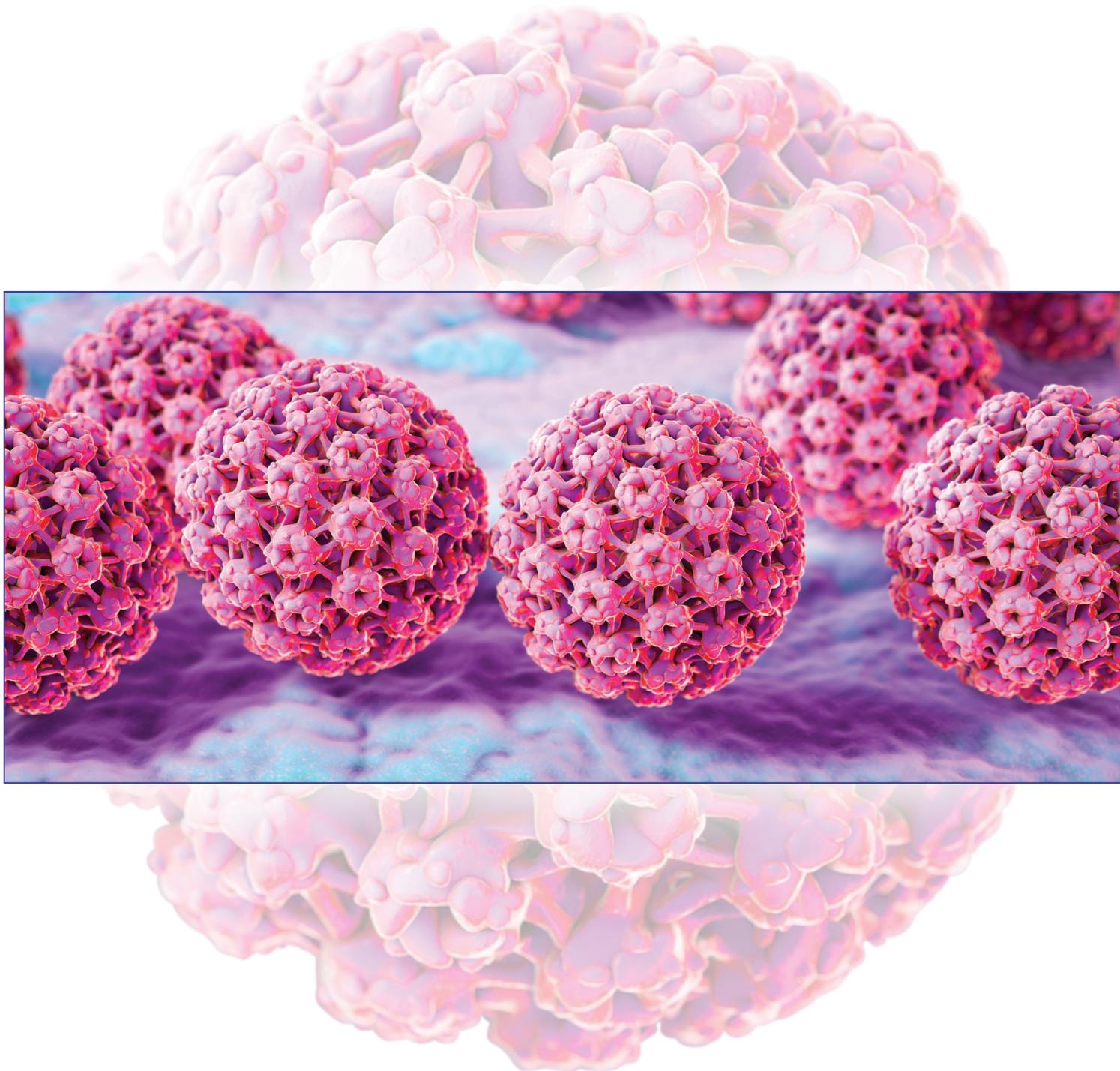


MICROBIX BIOSYSTEMS INC.



SECOND INTERIM REPORT

For the three months
ended March 31, 2020



Message to Shareholders

On behalf of Microbix, I'm pleased to inform you about the progress we've made since our Q1 results disclosure in mid-February. We've all been through some real ordeals since then and there has been no exception for Microbix or for me personally.

In the latter part of February, we came to suspect that the emerging new Coronavirus, SARS-CoV-2, could lead to a worldwide pandemic. Our team mobilized as further information became available and began creating targeted QAPs™ in anticipation of Canadian and international patient testing programs. On March 11, the WHO declared the outbreak a global pandemic, confirming our fears.

