MICROBIX BIOSYSTEMS INC.

THIRD INTERIM REPORT

For the nine months
ended June 30, 2014

Message to Shareholders

Our virology products business continued its strong performance in the third quarter with sales increasing 24% compared to last year. Expenses declined 10% and we achieved a pre-tax profit of nearly $300,000, compared to a small loss in the same quarter last year. After nine months virology sales are up 37% and we generated a pre-tax profit of $800,000, representing a strong turnaround in our bottom line of $1.2 million compared to a year ago.

We have now experienced four consecutive profitable quarters, and we have generated a profit in five of the last six quarters. One of our top priorities has been to ensure that the Company reaches a sustained level of profitability. Consistent profitability contributes to positive operating cash flow, which is very important as we continue to support our different strategic spending priorities.

Our financial position was further strengthened during the quarter through the exercising of additional share purchase warrants, which have totaled nearly $1 million after nine months. With the continued improvement in our share price, warrant holders have had the incentive to convert their warrants to shares, and thereby create an additional source of funds for our Company. As a result, we continue to improve our liquidity position and the overall financial health of the Company.

We are now at the halfway point in the development of our LumiSort™ demonstration instrument. We recently completed an in-depth review of the project's status with our development partner, Lathrop Engineering. I am very pleased to confirm that we are on schedule to complete the demonstration instrument in the fall, when we expect to show the industry the significant advantages of our semen sorting technology in terms of speed, yield and fertility.

We have advanced our discussions with a handful of parties interested in exploring potential partnerships to return Kinlytic to the U.S. market. I am very encouraged by the strong interest these potential investors have expressed in this opportunity, and I remain optimistic that we will find a new partner to help Microbix commercialize this life saving therapy.

The VIRUSMAX® infringement action against Novartis expanded last month as we filed a new complaint in Europe. We are committed to vigorously defending our patents in all jurisdictions.

As I write this letter to shareholders, our share price has reached a new twelve-month high; five times higher than the low point we experienced in the past twelve months. It is very gratifying to see our hard work paying off in terms of strong growth in shareholder value.

V.C. Embro-Pantalony

Vaughn C. Embro-Pantalony
President and Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2014 AND 2013

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

This Management Discussion and Analysis is dated August 12, 2014.

COMPANY OVERVIEW

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

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

The Company owns and operates a Virology Products manufacturing facility at 265 Watline Avenue, Mississauga, Ontario. The Watline manufacturing facility has an infectious diseases biological license from the Canadian Food Inspection Agency. The Company's administrative and sales office were moved in the third quarter of fiscal 2014 to 211 Watline Avenue, to accommodate the increased production space requirements at the manufacturing facility due to the significant growth of the Virology Products business in the last two years.

FINANCIAL OVERVIEW
THIRD QUARTER ENDING JUNE 30, 2014

Virology Products revenue in the third quarter was $2,039,935, or 24% above the comparative quarter in fiscal 2013. As research and development contract revenue was nil in the third quarter of fiscal 2014 due to the cessation of the development of Kinlytic® under license to Zydus versus $256,745 contract revenue in the comparative quarter of 2013, all revenue in the third quarter of fiscal 2014 was derived from the sale of Virology Products. As a result the Company realized a net operating income before income taxes of $294,561 versus a loss $22,687 in the comparative quarter of 2013.

For the nine months ending June 30, 2014, Virology Products revenue was $5,852,548, or an increase of 36% over the first nine months of 2013. Total revenue for the nine months ending June 30, 2014 was $6,040,917, an increase of 18% over the same period in 2013. For the nine months ending June 30, 2014, the Company realized an operating income of $778,587, compared to an operating loss of $403,755 for the same period in 2013.

CHANGES IN FINANCIAL POSITION

	As at June 30, 2014 $	As at June 30, 2013 $
Cash	451,948	563,393
Accounts receivable	1,723,649	557,923
Total current assets	4,072,614	2,959,189
Total assets	16,017,995	13,403,280
Total current liabilities	1,672,347	1,835.249
Total liabilities	8,197,384	8,365,864
Total shareholders' equity	7,820,612	5,037,416

SELECTED QUARTERLY FINANCIAL INFORMATION

	Sep-30-12 $	Dec-31-12 $	Mar-31-13 $	Jun-30-13 $	Sep-30-13 $	Dec-31-13 $	Mar-31-14 $	Jun-30-14 $
Sales	**1,884,801**	**1,095,615**	**2,103,426**	**1,906,652**	**2,468,900**	**1,927,885**	**2,073,097**	**2,039,935**
Net Operating Income Before Income Taxes	**(301,309)**	**(629,505)**	**248,437**	**(22,687)**	**571,933**	**214,406**	**269,620**	**294,561**

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

LIQUIDITY, CASH FLOW AND CAPITAL RESOURCES

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") on a going concern basis, which presumes the Company will continue operating for the foreseeable future and will be able to realize a return on its assets and discharge its liabilities and commitments in the normal course of business.

The company has incurred operating losses resulting in an accumulated deficit of $24,307,519 as at June 30, 2014. Management continuously monitors the financial position of the Company with respect to working capital needs, as well as long-term capital needs compared to the annual budget. Variances are highlighted and actions are taken to ensure the Company is appropriately capitalized. The current annual operating budget confirms the Company is on target and able to support its planned activities.

a) Sources and Uses of Cash

During the third quarter of fiscal 2014, the closing cash balance decreased $697,719 to $451,948 from the previous fiscal quarter. Reasons for the change in cash are as follows:

1) Cash provided by operations of $212,923 ($60,790 provided in 2013) resulted mostly from the realization of net income of $210,567 in the quarter compared to a net loss of $22,687 in the comparative quarter of fiscal 2013.
2) Cash used in investing activities was $1,467,802 for new manufacturing equipment, new intellectual property development, patents and for Lumisort™ engineering and equipment.
3) Cash provided by financing activities at $557,159 due to the following:
   i) Proceeds of $545,511 from the exercise of warrants.
   ii) Proceeds from other financing sources of $11,648.

