

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

	Three months ended Mar 31, 2014 $	Three months ended Mar 31, 2013 $	Six months ended Mar 31, 2014 $	Six months ended Mar 31, 2013 $
Accounts receivable	(771,469)	(482,275)	(602,728)	330,432
Inventory	(96,755)	108,420	(25,450)	(94,877)
Prepaid expenses & other assets	(216,655)	1,387	(228,581)	47,225
Investment tax credit receivable	(15,423)	(18,089)	(30,845)	(37,459)
Accounts payable and accrued liabilities	469,828	(105,013)	(56,947)	(389,951)
	(630,473)	(495,570)	(944,551)	(144,630)

20. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended Mar 31, 2014 $	Three months ended Mar 31, 2013 $	Six months ended Mar 31, 2014 $	Six months ended Mar 31, 2013 $
Cash paid for				
Interest	157,893	169,471	324,372	339,075
Non-cash investing and financing activities				
Fees for equity placements	30,334	-	30,334	59,116

21. FINANCIAL EXPENSES

	Three months ended Mar 31, 2014 $	Three months ended Mar 31, 2013 $	Six months ended Mar 31, 2014 $	Six months ended Mar 31, 2013 $
Cash interest				
Interest on long-term debt	41,414	43,288	83,759	87,371
Interest on debentures	116,413	123,750	240,163	247,500
Interest other	66	2,433	449	4,204
Interest income	(2,488)	(52)	(4,295)	(2,321)
Non-cash interest				
Accretion on debentures	(6,050)	85,896	4,349	166,767
Accretion on asset retirement	-	(43,805)	-	(40,708)
Financial expenses	**149,354**	**211,509**	**324,426**	**462,813**

22. FINANCIAL INSTRUMENTS

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

The carrying amounts of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these instruments.

The fair value of the long-term debt is based on rates currently available for items with similar terms and maturities. The convertible debenture fair values are not readily determinable as the convertible debentures have been issued to shareholders of the Company.

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

a) Credit risk
The Company's cash and cash equivalents are held in accounts or short-term interest bearing accounts at one of the major Canadian chartered banks. Management perceives the credit risk to be low. There is a concentration of accounts receivable risk due to the few large customers comprising the Company's international customer base. In the period ended March 31, 2014, 5 customers accounted for 57% (3 for 52% - March 31, 2013) of revenue. The Company has had virtually no bad debts over the past several years and accordingly management has recorded an allowance of $10,000 ($69,243 – 2013).

b) Currency risk

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

	US dollars		Euros	
	Mar 31, 2014	Mar 31, 2013	Mar 31, 2014	Mar 31, 2013
Cash and cash equivalents	198,254	121,566	-	-
Accounts receivable	678,817	824,623	918,158	34,370
Accounts payable and accrued liabilities	481,303	113,454	13,217	-

The impact of a 1 cent increase in the Canadian dollar against the US dollar would result in a revenue loss of about 0.9%. The impact of a 1 cent increase in the Canadian dollar against the Euro would result in a revenue loss of about 0.6%.

c) Liquidity risk

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

Contractual obligations are as follows:

Payments due	Total $	Less than One year $	2 - 3 years $	4 - 5 years $	After 5 years $
Accounts payable	1,296,689	1,296,689	-	-	-
Debentures	14,119,964	694,242	2,365,984	1,208,484	9,851,254
Long-term debt	4,523,770	235,706	548,660	502,721	3,236,634
Operating leases	119,998	54,370	59,292	6,337	-
Total Contractual Obligations	**20,060,421**	**2,281,007**	**2,973,936**	**1,717,542**	**13,087,888**

Of the $14,119,964 payments on debentures, $7,000,000 is principal. Of the $4,523,770 payments on long-term debt, $2,632,980 is principal.

d) Interest rate risk

Financial instruments that potentially subject the Company to cash flow interest rate risk are those assets and liabilities with a variable interest rate. Interest risk exposure is primarily on the BDC debt that has a variable rate that is pegged to the bank rate. The rate can be fixed, if the outlook for interest rates should move higher. The only other variable debt the Company has is the $500,000 line of credit that bears interest at the bank's prime lending rate plus 0.5%. A 1% increase in the bank rate would cost the Company about $30,000 per year for BDC and about $5,000 on the line of credit usage.

e) Market risk

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

23. SEGMENTED INFORMATION

Geographic information

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

	Three months ended Mar 31, 2014	Three months ended Mar 31, 2013	Six months ended Mar 31, 2014	Six months ended Mar 31, 2013
	$	$	$	$
North America	498,414	690,529	888,568	1,314,355
Europe	1,388,995	1,251,708	2,717,631	1,610,561
Other foreign countries	185,688	161,189	394,784	274,125
Total revenue	2,073,097	2,103,426	4,000,982	3,199,041

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

Significant customers

During the period ended March 31, 2014, 5 customers accounted for 57% of revenue, compared to 3 customers accounted for 52% for the period ended March 31, 2013.

24. RELATED PARTY TRANSACTIONS

During the period ended March 31, 2014, the Company paid interest of $116,413 (March 31, 2013 - $123,750) on the convertible debentures issued to related party shareholders. The transaction was recorded at the exchange amount.

On January 31, 2014, the Company issued a $1,500,000 debenture to a shareholder of the Company. See Note 11 e) for further detail on this transaction.

25. COMMITMENTS AND CONTINGENCIES

a) Lease commitments

		$
Period ending March 31,	2015	54,370
	2016	53,046
	2017	6,246
	2018	3,306
	2019	3,030
Total		119,998
Greater than 5 years		-

b) Contingencies

The Company is party to legal proceedings arising out of the normal course of business. There are currently two proceedings underway that cannot be predicted with any certainty; a legal action relating to the sale of the Company's Water-for-Injection assets, and the Company's alleged VIRUSMAX patent infringement action against Novartis. Management is of the opinion that the outcome of these proceedings is not determinable. Any gains or losses resulting from these proceedings will be recognized in the period when these actions are concluded.

26. RESTATEMENT OF CONVERTIBLE DEBENTURE LIABILITY

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

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

			March 31, 2013
	Previously Presented $	Adjustment $	Restated
Financial Expenses	211,500	(78,867)	132,641
Net Comprehensive Income	169,570	78,867	248,437
Net Comprehensive Income Per Share	0.003	-	0.004

The preceding restatements had no impact on cash flows.

27. SUBSEQUENT EVENTS

On May 1, 2014 the European Patent Office received a formal Notice of Appeal from Novartis regarding the EPO's decision in January to uphold all of Microbix' VIRUSMAX patent claims in Europe. The appeal could take 2 to 3 years to reach a formal hearing and resolution.

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