By the third week of March, we believed we had working QAPs prototypes and undertook internal and external validations. The completion of those validations was announced on March 30, a global lab proficiency/accreditation alliance established by April 8, licensing submissions made April 13, Health Canada licensing received on April 21, final product completed the following week, first shipments to Canadian labs May 6, followed by FDA registration on May 7. Microbix has a truly great team!

In parallel to creating new products vital to public health, we instituted steps to ensure the health and safety of our staff, secured supply chains, informed our customers, continued uninterrupted production of antigens and QAPs, and advanced Microbix's many business development programs. Some of those, such as our QAPs distribution agreements for 10 countries, have since been publicly disclosed.

However, all our activities don't match what some of our collaborators have had to endure. Notably, I'm compelled to cite COPAN Italia SpA, the global leader in making the patient-sampling kits that enable most testing for COVID-19: Through horrible outbreaks in their communities and impacting their families, they have soldiered through to meet global demand for nasopharyngeal swabs and reagents. Microbix is proud and humbled to be co-branding with COPAN for the new REDx™FLOQ® brand of QAPs swabs to support accuracy of SARS-CoV-2 testing.

While Q2 can only be described as a lacklustre quarter, all of our initiatives and business prospects have survived this crisis. In fact, it is likely that testing for infectious diseases will become much better provisioned by governments on a going-forward basis: Multi-trillion dollar economic hits do tend to refocus attention on what's truly important. Microbix seems well-positioned to benefit from such greater emphasis on testing to ensure public health.

The balance of fiscal 2020 will remain focused on execution: Continuing our ongoing drive for better margins on our antigens business, and adding both new products and new distributors/customers for our innovative, proprietary, and branded new QAPs. We are realizing many near-term opportunities and your management team is smart, highly-motivated and very hard working. That's a recipe for success!

Like 2020 so far, the spring and summer are shaping-up to be very busy seasons and there are many value-building projects that we hope to conclude in the coming weeks and months. Those should include more new business alliances, further enhancements to our antigens operations, steps to accelerate the creation, licensing and introduction of new QAPs, and new production and QC lab spaces to increase QAPs capacity. With Microbix now operating near-to-breakeven, a current objective is to increase revenues enough to reach consistent and material profitability. That doesn't happen overnight, but we are getting further and further down that path.

As I said in my Q1 letter, short-term challenges will always emerge, but we continue our work to increase sales, improve gross margins, insulate against risks, and achieve sustained positive net earnings and cash flow. The second half of fiscal 2020 and beyond are expected to show increasing benefits from those efforts, with Microbix positioned for increasing net earnings 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

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 September 30, 2019 and the interim condensed consolidated financial statements and notes of the current quarter, 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 antigens and quality assessment products 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 May 12, 2020.

COMPANY OVERVIEW

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX) is an award-winning life sciences innovator and exporter making critical ingredients that enable the production of clinical diagnostics (antigens) and creating medical devices that help ensure test accuracy (quality assessment products, also known as QAPs™). In the context of Microbix's business, antigens are purified and inactivated bacteria and viruses, which are used in the immunoassay format of medical tests to assess exposure to, or immunity from, those pathogens. QAPs are inactivated and stabilized samples of a pathogen, that are created to resemble patient samples in order to support one or more of (i) the proficiency testing of clinical labs, (ii) test development, instrument validation and technician training, or (iii) the quality management of patient tests by clinical laboratories. Microbix' antigens and QAPs are sold to more than 100 customers worldwide, primarily to multinational diagnostics companies and laboratory accreditation organizations.

Microbix also applies its biological expertise and infrastructure to develop other proprietary products and technologies, most notably Kinlytic® urokinase, a biologic thrombolytic drug used to treat blood clots.

Revenue from the antigens and QAPs business (Antigens & QAPs) is expected to continue growing for the foreseeable future. Antigen sales growth will be largely driven by certain public health tests becoming more widely used in the Asia Pacific region and, more recently, increased global testing for respiratory pathogens. QAPs sales growth will be driven by Microbix's creation of new value-added, branded and proprietary products and by increasing European and American quality-management regulation of clinical laboratories. Resulting sales are expected to provide free cash flow to cover operating and debt service costs, and funding for business initiatives that leverage Microbix's expertise.

COMPANY OVERVIEW (Continued)

Microbix owns and operates a biologicals manufacturing facility at 265 Watline Avenue in Mississauga, Ontario. For that facility, Microbix has a Pathogen and Toxin license issued by the Public Health Agency of Canada. The Company's administrative offices are in a leased building located at 235 Watline Avenue, Mississauga, Ontario. Microbix is ISO 9001 & 13485 accredited, FDA & Health Canada establishment licensed, and provides CE marked products.

