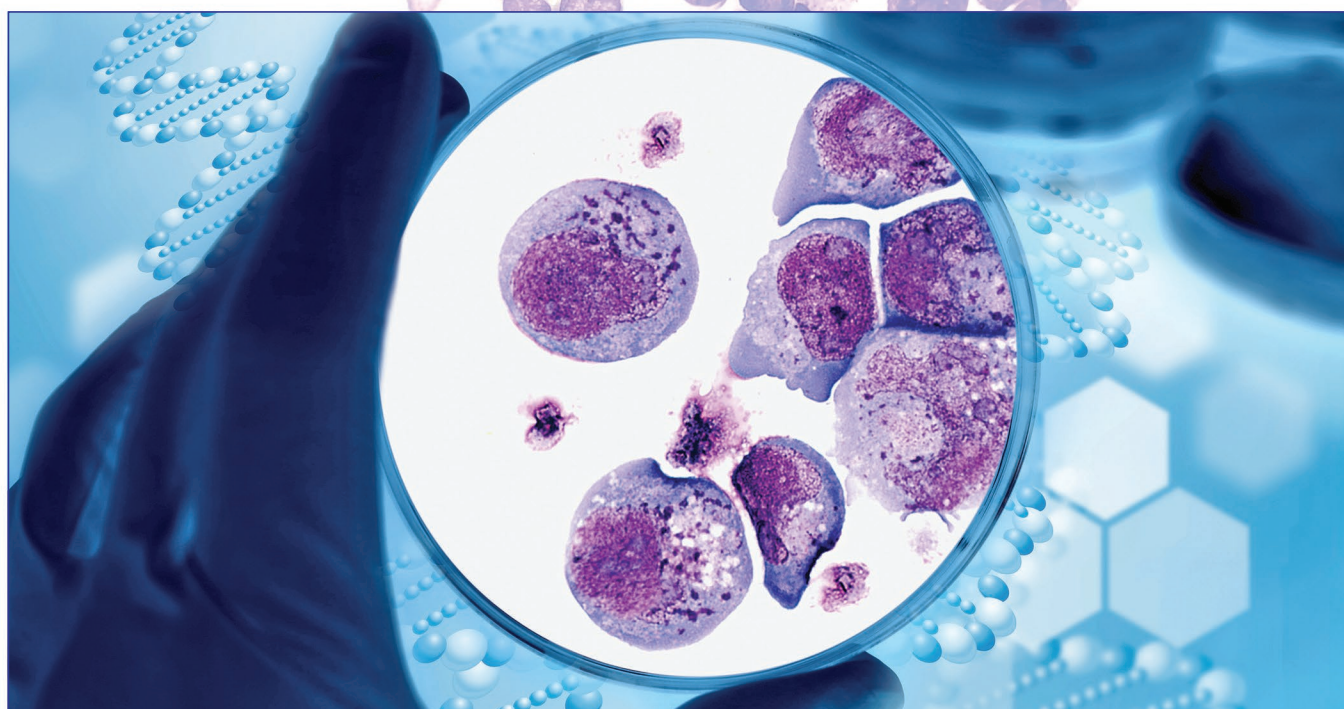


MICROBIX BIOSYSTEMS INC.



FIRST INTERIM REPORT

For the three months
ended December 31, 2018



Message to Shareholders

After double-digit percentage sales growth for each quarter of fiscal 2018, the first quarter of fiscal 2019 (Q1) presented a pause. Q1 sales of \$2.5 million were 15% below the corresponding period of 2018. However there is no indication that this represents a break from recent sales growth targets and trends. Specifically, Q1 was impacted by our Asia distributor reducing its inventories (to optimize its usage of capital) and a short-term delay of some scheduled shipments. Year-over-year sales growth is expected to resume for the second quarter now underway.

For Q1, two financial indicators underscore the real headway that is being made – percentage gross margin and cash flow from operations (CFO). Percentage gross margin improved by 6% over the prior year, to 52%, due to changes in sales mix. CFO improved by nearly \$1.5 million versus the prior year, to positive \$28,725. When joined to sales growth, our improving margins and CFO will enable progress toward material, sustained, and growing net earnings. Keep watching our quarterly results!

Qualitatively, we believe Microbix is making strong progress with several impactful strategic priorities:

For our antigens, we continue to convert key clients to product made using our innovative and award-winning bioreactor-based processes. Migration of customers to such bioreactor-produced antigen will continue over the balance of 2019, providing material enhancement to our percentage gross margin. Concurrently, we are continuing to improve bioreactor yields – further enhancing gross margin and our antigen production capacity.

Microbix is also striding ahead with its quality assessment products (QAPs™). Sales of our PTDx™ product line continue to be strong, at about \$1.0 million yearly. There is also intense engagement with instrument and test makers regarding our new PROCEEDx™ product line. We are now working with leading firms to create Microbix-branded QAPs that will accompany their new instrument shipments. Such QAPs span multiple disease organisms, instruments and formats, substantiating the market opportunity for the PROCEEDx product line.

Additionally, Microbix completed important upgrades to its quality systems in calendar 2018, culminating in its certification to the ISO 13485 medical devices standard in late December. This heightened certification will enable Microbix to offer its QAPs directly to clinical labs – supporting their quality objectives by helping to prove the accuracy of patient test results. This lab-oriented line of QAPs products, dubbed REDx Controls™, is believed to be the largest new market opportunity for Microbix. Expanding the breadth of QAPs product offerings and the volume of QAPs production is a strategic imperative for Microbix in 2019.

There is also progress in relation to Kinlytic® urokinase, the FDA and Health Canada approved biologic “clot-buster” drug owned by Microbix. Working with its U.S. agent, Q1 saw the completion of a detailed electronic data room in support of its plans to validate new production and re-launch this product – completing an essential measure to support partner due diligence, asset evaluation, and negotiation of transaction terms. Multiple parties are now entering into confidential discussions, and Microbix is optimistic that it will succeed with partnering this project in calendar 2019.

There are of course risks and challenges associated with achieving success with each opportunity cited here. For helping us to overcome such challenges I thank all stakeholders, including our customers, suppliers, staff, executive, board, and shareholders. We couldn't hope to attain our goals without you!

To summarize, our objectives for fiscal 2019 are as follows – continuing double-digit percentage sales growth, improving percentage gross margins, maintaining positive cash flow from operations, attaining positive net earnings, and securing alliances for our QAPs products and Kinlytic. With such objectives within reach, Management believes our company is poised for both operational success and share price appreciation.

Personally and on behalf of our team, I thank you for your continuing support and wish you all the best.

Cameron L. Groome
Chief Executive Officer and President

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE QUARTERS ENDED DECEMBER 31, 2018 AND 2017**

Canadian Funds

The Company's Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited Consolidated Financial Statements and notes for the year ended December 31, 2018, 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 include, without limitation, discussion of financial results or the outlook for the business, risks associated with its financial results and stability, its biologicals business, development projects such as those referenced herein, sales to foreign jurisdictions, engineering and construction, production (including control over costs, quality, quantity and timeliness of delivery), foreign currency and exchange rates, maintaining adequate working capital and raising further capital on acceptable terms or at all, and other similar statements concerning anticipated future events, conditions or results that are not historical facts. These statements reflect management's current estimates, beliefs, intentions and expectations; they are not guarantees of future performance. The Company cautions that all forward looking information is inherently uncertain and that actual performance may be affected by a number of material factors, many of which are beyond the Company's control. Accordingly, actual future events, conditions and results may differ materially from the estimates, beliefs, intentions and expectations expressed or implied in the forward looking information. All statements are made as of the date of this disclosure and represent the Company's judgment as of that date and the Company disclaims any intent or obligation to update such forward-looking statements.

The Management Discussion and Analysis is dated February 11, 2019.

COMPANY OVERVIEW

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX) specializes in developing biological and technology solutions for human health and well-being. It manufactures a wide range of critical biological materials for the global diagnostics industry, notably purified and inactivated bacteria and viruses, known as antigens, which are used in immunoassays or quality assessment products. Microbix' antigen-based products are sold to more than 100 customers worldwide, primarily to multinational diagnostics companies and laboratory accreditation organizations.

Microbix has also applied its biological expertise and infrastructure to create proprietary new products or technologies. It has been working to commercialize two; (1) Kinlytic® urokinase, a biologic thrombolytic drug (used to dissolve blood clots), and (2) LumiSort™ cell-sorting, a technology platform for ultra-rapid and efficient sorting of particles that can be used to enrich cell populations of interest (such as sexing semen for the livestock industry).

Revenue from the antigens business (Antigens) is expected to continue growing for the foreseeable future, with this growth recently accelerating as certain public health tests are being adopted in the Asia Pacific region. The Antigens business provides free cash flow to cover operating and debt service costs, and funding for business initiatives that leverage this expertise and are related to this field.

