MICROBIX
BIOSYSTEMS INC.

SECOND INTERIM REPORT

For the three months
ended March 31, 2017

MICROBIX

Message to Shareholders

I am pleased to report that Virology product sales continued at a strong pace during the second quarter, and propelled sales over the first six months to a 21% year-over-year increase. Our latest forecast of customer shipments for the second half of fiscal 2017 is projected to be even higher than the first half of the year. As a result, we anticipate full year sales could once again exceed the Company's previous annual sales record that was just achieved in fiscal 2016.

For the past several months we have been preparing for a comprehensive consultation with the U.S. Food and Drug Administration regarding our plans to return the thrombolytic biologic drug, Kinlytic® Urokinase, to the U.S. market. The consultation process is designed to help organizations obtain FDA feedback on their proposed clinical development plans. As part of this process, Microbix provided the Agency with extensive information about our plans to re-launch Kinlytic in the U.S. market.

Why now?

We have already received several expressions of interest from potential investors to license or acquire Kinlytic and to provide full funding for its re-launch program. These investor candidates are awaiting feedback from our consultation with the FDA to help complete their assessment of risk in the critical areas of clinical development and regulatory planning.

Now that we have completed the consultation process with the FDA, I am confident that the outcome will reinforce that the planned pathway to approval for Kinlytic will be beneficial from an investor's perspective. In turn, I believe the results of the consultation will accelerate our efforts to obtain financing and complete the re-launch program, at which point we will then submit an application to FDA for re-approval of Kinlytic in the U.S. market.

I would like to remind our shareholders, the global use of thrombolytic drugs has been increasing annually for several years. In the U.S., thrombolytic sales exceed US$1 billion per year. Urokinase was previously the gold standard of thrombolytic drugs before its withdrawal from the market more than 10 years ago. Today there is only one thrombolytic drug (tissue plasminogen activator or "tPA") available in hospitals and clinics. We believe there is a significant need to introduce an additional therapeutic option to doctors and patients that will also mitigate the risk of supply disruptions.

Microbix has previously manufactured this natural human protein at commercial scale and we have performed numerous biochemical and functional analyses on the product that demonstrate our ability to undertake the reintroduction of this drug into the marketplace. Following this consultation with FDA, we now plan to accelerate our efforts to conclude an agreement that ensures our shareholders are rewarded for their support of this project.

Vaughn C. Embro-Pantalony
President and Chief Executive Officer

The Company's Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited Consolidated Interim Financial Statements and notes and should also be read in conjunction with the audited Consolidated Financial Statements, notes and MD&A for the year ended September 30, 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 May 11, 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 technology platform for ultra-rapid and efficient sorting of somatic cells that can be used to enrich cell populations of interest, such as in sexing semen.

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, Mississauga, Ontario.

FINANCIAL OVERVIEW **Canadian Funds**

QUARTER ENDING MARCH 31, 2017

After a strong first quarter, revenues of $2,646,649 for the second quarter were down slightly versus prior year revenues of $2,729,779. Included was Virology product revenue of $2,580,005, down 4% vs. Q2 2016, due to stronger sales to our key customers in the first quarter of 2017. Revenue from royalties were $66,644 (2016 - $47,787).

Gross margin increased by $81,819 or 6%, even though sales in the quarter were down slightly from the prior year. This was primarily due to a change in the product mix.

Operating expenses increased by $136,149 compared to the second quarter last year. This was primarily due to higher capitalization of internal product development costs related to the new bioreactor manufacturing process in the second quarter last year.

As a result, the Company experienced a 46% increase in net profit for the period of $257,649 (2016 – $175,944).

Cash generated from operations in this quarter was $143,721 compared to cash provided of $6,816 in Q2 2016. Cash used in investing activities was $315,684 (2016 - $363,683), due to decreased spending on internal development of intangible assets. Cash generated from financing activities was $203,100 (2016 - $297,890), primarily due to proceeds from our bank credit facility in this quarter, however these proceeds were lower than Q2 2016. Net cash flow was $31,137 in the second quarter of 2017 (2016 - $58,977 negative).

SIX MONTHS ENDING MARCH 31, 2017

Total revenue was $4,599,151, a 21% increase over 2016's YTD revenue of $3,793,184. Included was Virology product revenue of $4,466,829, 21% higher than YTD Q2 2016, due to strong growth into Asian markets and increased sales to our key customers. Revenue from royalties were up 30% at $132,322 (2016 - $101,876).

Gross margin increased by $538,894 or 32%, due to increased revenues as outlined above and a change in the product mix.