FINANCIAL OVERVIEW**Quarter Ending March 31, 2020 ("Q2")**

Q2 revenue was \$2,874,496, a 32% decrease from Q2 2019 revenues of \$4,253,629. Included were antigen product revenues of \$2,783,809 (Q2 2019 - \$4,169,272), QAPs revenues were \$425,837 (Q2 2019 - \$433,328) and remained primarily to the white-label "PT" segment. Revenue from royalties was \$90,687 (Q2 2019 - \$84,357). Q2 sales declined largely due to timing of shipments to three key customers that benefited Q2 2019. Other revenues to North America, Europe and Asia were largely as expected.

Gross margin for this quarter was 46%, down from 51% last year. While revenues from bioreactor-produced antigen were up significantly from last year, we continued to ship antigen from conventional methods in Q2. In addition, a Q2 sales mix skewed to weaker margin products adversely affected gross margin compared to the same period last year, which had a higher margin sales mix.

Operating expenses decreased by 8% from Q2 2019, primarily a result of decreased general administrative costs and favourable foreign exchange gains in the current quarter.

Lower sales and fewer gross margin dollars in Q2 led to an operating loss and net loss of \$219,030 versus an operating income of \$482,037 and net profit of \$391,352 in 2019. Cash used in operations was \$777,851, compared to cash used of \$357,143 in 2019, much of the difference due to non-cash working capital changes.

During the quarter the company raised \$2,150,159 (net of issue costs) in a non-brokered private placement that included a strong participation from senior management and directors. These funds will be used primarily to pay down our bank debt, invest in capital equipment and provide working capital to support key growth initiatives, including the new quality assessment products to support COVID-19 testing.

Six Months Ending March 31, 2020 ("H1")

H1 revenue was \$4,920,844, a 27% decrease from 2019 YTD revenue of \$6,714,441. Included were antigen and quality product revenues of \$4,756,382, 27% lower than 2019. H1 sales were impacted by timing of orders as outlined above. Revenue from royalties were \$164,462 (2019 - \$178,379).

Gross margin in H1 was 48%, down from 51% in fiscal 2019, due to higher margins on 2019 orders outlined above and changes in the product mix. Seasonally low PT-oriented QAPs sales in the first quarter each year also act to suppress margins in H1 of each year.

H1 Operating expenses increased by 3% from 2019, primarily due to an increased investment in sales and marketing and new product development. Weaker sales and gross margins YTD led to a net loss of \$804,295 versus a net profit of \$272,056 in 2019. Cash used by operations ("CFO") was \$540,059, compared to cash used of \$328,419 in 2019, with the increased fiscal 2020 usage due mainly to non-cash working capital accounts.

At the end of Q2, Microbix's current ratio (current assets divided by current liabilities) was 1.87 and its debt to equity ratio (total debt over shareholders' equity) was 0.73.

Financial Highlights

as at and for the quarter ended

| | Three months ended March 31 | | Six months ended March 31 | |
|--|-----------------------------|--------------|---------------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Total Revenue | \$ 2,874,496 | \$ 4,253,629 | \$ 4,920,844 | \$ 6,714,441 |
| Gross Margin | 1,320,613 | 2,161,497 | 2,364,347 | 3,452,046 |
| SG&A Expenses | 993,671 | 1,163,721 | 2,080,337 | 2,053,075 |
| R&D Expense | 277,603 | 243,353 | 542,952 | 505,184 |
| Financial Expenses | 268,369 | 272,386 | 545,353 | 531,046 |
| Operating Loss for the period | (219,030) | 482,037 | (804,295) | (119,296) |
| Net Loss and Comprehensive Loss for the period | (219,030) | 391,352 | (804,295) | 272,056 |
| Cash Provided (Used) by Operating Activities | (777,851) | (357,143) | (540,059) | (328,419) |
| Cash | 167,730 | 25,451 | | |
| Accounts receivable | 1,940,135 | 1,854,426 | | |
| Total current assets | 7,094,480 | 7,329,573 | | |
| Total assets | 20,692,116 | 20,304,230 | | |
| Total current liabilities | 3,822,475 | 5,062,014 | | |
| Total liabilities | 8,743,880 | 9,612,020 | | |
| Total shareholders' equity | 11,948,236 | 10,692,210 | | |
| Current ratio | 1.86 | 1.45 | | |
| Debt to equity ratio | 0.73 | 0.90 | | |