b) Future Liquidity and Capital Needs

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

c) Contractual Obligations

The Company had contractual obligations and commercial commitments at June 30, 2014 described in the following table:

Payments due	Total $	Less than One year $	2-3 Years $	4-5 Years $	After 5 years $
Accounts payable	1,545,825	1,545,825	-	-	-
Debentures	12,946,404	694,242	1,343,484	1,208,484	9,700,194
Long-term debt	4,228,960	263,233	536,151	486,845	2,942,731
Operating leases	106,585	54,218	46,857	5,510	-
Total Contractual Obligations	**18,827,774**	**2,557,518**	**1,926,492**	**1,700,839**	**12,642,925**

Of the $12,946,404 payable on convertible debentures over the next 15 years, $6,983,929 is principal. Of the long-term payable of $4,228,960 over the next 24 years, $2,633,070 is principal.

d) Outstanding Share Capital

Share capital issued and outstanding as at August 12, 2014 was $25,660,281 for 70,563,250 common shares, an increase of $673,486 and 1,965,775 common shares since March 31, 2014. This increase was due to the conversion of warrants to common shares.

RELATED PARTIES

During the third quarter of fiscal 2014, the Company paid interest of $159,501 ($123,750 – 2013) on debentures issued to related party shareholders.

LONG-TERM ASSETS

a) Tangible Assets

During the third quarter of fiscal 2014 the Company spent $1,285,793 on Virology Products production equipment and Lumisort engineering and equipment.

b) Intangible Assets

Capital Spending

During the third quarter of fiscal 2014 the Company spent $182,009 on the defense and expansion of its patent estate.

Technology Investment - Lumisort™

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

Technology Investment - Urokinase

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

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

LONG-TERM LIABILITIES

a) Non-Convertible Debenture

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

As the issuance of the non-convertible debenture and the cancellation of a previously issued $2,000,000 convertible debenture were transacted with the same shareholder and represent a substantial modification in the terms of the $2,000,000 debt instrument, the non-convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of the issue. The debt component was valued first at its present value based on the effective interest rate on the debt of 25.69% per annum which reflects the inherent risk of investment in the Company taking into account its underlying stock volatility, credit profile and the ranking of the debt behind the secured mortgage and commercial banking creditors. The balance of the debenture's face value was then allocated to shareholders' equity.

Over the term of the non-convertible debenture, the debt component will be accreted to its face value by the recording of additional interest expense.

b) Convertible Debenture

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

On January 31, 2014, the Company issued a $1,500,000 debenture to a shareholder of the Company, with interest only payable at 9% per annum on a quarterly basis, having a maturity date of January 31, 2029. The debenture is convertible into Common Shares at the option of the holder at any time on or prior to the maturity at a conversion price of $0.35 per common share. The debenture is secured against the Company's property at 265 Watline Avenue, Mississauga and other personal property of the Company and is subordinate only to indebtedness to a Canadian chartered bank or similar financial institution on normal commercial terms up to the maximum principal amount of $1,500,000.

The convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of the issue. The debt component was valued first at its present value based on the effective interest rate on the debt of 25.69% per annum which reflects the inherent risk of investment in the Company taking into account its underlying stock volatility, credit profile and the ranking of the debt behind the secured mortgage and commercial banking creditors. The balance of the debenture's face value was then allocated to shareholders' equity.

Over the term of the convertible debenture, the debt component will be accreted to its face value by the recording of additional interest expense.

c) Business Development Corporation Debt

In 2008 the Company borrowed $3,000,000 from the Business Development Corporation (BDC) to acquire the Company's current Virology Products manufacturing facility and entered into a mortgage in favour of BDC. The mortgage is secured against the Company's property at 265 Watline Avenue, Mississauga, is amortized over a 30 year term and bears interest at BDC's Floating Base Rate plus 1.35%. At June 30, 2014 the Floating Base Rate was 5%. Principal is paid monthly in the amount of $9,260 and continues until August 2037. As a condition of the mortgage, BDC withheld $250,000 as security, until the Company reached certain profitability performance targets. On February 7, 2014 the Business Development Bank advised the Company it had met the performance criteria required to release the restricted cash of $250,000.

An additional loan from BDC of $350,000 was obtained in 2008 to acquire equipment for the new facility. The outstanding balance of this loan at the end of the quarter was $23,200. The interest rate on this loan is based on BDC's Floating Base Rate plus 1.8% and is repayable over a term of 8 years. At June 30, 2014 the Floating Base Rate was 5.00%. Principal is paid monthly in the amount of $725 ending in August 2016.

Additionally, in April 2014 BDC offered a 6 month deferral of principal payments on the mortgage beginning with the month of April, 2014. The Company has accepted this deferral offer which amounts to $55,560. Accordingly, the term of the mortgage was extended an additional six months to February 2038.

SUBSEQUENT EVENT

On July 10, 2014 Microbix commenced a complaint in the Court of Dusseldorf, Germany against Novartis Vaccines and Diagnostics, alleging infringement of its VIRUSMAX® patent in Europe. Microbix had also filed a complaint against Novartis in the Eastern District of Texas on January 6, 2014, alleging infringement of its VIRUSMAX® patent in the United States and the Company had also successfully defended its European VIRUSMAX® patent against Novartis' Opposition at the European Patent Office (EPO) in January 2014 when, following a hearing in Munich, the EPO rendered a decision in favour of Microbix and confirmed that the VIRUSMAX® technology is a novel, useful and non-obvious invention. Novartis has appealed that decision.

TREND INFORMATION

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

OUTLOOK

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

RISKS AND UNCERTAINTIES

The Company is exposed to a wide variety of 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:

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

The majority of the Company's Virology Products sales are made to a relatively small number of key customers located all over the world. Since these products contributed all of the revenue during the quarter ended June 30, 2014, then the loss of a couple of key customers or, restrictions on export, import, international transportation of its products, raw materials or insufficient marketing resources, could materially impact revenue and profitability.