The Company owns and operates an Antigens manufacturing facility at 265 Watline Avenue in Mississauga, Ontario. Microbix has a Pathogen and Toxin license for its facility, issued by the Public Health Agency of Canada. The Company's administrative offices are located at 211 Watline Avenue, Mississauga, Ontario.

FINANCIAL OVERVIEW

Quarter Ending December 31, 2018 ("Q1")

Total Q1 revenue was \$2,460,812, a 15% decrease from 2018 first quarter revenue of \$2,885,567. Included were antigen and quality product revenues of \$2,366,790, 16% lower than 2018 due to delayed shipments and reduced ordering from our Asia distributor. Revenue from royalties were \$94,022 (2018 - \$82,982).

Gross margin for Q1 was 52%, up from 46% in Q1 of fiscal 2018, and was largely unaffected by the yield control issues experienced from Q2 through Q4 of 2018. The mix of products sold varied versus Q1 of last year and had a favorable impact on margins. While revenues from bioreactor-produced antigen doubled year-over-year, most production of that antigen continued to be from conventional methods in Q1.

Operating expenses for Q1 were largely unchanged from 2018, with lower sales and administrative costs being offset by higher financial and R&D expenses. A slightly increased net loss was incurred in Q1 (\$119,296) as compared to 2018 (\$94,128). Cash provided by operations ("CFO") in Q1 was improved to positive \$28,725, compared to cash used of \$1,434,085 in 2018.

At the end of Q1, Microbix's current ratio (current assets divided by current liabilities) was 1.36 and its debt to equity ratio (total debt over shareholders' equity) was 0.94.

FINANCIAL HIGHLIGHTS

	As at Dec 31, 2018	As at Dec 31, 2017
Total Revenue	\$ 2,460,812	\$ 2,885,567
Gross Margin	1,290,549	1,318,987
SG&A Expenses	889,354	951,441
R&D Expense	261,831	252,283
Financial Expenses	258,660	209,390
Operating Loss for the period	(119,296)	(94,128)
Net Loss and Comprehensive Loss for the period	(119,296)	(94,128)
Cash Provided (Used) by Operating Activities	28,725	(1,434,085)
Cash	276,274	51,389
Accounts receivable	985,499	1,575,827
Total current assets	6,793,053	6,511,696
Total assets	19,927,665	27,434,188
Total current liabilities	4,989,047	4,092,867
Total liabilities	9,660,039	8,997,537
Total shareholders' equity	10,267,626	18,436,651
Current ratio	1.36	1.59
Debt to equity ratio	0.94	0.49

FINANCIAL OVERVIEW (Continued)

SELECTED QUARTERLY FINANCIAL INFORMATION

	Mar-31-17	Jun-30-17	Sep-30-17	Dec-31-17	Mar-31-18	Jun-30-18	Sep-30-18	Dec-31-18
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	2,646,649	2,773,365	2,813,282	2,885,567	3,000,193	3,235,224	3,389,574	2,460,812
Net Loss and Comprehensive Loss	107,649	38,646	(1,009,911)	(94,128)	(342,502)	958	(8,185,894)	(119,296)
Operating Loss before debt restructuring, settlement expenses and impairment of assets	107,649	(164,104)	(917,673)	(94,128)	(342,502)	958	(307,136)	(119,296)

OUTLOOK

Microbix' primary business is the result of nearly three decades of experience manufacturing high quality viral and bacterial antigens – for use in the medical diagnostic testing industry. Its many antigen products have received widespread and longstanding acceptance by diagnostic test makers, with continuing growth in demand. Microbix antigens are now used by over 100 diagnostics manufacturers and are the critical biology inside tens of millions of medical tests for bacterial and viral diseases.

More recently, growth in demand for Microbix' antigens has been accelerating – as a number of diagnostics for infectious diseases important to public health are beginning to be adopted in the Asia-Pacific region. We are seeing the emergence of this Asian demand materialize in orders from our distribution partner for such markets, as well as from customers based in North America and Europe that are reporting growing sales into Asia. The long-term effect of this trend may be to take our potential market from being the population of ~700 million of North America and Western Europe to closer to the global population of 7.6 billion. As a leading global supplier of such vital antigens, Microbix believes it must prepare to fulfill such demand growth, lest unmet need spawn a new competitor.

A second line of business involves the use of antigens for purposes other than the large-scale manufacturing of medical test kits. This newer usage packages a very small amount of stabilized and inactivated bacteria or virus into individual one milliliter vials or dried onto swabs. Such samples are used as tools to establish whether the quality objectives of clinical laboratories are being met – for example to assess whether testing equipment is functioning properly and whether staff has been adequately trained. Such finished quality assessment products (QAPs™, pronounced as “caps”) are a high value end-use of Microbix' antigens and there is a growing need for such products as regulators progressively tighten their surveillance of the competence of medical testing labs. A notable driver for such demand are the U.S. “CLIA” regulations, that are requiring labs to use quality products from qualified third parties across their ever-broadening portfolio of tests. Microbix now derives about 10% of its sales from providing QAPs to laboratory accreditation organizations and is building-out this business segment.

Due to the positive prospects of each of the above two lines of its Antigens business, Microbix is reinvesting to better ensure that it can meet the expected growth in demand. Such work includes upgrading its manufacturing technologies, quality systems, processes and training, capacity and allocation of capacity, along with developing and launching new products. This has involved many steps to both de-bottleneck and de-risk our production processes, work that will be ongoing as Microbix continues to grow sales across our product lines. Much of the required investment was completed in the third quarter of fiscal 2018, as reflected in the news release entitled “Microbix Completes Multiple Facility Upgrades” dated May 8 that listed the 12 categories of upgrades we have completed.

Initial benefits of the manufacturing upgrades were seen in the sales growth of fiscal 2018. Management believes that it would have been very difficult to attain the rate of sales growth seen in fiscal 2018 (i.e., the 23% increase in sales over 2017), without such investment. Where Microbix has not yet seen the full intended benefits is in its percentage gross margins and in generation of net profits.

OUTLOOK (Continued)

Improving the percentage gross margin and attaining profitability are critical corporate objectives. For fiscal 2018, percentage gross margins ranged from 38-47% across the four quarters of the year. This was below management's objectives due to a yield-control issue with a leading conventionally-produced antigen product and a delay in the acceptance of bioreactor-produced antigen by a key customer. For Q1 of fiscal 2019, Microbix attained a 52% gross margin, which was helped by correction of the prior yield issue, but still precedes the benefits of more complete conversion to bioreactor production.

Going forward, Microbix is working to improve its percentage gross margin while also growing its sales of both antigens and quality products. Percentage gross margin improvements should be achievable by way of an increasing proportion of bioreactor-driven antigen sales, improving antigen yields and larger sales of quality products. Achievement of sales and gross margin goals is expected to lead to meaningful quarterly net earnings. Quarterly reporting will update shareholders on progress with such operational goals.

Headway is also being made with Kinlytic®urokinase. Microbix is actively working with a U.S. agent on outreaches to potential out-licensing and development partners. Management views progress as satisfactory at this stage and will likely update shareholders based on either of two process milestones, (i) executing a binding letter-of intent, or (ii) signing a definitive agreement. For LumiSort, it was determined that the financial terms being discussed with livestock sex selection industry participants might not support the carrying value of the related assets and this asset was therefore written-off in Q4 2018. With a zero value now assigned to LumiSort, any funds received from licensing the livestock-related or other applications of the technology should directly add to Microbix's earnings.

To summarize, the company is now growing sales faster than ever before. Gross margins and net profits are not yet where we want them to be, but plans are in place to meaningfully increase both over the coming quarters. The new QAPs products are gaining recognition from potential customers and should provide an additional source of high margin sales growth. Cash flow from Operations is currently positive and management believes corporate objectives can be achieved without further near-term equity financing.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

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

The Company has incurred historical losses resulting in an accumulated deficit of \$35,817,699 as at December 31, 2018. 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.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES (Continued)***Future Liquidity and Capital Needs***

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

Over the course of fiscal 2019, cash flow is expected to improve due to: 1) continued growth in antigen and quality product sales, 2) improvements in product pricing and other sales terms, 3) commencement of sales of higher percentage margin product from the Company's bioreactor production process, and 4) other business development and financial initiatives. Management expects these developments will significantly improve the overall liquidity position, as the Company's plans come to fruition.

The \$3.1 million of net proceeds from Microbix' October 2017 private placement were deployed to support growth plans and ongoing operations. Principal utilizations were to purchase needed equipment and improve working capital. Further funds were allocated to reduce bank credit utilization, which may be redrawn as needed. Microbix will continue to monitor and manage its cash position, with the objective of anticipating and meeting all future liquidity and capital needs.