SELECTED QUARTERLY FINANCIAL INFORMATION

| | Jun-30-18 | Sep-30-18 | Dec-31-18 | Mar-31-19 | Jun-30-19 | Sep-30-19 | Dec-31-19 | Mar-31-20 |
|--|-----------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Sales | 3,235,224 | 3,389,574 | 2,460,812 | 4,253,629 | 3,110,615 | 3,587,285 | 2,046,348 | 2,874,496 |
| Net Income (Loss) and Comprehensive Income (Loss) | 958 | (8,185,894) | (119,296) | 391,352 | (191,322) | (48,816) | (585,265) | (219,030) |
| Operating Loss before debt restructuring, settlement expenses and Impairment of assets | 958 | (307,136) | (119,296) | 482,037 | (191,322) | (127,738) | (585,265) | (219,030) |

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 “immunoassay” 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 stronger to end customers in both established and emerging markets. Much of that growth is believed to be due to a number of diagnostics for infectious diseases important to public health beginning to be adopted in the Asia-Pacific region. In fiscal 2018, we saw 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. While we believe Asia-Pacific demand for antigens should continue to grow over time, sales to this newer market are also adding to the volatility of Microbix's quarterly revenues.

The long-term effect of increasing Asia-Pacific test usage may be to take Microbix's 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 native antigens that has created and validated leading-edge production techniques, Microbix believes it is now well-prepared to fulfill such demand growth.

In 2020, a further potential antigens growth driver emerged in the form of the COVID-19 pandemic. While Microbix does not currently supply antigens for immunoassay tests for the Coronavirus that causes COVID-19 disease (properly called SARS-CoV-2), it does expect to see benefits within its antigens business. Such benefits would initially come from increased testing in general, and specifically from increased testing for respiratory pathogens other than the SARS-CoV-2 virus. Notably, healthcare practitioners are likely to want a definitive diagnosis of the reason for illness if a patient tests negative for SARS-CoV-2 (i.e., if not that, then what?) and will need to know if a patient is co-infected with another respiratory pathogen if they test positive for SARS-CoV-2 (e.g., at greater risk because co-infected with an influenza virus or a resulting bacterial infection). Microbix is beginning to see its flow of orders for respiratory antigens increase, as its products form an integral part of the approved tests of many companies.

Microbix's QAPs business involves the use of antigens and nucleic acids for purposes beyond the large-scale manufacturing of medical test kits. This newer usage packages a very small amount of stabilized and inactivated bacteria, virus or representative analogue into individual small vials (e.g., 1.0 ml) 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, if staff has been adequately trained, or if reagents have spoiled. Such finished quality assessment products (QAPs™, pronounced as “caps”) are a high value end-use of Microbix's biologicals expertise and there is a growing need for such products as regulators progressively tighten their surveillance of the competence of medical testing labs. Notable drivers for such demand are the U.S. “CLIA” regulations, European Union IVD-D and IVD-R regulations, and ISO 15189 standards, that are all requiring labs to increase use of 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 to test and instrument makers, and to clinical laboratories directly.

The COVID-19 pandemic has presented a pertinent illustration of the need for QAPs and Microbix's capabilities to produce such products. As Microbix concluded this emerging pathogen had potential to create a pandemic, it began the development of QAPs products directed at supporting the accuracy of emerging molecular (RT-PCR) tests for the virus. Discussions around the development of this product began in February and culminated in the announcement of an internally and externally validated prototype on March 30, a partnership to provide an international testing proficiency/accreditation program on April 8, and Health Canada licensing of commercial products on April 21. The first shipment of QAPs as licensed medical devices to support accuracy of the testing programs of Canadian clinical labs occurred on May 4. Suffice to say that everyone at Microbix has been working hard to help conquer this new challenge to human health and well-being.

OUTLOOK (Continued)

Due to the positive prospects of each of the above two lines of its business, Microbix continues to reinvest to better ensure that it can meet 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. In fiscal 2018 and 2019, multiple upgrades to facilities were completed and further investments will be made in infrastructure going forward. Additionally, Microbix will be investing in people – with efforts to enhance training, career progression and retention.

Initial benefits of the manufacturing upgrades were seen in the sales of fiscal 2018 and 2019, which demonstrated an annual compound growth rate of 15%, over the two year period. In fiscal 2020, Microbix aims for continuing sales growth alongside material improvement to its percentage gross margins, with margin gains being driven by the use of new production technologies and a growing proportion of higher margin products.

Further progress on enhancing production capabilities are expected to result from the \$2.75 million contribution agreement with FedDev Ontario (contributions over the next four years), announced on July 30, 2019 and the \$2.35 million non-brokered private placement announced on January 31, 2020. Additionally, on August 1, 2019 Microbix confirmed the timetable of conversion of a major antigen product into its bioreactor technology and, over the month of September, approvals to sell innovative new QAPs to clinical laboratories in the European Union and the United States.