Environmental, safety and other regulatory

Microbix' research and manufacturing operations involves potentially hazardous materials. The Company takes the necessary precautions to appropriately manage such materials as required by applicable environmental and safety regulations. Changes to environmental and safety legislation may limit the Company's activities or increase costs. An environmental accident could adversely impact its operations. Microbix' diagnostic products are not regulated by governments in Canada or other jurisdictions. Commercialization of certain products requires approval of regulatory agencies such as the FDA, in which case Microbix will not receive revenue until regulatory approval is obtained.

Manufacturing of Kinlytic®

In 2012 the Company signed a license agreement with Zydus Cadila to return Kinlytic® to the market. However in December 2013, Zydus terminated the Kinlytic® license agreement due to a change in their strategic priorities. During the quarter the Company entered into confidentiality agreements with a number of parties that are interested in evaluating the opportunity to return Kinlytic to the market.

Vaccine technology

The market for the Company's Vaccine technology (VIRUSMAX) is limited to a small number of influenza vaccine manufacturers. This technology is protected by patents which the Company successfully defended in January 2014 at a European Patent Office hearing, following a challenge by Novartis Vaccines & Diagnostics. This patent defence has led to separate legal actions by the Company against Novartis alleging infringement in the United States and Europe. These legal actions require significant investment and there is no assurance that the Company will prevail in these actions.

Products in development

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

Product commercialization requires strategic relationships

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

Operating and capital requirements

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

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 highly uncertain and there is no guarantee of market acceptance.

Failure to obtain and protect intellectual property could adversely affect business

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

Microbix faces and will continue to face significant competition

Competition from pharmaceutical companies, biotechnology companies and academic and research institutions is significant. Many competitors have substantially greater product development capabilities and financial, scientific, manufacturing, sales and marketing resources and experience than Microbix. While the Company continues to expand its technological capabilities in order to remain competitive, Microbix' competitors are also investing in research and development activities and enhanced intellectual property positions, which could make it more difficult for Microbix to commercialize its new technologies and products.

FINANCIAL RISK MANAGEMENT

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

Credit risk:

The Company's cash and cash equivalents are held in accounts or short-term interest bearing accounts at a major Canadian chartered bank. Management perceives the credit risk to be low. There is a concentration of accounts receivable risk due to a few large customers comprising the Company's international customer base. The Company has had virtually no bad debts over the past two years and accordingly management has recorded an allowance of $5,206 ($69,243 – 2013). Accounts receivable at June 30, 2014 was $1,723,649 ($1,150,982 – 2013), an increase of 50% mainly due a significant increase in sales and to their timing during the quarter.

a) Currency risk:

The Company is exposed to currency risk through fluctuations in the exchanges rate affecting sales and receivables denominated in US dollars and Euros. The Company does not use financial instruments to hedge these risks. At June 30, 2014 the Company had US dollar balances in cash, accounts receivable and accounts payable and Euro balances in accounts receivable and accounts payable.

b) Liquidity risk:

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

c) Interest rate risk:

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

d) Market risk:

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

CRITICAL ACCOUNTING ESTIMATES

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

Going-concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which presumes the Company will continue operating for the foreseeable future and will be able to realize a return on its assets and discharge its liabilities and commitments in the ordinary course of its business. The Company has incurred losses resulting in an accumulated deficit of $24,307,519 at June 30, 2014, which represents an improvement of $1,640,492 since the end of fiscal 2012. The Company's ability to continue as a going concern depends upon the continued activity of its Virology Products business and the successful completion of agreements for pipeline project developments. Management continuously monitors the financial position of the Company with respect to working capital requirements as well as long-term capital needs in relation to a budget for the year. Deviations are highlighted and actions are taken to ensure the Company is appropriately capitalized. The current operating budget shows the Company is on target and able to support its planned activities for at least the next twelve months given its ongoing ability to raise new financing if required for pipeline related costs.

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

1) Operating net income before income taxes was $294,561 versus a loss of $22,687 in the comparative quarter of 2013.
2) With substantially all revenue from Virology Products in the third quarter of fiscal 2014, gross margin increased to 56% of sales versus 48% in the comparative quarter of 2013.
3) Operating expenses declined 10% versus the comparative quarter of 2013, mostly due to reduced discretionary business development expenses in the product pipeline and earned investment tax credits which partially offset research and development costs in the quarter.
4) The Company's current ratio continued strong with assets at 2.4 times current liabilities, a 35% improvement over the comparative quarter in fiscal 2013.
5) During the quarter, the Company received $545,511 from the conversion of warrants.

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 June 30, 2014 have met the criteria for impairment.

Convertible Debentures

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

Deferred Income Taxes

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

Share-Based Payments

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in the National Instrument 52-109 Certification of Disclosure in Issuer's Annual Filings (NI 52-109F1). As at June 30, 2014, management has concluded that the disclosure controls are effective in providing reasonable assurance that information required to be disclosed in the Company's reports is recorded, processed summarized and reported within the time periods specified in the Canadian Securities Administrator's rules and forms.

Internal Controls over Financial Reporting

The design of internal controls over financial reporting ("ICFR") within the company is a management responsibility to provide reasonable assurance that the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with generally accepted accounting principles of IFRS. While the CEO and CFO believe that the internal controls are adequate to provide the above information, the process to evaluate and document all policies and procedures that could impact financial reporting is continuously reviewed with consultation with the Audit Committee. Shareholders should be aware that Microbix is a small company without the department resources associated with larger firms. Management is using the Committee of Sponsoring Organization of the Treadway Commission ("COSO") Framework and has concluded that the Internal Control over Financial Reporting ("ICFR") as defined in NI 52-109 is effective as at the period ended June 30, 2014.