Contractual Obligations and Other Transactions**Distribution Agreement**

On January 12, 2017 Microbix signed a distribution agreement with Meridian Life Science, Inc. Under the terms of the Agreement, Meridian has received exclusive distribution rights to Microbix' branded antigen products for China, Hong Kong, Taiwan and Macau. Additionally, Microbix is providing 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 enables 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 has significantly expanded the business relationship between the two companies, and serves as a platform for the continued growth and expansion of their respective products and services.

Expanded Customer Agreement

On August 8, 2017 Microbix announced the execution of an expanded customer supply agreement. Under this agreement, Microbix is supplying an existing long-term customer with an increasing quantity of viral antigen products over the next five years, with the parties having the option to extend that term. Sales from the agreement are expected to total \$25 million, with approximately \$10 million to be incremental business. The agreement is with a major global diagnostics company with growing sales of infectious disease tests that require more antigen supply. The parties' obligations under the agreement are those customary for the supply and purchase of biological materials and its renewal and expansion provides Microbix with a secure base of business and underpins its decision to increase its production by expanding bioreactor capacity and other measures.

Related Party Transactions

On September 12, 2017, the Company issued two outstanding shareholder interest bearing loans for total proceeds of \$200,000. These loans were repaid on October 23, 2017. On March 28, 2018 the board of directors approved the repricing of 1,500,000 of warrants held by a director of the Company. These warrants were repriced from \$0.55 to \$0.32 and the expiry was extended by one year. The non-cash financial impact was \$128,901, which is included in general and administrative expenses.

Outstanding Share Capital

Share capital issued and outstanding as at December 31, 2018 was \$33,912,460 for 96,972,705 common shares versus \$33,964,663 for 96,770,890 common shares at December 31, 2017.

TREND INFORMATION

Historical spending patterns are no indication of future expenditures. Investment in the new products and technologies is at the discretion of management. The Company is not aware of any material trends related to its business that have not been discussed in this Management Discussion and Analysis dated February 11, 2019.

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

A significant share of the Company's Antigens products sales are sold to a few key customers globally. These products contributed a significant share of the revenues. 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' antigen products are considered a production ingredient and not directly regulated by governments in Canada or other jurisdictions. Commercialization of certain quality assessment products require approval of regulatory agencies such as the FDA, in which case Microbix will not receive revenue until regulatory approval is obtained.

Re-Launch of Kinlytic® urokinase

Microbix' goal is to re-launch this biologic clot-buster drug into the United States market. The Company has consulted with the United States Food and Drug Administration about the viability of its re-launch plans and secured quotations for major project tasks from third-party service providers to independently validate budgets and timelines. Outreach has been undertaken to secure project funding from development partners on the basis of the resulting re-launch plans. There is no assurance the Company will be successful in this endeavour.

Quality Assessment Products in development

The Company has multiple quality assessment products under development, with the goal of building its sales of this category of product. There is no assurance 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 its related product development investments.

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.

RISKS AND UNCERTAINTIES (Continued)***Operating and capital requirements***

Microbix seeks to earn a profit on the sale of its Antigens 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 expand production capacity, 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.

Future success may depend on successfully commercializing new products or technologies

In the nearer term, Microbix must maintain and grow its existing product sales. To survive and prosper over the longer term, Microbix may need to commercialize new products or technologies. Such work is inherently uncertain and there is no guarantee that Microbix will be successful with its efforts.

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 know-how. 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 or securing its freedom to operate relative to the rights of other products. Involvement in intellectual property litigation could result in significant costs, adversely affecting the development of products or sales of the challenged product, or intellectual property, and divert the efforts of its scientific and management personnel, whether or not such litigation is resolved in the Company's favour.

Microbix will continue to face significant competition

Competition from life sciences companies, and academic and research institutions is significant. Many competitors have substantially greater resources and general capabilities in the areas of scientific and product development, legal review, manufacturing, sales and marketing, and financial support than Microbix. While the Company continues to expand its technological, commercial, legal and financial capabilities in order to remain competitive, Microbix' competitors may also be 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. For the year ended December 31, 2018, five customers accounted for 80% (2017 - five customers accounted for 82%) 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 (2018- \$10,000).

Currency risk:

The Company is exposed to currency risk given its global customer base. Over 90% of its revenue is denominated in either U.S. dollars or Euros. The Company does not use financial instruments to hedge this currency risk. At December 31, 2018, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	2018	2017	2018	2017
Cash	38,019	49,835	237,508	-
Accounts receivable	400,729	717,516	180,112	400,854
Accounts payable and accrued liabilities	396,485	297,820	12,444	1,505

Based upon 2018 results, the impact of a 5% increase in the U.S. dollar against the Canadian dollar would result in an increase in annual U.S. dollar based revenue of approximately \$330,400 Cdn. The impact of a 5% increase in the Euro against the Canadian dollar would result in an increase in annual Euro based revenue of approximately \$271,500. Correspondingly, the impact of a 5% decrease in the U.S. dollar against the Canadian dollar would result in a loss in annual U.S. dollar based revenue of approximately \$330,400 Cdn. The impact of a 5% decrease in the Euro against the Canadian dollar would result in a loss in annual Euro-based revenue of approximately \$271,500.

Liquidity risk

Liquidity risk measures the Company's ability to meet its financial obligations when they fall due. To manage this situation, the Company projects and monitors its cash requirements to accommodate changes in liquidity needs. In addition, during fiscal 2017 the Company announced that it has arranged a secured revolving credit facility with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The credit facility is being used to fund the Company's need for working capital to grow its existing business. This facility is helping to satisfy the Company's liquidity needs and to 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 \$1,500,000 line of credit that bears interest at the bank's prime lending rate plus 2.25%. A 1% increase in the bank rate would cost the Company approximately \$30,000 per year for BDC and about \$15,000 on the line of credit usage if it were fully used throughout the fiscal year.

FINANCIAL RISK MANAGEMENT (Continued)**Market risk**

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

Fair value

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

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

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company's audited consolidated financial statements are prepared in accordance with 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 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.

CRITICAL ACCOUNTING ESTIMATES (Continued)**Non-Convertible and Convertible Debentures**

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

Deferred income taxes

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

Share-based payments

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

FINANCIAL INSTRUMENTS

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

The carrying amounts of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these instruments. Based on available market information, the fair value of the obligation under capital lease approximates its carrying value.

The fair value of the long-term debt is based on rates currently available for items with similar terms and maturities. The fair value of the liability for each convertible debenture has been calculated and the residual is accounted for in equity. The Company does not have any off balance sheet financial instruments.

Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in the National Instrument 52-109 Certification of Disclosure in Issuer's Annual Filings (NI 52-109F1). As at December 31, 2018, 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

FINANCIAL INSTRUMENTS (Continued)**Internal Controls Over Financial Reporting (Continued)**

accounting principles of IFRS. While the CEO and CFO believe that the internal controls are adequate to provide the above information, the process to evaluate and document all policies and procedures that could impact financial reporting is continuously reviewed with consultation with the Audit Committee. Shareholders should be aware that Microbix is a small company without the department resources associated with larger firms. Management is using the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). Framework and has concluded that the Internal Control over Financial Reporting ("ICFR") as defined in NI 52-109 is effective as at the period ended December 31, 2018.

Examination by the Chief Executive Officer and the Chief Financial Officer showed that there were no changes to the internal controls over financial reporting during the period ended December 31, 2018 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

IMPACT OF NEW ACCOUNTING STANDARDS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the 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 described below.

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2019

The Company has adopted new amendments to the following accounting standards effective for its interim and annual consolidated financial statements commencing October 1, 2018. The effect of these pronouncements on the Company's results and operations are described below.

IFRS 2, Share-based Payment ("IFRS 2")

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled. The effective date for this standard is for reporting periods beginning on or after January 1, 2018, with earlier application permitted.

The Company has completed the review process to assess the impact and application of the aforementioned amendments and has determined it will have no impact on the Company.

IFRS 9 - Financial instruments ("IFRS 9")

The Company has adopted IFRS 9, effective October 1, 2018 on a modified retrospective basis, in accordance with the transitional provisions of IFRS 9. As such, comparative figures have not been restated. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments and includes a new model for hedge accounting aligning the accounting treatment with risk management activities.

As detailed below, the Company has changed its accounting policy for financial instruments retrospectively, except where described below.

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2019 (Continued)**IFRS 9 - Financial instruments (“IFRS 9”) (Continued)****Financial assets**

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument’s contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets, the Company has classified and measured its financial assets as described below:

Cash and cash equivalents measured at fair value through profit or loss under International Accounting Standard 39 - Financial Instruments: Recognition and Measurement (“IAS 39”) continue to be measured as such under IFRS 9.

Accounts receivable classified as financial assets continue to be measured at amortized cost under IFRS 9.