Operating expenses increased by $3,523,093 compared to the first half 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 more internal development costs related to the new bioreactor manufacturing process.

As a result, the Company experienced a net loss for the period of $2,958,823 (2016 – ($162,476)). Adjusting for one-time costs, the net operating loss before debt restructuring and WFI settlement expenses was $417,757 for the six months compared to a net loss of $266,441 in the same period last year.

Cash generated from operations in this period was $453,263 compared to cash used of $24,882 in the first half of 2016. Cash used in investing activities was $521,425 (2016 - $1,040,467), due to decreased spending on capital equipment and internal development of intangible assets. Cash generated from financing activities was $95,564 (2016 - $968,625), primarily due to repayment of shareholder loans and no issuance of common shares in this period vs. prior year. Net cash flow was $27,402 in the first half of 2017 (2016 - $96,724 negative).

CHANGES IN FINANCIAL POSITION

Canadian Funds

	Mar 31, 2017 $	Mar 31, 2016 $
Total Revenue	2,646,649	2,729,779
Operating income (loss)	107,649	161,979
Cash	32,817	7,456
Accounts receivable	1,324,816	1,354,744
Total current assets	5,639,137	5,365,546
Total assets	25,844,846	24,150,874
Total current liabilities	5,786,309	5,041,384
Total liabilities	10,255,564	9,936,929
Total shareholders' equity	15,589,282	14,213,945
Current ratio	0.97	1.06
Debt to equity ratio	0.66	0.71

SELECTED QUARTERLY FINANCIAL INFORMATION

	Jun-30-15 $	Sep-30-15 $	Dec-31-15 $	Mar-31-16 $	Jun-30-16 $	Sep-30-16 $	Dec-31-16 $	Mar-31-17 $
SALES	**2,219,019**	**2,114,160**	**1,063,405**	**2,729,779**	**2,253,373**	**3,470,580**	**1,952,502**	**2,646,649**
Operating Income (Loss)	**147,769**	**123,434**	**(428,420)**	**161,979**	**(141,082)**	**555,930**	**(3,366,472)**	**107,649**

(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 will continue to invest in upgrading its manufacturing capacity and scientific capabilities to support this growth, including continuous process improvements and launching 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 recently met with the FDA to confirm its specific clinical and regulatory plans for the re-introduction of Kinlytic® to the U.S. market. Management is optimistic that this feedback from the agency will help advance discussions with potential investors to secure the necessary funding to re-launch Kinlytic.

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 slowed the pace of discussions with potential LumiSort partners. Management continues to monitor the legal environment and we are evaluating all options to move towards closing a partnership arrangement in 2017 to complete the development of LumiSort.

LIQUIDITY, CASH FLOW AND CAPITAL RESOURCES

Canadian Funds

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 $26,255,573 as at March 31, 2017. 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.

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 in December 2016 and expansion of that facility in May 2017, 3) improved profit contribution 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.

Contractual Obligations

New Distribution Agreement

On January 12, 2017 Microbix signed a distribution agreement with Meridian Life Science, Inc. Under the 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. Both companies will explore additional collaboration opportunities in the future.

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.

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

Outstanding Share Capital

Share capital issued and outstanding as at May 11, 2017 was $31,299,416 for 84,704,257 common shares, unchanged from September 30, 2016.

SUBSEQUENT EVENT **Canadian Funds**

On April 28, 2017 the Company received approval from its Chartered Bank to increase the borrowing limit on its new credit facility to $1.5 million. The new credit facility was implemented in November 2016 with an initial limit of $1.0 million, replacing the Company's previous credit facility of $0.5 million. The newly expanded credit facility was approved on May 4, 2017.

On April 28, 2017 the Company announced it has reached an agreement with one of its debenture holders to extend the maturity date on a $500,000 non-convertible debenture set to mature on April 30, 2017. The arms' length debenture holder has agreed to extend the maturity date of the debenture to April 30, 2022. The debenture is callable at the option of the holder upon sixty days written notice to the Company. The debenture holder also receives amendments to an aggregate of 300,000 common share purchase warrants they currently hold. Each warrant currently entitles the holder to purchase one common share of Microbix at a price of $0.55 until August 21, 2019. Microbix has applied to the TSX to extend the term of the warrants to August 21, 2022 and to amend the exercise price of the warrants to $0.25 per share. The amendments to the terms of the warrants are subject to TSX approval.