Examination by the Chief Executive Officer and the Chief Financial Officer showed that there were no changes to the internal controls over financial reporting during the period ended June 30, 2014 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

RECENT ACCOUNTING PRONOUNCEMENTS

Financial Instruments

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

Consolidated Financial Statements

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

Disclosure of Interests in Other Entities

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

Fair Value Measurement

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

NOTICE TO READER OF THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited interim financial statements of Microbix Biosystems Inc. (the "Company") for the three months and nine months ended June 30, 2014 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and are the responsibility of the Company's management.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited	As at June 30, 2014 $	As at September 30, 2013 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	451,948	260,048
Accounts receivable	1,723,649	1,150,982
Inventory (note 4)	1,396,608	1,072,151
Prepaid expenses (note 5)	368,239	75,827
Investment tax credit receivable	132,170	78,757
TOTAL CURRENT ASSETS	4,072,614	2,637,765
LONG-TERM ASSETS		
Restricted cash (note 6)	-	250,000
Property and equipment (note 7)	7,561,747	5,929,168
Intangible assets (note 8)	4,383,635	3,899,103
TOTAL LONG-TERM ASSETS	11,945,382	10,078,271
TOTAL ASSETS	16,017,995	12,716,036
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	1,545,825	1,353,635
Current portion of obligation under capital lease	6,703	-
Current portion of long-term debt (note 12)	119,820	119,820
TOTAL CURRENT LIABILITIES	1,672,347	1,473,455
Non-Convertible debenture (note 10)	930,659	-
Convertible debentures (note 11)	2,668,478	2,545,392
Long-term debt (note 12)	2,513,250	2,563,175
Deferred revenue	412,650	412,650
TOTAL LONG-TERM LIABILITIES	5,594,378	5,521,217
TOTAL LIABILITIES	8,197,384	6,994,672
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 13)	25,532,306	24,299,594
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (note 11)	3,203,299	2,699,368
CONTRIBUTED SURPLUS (note 14)	3,392,526	3,550,521
ACCUMULATED DEFICIT	(24,307,519)	(24,828,119)
TOTAL SHAREHOLDERS' EQUITY	7,820,612	5,721,364
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	16,017,995	12,716,036

WILLIAM J. GASTLE
DIRECTOR

VAUGHN EMBRO-PANTALONY
DIRECTOR

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three months ended June 30		Nine months ended June 30	
	2014	2013	2014	2013
		(Restated - See Note 26)		(Restated - See Note 26)
Unaudited	$	$	$	$
SALES				
Virology products and technologies	2,039,935	1,649,907	5,852,548	4,301,328
Research and development contracts	-	256,745	188,369	804,365
Total sales	2,039,935	1,906,652	6,040,917	5,105,693
COST OF GOODS SOLD				
Virology products and technologies (notes 4, 18)	889,315	732,803	2,596,132	2,020,288
Research and development contracts	-	249,284	95,144	653,267
Total Cost Of Goods Sold	889,315	982,087	2,691,276	2,673,555
GROSS MARGIN	1,150,620	924,565	3,349,641	2,432,138
EXPENSES				
Selling and business development	123,323	211,461	441,538	666,860
General and administrative (note 18)	448,070	412,240	1,436,525	1,404,613
Research and development (note 18)	61,722	136,440	119,621	410,786
(Gain) Loss on disposal of assets	-	5,001	-	(140,265)
Financial expenses (note 21)	222,944	182,110	573,370	493,899
Total Expenses	856,059	947,252	2,571,054	2,835,893
NET COMPREHENSIVE OPERATING INCOME (LOSS) BEFORE INCOME TAXES	294,561	(22,687)	778,587	(403,755)
INCOME TAXES				
Current income taxes	83,994	-	257,987	-
NET COMPREHENSIVE INCOME (LOSS)	210,567	(22,687)	520,600	(403,755)
ACCUMULATED DEFICIT - BEGINNING OF PERIOD	(24,518,086)	(25,210,565)	(24,828,119)	(24,829,497)
ACCUMULATED DEFICT - END OF PERIOD	(24,307,519)	(25,233,252)	(24,307,519)	(25,233,252)
NET COMPREHENSIVE INCOME (LOSS) PER SHARE				
Basic (note 17)	0.003	(0.000)	0.008	(0.006)
Diluted (note 17)	0.003	(0.000)	0.008	(0.006)
Weighted average number of common shares outstanding	68,704,702	66,684,350	67,741,365	66,684,350

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited	Three months ended June 30 2014 $	Three months ended June 30 2013 $	Nine months ended June 30 2014 $	Nine months ended June 30 2013 $
OPERATING ACTIVITIES				
Net income (loss) for the period	210,567	(22,687)	520,600	(403,755)
Items not affecting cash				
Amortization (Note 18)	102,585	104,290	300,333	312,432
Accretion on liability component of convertible debenture	29,717	11,646	52,729	27,392
Accretion of asset retirement obligation	-	-	-	(140,708)
Unrealized foreign exchange loss (gain)	-	(1,723)	-	(13,310)
Stock options expense	(23,737)	-	(14,129)	116,385
Gain on sale of business	-	5,001	-	(140,265)
Change in non-cash working capital balances (Note 19)	(106,209)	(35,738)	(1,050,760)	(180,368)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	212,923	60,790	(191,226)	(422,197)
INVESTING ACTIVITIES				
Restricted cash (Note 6)	-	-	250,000	-
Proceeds from sale of business	-	(5,001)	-	180,790
Purchase of property and equipment	(1,467,802)	(3,224)	(2,417,444)	(63,961)
CASH PROVIED BY (USED) IN INVESTING ACTIVITIES	(1,467,802)	(8,225)	(2,167,444)	116,829
FINANCING ACTIVITIES				
Increase (decrease) in bank indebtedness	-	(96,264)	-	(91,811)
Payments on debt	-	(29,955)	(49,925)	(80,605)
Payment of capital leases	6,703	-	6,703	(2,064)
Payment on non convertible debenture	4,945	-	4,945	-
Proceeds from issuance of convertible debenture	-	-	1,500,000	-
Proceeds from exercise of,				
Warrants, net of issue costs	545,511	-	903,236	10,000
Common Share Options, net of issue costs	-	-	185,610	280,870
CASH PROVIDED BY (USED IN)	-	-	-	-
FINANCING ACTIVITIES	557,159	(126,219)	2,550,569	116,390
Effect of foreign currency exchange rate changes on cash and cash equivalents	-	1,723	-	13,310
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(697,719)	(71,931)	191,899	(175,667)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	1,149,667	124,693	260,048	228,429
CASH AND CASH EQUIVALENTS - END OF THE PERIOD	451,948	52,762	451,948	52,762