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company’s financial assets on the transition date.

Financial liabilities

Financial liabilities are recognized initially at fair value, and in the case of financial liabilities, not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and, since the Company does not have any financial liabilities designated at fair value through profit or loss, the adoption of IFRS 9 did not impact the Company’s accounting policies for financial liabilities. Accounts payable and accrued liabilities, interest payable, and long-term debt are classified as financial liabilities to be subsequently measured at amortized cost.

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company’s financial liabilities on the transition date.

Expected credit loss impairment model

IFRS 9 requires a forward-looking expected credit loss impairment (“ECL”) model as opposed to an incurred credit loss model under IAS 39. As the Company’s financial assets are substantially made up of trade receivables, the Company has opted to use the simplified approach for measuring the loss allowance at an amount equal to lifetime ECL. The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECLs at all times. Lifetime ECL represents the ECL that would result from all possible default events over the expected life of a financial instrument. The adoption of the ECL model did not have a significant impact on the Company’s financial statements, and did not result in a transitional adjustment.

Financial instruments

The Company’s financial assets and liabilities (financial instruments) include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt financial instruments. All financial instruments are recorded at fair value at recognition. Subsequent to initial recognition, financial instruments classified as accounts receivables, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost using the effective interest method. Other financial assets and liabilities are recorded at fair value subsequent to initial recognition.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

Effective October 1, 2018, the Company adopted IFRS 15. IFRS 15 supersedes International Accounting Standard 18, Revenue (“IAS 18”). IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2019 (Continued)**IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) (Continued)**

goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The Company has elected to use the modified retrospective method, which requires the cumulative effect of initially applying the Standard to be recognized at the date of initial application, which is October 1, 2018, and that the financial information previously presented for the year ended September 30, 2018 would remain unchanged. The transition to the new standard had no material impact on the measurement and recognition of revenue in the current or prior periods.

The Company has elected to make use of the following practical expedients:

- (i) Completed contracts under IAS 18 before the date of transition have not been reassessed.
- (ii) Financing components are not considered in the Company’s transaction price as the time gap between payment and delivery of goods and services is expected to be less than one year.
- (iii) Contract costs incurred related to contracts with an amortization period of less than one year have been expensed as incurred.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

In 2016, the IASB issued IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration (“IFRIC 22”) which provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. On initial application, entities have the option to apply either retrospectively or prospectively.

The Company has elected to adopt IFRIC 22 prospectively beginning on October 1, 2018. The adoption of the standard has had no significant impact on the Company’s unaudited interim consolidated financial statements for the three-month ended period December 31, 2018.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED**IFRS 16, Leases (“IFRS 16”)**

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.

MICROBIX
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Unaudited
As at December 31, 2018 and September 30, 2018
Canadian Funds

	As at December 31, 2018	As at September 30, 2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 276,274	\$ 44,358
Accounts receivable	985,499	1,313,480
Inventory (Note 5)	5,324,027	4,446,968
Prepaid expenses and other assets (Note 6)	115,006	169,965
Investment tax credit receivable	92,247	92,247
TOTAL CURRENT ASSETS	6,793,053	6,067,018
LONG-TERM ASSETS		
Deferred tax asset	1,580,000	1,580,000
Property, plant and equipment (Note 7)	6,573,102	6,646,730
Intangible assets (Note 8)	4,981,510	5,016,319
TOTAL LONG-TERM ASSETS	13,134,612	13,243,049
TOTAL ASSETS	\$ 19,927,665	\$ 19,310,067
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,610,245	\$ 1,766,592
Bank indebtedness (Note 10)	650,000	260,000
Current portion of finance lease obligation	78,984	80,627
Current portion of long-term debt (Note 10)	438,120	438,120
Current portion of debentures (Note 9)	705,162	684,953
Deferred revenue (Note 11)	1,506,536	931,125
TOTAL CURRENT LIABILITIES	4,989,047	4,161,417
Finance lease obligation	230,640	249,526
Non-convertible debentures (Note 9)	770,431	779,536
Convertible debentures (Note 9)	1,318,325	1,304,960
Long-term debt (Note 10)	2,351,596	2,461,126
TOTAL LONG-TERM LIABILITIES	4,670,992	4,795,148
TOTAL LIABILITIES	\$ 9,660,039	\$ 8,956,565
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	\$ 33,912,460	\$ 33,912,460
Equity component of convertible debentures (Note 9)	2,903,789	2,903,789
Contributed surplus (Note 13)	9,269,076	9,235,656
Accumulated deficit	(35,817,699)	(35,698,403)
TOTAL SHAREHOLDERS' EQUITY	\$ 10,267,626	\$ 10,353,502
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 19,927,665	\$ 19,310,067

Commitments and Contingencies (Note 26)

(Signed) "William J. Gastle"

 WILLIAM J. GASTLE
DIRECTOR

(Signed) "Cameron L. Groome"

 CAMERON L. GROOME
DIRECTOR

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

MICROBIX**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS****Unaudited****For the three months ended December 31****Canadian Funds**

	2018	2017
SALES		
Antigen products and technologies	\$ 2,366,790	\$ 2,802,585
Royalties	94,022	82,982
TOTAL SALES	2,460,812	2,885,567
COST OF GOODS SOLD		
Antigen products and technologies (Notes 5, 17)	1,153,115	1,551,141
Royalties	17,148	15,440
TOTAL COST OF GOODS SOLD	1,170,263	1,566,581
GROSS MARGIN	1,290,549	1,318,987
EXPENSES		
Selling and business development (Note 17)	141,541	146,163
General and administrative (Note 17)	747,813	805,279
Research and development (Note 17)	261,831	252,283
Financial expenses (Note 19)	258,660	209,390
OPERATING LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD, BEFORE INCOME TAXES	(119,296)	(94,128)
INCOME TAXES		
Deferred income taxes	-	-
Current income taxes	-	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	\$ (119,296)	\$ (94,128)
NET LOSS PER SHARE		
Basic (Note 16)	\$ (0.001)	\$ (0.001)
Diluted (Note 16)	\$ (0.001)	\$ (0.001)

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

MICROBIX**CONSOLIDATED STATEMENTS OF CASH FLOWS****Unaudited****For the three months ended December 31****Canadian Funds**

2018 2017

OPERATING ACTIVITIES

Net Loss for the Period \$ (119,296) \$ (94,128)

Items not affecting cash

Amortization and depreciation (Note 17) 139,033 161,887

Accretion of debentures (Note 9) 50,624 36,812

Stock options and warrants expense (Note 15) 33,420 114,813

Change in non-cash working capital balances (Note 18) (75,056) (1,653,469)

CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES 28,725 (1,434,085)**INVESTING ACTIVITIES**

Purchase of property, plant and equipment (Note 7) (30,596) (342,504)

Additions from internal development
of intangible assets (Note 8) - (152,942)**CASH USED IN INVESTING ACTIVITIES** (30,596) (495,446)**FINANCING ACTIVITIES**

Repayments of long-term debt (Note 10) (109,530) (84,120)

Repayments of convertible and
non-convertible debentures (Note 9) (26,155) (21,711)

Repayments of shareholders' loans (Note 10) - (200,000)

Repayments of finance lease (20,528) (13,993)

Proceeds (repayments) of credit facility (Note 10) 390,000 (995,000)

Proceeds from exercise of stock options and warrants - 104,000

Issue of common shares and warrants, net of issue costs (Notes 12, 13) - 3,137,283

CASH PROVIDED BY FINANCING ACTIVITIES 233,787 1,926,459**NET CHANGE IN CASH - DURING THE PERIOD** \$ 231,916 \$ (3,071)**CASH - BEGINNING OF YEAR** 44,358 54,460**CASH - END OF PERIOD** \$ 276,274 \$ \$51,389

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

MICROBIX
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Unaudited
For the three months ended December 31, 2018 and 2017
Canadian Funds