On May 1, 2017 the Company published a news release confirming that it had consulted with the U.S. Food and Drug Administration (FDA) regarding the Company's plans to return its thrombolytic biologic drug, Kinlytic to the U.S. market. Management believes the results of its consultation will accelerate its work to obtain financing, complete its re-launch program and then submit an application to FDA to re-enter the U.S. market. The Company has already received expressions of interest to license or acquire the drug and to provide full funding for its re-launch program. Following consultation with the FDA, the Company now intends to accelerate its work to conclude such an agreement. The use of thrombolytic drugs has been increasing every year and U.S. sales now exceed US$1 billion per year. Currently there is only one thrombolytic drug available for dissolving blood clots and the Company believes there is significant need for another therapeutic option.

On May 3, 2017 the Company signed an agreement with Business Development Corporation for a new equipment credit facility in the amount of $610,000. The proceeds will be used to upgrade equipment in the Virology products manufacturing operation.

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 May 11, 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 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 in 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 technology platform for ultra-rapid and efficient sorting of somatic cells that can be used to enrich cell populations of interest, such as in sexing semen, which includes 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 on 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.

RISKS AND UNCERTAINTIES (continued) **Canadian Funds**

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 March 31, 2017, five customers accounted for 60% (2016 – six for 58%) 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 (2016 - $18,295).

Currency risk

The Company is exposed to currency fluctuations given its global customer base. Over 90% of its revenue is denominated in either U.S. dollars or Euros, while the majority of its costs are denominated in Canadian dollars. The Company does not use financial instruments to hedge this currency risk. At March 31, 2017, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	Mar 31, 2017 $	Mar 31, 2016 $	Mar 31, 2017 $	Mar 31, 2016 $
Cash	31,176	2,659	62	2
Accounts receivable	508,810	899,232	589,489	468,878
Accounts payable and and accrued liabilities	493,938	468,392	-	-

The impact of a 5% increase in the Canadian dollar against the US dollar would result in an annual U.S. dollar based revenue loss of about 4.7%. The impact of a 5% increase in the Canadian dollar against the Euro would result in an annual Euro based revenue loss of about 5%. Correspondingly, the impact of a 5% decrease in the Canadian dollar against the US dollar would result in an annual U.S. dollar based revenue increase of about 4.7%. The impact of a 5% increase in the Canadian dollar against the Euro would result in an annual Euro based revenue increase 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. During the first quarter the Company implemented 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 grow its existing business. 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 $1,150,000 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 $11,500 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

Canadian Funds

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 March 31, 2017 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 **Canadian Funds**

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.

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, 2017, 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, 2017.

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, 2017 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

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 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 March 31, 2017 and September 30, 2016 — **Canadian Funds**

	As at March 31, 2017 $	As at September 30, 2016 $
ASSETS		
Current Assets		
Cash	32,817	5,415
Accounts receivable	1,324,816	2,021,872
Inventory (note 5)	3,970,068	3,395,993
Prepaid expenses and other assets (Note 6)	89,038	55,541
Investment tax credit receivable (Note 18)	222,398	182,398
Total Current Assets	5,639,137	5,661,219
Long-term Assets		
Deferred tax assets	1,430,000	1,130,000
Property, plant and equipment (Note 7)	12,169,537	12,251,984
Intangible assets (Note 8)	6,606,172	6,204,260
Total Long-term Assets	20,205,709	19,586,244
Total Assets	25,844,846	25,247,463
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	2,149,457	1,898,515
Current portion of finance lease obligations	4,900	1,647
Current portion of long-term debt (Note 10)	1,371,480	1,069,455
Current portion of debentures (Note 9)	1,137,880	1,595,882
Deferred revenue (Note 11)	1,122,592	683,494
Total Current Liabilities	5,786,309	5,248,993
Finance lease obligations	4,421	11,012
Non-convertible debentures (Note 9)	612,599	635,020
Convertible debentures (Note 9)	1,083,085	1,127,657
Long-term debt (Note 10)	2,769,150	2,933,040
Total Long-term Liabilities	4,469,255	4,706,729
Total Liabilities	10,255,564	9,955,722
SHAREHOLDERS' EQUITY		
Share Capital (Note 12)	31,299,416	31,299,416
Equity Component of Convertible Debentures (Note 9)	2,903,789	2,351,425
Contributed Surplus (Note 13)	7,641,650	4,937,649
Accumulated Deficit	(26,255,573)	(23,296,749)
Total Shareholders' Equity	15,589,282	15,291,741
Total Liabilities & Shareholders' Equity	25,844,846	25,247,463

Commitments and Contingencies (Note 28)
Subsequent Events (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 and Six Months Ended March 31 **Canadian Funds**