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

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited	Share Capital					
	Number of Shares	Stated Capital	Contributed Surplus	Deficit	Equity Component of Debenture	Total Shareholders' Equity
Balance, September 30, 2012	**65,594,350**	**24,033,710**	**3,338,881**	**(24,829,497)**	**2,699,368**	**5,242,462**
Share issuances pursuant to private placement	1,050,000	315,000				315,000
Share issue costs, private placements		(59,116)	24,986			(34,130)
Share issuances pursuant to conversion of warrants	40,000	10,000				10,000
Stock option expense			116,384			116,384
Net income (loss) for the period				(403,755)		(403,755)
Balance, June 30, 2013	**66,684,350**	**24,299,594**	**3,480,251**	**(25,233,252)**	**2,699,368**	**5,245,960**
Share issuances pursuant to private placement			(136,500)			(136,500)
Share issue costs, private placements						
Share issuances pursuant to conversion of warrants			136,500			136,500
Stock option expense			70,269			70,269
Net income (loss) for the period				405,133		405,133
Balance, September 30, 2013	**66,684,350**	**24,299,594**	**3,550,521**	**(24,828,119)**	**2,699,368**	**5,721,364**
Share issuances pursuant to stock options exercised	530,000	185,610				185,610
Share issuances pursuant to conversion of warrants	2,956,400	876,906				876,906
Issuances and cancelation of debentures		(2,000)			503,931	501,931
Stock option expense		172,196	(157,995)			14,202
Net income (loss) for the period				520,600		520,600
Balance, June 30, 2014	**70,170,750**	**25,532,306**	**3,392,526**	**(24,307,519)**	**3,203,299**	**7,820,612**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014

1. NATURE OF THE BUSINESS AND GOING CONCERN ASSUMPTION

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

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

The Company owns and operates a Virology Products manufacturing facility at 265 Watline Avenue, Mississauga, Ontario. The Watline manufacturing facility has an infectious diseases biological license from the Canadian Food Inspection Agency. The Company's administrative and sales office were moved in the third quarter of fiscal 2014 to 211 Watline Avenue, to accommodate the increased production space requirements at the manufacturing facility due to the significant growth of the Virology Products business in the last two years.

Going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which presumes the Company will continue operating for the foreseeable future and will be able to realize a return on its assets and discharge its liabilities and commitments in the ordinary course of its business. The Company has incurred losses resulting in an accumulated deficit of $24,307,519 at June 30, 2014. The Company's ability to continue as a going concern depends upon the continued activity of its Virology Products business and the successful completion of agreements for pipeline project developments. Management continuously monitors the financial position of the Company with respect to working capital requirements as well as long-term capital needs in relation to a budget for the year. Deviations are highlighted and actions are taken to ensure the Company is appropriately capitalized. The current operating budget shows the Company is on target and able to support its planned activities for at least the next twelve months given its ongoing ability to raise new financing if required for pipeline related costs.

2. BASIS OF PREPARATION

Statement of Compliance

The Company's management prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) applicable to the preparation of financial statements. The Board of Directors approved these Consolidated Financial Statements as of August 12, 2014.

3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

Basis of Measurement

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

Basis of presentation

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

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary Crucible Biotechnologies Limited. There has been no business activity in the subsidiary during the period ended June 30, 2014.

Significant Accounting Policies

All significant accounting policies have been applied on a basis consistent with those followed in the most recent audited annual consolidated financial statements. The policies applied in these consolidated interim financial statements are based on IFRS issued and outstanding at August 12, 2014, the date of Board of Directors approved these consolidated interim financial statements.

Accounting Standards Issued But Not Yet Applied

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

4. INVENTORY

Inventory consists of the following, as at:

	June 30, 2014 $	Sept 30, 2013 $
Raw material	377,945	195,801
Work in process	308,707	207,076
Finished goods	709,956	669,274
	1,396,608	**1,072,151**

During the quarter ended June 30, 2014 inventory in the amount of $438,995 was recognized as cost of sales.

5. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses of $368,239 compared to $75,827 at September 30, 2013 are mainly related to the insurance policy premiums and a $222,000 refundable deposit with the principal contractor on the LumiSort™ project.

6. RESTRICTED CASH

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

7. PROPERTY AND EQUIPMENT

Property plant and equipment consists of:

	research & development equipment	other equipment & fixtures	land	building	total
	$	$	$	$	$
Cost					
Balance, Sept 30, 2013	738,527	3,285,815	800,000	4,533,518	9,357,860
Additions	1,619,231	242,031	-	250	1,861,512
Disposals	-	-	-	-	-
Balance, June 30, 2014	2,357,757	3,527,846	800,000	4,533,768	11,219,371
Accumulated depreciation					
Balance, Sept 30, 2013	471,655	2,319,074	-	637,963	3,428,692
Disposals	-	-	-	-	-
Depreciation	22,026	92,677	-	114,229	228,933
Balance, June 30, 2014	493,681	2,411,751	-	752,193	3,657,625
Carrying value					
Sept 30, 2013	266,872	966,742	800,000	3,895,554	5,929,168
June 30, 2014	1,864,076	1,116,095	800,000	3,781,575	7,561,747

In the quarter ended June 30, 2014, the Company acquired property and equipment in an aggregate amount of $1,285,793 ($3,224 - 2013).