	SHARE CAPITAL (Note 12)		CONTRIBUTED SURPLUS	DEFICIT	EQUITY COMPONENT OF DEBENTURE	TOTAL SHAREHOLDERS' EQUITY
	NUMBER OF SHARES	STATED CAPITAL				
BALANCE, SEPTEMBER 30, 2017	84,704,257	\$31,299,416	\$8,048,315	\$(27,076,837)	\$2,903,789	\$15,174,683
Stock option expense			114,813			114,813
Share Issuance pursuant to Stock Options Exercised	400,000	181,516	(77,516)			104,000
Issue of Warrants pursuant to Private Placement			743,905			743,905
Share Issuance pursuant to Private Placement	11,666,633	2,756,085				2,756,085
Share Issue Costs pursuant to Private Placement		(272,354)	(90,353)			(362,707)
Net comprehensive income (loss) for the period				(94,128)		(94,128)
BALANCE, DECEMBER 31, 2017	96,770,890	\$33,964,663	\$8,739,164	\$(27,170,965)	\$2,903,789	\$18,436,651
Stock option and warrant expense			343,712			343,712
Share Issuance pursuant to Warrants Exercised	1,815	811	(203)			608
Issuance of Broker Warrants			120,328			120,328
Share Issue Costs pursuant to Private Placement		(108,014)	(12,314)			(120,328)
Share Issuance for Services	200,000	55,000				55,000
Warrants Issuance for Services			44,969			44,969
Net comprehensive loss for the year				(8,527,438)		(8,527,438)
BALANCE, SEPTEMBER 30, 2018	96,972,705	\$33,912,460	\$9,235,656	\$(35,698,403)	\$2,903,789	\$10,353,502
Stock option and warrant expense			33,420			33,420
Net comprehensive income (loss) for the period				(119,296)		(119,296)
BALANCE, DECEMBER 31, 2018	96,972,705	\$33,912,460	\$9,269,076	\$(35,817,699)	\$2,903,789	\$10,267,626

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

1. NATURE OF THE BUSINESS

Microbix Biosystems Inc. (the “Company” or “Microbix”), incorporated under the laws of the Province of Ontario, develops and commercializes proprietary biological and technology solutions for human health and wellbeing. Microbix manufactures a wide range of critical biological materials for the global diagnostics industry, notably antigens used in immunoassays or quality assessment and proficiency testing controls (the Antigen Business).

Microbix has also applied its biological expertise and infrastructure to create proprietary new products or technologies. It has been working to commercialize two; (1) Kinlytic® urokinase, a biologic thrombolytic drug (used to dissolve blood clots), and (2) LumiSort™ cell-sorting, a technology platform for ultra-rapid and efficient sorting of particles that can be used to enrich cell populations of interest (such as sexing semen for the livestock industry).

The registered office and principle place of business of the Company is located 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”). The Board of Directors approved these consolidated financial statements on February 11, 2019.

3. SUMMARY OF 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. 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, over 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 quarters ended December 31, 2018 and 2017. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of estimates and judgments

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Use of estimates and judgements (Continued)**

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. The amortization period and amortization method for intangible assets are reviewed at least at the end of each reporting period.

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.

vi) Impairments:

The recoverable amount of intangible assets and property, plant and equipment is based on estimates and assumptions regarding the expected market outlook and cash flows from each CGU.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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.

Amounts the Company expects to earn over the next year 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.

Cash

Cash consists of cash on hand and deposits with banks and investments in highly liquid instruments with original maturities of three months or less. There are no cash equivalents held at December 31, 2018 or 2017.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Financial assets and liabilities (Continued)**

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

	Classification	Measurement	2018	2017
Financial assets:				
Cash	Held-for-trading	Fair value	\$ 276,274	\$ 51,389
Accounts receivable	Loans and receivables	Amortized cost	985,499	1,575,827
Financial liabilities:				
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	\$ 1,610,245	\$ 1,809,680
Bank Indebtedness	Other liabilities	Amortized cost	650,000	360,000
Deferred revenue	Other liabilities	Amortized cost	1,506,536	876,916
Finance lease obligation	Other liabilities	Amortized cost	309,624	393,750
Non-convertible debentures	Other liabilities	Amortized cost	1,185,191	1,172,517
Convertible debentures	Other liabilities	Amortized cost	1,608,727	1,531,404
Long-term-debt	Other liabilities	Amortized cost	2,789,716	2,853,270
Total Financial liabilities			\$ 9,660,039	\$ 8,997,537

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 at each reporting date for finished goods and work-in-process.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Property, plant and equipment (Continued)**

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 quarterly 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.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period they are incurred.

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. No forfeiture rate is incorporated into the Company's assumptions on awarding options. To the extent actual forfeitures occur, share-based compensation related to these awards will be different from the Company's estimate and are revised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Foreign currency translation**

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.

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 period-end date. Exchange gains and losses arising on these transactions are included in the consolidated statements of loss and comprehensive loss for the period.

Income (loss) per common share

The Company calculates basic income per share amounts for profit or loss attributable to ordinary equity holders. Basic income (loss) 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. IMPACT OF NEW ACCOUNTING STANDARDS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the 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 described below.

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2019

The Company has adopted new amendments to the following accounting standards effective for its interim and annual consolidated financial statements commencing October 1, 2018. The effect of these pronouncements on the Company's results and operations are described below.

IFRS 2, Share-based Payment ("IFRS 2")

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled. The effective date for this standard is for reporting periods beginning on or after January 1, 2018, with earlier application permitted.

The Company has completed the review process to assess the impact and application of the aforementioned amendments and has determined it will have no impact on the Company.

IFRS 9 - Financial instruments ("IFRS 9")

The Company has adopted IFRS 9, effective October 1, 2018 on a modified retrospective basis, in accordance with the transitional provisions of IFRS 9. As such, comparative figures have not been restated. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments and includes a new model for hedge accounting aligning the accounting treatment with risk management activities.

As detailed below, the Company has changed its accounting policy for financial instruments retrospectively, except where described below.

Financial assets

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets, the Company has classified and measured its financial assets as described below:

Cash and cash equivalents measured at fair value through profit or loss under International Accounting Standard 39 - Financial Instruments: Recognition and Measurement ("IAS 39") continue to be measured as such under IFRS 9.

Accounts receivable classified as financial assets continue to be measured at amortized cost under IFRS 9.

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company's financial assets on the transition date.

4. IMPACT OF NEW ACCOUNTING STANDARDS (Continued)**NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2019 (Continued)*****IFRS 9 - Financial instruments ("IFRS 9") (Continued)******Financial liabilities***

Financial liabilities are recognized initially at fair value, and in the case of financial liabilities, not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and, since the Company does not have any financial liabilities designated at fair value through profit or loss, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities. Accounts payable and accrued liabilities, interest payable, and long-term debt are classified as financial liabilities to be subsequently measured at amortized cost.

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company's financial liabilities on the transition date.

Expected credit loss impairment model

IFRS 9 requires a forward-looking expected credit loss impairment ("ECL") model as opposed to an incurred credit loss model under IAS 39. As the Company's financial assets are substantially made up of trade receivables, the Company has opted to use the simplified approach for measuring the loss allowance at an amount equal to lifetime ECL. The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECLs at all times. Lifetime ECL represents the ECL that would result from all possible default events over the expected life of a financial instrument. The adoption of the ECL model did not have a significant impact on the Company's financial statements, and did not result in a transitional adjustment.

Financial instruments

The Company's financial assets and liabilities (financial instruments) include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt financial instruments. All financial instruments are recorded at fair value at recognition. Subsequent to initial recognition, financial instruments classified as accounts receivables, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost using the effective interest method. Other financial assets and liabilities are recorded at fair value subsequent to initial recognition.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

Effective October 1, 2018, the Company adopted IFRS 15. IFRS 15 supersedes International Accounting Standard 18, Revenue ("IAS 18"). IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The Company has elected to use the modified retrospective method, which requires the cumulative effect of initially applying the Standard to be recognized at the date of initial application, which is October 1, 2018, and that the financial information previously presented for the year ended September 30, 2018 would remain unchanged. The transition to the new standard had no material impact on the measurement and recognition of revenue in the current or prior periods.

The Company has elected to make use of the following practical expedients:

- (i) Completed contracts under IAS 18 before the date of transition have not been reassessed.
- (ii) Financing components are not considered in the Company's transaction price as the time gap between payment and delivery of goods and services is expected to be less than one year.
- (iii) Contract costs incurred related to contracts with an amortization period of less than one year have been expensed as incurred.

4. IMPACT OF NEW ACCOUNTING STANDARDS (Continued)**NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2019 (Continued)*****IFRIC 22, Foreign Currency Transactions and Advance Consideration***

In 2016, the IASB issued IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration (“IFRIC 22”) which provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. On initial application, entities have the option to apply either retrospectively or prospectively.

The Company has elected to adopt IFRIC 22 prospectively beginning on October 1, 2018. The adoption of the standard has had no significant impact on the Company’s unaudited interim consolidated financial statements for the three-month ended period December 31, 2018.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED***IFRS 16, Leases (“IFRS 16”)***

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.

5. INVENTORIES

Inventories as at December 31 consist of the following:

	2018	2017
Raw material	\$ 693,175	\$ 550,198
Work in process	1,371,769	1,421,663
Finished goods	3,259,084	2,668,969
	\$ 5,324,027	\$ 4,640,830

During the quarter ended December 31, 2018, inventories in the amount of \$1,153,115 (2017 - \$1,551,141) were recognized as an expense through cost of sales. The allowance for inventory impairment as December 31, 2018 was \$93,051 (2017 - \$20,000).