	2017 $	2016 $	2017 $	2016 $
SALES				
Virology products and technologies	2,580,005	2,681,992	4,466,829	3,691,308
Royalties	66,644	47,787	132,322	101,876
Total Sales	2,646,649	2,729,779	4,599,151	3,793,184
COST OF GOODS SOLD				
Virology products and technologies (Note 5, 17)	1,198,575	1,387,247	2,314,185	2,074,622
Royalties	33,081	9,357	55,444	27,933
TOTAL COST OF GOODS SOLD	1,231,655	1,396,604	2,369,628	2,102,555
GROSS MARGIN	1,414,994	1,333,175	2,229,523	1,690,629
EXPENSES				
Selling and business development (Note 17)	99,243	145,319	242,175	286,698
General and administrative (Note 17)	811,532	817,224	1,588,488	1,208,182
Research and development (Note 17)	172,624	12,954	373,774	95,041
Financial expenses (Note 19)	223,946	195,699	442,843	375,332
NET COMPREHENSIVE OPERATING INCOME (LOSS) BEFORE DEBT RESTRUCTURING AND SETTLEMENT EXPENSES	107,649	161,979	(417,757)	(266,441)
Debt restructuring expense (Note 9)	-	-	2,582,526	-
Settlement expense (Note 27)	-	-	258,540	-
NET COMPREHENSIVE OPERATING INCOME (LOSS) FOR THE PERIOD	107,649	161,979	(3,258,823)	(266,441)
INCOME TAXES				
Deferred income taxes	(150,000)	(100,000)	(300,000)	(190,000)
Current income taxes	-	86,035	-	86,035
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	257,649	175,944	(2,958,823)	(162,476)
NET COMPREHENSIVE INCOME (LOSS) PER SHARE				
Basic (Note 16)	0.003	0.002	(0.035)	(0.002)
Diluted (Note 16)	0.003	0.002	(0.035)	(0.002)

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 and Six Months Ended March 31 **Canadian Funds**

	2017 $	2016 $	2017 $	2016 $
OPERATING ACTIVITIES				
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	257,649	175,944	(2,958,823)	(162,476)
Items not affecting cash				
Amortization and depreciation	101,465	102,157	202,930	203,937
Accretion of debentures	50,098	25,851	80,391	31,721
Stock options expense (Note 15)	51,140	82,996	106,716	167,837
Deferred revenue	214,912	-	439,098	8,720
Debt restructuring expense	-	-	2,582,526	-
Deferred tax assets	(150,000)	(100,000)	(300,000)	(190,000)
Change in non-cash working capital balances (Note 18)	(381,542)	(280,132)	300,426	(84,621)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	143,721	6,816	453,263	(24,882)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment (Note 7)	(32,780)	(226,525)	(71,729)	(461,353)
Additions from internal development of intangible assets (Note 8)	(282,904)	(137,158)	(449,696)	(579,114)
CASH USED IN INVESTING ACTIVITIES	(315,684)	(363,683)	(521,425)	(1,040,467)
FINANCING ACTIVITIES				
Repayments of long term debt (Note 10)	(89,940)	(86,975)	(171,865)	(147,680)
Repayments of convertible and non-convertible debentures (Note 9)	(20,270)	(18,179)	(39,234)	(36,611)
Repayments of shareholders' loans	-	-	(200,000)	-
Repayments of finance lease	(1,691)	(1,525)	(3,338)	(3,012)
Proceeds of credit facility (Note 10)	315,000	404,569	510,000	374,254
Proceeds from equipment loans (Note 10)	-	-	-	250,000
Issue of common shares, net of issue costs	-	-	-	531,674
CASH PROVIDED BY FINANCING ACTIVITIES	203,100	297,890	95,564	968,625
NET CHANGE IN CASH - DURING THE PERIOD	31,137	(58,977)	27,402	(96,724)
CASH - BEGINNING OF PERIOD	1,680	66,433	5,415	104,180
CASH - END OF PERIOD	32,817	7,456	32,817	7,456

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 September 30 and March 31 **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**
Stock option expense			167,835			167,835
Share issuances pursuant to private placement	1,500,000	362,069	237,931			600,000
Share issue costs pursuant to private placement		(53,112)	(15,214)			(68,326)
Net comprehensive income (loss) for the period				(162,476)		(162,476)
Balance, March 31, 2016	**84,704,257**	**31,299,416**	**4,770,734**	**(24,207,632)**	**2,351,425**	**14,213,943**
Stock option expense			166,915			166,915
Net comprehensive income (loss) for the period				910,883		910,883
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			106,716			106,716
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 debenture			2,264,745		(2,264,745)	-
Refinancing of convertible debentures					2,903,789	2,903,789
Net comprehensive income (loss) for the period				(2,958,824)		(2,958,824)
Balance, March 31, 2017	**84,704,257**	**31,299,416**	**7,641,650**	**(26,255,573)**	**2,903,789**	**15,589,282**

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 March 31, 2017. The Board of Directors approved these consolidated financial statements on May 11, 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 March 31, 2017 and 2016. 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 March 31, 2017 or 2016.