8. INTANGIBLE ASSETS

Intangible assets consist of:	financial charges	license agreement - Lumisort	technology investment - Lumisort	technolgy investment - Virusmax	technolgy investment - Urokinase	total
	$	**$**	**$**	**$**	**$**	**$**
Cost						
Balance, Sept 30, 2013	18,645	278,528	1,463,016	-	2,770,529	4,530,717
Additions	56,799	-	153,996	345,137	-	555,932
Disposals	-	-	-	-	-	-
Balance, June 30, 2014	75,444	278,528	1,617,012	345,137	2,770,529	5,086,650
Accumulated depreciation						
Balance, Sept 30, 2013	3,020	171,402	457,193	-	-	631,614
Disposals	-	-	-	-	-	-
Depreciation	469	16,069	54,863	-	-	71,401
Balance, June 30, 2014	3,489	187,470	512,056	-	-	703,015
Carrying value						
Sept 30, 2013	15,625	107,126	1,005,823	-	2,770,529	3,899,103
June 30, 2014	71,955	91,057	1,104,957	345,137	2,770,529	4,383,635

In the quarter ended June 30, 2014, the Company acquired patents and financing charges in an aggregate amount of $182,009 ($ nil – 2013).

9. BANK INDEBTEDNESS

The Company has a revolving line of credit of $500,000 with its Canadian chartered bank that bears interest at the bank's prime lending rate plus 0.5%. Accounts receivable are pledged as collateral for the bank credit facility. As at June 30, 2014 this line of credit was not being used, (2013- $402,925).

10. NON-CONVERTIBLE DEBENTURES

	June 30 2014	June 30 2013
	$	$
$2,000,000 non-convertible debenture	**930,659**	**-**
	930,659	**-**

Included in interest expense is actual interest paid on the debentures during the three months ended June 30, 2014 of $49,659.48, (N/A – 2013).

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

As the issuance of the non-convertible debenture and the cancellation of the $2,000,000 convertible debenture, (see Note 11 b), were transacted with the same shareholder and represent a substantial modification in the terms of the $2,000,000 debt instrument, the non-convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of the issue. The debt component was valued first at its present value based on the effective interest rate on the debt of 25.69% per annum which reflects the inherent risk of investment in the Company taking into account its underlying stock volatility, credit profile and the ranking of the debt behind the secured mortgage and commercial banking creditors. The balance of the debenture's face value was then allocated to shareholders' equity.

Over the term of the non-convertible debenture, the debt component will be accreted to the face value of the convertible debenture by the recording of additional interest expense.

11. CONVERTIBLE DEBENTURES

	June 30 2014 $	June 30 2013 $
$2,500,000 convertible debenture, including accumulated accretion of $38,651.	**913,819**	**903,226**
$2,000,000 convertible debenture, including accumulated accretion of $22,782.	**-**	**730,439**
$500,000 convertible debenture, including accumulated accretion of $58,142.	**469,408**	**458,879**
$500,000 convertible debenture, including accumulated accretion of $ 65,122.	**456,132**	**442,924**
$1,500,000 convertible debenture, including accumulated accretion of $26,808.	**829,119**	**-**
	2,668,478	**2,535,468**

Included in interest expense is actual interest paid on the convertible debentures during the three months ended June 30, 2014 of $109,841, ($123,750 – 2013).

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

The convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of the issue. The debt component was valued first at its present value based on the effective interest rate on the debt of 25.69% per annum which reflects the inherent risk of investment in the Company taking into account its underlying stock volatility, credit profile and the ranking of the debt behind the secured mortgage and commercial banking creditors. The balance of the debenture's face value was then allocated to shareholders' equity.

Over the term of the convertible debenture, the debt component will be accreted to the face value by the recording of additional interest expense.

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

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

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

The convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of the issue. The debt component was valued first at its present value based on the effective interest rate on the debt of 25.69% per annum which reflects the inherent risk of investment in the Company taking into account its underlying stock volatility, credit profile and the ranking of the debt behind the secured mortgage and commercial banking creditors. The balance of the debenture's face value was then allocated to shareholders' equity.

Over the term of the convertible debenture, the debt component will be accreted to the face value by the recording of additional interest expense.

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

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

The convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of the issue. The debt component was valued first at its present value based on the effective interest rate on the debt of 12.00% per annum which reflects the inherent risk of investment in the Company taking into account its underlying stock volatility, credit profile and the ranking of the debt behind the secured mortgage and commercial banking creditors. The balance of the debenture's face value was then allocated to shareholders' equity.

Over the term of the convertible debenture, the debt component will be accreted to the face value by the recording of additional interest expense.

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

The convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of the issue. The debt component was valued first at its present value based on the effective interest rate on the debt of 13.00% per annum which reflects the inherent risk of investment in the Company taking into account its underlying stock volatility, credit profile and the ranking of the debt behind the secured mortgage and commercial banking creditors. The balance of the debenture's face value was then allocated to shareholders' equity.

Over the term of the convertible debenture, the debt component will be accreted to the face value by the recording of additional interest expense.

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

The convertible debenture is being accounted for in accordance with its substance and is presented in the financial statements in its component parts measured at the time of the issue. The debt component was valued first at its present value based on the effective interest rate on the debt of 25.69% per annum which reflects the inherent risk of investment in the Company taking into account its underlying stock volatility, credit profile and the ranking of the debt behind the secured mortgage and commercial banking creditors. The balance of the debenture's face value was then allocated to shareholders' equity.

Over the term of the convertible debenture, the debt component will be accreted to the face value by the recording of additional interest expense.

12 LONG-TERM DEBT

In 2008 the Company borrowed $3,000,000 from the Business Development Corporation (BDC) to acquire the Company's current Virology Products manufacturing facility and entered into a mortgage in favour of BDC. The mortgage is secured against the Company's property at 265 Watline Avenue, Mississauga, is amortized over a 30 year term and bears interest at BDC's Floating Base Rate plus 1.35%. At June 30, 2014 the Floating Base Rate was 5%. Principal is paid monthly in the amount of $9,260 and continues until August 2037. As a condition of the mortgage, BDC withheld $250,000 as security, until the Company reaches certain profitability performance targets. On February 7, 2014 the Business Development Bank advised the Company it had met the performance criteria required to release the restricted cash of $250,000.