Going forward, Microbix is continuously working to improve its percentage gross margin while also growing its sales of both antigens and QAPs. Percentage gross margin improvements should be achievable by way of an increasing proportion of bioreactor-driven antigen sales, improving antigen yields on a broader basis and larger sales of quality assessment 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.

Efforts are also continuing with Kinlytic® urokinase. Microbix has been actively working with a U.S. agent on outreaches to potential out-licensing and development partners. Multiple potential partners are now under confidentiality agreements and Microbix is engaged with assisting such parties in conducting due diligence on its “Data Room” materials. Management views progress as satisfactory at this stage and will likely update shareholders based on, (i) executing a binding letter-of intent, (ii) signing a definitive Agreement, or (iii) termination of this project.

To summarize, the company continues to target double-digit annual percentage growth in sales, while concurrently expanding gross margins and net earnings. Sustainable growth and consistent profitability are core goals for Microbix. Those objectives should be attainable based on increasing demand for antigens, implementation of innovative antigen production methods, the launch of new QAPs product lines and successful partnering of Kinlytic. It is intended for success with such initiatives to drive share price appreciation

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 \$36,470,779 as at March 31, 2020. 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 2020, cash flow is expected to improve due to: 1) continued growth in antigen and quality product sales, 2) improvements in product pricing or other sales terms, 3) commencement of sales of higher percentage gross 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.

To support the continued growth of the business, on January 30, 2020 (the "Closing Date"), the Company completed a non-brokered private placement offering of an aggregate of 11,800,000 units for total gross proceeds of \$2,360,000. Each unit consisted of one common share of Microbix and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of \$0.36 for five years. The financing was non-brokered. Cash commissions of \$104,300 were paid and an aggregate of 521,500 Broker's Warrants were issued in the private placement offering. Each Broker's Warrant entitles the holder to purchase one unit at a price of \$0.36 for a period of five years. All securities issued under the private placement will be subject to a hold period expiring four months and one day from the date of closing.

Microbix will continue to monitor and manage its cash position, with the objective of anticipating and meeting all future liquidity and capital needs.

Outstanding Share Capital

Share capital issued and outstanding as at March 31, 2020 was \$35,357,144 for 108,772,705 common shares and September 30, 2019 was \$33,912,460 for 96,972,705 common shares.

Global Pandemic

In early 2020, the coronavirus ("COVID-19") was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a global pandemic. Since mid-March, the Company and its employees have been observing social distancing practices and working from home where possible, consistent with local public health requirements and official closures.

As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic, the Company has reviewed the estimates, judgments and assumptions used in the preparation of its financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets and the credit risk of its counterparties.

Although the Company has determined that no significant revisions to such estimates, judgments or assumptions were required for the second quarter of fiscal 2020, revisions may be required in future periods. Any such revision (due to COVID-19 or otherwise) could have a material impact on the Company's results of operations and financial condition. Further, in the event that such a material impact were to occur, the Company may need to consider requesting modifications to the covenants in its credit facility and there can be no assurance that such modifications would be provided.

While the Company believes the current conditions related to the COVID-19 pandemic to be temporary, the situation is dynamic and the impact of COVID-19 on its results of operations and financial condition cannot be reasonably estimated at this time. The Company continues to evaluate the situation and monitor any impacts or potential impacts to its business.

See the "Risk Management" section of this MD&A for a further discussion of the COVID-19 pandemic.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES (Continued)**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

TREND INFORMATION

Historical spending patterns are no indication of future expenditures. Investment in the new products and technologies is at the discretion of management and the board of directors. The Company is not aware of any material trends related to its business that have not been discussed in this Management Discussion and Analysis dated May 12, 2020.

RISK MANAGEMENT

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed, including through the use of financial instruments where appropriate. Further discussion of the management of such risks is included in note 20 to the audited consolidated financial statements for the year ended September 30, 2019.