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 March 31:

	Classification	Measurement	As at March 31 2017	2016
			$	$
Financial assets:				
Cash	Held-for-trading	Fair value	32,817	7,456
Accounts receivable	Loans and receivables	Amortized cost	1,324,816	1,354,744
Financial liabilities:				
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	2,149,457	2,077,501
Finance lease obligation	Other liabilities	Amortized cost	9,321	15,825
Non-convertible debentures	Other liabilities	Amortized cost	1,345,479	913,586
Convertible debentures	Other liabilities	Amortized cost	1,488,085	2,440,520
Long-term-debt	Other liabilities	Amortized cost	4,140,630	4,065,085
Deferred revenue	Other liabilities	Fair value	1,122,592	424,412
Total Financial liabilities			10,255,564	9,936,929

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 March 31, 2017 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:

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.

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

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 March 31 consist of the following:

	2017 $	2016 $
Raw material	477,067	498,821
Work in process	1,145,262	1,066,721
Finished goods	2,347,739	2,096,858
	3,970,068	3,662,400

During the three months ended March 31, 2017, inventories in the amount of $1,231,655, (2016 - $1,396,604) were recognized as an expense through cost of sales. The allowance for inventory impairment as at March 31, 2017 was $30,561 (2016 - $53,597).

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets as at March 31, 2017 were $89,038 (2016 - $90,696) 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 and 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	-	68,779	2,950	-	71,729
Disposals	-	-	-	-	-
Balance, March 31, 2017	4,562,383	6,863,091	4,475,833	800,000	16,701,307
Accumulated depreciation					
Balance, Sep 30, 2016	1,095,112	559,099	2,722,413	-	4,376,624
Disposals	-	-	-	-	-
Depreciation	76,180	11,935	67,032	-	155,147
Balance, March 31, 2017	1,171,292	571,034	2,789,445	-	4,531,771
Net book value					
Balance, Sept 30, 2016	3,467,271	6,235,213	1,750,470	800,000	12,251,984
Balance, March 31, 2017	3,391,091	6,292,057	1,686,388	800,000	12,169,537

Included in research and development equipment is $6,092,623 not yet available for use. Included in these amounts is directly attributable interest from borrowings to finance these asset additions of $224,550 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	77,238	87,600	240,195	44,663	-	449,696
Balance at March 31, 2017	**107,770**	**2,088,573**	**3,010,724**	**2,086,440**	**278,528**	**7,572,035**
Accumulated amortization						
Balance at September 30, 2016	**5,757**	**-**	**-**	**676,646**	**235,676**	**918,079**
Amortization expense	496	-	-	36,575	10,713	47,784
Balance at March 31, 2017	**6,253**	**-**	**-**	**713,221**	**246,389**	**965,863**
Net book value						
Balance, September 30, 2016	24,775	2,000,973	2,770,529	1,365,131	42,852	6,204,260
Balance, March 31, 2017	**101,518**	**2,088,573**	**3,010,724**	**1,373,218**	**32,139**	**6,606,172**

(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.

9. DEBENTURES

The Company has convertible and non-convertible debentures issued and outstanding as at March 31, 2017. 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	1,989,031
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	523,681
Balance, Prior to accretion/ repayments	**879,304**	**453,000**	**1,332,304**	**461,550**	**223,050**	**780,750**	**1,465,350**
Accretion	99,721	63,232	162,953	71,608	33,403	120,224	225,235
Repayments	(122,142)	(27,636)	(149,778)	(67,500)	(22,500)	(112,500)	(202,500)
Balance, March 31, 2017	**856,883**	**488,596**	**1,345,479**	**465,658**	**233,953**	**788,474**	**1,488,085**
Less: current portion	244,284	488,596	732,880	135,000	45,000	225,000	405,000
Non-current portion	612,599	-	612,599	330,658	188,953	563,474	1,083,085
Note	(a)	(b)		(c)	(d)	(e)	

During the first 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.