An additional loan from BDC of $350,000 was obtained in 2008 to acquire equipment for the new facility. The outstanding balance of this loan at the end of the quarter was $23,200. The interest rate on this loan is based on BDC's Floating Base Rate plus 1.8% and is repayable over a term of 8 years. At June 30, 2014 the Floating Base Rate was 5.00%. Principal is paid monthly in the amount of $725 ending in August 2016.

Additionally, BDC offered a 6 month deferral of principal payments on the mortgage beginning with the month of April, 2014. The deferral amounts to $55,560. Accordingly, the term of the mortgage was extended an additional six months to February 2038.

13. CAPITAL STOCK

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

As at June 30, 2014 the Company had 70,170,750 common shares outstanding compared to 66,684,350 at September 30, 2013 and at June 30, 2013. During the quarter ended June 30, 2014, 1,573,275 Common Shares were issued on the exercise of warrants. However no Common Shares were issued on the exercise of stock options in the period and no Common Shares were issued in the comparative quarter of fiscal 2013.

14. CONTRIBUTED SURPLUS

	Contributed Surplus $
Balance, September 30, 2013	3,550,521
Share issue costs	14,202
Stock option expense	(172,197)
Balance, June 30, 2014	3,392,526

15. COMMON SHARE PURCHASE WARRANTS

The number of warrants outstanding at June 30, 2014 was 5,528,186 as compared to 11,891,468 at September 30, 2013.

A summary of the change in the Company's warrants for the nine months ended June 30, 2014 is presented below:

	Number	Expiry date	Wt. average exercise price
Balance - September 30, 2013	11,891,468		0.34
Exercised	(1,379,399)	Jul 11, 2014	0.33
	(193,876)	Jul 11, 2014	0.33
	(616,500)	Dec 5, 2014	0.25
	(49,500)	Mar 29, 2015	0.40
	(97,125)	Mar 29, 2015	0.36
	(620,000)	Dec 5, 2016	0.25
Issued	-		-
Expired	(3,406,882)		0.39
Balance, June 30, 2014	5,528,186		0.35

Breakdown of Balance as at June 30, 2014

Exercise prices	Number	Wt. average remaining contractual life years	Wt. average exercise price
$0.24	554,658	0.41	0.24
$0.25	460,579	2.41	0.25
$0.33	1,668,933	0.09	0.33
$0.40	2,844,016	0.75	0.40
$0.24 to $0.40	5,528,186	0.67	0.35

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

16. STOCK OPTION PLAN

The following table reflects the activity under the Company's stock option plan for the nine months ended June 30, 2014.

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

During the period no options were granted (400,000 – 2013), no options expired (752,666 – 2013), no options were forfeited (Nil – 2013) and no options were exercised (Nil – 2013). The exercise price of each option equals the closing market price of the Company's capital stock on the day preceding the grant date.

The following table reflects the number of options, their weighted average price and the weighted average remaining contract life for the options grouped by price range as of June 30, 2014.

Range of exercise prices	Number of options outstanding	Weighted average exercise price $	Weighted average remaining contractual life (years)
$0.26 - $0.57	4,580,000	0.37	0.33

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

Assumptions	Dec 2012	Dividend yields	0.0%
Volatility	95.0%		
Risk-free interest rate	1.0%		
Expected option life (years)	2		
Weight average fair value of each option ($/option)	0.13		

17. INCOME (LOSS) PER SHARE

The following table set forth the computation of basic and diluted EPS for the three months ended June 30:

	June 30, 2014	June 30, 2013
Numerator		
Net income (loss) available to common shareholders	$210,567	($22,687)
Denominator for basic EPS – weighted average common shares outstanding	68,704,702	66,684,350
Effect of dilutive securities:		
Warrants	524,682	-
Stock Options	339,270	-
Convertible Debentures	77,220	-
Denominator for diluted EPS	69,645,875	66,758.794
Earnings per share		
Basic	$0.003	$0.000
Diluted	$0.003	$0.000

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

	June 30, 2014	June 30, 2013
Pursuant to warrants	2,844,016	9,924,811
Under stock options	1,180,000	6,009,333
Pursuant to convertible debentures	4,957,265	7,179,487
	8,981,281	23,113,632

18. EXPENSES BY NATURE

a) Employee costs:

	Three months ended June 30, 2014 $	Three months ended June 30, 2013 $	Nine months ended June 30, 2014 $	Nine months ended June 30, 2013 $
Short-term wages, bonues and benefits	863,999	831,046	2,358,657	2,504,554
Share based payments	4,593	-	14,202	18,169
Total employee costs	868,592	831,046	2,372,858	2,522,723
Included in:				
Cost of goods sold	568,735	482,756	1,533,304	1,404,560
Research and development	110,981	131,947	292,375	377,348
General and administrative expenses	110,875	139,744	299,550	532,504
Selling and business development	73,407	76,599	233,427	190,142
Total employee costs	863,999	831,046	2,358,657	2,504,554

b) Depreciation and amortization

	Three months ended June 30, 2014 $	Three months ended June 30, 2013 $	Nine months ended June 30, 2014 $	Nine months ended June 30, 2013 $
Included in:				
Cost of goods sold	38,111	41,898	114,229	126,628
General and administrative expenses	32,776	29,775	92,677	66,332
Research and development	31,698	32,617	93,427	119,472
Selling and business development	-	-	-	-
Total employee costs	102,585	104,290	300,333	312,432

19. CHANGES IN NON-CASH WORKING CAPITAL BALANCE

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

	Three months ended June 30, 2014 $	Three months ended June 30, 2013 $	Nine months ended June 30, 2014 $	Nine months ended June 30, 2013 $
Accounts receivable	30,061	(30,209)	(572,667)	300,223
Inventory	(299,007)	89,248	(324,457)	(5,629)
Prepaid expenses & other assets	(63,831)	29,217	(292,413)	76,442
Investment tax credit receivable	(22,567)	(19,922)	(53,412)	(57,381)
Accounts payable and accrued liabilities	249,136	(104,072)	192,189	(494,023)
Deferred revenue	-	-	-	-
	(106,209)	(35,738)	(1,050,760)	(180,368)

20. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended June 30, 2014 $	Three months ended June 30, 2013 $	Nine months ended June 30, 2014 $	Nine months ended June 30, 2013 $
Cash paid for				
Interest	200,564	170,464	520,641	507,215
Non-cash investing and financing activities				
Fees for equity placements	26,465	-	56,799	59,116

21. FINANCIAL EXPENSES

	Three months ended June 30, 2014 $	Three months ended June 30, 2013 $	Nine months ended June 30, 2014 $	Nine months ended June 30, 2013 $
Cash interest				
Interest on long-term debt	42,168	43,775	125,928	131,145
Interest on debentures	159,501	123,750	399,664	371,250
Interest other	-	3,996	449	8,200
Interest income	(1,105)	(1,057)	(5,400)	(3,380)
Non-cash interest				
Accretion on debentures	22,380	11,646	52,729	27,392
Accretion on asset retirement	-	-	-	(40,708)
Financial expenses	**222,944**	**182,110**	**573,370**	**493,899**

22. FINANCIAL INSTRUMENTS

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

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

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

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

a) Credit risk
The Company's cash and cash equivalents are held in accounts or short-term interest bearing accounts at one of the major Canadian chartered banks. Management perceives the credit risk to be low. There is concentration of accounts receivable risk due to the few large customers comprising the Company's international customer base. In the period ended June 30, 2014, 4 customers accounted for 82% (4 for 60% - June 30, 2013) of revenue. The Company has had virtually no bad debts over the past several years and accordingly management has recorded an allowance of $5,206 ($69,181 - 2013).

b) Currency risk

Through its global sales the Company is exposed to currency risk, through the exchange rate affecting sales and receivables denominated in US dollars and Euros. The Company does not use financial instruments to hedge these risk. At June 30 the significant balances held in US dollars and Euros are as follows:

	US dollars		Euros	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Cash and cash equivalents	251,648	47,738	-	-
Accounts receivable	498,078	587,233	1,094,687	333,430
Accounts payable and accrued liabilities	158,222	274,999	29,578	-

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

c) Liquidity risk

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

Contractual obligations are as follows:

Payments due	Total $	Less than One year $	2 - 3 years $	4 - 5 years $	After 5 years $
Accounts payable	1,545,825	1,545,825	-	-	-
Debentures	12,946,404	694,242	1,343,484	1,208,484	9,700,194
Long-term debt	4,228,960	263,233	536,151	486,845	2,942,731
Operating leases	106,585	54,218	46,857	5,510	-
Total Contractual Obligations	**18,827,774**	**2,557,518**	**1,926,492**	**1,700,839**	**12,642,925**

On the $12,946,404 payment on debentures, $6,983,929 is principal. Of the $4,228,960 payments on long-term debt, $2,633,070 is principal.

d) Interest rate risk

Financial instruments that potentially subject the Company to cash flow interest rate risk are those assets and liabilities with a variable interest rate. Interest risk exposure is primarily on the BDC debt that has a variable rate that is pegged to the bank rate. The rate can be fixed, if the outlook for interest rates should move higher. The only other variable debt the Company has is the $500,000 line of credit that bears interest at the bank's prime lending rate plus 0.5%. A 1% increase in the bank rate would cost the Company about $26,000 per year for BDC and about $5,000 on the line of credit usage.

e) Market risk

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

23. SEGMENTED INFORMATION

Geographic information

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

	Three months ended June 30, 2014 $	Three months ended June 30, 2013 $	Nine months ended June 30, 2014 $	Nine months ended June 30, 2013 $
North America	302,639	540,175	1,191,207	1,854,529
Europe	1,584,722	1,304,008	4,302,352	2,914,568
Other foreign countries	152,574	62,469	547,358	336,595
Total revenue	2,039,935	1,906,652	6,040,917	5,105,693

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

Significant customers

During the period ended June 30, 2014, 4 customers accounted for 82% of revenue, compared to 4 customers accounted for 60% for the period ended June 30, 2013.

24. RELATED PARTY TRANSACTIONS

During the period ended June 30, 2014, the Company paid interest of $159,501 (June 30, 2013 - $123,750) on the convertible and non-convertible debentures issued to related party shareholders. The transaction was recorded at the exchange amount.

25. COMMITMENTS AND CONTINGENCIES

a) Lease commitments

		$
Period ending June 30,	2015	54,218
	2016	41,346
	2017	5,511
	2018	3,306
	2019	2,204
Total		106,585
Greater than 5 years		-

b) Contingencies

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

26. RESTATEMENT OF CONVERTIBLE DEBENTURE LIABILITY

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

In determining the amortized cost, the expected timing and amount of payments were revised to reflect the actual and revised actual cash flows. At the end of the fiscal year ended September 30, 2013 the financial statements were restated to reflect the expiry of the prepayment option and obligation. For these Consolidated Financial Statements the comparative statements for the period ended June 30, 2013 have also been restated accordingly for the following net comprehensive income (loss) accounts:

			June 30, 2013
	Previously Presented $	Adjustment $	Restated
Financial Expenses	261,701	(79,591)	182,110
Net Comprehensive Income (Loss)	(102,278)	79,591	(22,687)
Net Comprehensive Income (Loss) Per Share	(0.002)	-	0.000

The preceding restatements had no impact on cash flows.

27. SUBSEQUENT EVENTS

On July 10, 2014 Microbix commenced a complaint in the Court of Dusseldorf, Germany against Novartis Vaccines and Diagnostics, alleging infringement of its VIRUSMAX® patent in Europe. Microbix had filed a complaint against Novartis in the Eastern District of Texas on January 6, 2014, alleging infringement of its VIRUSMAX® patent in the United States and the Company had successfully defended its European VIRUSMAX® patent against Novartis' Opposition at the European Patent Office (EPO) in January 2014 when, following a hearing in Munich, the EPO rendered a decision in favour of Microbix and confirmed that the VIRUSMAX® technology is a novel, useful and non-obvious invention. Novartis has appealed that decision.

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