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets as at December 31, 2018 were \$115,006 (2017 - \$93,856), consisting of insurance policy premiums, deposits for trade shows and other prepaid amounts.

MICROBIX**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****Canadian Funds****As at and for the quarters ended December 31, 2018 and 2017****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, as at Sept 30, 2018	4,923,033	500,709	5,349,475	800,000	11,573,217
Additions	13,480	7,398	9,718	-	30,596
Disposals	-	-	-	-	-
Balance, as at Dec 31, 2018	4,936,513	508,107	5,359,193	800,000	11,603,813
ACCUMULATED DEPRECIATION					
Balance, as at Sept 30, 2018	1,406,798	423,354	3,096,334	-	4,926,487
Depreciation	41,512	2,546	60,166	-	104,224
Disposals	-	-	-	-	-
Balance, Dec 31, 2018	1,448,310	425,900	3,156,500	-	5,030,711
NET BOOK VALUE					
Balance, Sept 30, 2018	3,516,235	77,355	2,253,141	800,000	6,646,730
Balance, Dec 30, 2018	\$3,488,203	\$82,207	\$2,202,693	\$800,000	\$6,573,102

As of September 30, 2018, the Company determined that the Lumisort related research and development equipment that was classified as not yet available for use was impaired. See note 8 for discussion.

8. INTANGIBLE ASSETS

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

Technology investments:	
Kinlytic® (Note 8a)	0%
Bioreactor (Note 8b)	7%

Intangible assets consist of:

	Capitalized development costs Bioreactor	Patents and trademarks Kinlytic®	Total
	(b)	(a)	
COST			
Balance, as at September 30, 2018	\$2,088,575	\$3,078,586	\$5,167,161
Additions from internal developments	-	-	-
Balance, as at December 31, 2018	2,088,575	3,078,586	5,167,161
ACCUMULATED AMORTIZATION			
Balance at September 30, 2018	150,842	-	150,842
Amortization expense	34,809	-	34,809
Balance, as at December 31, 2018	185,651	-	185,651
NET BOOK VALUE			
Balance, September 30, 2018	1,937,733	3,078,586	5,016,319
Balance, as at December 31, 2018	1,902,924	3,078,586	4,981,510

At each reporting date, the Company is required to assess its long-lived assets for potential indicators of impairment. If any such indication exists, the Company estimates the recoverable amount of the asset or cash generating unit ("CGU") and compares it to the carrying value. In addition, irrespective of whether there is any indication of impairment, the Company is required to test long-lived assets with definite lives which are not yet available for use at least annually.

a) Kinlytic®

The Company acquired the assets and rights pertaining to development, production, and licensing of Kinlytic® from ImaRX Therapeutics, Inc. in 2008. The asset is not yet available for use, accordingly no amortization has been recorded.

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.

b) Bioreactor

The Company has internally developed an improved bioreactor production process ("Bioreactor") to increase the efficiency and output of manufacturing certain Antigen products.

9. DEBENTURES

The Company has convertible and non-convertible debentures issued and outstanding as at December 31, 2018. The carrying values of the debt component of these debentures are as follows:

	Non-convertible debentures		Total non-convertible debentures	Convertible debentures			Total convertible debentures
	(a)	(b)		(c)	(d)	(e)	
Date of issue	Jan, 2014	Apr, 2017		Oct, 2016	Oct, 2016	Oct, 2016	
Face value	\$ 2,000,000	\$ 500,000	\$ 2,500,000	\$ 1,500,000	\$ 500,000	\$ 2,500,000	\$ 4,500,000
Liability component at the date of issue	928,373	268,955	-	461,550	223,050	780,750	
Balance, September 30, 2018	879,140	304,874	1,184,014	483,329	280,475	821,631	1,585,435
Accretion	19,314	8,018	27,332	3,796	9,927	9,569	23,292
Repayments	(26,155)	-	(26,155)	-	-	-	-
Balance, December 31, 2018	872,299	312,892	1,185,191	487,125	290,402	831,200	1,608,727
Less: current portion	101,868	312,892	414,760	-	290,402	-	290,402
Non-current portion	770,431	-	770,431	487,125	-	831,200	1,318,325
Balance, December 31, 2018	\$ 872,299	\$ 312,892	\$ 1,185,191	\$ 487,125	\$ 290,402	\$ 831,200	\$ 1,608,727
Equity component at December 31, 2018	-	-	-	574,435	631,222	1,698,132	2,903,789
Conversion price per common share	\$ -	\$ -		\$ 0.23	\$ 0.23	\$ 0.23	
Effective interest rate charged	25.69%	30.20%		31.07%	30.20%	30.85%	
Payment frequency	Quarterly	Quarterly		Quarterly	Quarterly	Quarterly	
Maturity of financial instrument	Jan, 2029	Apr, 2022		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	

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 above.

MICROBIX

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Canadian Funds

As at and for the quarters ended December 31, 2018 and 2017

10. LONG-TERM DEBT, BANK INDEBTEDNESS AND OTHER DEBT

- a) The Company has term loans with the Business Development Bank ("BDC") for a variety of purposes. The following summarizes these loans as at December 31, 2018:

Term Loans with the Business Development Bank ("BDC")	(a)	(b)	(c)	(d)	(e)	(f)	Total
Effective date of loan	Jun, 2008	Oct, 2014	Oct, 2015	Oct, 2015	Nov, 2015	Jul, 2015	
Initial Loan Amount	\$ 3,000,000	\$ 615,000	\$ 50,000	\$ 200,000	\$ 250,000	\$ 323,906	\$ 4,438,906
Balance, September 30, 2018	2,157,580	225,500	15,600	89,910	112,320	298,336	2,899,246
Proceeds from loan	-	-	-	-	-	-	-
Loan repayments during the period	(27,780)	(30,750)	(3,120)	(9,990)	(12,480)	(25,410)	(109,530)
Balance, December 31, 2018	\$2,129,800	\$ 194,750	\$ 12,480	\$ 79,920	\$ 99,840	\$ 272,926	\$2,789,716
Current Portion	111,120	123,000	12,480	39,960	49,920	101,640	\$ 438,120
Non-current portion	2,018,680	71,750	-	39,960	49,920	171,286	2,351,596
Payment frequency	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	
Maturity of loan	Feb, 2038	Jul, 2020	Dec, 2019	Dec, 2020	Dec, 2020	Sep, 2021	
Terms of repayment	Principal and interest	Principal and interest	Principal and interest	Principal and interest	Principal and interest	Principal and interest	

- Notes: (a) Loan for the purchase of manufacturing facility and building improvements.
(b) Loan for the purchase of equipment for our bioreactor project
(c) Loan for the purchase of building improvements.
(d) Loan for the purchase of manufacturing equipment
(e) Working Capital loan
(f) Loan for the purchase of manufacturing equipment

All BDC loans have a floating interest rate based on BDC's floating base rate plus 0.5% - 1.8%. At December 31, 2018, the floating base rate was 5.8% (2017 - 5.3%). The loans are secured with the building and equipment.

As at December 31, 2018, the commitments for the next five fiscal years and thereafter for the BDC loans is as follows:

	Amount
2019	\$ 328,590
2020	408,260
2021	228,646
2022	111,120
2023	111,120
2024 and thereafter	\$ 1,601,980

On April 28, 2017, the Company received approval from its Chartered Bank to increase the borrowing limit on its credit facility to \$1.5 million. The expanded credit facility was available on May 4, 2017.

As at December 31, 2018 the Company had drawn on \$650,000 of the facility (2017 - \$360,000).

- b) On September 12, 2017, the Company issued two outstanding shareholder interest bearing loans for total proceeds of \$200,000. These loans were repaid on October 23, 2017.
- c) 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. On July 4, 2018 the Company received funds in the amount of \$323,906, drawn on this facility. No further funds have been drawn since that date.

11. DEFERRED REVENUE

As at December 31, 2018, the Company has received payment, in the amount of \$1,506,536 (2017 - \$876,916), 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 loss and comprehensive loss.

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.

On October 18, 2017 and October 26, 2017 (the "Closing Date"), the Company completed a private placement offering of an aggregate of 11,666,633 units for total gross proceeds of \$3,499,990, net proceeds of \$3,137,283 after share issuance costs of \$362,707. Each unit consists of one common share of Microbix and one half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of \$0.36 for three years. Fair value of the common share purchase warrants was determined to be \$1,102,144. Gross proceeds were allocated to common shares and common share purchase warrants in the amount of \$2,756,085 and \$743,905 respectively. The financing was brokered. Cash commissions of \$226,729 were paid and an aggregate of 755,764 Broker's Warrants were issued in the private placement offering. Fair value of the broker warrants was determined to be \$120,328 using the Black-Scholes option pricing model. 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 (86%), a risk free rate of interest of 1.45% based upon the two year Government of Canada Bond Yield at the date of the award of the Broker's warrants and a two year term. Management believes that the historic stock volatility provides a fair and appropriate basis of estimate for the expected future volatility of the stock. Each Broker's Warrant entitles the holder to purchase one unit at a price of \$0.335 for a period of two years. All securities issued under the private placement will be subject to a holding period, expiring four months and one day from the date of closing.