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 10% 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	$ 856,883	$ 488,596	$ 465,658	$ 233,953	$ 788,474
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%	28.55%	31.07%	30.20%	30.85%
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 $2,324,260 (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 $0 (September 30, 2016 – $3,625), as this loan is now fully paid. Both of the loans have a floating interest rate based on BDC's Floating Base Rate plus 0.5%. At March 31, 2017 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 $410,000 (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 $34,320 (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 $149,850 (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 $187,200 (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	493,232
2018	474,990
2019	453,662
2020	324,090
2021	208,286
2022 and thereafter	2,372,713

10. LONG-TERM DEBT (continued)

b) On October 20, 2016, the Company arranged a new revolving line of credit agreement with its Canadian chartered bank. The agreement currently allows the Company to draw on to a limit of $1,000,000 bearing interest at the bank's prime lending rate plus 2.25%. Accounts receivable and inventory are pledged as collateral for the bank credit facility.

As at March 31, 2017 the Canadian Chartered Bank had provided a $150,000 temporary addition to the line of credit and the Company had drawn on $1,035,000 of the facility (2016 - $615,000).

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 March 31, 2017, the Company has received payment, in the amount of $1,122,592 (2016 - $421,041), 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 March 31, 2017 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
Exercise of warrants	-	-
Exercise of stock options	-	-
Balance, March 31, 2017	84,704,257	31,299,416

13. CONTRIBUTED SURPLUS

Changes in contributed surplus up to March 31, 2017 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
Stock options exercised	-
Stock options expense	51,140
Balance, March 31, 2017	7,641,650

14. COMMON SHARE PURCHASE WARRANTS

A continuity of the Company's warrants outstanding as at March 31, 2017 and September 30, 2016 is presented in the following table:

	Units	Weighted average exercise price
		$
Balance, September 30, 2016	**7,024,392**	**$ 0.54**
Issued	1,500,000	$ 0.23
Exercised	-	-
Expired	(193,079)	$ 0.25
Balance, December 31, 2016	**8,331,313**	**$ 0.49**
Issued	-	-
Exercised	-	-
Expired	-	-
Balance, March 31, 2017	8,331,313	0.49

A summary of the Company's warrants outstanding as at March 31, 2017 and September 30, 2016 is presented in the following table:

	March 31, 2017			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
$0.24 to $0.44	-	-	-	-	-	-
	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. This amendment changed the total number of common shares available to be issued under the plan from a maximum of 10,000,000 to a maximum of 12,000,000 common shares. Under the plan, the Company has a total of 3,929,000 options issued and pending (2016 – 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 six months ended March 31, 2017 is as follows:

	Options	Weighted average exercise price
		$
Balance, September 30, 2016	**4,007,000**	**$ 0.47**
Issued	**320,000**	$ **0.23**
Exercised	-	$ -
Expired or forfeited	**-**	$ **-**
Balance, December 31, 2016	**4,327,000**	**$ 0.47**
Issued	**-**	$ **-**
Exercised	-	$ -
Expired or forfeited	**(398,000)**	$ **0.29**
Balance, March 31, 2017	**3,929,000**	**$ 0.47**
Exercisable, March 31, 2017	**1,927,000**	**$ 0.47**

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, 2017 and September 30, 2016:

	March 31, 2017			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	2,920,000	$ 0.54	3.50	2,923,000	$ 0.54	2.79
$0.23 to $0.32	1,009,000	$ 0.27	1.75	1,084,000	$ 0.28	2.10
	3,929,000	$ 0.45	3.05	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 PER SHARE

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

For the three months ended March 31

	2017	2016
Numerator for basic and diluted earnings per share:		
Net income (loss) available to common shareholders ($)	257,649	175,944
Denominator for basic earnings per share:		
Weighted average common shares outstanding	84,704,257	84,704,257
Effect of dilutive securities:		
Warrants	-	5,792
Stock Options	-	-
Convertible Debentures	-	-
Denominator for diluted net income (loss) per share	84,704,257	84,710,049
Net income (loss) per share		
Basic	$0.003	$0.002
Diluted	$0.003	$0.002

The following represents the warrants, stock options and convertible debentures included in the calculation of diluted EPS:

	2017	2016
Pursuant to warrants	8,331,313	6,831,313
Under stock options	3,929,000	4,872,000
Pursuant to convertible debentures	19,565,217	7,000,000
	31,825,530	18,703,313