COVID-19 Pandemic

As previously discussed, the Company's business may be negatively impacted by the COVID-19 pandemic, which has created, and continues to create, significant societal and economic disruptions. The changing and rapidly-evolving effects of the COVID-19 pandemic – the duration, extent and severity of which are currently unknown – on investors, businesses, the economy, government bodies, society and the financial markets could, among other things, add volatility to the global stock markets and change interest rate environments. The COVID-19 pandemic and measures to prevent its spread may negatively impact the Company, its customers, counterparties, employees, third-party service providers and other stakeholders, as applicable, in a number of ways, including, but not limited to, by: (i) adversely affecting the business operations of the Company, including the Company's planned sales and marketing processes for its approved products; (ii) disrupting the Company's supply chain, including the manufacture and/or delivery of its products to its customers and distributors on which the Company relies; (iii) adversely affecting local, national or international economies and employment levels; (iv) causing business interruptions, including as a result of steps taken by the Company in compliance with government recommendations and orders, such as requiring employee to work remotely, which may cause strain on such existing resources as information technology systems, and suspension of all non-essential travel; (v) disrupting public and private infrastructure, including communications and financial services, which could disrupt the Company's normal business operations; (vi) disrupting health care delivery. At this point, the extent to which the COVID-19 pandemic will or may impact the Company is uncertain and these factors are beyond the Company's control; however, any of these events, in isolation or in combination, could have a material adverse effect on the Company's business, results of operations and financial condition and the market price of the Company's securities.

For a discussion of the additional risks and uncertainties facing the Company, please see note 20 in the Company's Audited Annual Financial Statements for the year ended September 30, 2019.

FINANCIAL RISK MANAGEMENT (Continued)

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 March 31, 2020, five customers accounted for 74% (September 30, 2019 - five customers accounted for 78%) of the outstanding balance. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of \$25,625 (September 30, 2019 - \$25,625).

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 March 31, 2020, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

| | US dollars | | Euros | |
|--|------------|-----------|-----------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| Cash | \$ 96,936 | \$ 19,327 | \$ 21,183 | \$ 4,596 |
| Accounts receivable | 988,555 | 939,753 | 784,716 | 708,289 |
| Accounts payable and accrued liabilities | 205,568 | 141,275 | 2,516 | 2,858 |

Based upon 2019 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 \$354,100 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 \$298,700. 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 \$354,100 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 \$298,700.

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 \$2,000,000 line of credit that bears interest at the bank's prime lending rate plus 2.0%. As at March 31, 2020 the Company has not drawn on this line of credit. A 1% increase in the bank rate would cost the Company approximately \$30,000 per year for BDC and about \$20,000 on the line of credit usage if it were fully used throughout the fiscal year.

Market risk

Market risk reflects changes in pricing for both Antigens & QAPs 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.

FINANCIAL RISK MANAGEMENT (Continued)**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 interim condensed 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 or useful life of the asset. Amortization commences when the intangible asset is available for use. Intangibles with definite lives but not yet available for use are assessed at least annually for impairment or more frequently if there are indicators of impairment.

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.

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.

CRITICAL ACCOUNTING ESTIMATES (Continued)**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 March 31, 2020, management has concluded that the disclosure controls are effective in providing reasonable assurance that information required to be disclosed in the Company's reports is recorded, processed summarized and reported within the time periods specified in the Canadian Securities Administrator's rules and forms.

Internal Controls Over Financial Reporting

The design of internal controls over financial reporting ("ICFR") within the company is a management responsibility to provide reasonable assurance that the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with generally accepted accounting principles of IFRS. While the CEO and CFO believe that the internal controls are adequate to provide the above information, the process to evaluate and document all policies and procedures that could impact financial reporting is continuously reviewed with consultation with the Audit Committee.

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

Shareholders should be aware that Microbix is a small company without the department resources associated with larger firms. Management is using the Committee of Sponsoring Organization of the Treadway Commission (“COSO”) Framework and has concluded that the Internal Control over Financial Reporting (“ICFR”) as defined in NI 52-109 is effective as at the period ended March 31, 2020.

Examination by the Chief Executive Officer and the Chief Financial Officer showed that there were no changes to the internal controls over financial reporting during the period ended March 31, 2020 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2020

The Company has adopted new amendments to the following accounting standards effective for its interim and annual consolidated financial statements commencing October 1, 2019. The effect of these pronouncements on the Company’s results and operations are described below.

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.

IFRS 16 – *Leases* supersedes IAS 17 – *Leases*, IFRIC 4 – *Determining whether an Arrangement contains a Lease*, SIC 15 – *Operating Leases - Incentives* and SIC 27 – *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. The Company is not currently a lessor.

The Company applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2019 has not been restated. The lease liabilities were recorded as the present value of the remaining lease payments discounted at the Company’s incremental borrowing rate as at the date of application. The right-of-use assets were recorded at an amount equal to the lease liabilities, adjusted for any prepaid or accrued lease payments (nil).

The Company elected to use the practical expedient on transition allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 was applied to these leases from October 1, 2019. The opening right-of-use assets includes \$319,321 that was previously recognized as a lease asset and the opening lease liability included \$249,527 that was previously recognized as a lease liability under IAS 17.