During 2018, the Company issued 200,000 shares at a price of \$0.275 and 250,000 warrants at an exercise price of \$0.30 as partial compensation for a consulting agreement. The transaction was measured at the fair value of the common shares issued and warrants awarded, as the fair value of the services provided could not be measured reliably. The number of issued and outstanding common shares and the stated capital of the Company as at December 31, 2018 are presented below:

	Number of Shares	Stated Capital
Balance, as at September 30, 2018	96,972,705	\$ 33,912,460
Balance, as at December 31, 2018	96,972,705	\$ 33,912,460

MICROBIX**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****Canadian Funds****As at and for the quarters ended December 31, 2018 and 2017****13. CONTRIBUTED SURPLUS**

Changes in contributed surplus up to December 31, 2018 are described as follows:

Balance, as at September 30, 2018	\$ 9,235,656
Stock options expensed	33,420
Balance, as at December 31, 2018	\$ 9,269,076

14. COMMON SHARE PURCHASE WARRANTS

A continuity of the Company's warrants outstanding as at December 31, 2018 and September 30, 2018 is presented in the following table:

	Units	Weighted average exercise price
Balance, September 30, 2018	15,168,579	\$ 0.40
Balance, December 31, 2018	15,168,579	\$ 0.40

A summary of the Company's warrants outstanding as at December 31, 2018 and September 30, 2018 is presented in the following table:

	December 31, 2018			September 30, 2018		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life years	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life years
Range of exercise prices:						
\$0.47 to \$0.55	4,949,763	\$ 0.55	0.99	4,949,763	\$ 0.55	1.24
\$0.23 to \$0.46	10,218,816	0.33	2.11	10,218,816	0.33	2.37
	15,168,579	\$ 0.40	1.75	15,168,579	\$ 0.40	2.00

15. STOCK OPTION PLAN

On March 28, 2018 the shareholders of the Company approved a resolution to amend the Company's stock option plan. This amendment changed the total number of common shares available to be issued under the plan from a maximum of 12,000,000 common shares to a rolling maximum of 10% of issued and outstanding common shares. Under the plan as at December 31, 2018, the Company has a total of 5,590,000 options (2017 – 5,820,000) issued and pending and is eligible to issue up to a total of 9,697,270 options.

The exercise price of each option equals no less than 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 remaining unvested stock options at the year-end to be forfeited before they vest.

The activity under the Company's stock option plan for the year ended December 31, 2018 is as follows:

	Units	Weighted average exercise price
Balance, September 30, 2018	5,590,000	\$ 0.39
Balance, December 31, 2018	5,590,000	\$ 0.39
Exercisable, December 31, 2018	4,304,333	\$ 0.40

The exercise price of each option equals the closing market price of the Company's capital stock on the day preceding the grant date. The following table reflects the number of options, their weighted average price and the weighted average remaining contract life for the options grouped by price range as of December 31, 2018 and September 30, 2018:

	December 31, 2018			September 30, 2018		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life years	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life years
Range of exercise prices:						
\$0.54	2,440,000	\$ 0.54	1.83	2,440,000	\$ 0.54	2.33
\$0.23 to \$0.28	3,150,000	\$ 0.28	3.68	3,150,000	\$ 0.28	4.18
	5,590,000	\$ 0.39	2.84	5,590,000	\$ 0.39	3.41

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. During the quarter, the Company recorded share-based compensation expense of \$33,420 (2017 - \$114,813).

16. INCOME PER SHARE

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

As at December 31	2018	2017
Numerator for basic loss per share:		
Net loss available to common shareholders	\$ (119,296)	\$ (94,128)
Denominator for basic income (loss) per share:		
Weighted average common shares outstanding	96,972,705	96,770,890
Effect of dilutive securities:		
Warrants	-	-
Stock Options	-	-
Convertible debentures	-	-
Denominator for diluted net loss per share	96,972,705	96,770,890
Net loss per share:		
Basic	(\$0.001)	(\$0.001)
Diluted	(\$0.001)	(\$0.001)

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

	2018	2017
Pursuant to warrants	15,168,579	14,920,394
Under stock options	5,590,000	5,820,000
Pursuant to convertible debentures	19,565,217	19,565,217
	40,323,796	40,305,611

MICROBIX**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****Canadian Funds****As at and for the quarters ended December 31, 2018 and 2017****17. EXPENSES BY NATURE**

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

Depreciation and amortization

	2018	2017
Included in:		
Cost of goods sold	\$ 136,094	\$ 123,248
General and administrative expenses	393	238
Research and development	2,546	38,401
Total depreciation and amortization	\$ 139,033	\$ 161,887

Amortization expense included within cost of goods sold includes amortization of Bioreactor development costs that were capitalized in previous years and began amortization at the beginning of fiscal 2018.

Employee costs

	2018	2017
Included in:		
Short-term wages, bonuses and benefits	\$ 1,408,443	\$ 1,331,033
Share based payments	18,638	114,813
Total employee costs	1,427,081	1,445,846

Included in:		
Cost of goods sold	\$ 773,779	\$ 734,578
Research and development	209,748	187,152
General and administrative expenses	344,762	422,587
Selling and business development	98,791	101,529
Total employee costs	\$ 1,427,081	\$ 1,445,846

18. CHANGES IN NON-CASH WORKING CAPITAL

	2018	2017
Accounts receivable	\$ 327,981	\$ (238,339)
Inventory	(877,059)	(173,724)
Prepaid expenses and other assets	54,959	59,133
Investment tax credits receivable	-	-
Deferred Revenue	575,411	(268,268)
Accounts payable and accrued liabilities	(156,348)	(1,032,270)
	\$ (75,056)	\$ (1,653,468)

19. FINANCIAL EXPENSES

	2018	2017
Cash interest:		
Interest on long-term debt	\$ 46,112	\$ 41,969
Interest on debentures	151,166	121,859
Interest other	10,758	8,750
Interest income	-	-
Non-cash interest:	-	-
Accretion on debentures	50,624	36,812
Financial expenses	\$ 258,660	\$ 209,390

20. CAPITAL MANAGEMENT

The Company's capital management objective is to safeguard its ability to function as a going concern to maintain and grow its operations and to fund its development activities. Microbix defines its capital to include the revolving line of credit, shareholders' equity, the Business Development Bank capital loans, and the debentures. The capital at December 31, 2018 was \$16,501,260 (2017 - \$24,353,842).

To date, the Company has used cash provided by operating activities, 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 and TD Bank. If possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including cash provided by operating activities, investment tax credits, grants and interest income. The Company has a revolving line of credit of \$1,500,000 with its Canadian chartered bank, Note 10.

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 years ended December 31, 2018 and 2017, the Company has carried at fair value financial instruments in Level 1. At December 31, 2018, 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 unobservable inputs (Level 3)
Assets measured at fair value:				
Cash	31-Dec-18	\$ 276,274	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	31-Dec-18	-	-	\$ 1,185,191
Convertible debentures	31-Dec-18	-	-	1,608,727
Long-term-debt and other debt	31-Dec-18	-	\$ 3,439,716	-

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:				
Cash	31-Dec-17	\$ 51,389	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	31-Dec-17	-	-	\$ 1,172,517
Convertible debentures	31-Dec-17	-	-	1,531,404
Long-term-debt and other debt	31-Dec-17	-	\$ 3,213,270	-

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 is 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. Typically the outstanding accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. As at December 31, 2018, five customers accounted for 80% (2017 - five customers accounted for 82%) 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 (2017 - \$10,000).

Trade accounts receivable are aged as follows at December 31:

	2018	2017
Current	\$ 524,057	\$ 1,208,896
0 - 30 days past due	350,129	318,107
31 - 60 days past due	63,597	37,269
61 days and over past due	47,716	11,555
	<u>\$ 985,499</u>	<u>\$ 1,575,827</u>

22. FINANCIAL RISK MANAGEMENT (Continued)***Market risk and foreign currency risk***

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

	US dollars		Euros	
	2018	2017	2018	2017
Cash	\$ 38,019	\$ 49,835	237,508	-
Accounts receivable	400,729	717,516	180,112	400,854
Accounts payable and accrued liabilities	396,485	297,820	12,444	1,505

The Company's revenue and expenses by foreign currency for the quarters ended December 31, 2018 and 2017 are as follows:

	2018	2017
Revenue		
Euros	24%	46%
U.S. dollars	72%	48%
Expenses		
U.S. dollars	14%	9%

Based upon prior year results, the impact of a 5% increase in the U.S. dollar against the Canadian dollar would result in an increase in annual U.S. dollar based revenue of approximately \$330,400 Cdn. The impact of a 5% increase in the Euro against the Canadian dollar would result in an increase in annual Euro based revenue of approximately \$271,500. Correspondingly, the impact of a 5% decrease in the U.S. dollar against the Canadian dollar would result in a loss in annual U.S. dollar based revenue of approximately \$330,400 Cdn. The impact of a 5% decrease in the Euro against the Canadian dollar would result in a loss in annual Euro-based revenue of approximately \$271,500.