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 Mar 31, 2017 $	Three months ended Mar 31, 2016 $	Six months ended Mar 31, 2017 $	Six months ended Mar 31, 2016 $
Included in:				
Cost of goods sold	71,606	71,299	143,212	142,221
General and administrative expenses	248	258	496	516
Research and development	29,611	30,600	59,222	61,200
Total depreciation and amortization	101,465	102,157	202,930	203,937

Employee costs

	Three months ended Mar 31, 2017 $	Three months ended Mar 31, 2016 $	Six months ended Mar 31, 2017 $	Six months ended Mar 31, 2016 $
Short-term wages, bonuses and benefits	1,031,057	795,413	2,058,912	1,612,158
Share based payments	51,140	82,996	106,716	167,837
Total employee costs	1,082,197	878,409	2,165,628	1,779,995
Included in:				
Cost of goods sold	646,185	506,350	1,237,967	1,043,634
Research and development	119,687	46,873	308,248	108,033
General and administrative expenses	232,258	219,000	449,060	435,751
Selling and business development	84,066	106,186	170,353	192,577
Total employee costs	1,082,197	878,409	2,165,628	1,779,995

18. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended Mar 31, 2017 $	Three months ended Mar 31, 2016 $	Six months ended Mar 31, 2017 $	Six months ended Mar 31, 2016 $
Accounts receivable	(243,502)	(708,126)	697,056	337,330
Inventory	(295,644)	357,436	(574,075)	(37,132)
Prepaid expenses & other assets	(26,662)	35,281	(33,497)	125,693
Investment tax credit receivable	-	-	(40,000)	(100,000)
Accounts payable and accrued liabilities	184,266	35,277	250,942	(410,512)
	(381,542)	(280,132)	300,426	(84,621)

19. FINANCIAL EXPENSES

	Three months ended Mar 31, 2017 $	Three months ended Mar 31, 2016 $	Six months ended Mar 31, 2017 $	Six months ended Mar 31, 2016 $
Cash interest:				
Interest on long-term debt	41,238	30,482	82,284	76,142
Interest on debentures	124,551	121,642	244,551	243,031
Interest other	8,060	17,724	35,618	25,054
Interest income	-	-	-	(615)
Non-cash interest:	-	-	-	-
Accretion on debentures	50,098	25,851	80,391	31,720
Financial expenses	223,946	195,699	442,843	375,332

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 March 31, 2017 was $22,563,476 (2016 - $21,078,599).

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 $1,150,000 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 March 31, 2017 and 2016, the Company has carried at fair value financial instruments in Level 1. At March 31, 2017, 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-Mar-17	32,817	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	31-Mar-17	-	-	1,345,479
Convertible debentures	31-Mar-17	-	-	1,488,085
Long-term-debt	31-Mar-17	-	4,140,630	-

	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-Mar-16	7,956	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	31-Mar-16	-	-	913,586
Convertible debentures	31-Mar-16	-	-	2,440,520
Long-term-debt	31-Mar-16	-	4,065,085	-

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 March 31, 2017, five customers accounted for 60% (2016 - six customers accounted for 58%) of revenue. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $10,000 (2016 - $18,295).

Trade accounts receivable are aged as follows at March 31:

	As at Mar 31, 2017 $	As at Mar 31, 2016 $
Current	1,153,419	1,233,866
0-30 days past due	103,306	91,925
31-60 days past due	52,164	27,464
61 days and over past due	15,927	1,489
	1,324,816	1,354,744

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

	US dollars		Euros	
	Mar 31, 2017 $	Mar 31, 2016 $	Mar 31, 2017 $	Mar 31, 2016 $
Cash	31,176	2,659	62	2
Accounts receivable	508,810	899,232	589,489	468,878
Accounts payable and accrued liabilities	493,938	468,392	-	-

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 March 31, 2017 and 2016 are as follows:

	2017	2016
Revenue		
European Euro	45%	39%
U.S. dollars	53%	56%
Expenses		
U.S. dollars	13%	13%

The impact of a 5% increase in the Canadian dollar against the US dollar would result in an annual U.S. dollar based revenue loss of about 4.7%. The impact of a 5% increase in the Canadian dollar against the Euro would result in an annual Euro based revenue loss of about 5%. Correspondingly, the impact of a 5% decrease in the Canadian dollar against the US dollar would result in an annual U.S. dollar based revenue increase of about 4.7%. The impact of a 5% increase in the Canadian dollar against the Euro would result in an annual Euro based revenue increase 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. During the first quarter the Company implemented 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 grow its existing business. 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 cash flow interest rate risk are those assets and liabilities 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 $1,150,000 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 $11,500 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	
	Mar 13 2017	Mar 13 2016	Mar 13 2017	Mar 13 2016
	$	$	$	$
Virology Products and Technologies	2,646,649	2,729,779	257,649	175,944
Lumisort™	-	-	-	-
Kinlytic®	-	-	-	-
Total for continuing operations	2,646,649	2,729,779	257,649	175,944