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2020 (Continued)*Impact on the financial statements on transition*

On transition to IFRS 16 at October 1, 2019, the Company recognized right-of-use assets of \$763,541 and lease liabilities of \$693,747, respectively. There was no impact on retained earnings.

Lease liabilities for leases that were classified as operating leases at September 30, 2019 were discounted using the incremental borrowing rate at October 1, 2019. The weighted average rate applied was 3.7%.

Activity within right-of-use assets and lease liabilities during the period were as follows:

| | Right-of-Use Assets | | Lease Liabilities |
|--------------------------------|---------------------|-------------------|-------------------|
| | Property | Equipment | |
| Balance, October 1, 2019 | \$ 419,843 | \$ 343,698 | \$ 693,747 |
| Additions | - | 6,695 | 6,695 |
| Depreciation Expense | (37,044) | (23,696) | - |
| Payments | - | - | (78,546) |
| Balance, March 31, 2020 | \$ 382,799 | \$ 326,697 | \$ 621,896 |

Right-of-use assets are included in property, plant and equipment on the statement of financial position.

IFRS Interpretation Committee Interpretation 23, Uncertainty over Income Tax Treatments (“IFRIC 23”)

IFRIC 23 was issued in June 2017 and is effective for years beginning on or after January 1, 2019 and was adopted by the Company effective October 1, 2019, to be applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. The adoption of this interpretation did not have a material impact on the interim condensed consolidated financial statements.

MICROBIX

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

AS AT MARCH 31, 2020 AND SEPTEMBER 30, 2019

Canadian Funds

| | As at March 31, 2020 | As at September 30, 2019 |
|--|----------------------------|--------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 167,730 | \$ 95,571 |
| Accounts receivable | 1,940,135 | 1,709,470 |
| Inventory (Note 5) | 4,790,632 | 4,480,192 |
| Prepaid expenses and other assets | 128,108 | 99,201 |
| Investment tax credit receivable | 67,874 | 67,874 |
| TOTAL CURRENT ASSETS | 7,094,480 | 6,452,308 |
| LONG-TERM ASSETS | | |
| Deferred tax asset | 1,568,237 | 1,568,237 |
| Property, plant and equipment (Note 4, 6) | 7,139,171 | 6,650,380 |
| Intangible assets (Note 7) | 4,890,228 | 4,958,648 |
| TOTAL LONG-TERM ASSETS | 13,597,636 | 13,177,265 |
| TOTAL ASSETS | \$ 20,692,116 | \$ 19,629,573 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 1,354,991 | \$ 1,462,616 |
| Bank indebtedness (Note 9) | - | 1,400,000 |
| Current portion of long-term debt (Note 9) | 321,170 | 408,260 |
| Current portion of debentures (Note 8) | 828,989 | 774,178 |
| Current portion of lease liability (Note 4) | 161,151 | 80,378 |
| Deferred revenue (Note 21) | 1,156,174 | 640,463 |
| TOTAL CURRENT LIABILITIES | 3,822,475 | 4,765,895 |
| Non-convertible debentures (Note 8) | 733,169 | 750,350 |
| Convertible debentures (Note 8) | 1,384,419 | 1,353,905 |
| Lease liability (Note 4) | 460,745 | 169,149 |
| Long-term debt (Note 9) | 2,343,072 | 2,052,866 |
| TOTAL LONG-TERM LIABILITIES | 4,921,405 | 4,326,270 |
| TOTAL LIABILITIES | \$ 8,743,880 | \$ 9,092,165 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 10) | \$ 35,357,144 | \$ 33,912,460 |
| Equity component of convertible debentures (Note 8) | 2,903,789 | 2,903,789 |
| Contributed surplus | 10,158,082 | 9,387,644 |
| Accumulated deficit | (36,470,779) | (35,666,485) |
| TOTAL SHAREHOLDERS' EQUITY | \$ 11,948,236 | \$ 10,537,408 |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY | \$ 20,692,116 | \$ 19,629,573 |

Commitments and Contingencies (Note 23)

(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**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS****Unaudited****For the three months and six months ended March 31****Canadian Funds**