Liquidity risk

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

Interest rate risk

Financial instruments that potentially subject the Company to cash flow interest rate risk are those assets and 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 \$1,500,000 line of credit that bears interest at the bank's prime lending rate plus 2.25%. A 1% increase in the bank rate would cost the Company approximately \$30,000 per year for BDC and about \$15,000 on the line of credit usage if it were fully used throughout the fiscal year.

23. SEGMENTED INFORMATION

The Company operates in two ways: (i) the development, manufacturing and sales of antigens as materials for the medical diagnostic industry or as quality assessment products and, (ii) the development and commercialization of novel and proprietary products or technologies such as Lumisort and Kinlytic. The following is an analysis of the Company's revenues and profits from continuing operations for the year, segmented between antigens, Lumisort and Kinlytic:

	Segment revenue		Segment loss	
	2018	2017	2018	2017
Antigen Products and Technologies	\$ 2,458,205	\$ 2,885,567	\$ (44,954)	\$ (68,978)
Lumisort™	-	-	(39,849)	(25,150)
Kinlytic®	2,607	-	(34,493)	-
Total for continuing operations	\$ 2,460,812	\$ 2,885,567	\$ (119,297)	\$ (94,128)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2017 - \$Nil).

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3. Segment loss represents the profit (loss) before tax earned by each segment without allocation of central administration costs, directors' fees, and finance costs. These general costs are reflected in the Antigen Products and Technologies segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

	Segment assets		Segment liabilities	
	2018	2017	2018	2017
Antigen Products and Technologies	\$ 15,269,080	\$ 13,719,965	\$ 9,010,039	\$ 8,637,537
Lumisort™	-	9,055,638	-	-
Kinlytic®	3,078,585	3,078,585	-	-
	\$ 18,347,665	\$ 25,854,188	\$ 9,010,039	\$ 8,637,537

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.

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

	Depreciation and amortization		Additions to non-current assets	
	2018	2017	2018	2017
Antigen Products and Technologies	\$ 139,033	\$ 128,414	\$ 30,596	\$ 616,285
Lumisort™	-	33,473	-	192,320
Kinlytic®	-	-	-	-
	\$ 139,033	\$ 161,887	\$ 30,596	\$ 808,605

24. GEOGRAPHIC INFORMATION

The Company operates in three principal geographical areas – North America (where it is domiciled), Europe and in other foreign countries. The Company's revenue from external customers is tracked based on the bill-to location. Information about its non-current assets by location of assets are also detailed below. It should be noted that our distribution partner for Asia is based in the United States, so most sales destined to Asia are reflected in the North American total.

	Revenue from external customers		Non-current assets	
	2018	2017	2018	2017
North America	\$ 1,373,912	\$ 1,274,135	\$13,134,612	\$ 20,922,492
Europe	879,722	1,536,743	-	-
Other foreign countries (directly)	207,178	74,689	-	-
	<u>\$ 2,460,812</u>	<u>\$ 2,885,567</u>	<u>\$13,134,612</u>	<u>\$ 20,922,492</u>

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 December 31, 2018	Three months ended December 31, 2017
Short-term wages, bonuses and benefits	\$ 200,076	\$ 200,838
Share-based payments	27,291	101,005
Total key management compensation	<u>\$ 227,367</u>	<u>\$ 301,843</u>

On September 12, 2017, the Company issued two outstanding shareholder interest bearing loans for total proceeds of \$200,000. These loans were repaid on October 23, 2017.

26. COMMITMENTS AND CONTINGENCIES*Lease commitments*

	Amount
2019	\$ 140,256
2020	91,700
2021	91,238
2022	82,388
2023	11,339
2024 and thereafter	-
	<u>\$ 416,921</u>

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

	Amount
2019	\$ 531,931
2020	709,242
2021	709,242
2022	1,657,992
2023	604,242
2024 and thereafter	7,132,166
	<u>\$ 11,344,815</u>

Contingencies

The Company is not party to any legal proceedings arising out of the normal course of business.

27. SETTLEMENT OF DISPUTES AND LAWSUITS**Settlement of Zeptomatrix Lawsuit**

On October 5, 2016, Zeptomatrix Corporation filed a statement of claim against Microbix in Canadian Federal Court, alleging infringement of its Canadian patent. During fiscal 2017 Microbix defended itself against these allegations, maintaining it did not infringe this patent. On October 11, 2017 Microbix announced the court approval of a legal dispute settlement with Zeptomatrix Corporation, with the latter party's claims of patent infringement being withdrawn. The withdrawal of the lawsuit was "with prejudice", following a settlement agreement between the parties that was to Microbix' satisfaction.

MICROBIX

DIRECTORS	CORPORATE INFORMATION	
Peter M. Blecher <i>Ontario, Canada</i> <i>Staff Emergency Physician</i> <i>Lakeridge Health Hospital</i>	Corporate Counsel	<i>Boyle & Co. LLP</i>
	Auditors	<i>Ernst Young LLP</i> <i>Chartered Accountants</i>
Mark A. Cochran <i>Virginia, USA</i> <i>Managing Director</i> <i>Johns Hopkins Medicine</i>	Transfer Agent	<i>AST Trust Company Inc.</i> <i>as the Administrative Agent for</i> <i>CIBC Mellon Trust Company</i> <i>416-682-3860 1-800-387-0825</i>
Vaughn C. Embro-Pantalony ^{(1) (2)} <i>Ontario, Canada</i> <i>Pharmaceutical Executive</i>	Bankers	<i>The Toronto Dominion Bank</i>
William J. Gastle ⁽²⁾ <i>Ontario, Canada</i> <i>Executive Chairman</i> <i>Microbix Biosystems Inc.</i>	Head Office	Microbix Biosystems Inc. 265 Watline Avenue, Mississauga, Ontario Canada L4Z 1P3 Tel: 905-361-8910 Fax: 905-361-8911 www.microbix.com
Cameron Groome ⁽²⁾ <i>Ontario, Canada</i> <i>Chief Executive Officer and President</i> <i>Microbix Biosystems Inc.</i>		
Martin A. Marino ^{(1) (2)} <i>Ontario, Canada</i> <i>Pharmaceutical Executive</i>		
Joseph D. Renner ^{(1) (2)} <i>New Jersey, USA</i> <i>Pharmaceutical Executive</i>		
⁽¹⁾ Member of Audit Committee.		
⁽²⁾ Member of the Human Resources, Compensation and Governance Committee.		

SENIOR MANAGEMENT

William J. Gastle
Executive Chairman

Cameron L. Groome
Chief Executive Officer and President

James S. Currie
Chief Financial Officer

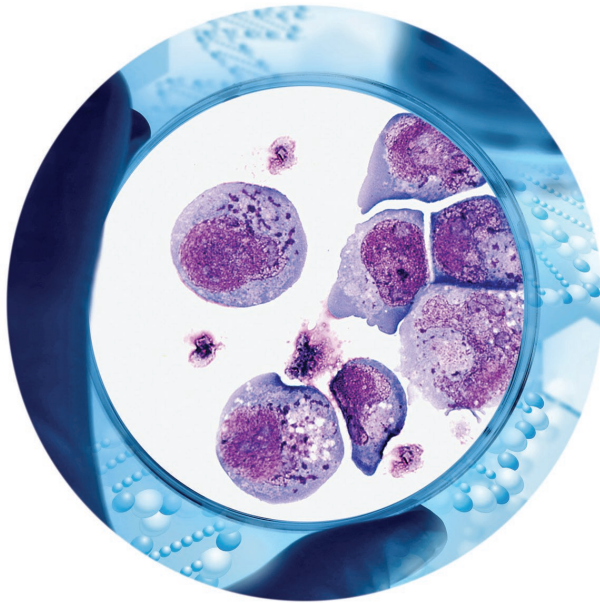
Dr. Mark Luscher
Senior Vice-President, Scientific Affairs

Phillip Casselli
Senior Vice-President, Sales & Business Development

Kevin J. Cassidy
Vice-President, Biopharmaceuticals

Kathryn Froh
Vice-President, Diagnostics

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