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2016 - $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 March 31 are as follows:

	Segment assets		Segment liabilities	
	2017	2016	2017	2016
	$	$	$	$
Virology Products and Technologies	15,129,675	13,954,937	9,789,906	9,936,929
Lumisort™	7,704,446	7,425,409	465,658	-
Kinlytic®	3,010,724	2,770,528	-	-
Total for continuing operations	25,844,846	24,150,874	10,255,564	9,936,929

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 March 31 are as follows:

	Depreciation and amortization		Additions to non-current assets	
	2017	2016	2017	2016
	$	$	$	$
Virology Products and Technologies	77,821	71,298	120,380	165,197
Lumisort™	23,644	30,859	50,993	198,486
Kinlytic®	-	-	144,311	-
Total for continuing operations	101,465	102,157	315,684	363,683

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 Three months ended Mar 31		Non-current assets As at Mar 31	
	2017	2016	2017	2016
	$	$	$	$
North America	1,042,390	1,393,808	20,205,709	18,785,328
Europe	1,578,848	1,232,712	-	-
Other foreign countries	25,412	103,259	-	-
	2,646,649	2,729,779	20,205,709	18,785,328

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 Mar 31, 2017	Three months ended Mar 31, 2016
	$	$
Short-term wages, bonuses and benefits	192,391	189,055
Termination benefits	-	-
Share based payments	38,081	-
Total key management compensation	230,472	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 $
2017	6,082
2018	5,806
2019	1,851
2020	-
2021	-
	13,739

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

	Amount $
2017	1,154,242
2018	649,242
2019	649,242
2020	649,242
2021	1,145,492
2022 and thereafter	8,038,528
	12,285,988

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

28. SUBSEQUENT EVENTS

On April 28, 2017 the Company received approval from its Chartered Bank to increase the borrowing limit on its new credit facility to $1.5 million. The new credit facility was implemented in November 2016 with an initial limit of $1.0 million, replacing the Company's previous credit facility of $0.5 million. The newly expanded credit facility was approved on May 4, 2017.

On April 28, 2017 the Company announced it has reached an agreement with one of its debenture holders to extend the maturity date on a $500,000 non-convertible debenture set to mature on April 30, 2017. The arms' length debenture holder has agreed to extend the maturity date of the debenture to April 30, 2022. The debenture is callable at the option of the holder upon sixty days written notice to the Company. The debenture holder also receives amendments to an aggregate of 300,000 common share purchase warrants they currently hold. Each warrant currently entitles the holder to purchase one common share of Microbix at a price of $0.55 until August 21, 2019. Microbix has applied to the TSX to extend the term of the warrants to August 21, 2022 and to amend the exercise price of the warrants to $0.25 per share. The amendments to the terms of the warrants are subject to TSX approval.

On May 1, 2017 the Company published a news release confirming that it had consulted with the U.S. Food and Drug Administration (FDA) regarding the Company's plans to return its thrombolytic biologic drug, Kinlytic to the U.S. market. Management believes the results of its consultation will accelerate its work to obtain financing, complete its re-launch program and then submit an application to FDA to re-enter the U.S. market. The Company has already received expressions of interest to license or acquire the drug and to provide full funding for its re-launch program. Following consultation with the FDA, the Company now intends to accelerate its work to conclude such an agreement. The use of thrombolytic drugs has been increasing every year and U.S. sales now exceed US$1 billion per year. Currently there is only one thrombolytic drug available for dissolving blood clots and the Company believes there is significant need for another therapeutic option.

On May 3, 2017 the Company signed an agreement with Business Development Corporation for a new equipment credit facility in the amount of $610,000. The proceeds will be used to upgrade equipment in the Virology products manufacturing operation.

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Managing Director
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(2) Member of the Human Resources, Compensation and Governance Committee.

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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

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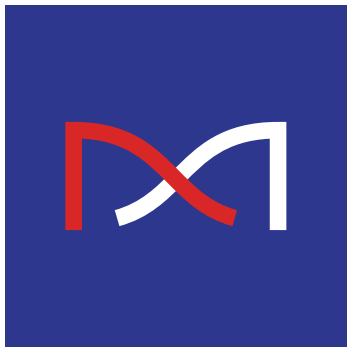

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