| | 2020 | 2019 | 2020 | 2019 |
|--|---------------------|-------------------|---------------------|-------------------|
| SALES | | | | |
| Antigen products and technologies | \$ 2,783,809 | \$ 4,169,272 | \$ 4,756,382 | \$ 6,536,062 |
| Royalties | 90,687 | 84,357 | 164,462 | 178,379 |
| TOTAL SALES | 2,874,496 | 4,253,629 | 4,920,844 | 6,714,441 |
| COST OF GOODS SOLD | | | | |
| Antigen products and technologies (Notes 5, 14) | 1,532,957 | 2,070,694 | 2,522,788 | 3,223,809 |
| Royalties | 20,926 | 21,438 | 33,709 | 38,586 |
| TOTAL COST OF GOODS SOLD | 1,553,883 | 2,092,132 | 2,556,497 | 3,262,395 |
| GROSS MARGIN | 1,320,613 | 2,161,497 | 2,364,347 | 3,452,046 |
| EXPENSES | | | | |
| Selling and business development (Note 14) | 161,220 | 154,781 | 365,393 | 296,322 |
| General and administrative (Note 14) | 832,451 | 1,008,940 | 1,714,944 | 1,756,753 |
| Research and development (Note 14) | 277,603 | 243,353 | 542,952 | 505,184 |
| Financial expenses (Note 16) | 268,369 | 272,386 | 545,353 | 531,046 |
| OPERATING LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD, BEFORE INCOME TAXES | (219,030) | 482,037 | (804,295) | 362,741 |
| INCOME TAXES | | | | |
| Deferred income taxes | - | 90,685 | - | 90,685 |
| Current income taxes | - | - | - | - |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD | \$ (219,030) | \$ 391,352 | \$ (804,295) | \$ 272,056 |
| NET LOSS PER SHARE | | | | |
| Basic (Note 13) | \$ (0.002) | \$ 0.004 | \$ (0.008) | \$ 0.003 |
| Diluted (Note 13) | \$ (0.002) | \$ 0.004 | \$ (0.008) | \$ 0.003 |

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

MICROBIX**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****Unaudited****For the three months and six months ended March 31****Canadian Funds**

| | 2020 | 2019 | 2020 | 2019 |
|---|-------------------|---------------------|-------------------|--------------------|
| OPERATING ACTIVITIES | | | | |
| Net Loss for the Period | \$ (219,030) | \$ 391,352 | \$ (804,295) | \$ 272,056 |
| Items not affecting cash | | | | |
| Amortization and depreciation (Note 14) | 171,417 | 140,812 | 335,378 | 279,844 |
| Accretion of debentures (Note 8) | 61,986 | 53,144 | 120,812 | 103,768 |
| Stock options and warrants expense (Note 12) | 36,525 | 33,232 | 64,364 | 66,652 |
| Accretion Interest Expense | 5,283 | - | 9,303 | - |
| Change in non-cash working capital balances (Note 15) | (834,031) | (975,683) | (265,620) | (1,050,739) |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (777,851) | (357,143) | (540,059) | (328,419) |
| INVESTING ACTIVITIES | | | | |
| Purchase of property, plant and equipment (Note 6) | (172,696) | (71,543) | (303,634) | (102,139) |
| Additions from internal development of intangible assets (Note 7) | (1,200) | - | (1,200) | - |
| CASH USED IN INVESTING ACTIVITIES | (173,896) | (71,543) | (304,834) | (102,139) |
| FINANCING ACTIVITIES | | | | |
| Repayments of long-term debt (Note 9) | (106,410) | (109,530) | (215,940) | (219,060) |
| Proceeds from Equipment Loan (Note 9) | - | - | 286,094 | - |
| Proceeds from Government Loan (Note 9) | 165,638 | - | 235,254 | - |
| Repayments of convertible and non-convertible debentures (Note 8) | (26,629) | (21,942) | (52,668) | (48,097) |
| Payment of lease liabilities | (43,405) | (20,665) | (86,446) | (41,192) |
| Issue of common shares, net of issue costs | 2,150,758 | - | 2,150,758 | - |
| Proceeds (repayments) of credit facility (Note 9) | (1,090,000) | 330,000 | (1,400,000) | 720,000 |
| CASH PROVIDED BY FINANCING ACTIVITIES | 1,049,952 | 177,863 | 917,052 | 411,651 |
| NET CHANGE IN CASH - DURING THE PERIOD | \$ 98,205 | \$ (250,823) | \$ 72,159 | \$ (18,907) |
| CASH - BEGINNING OF PERIOD | 69,525 | 276,274 | 95,571 | 44,358 |
| CASH - END OF PERIOD | \$ 167,730 | \$ 25,451 | \$ 167,730 | \$ 25,451 |

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

As at March 31, 2020 and September 30, 2019

Canadian Funds

| | SHARE CAPITAL (Note 10) | | CONTRIBUTED SURPLUS | DEFICIT | EQUITY COMPONENT OF DEBENTURE | TOTAL SHAREHOLDERS' EQUITY |
|--|-------------------------|---------------------|------------------------|-----------------------|-------------------------------------|----------------------------------|
| | NUMBER OF SHARES | STATED CAPITAL | | | | |
| 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 | | | 66,652 | | | 66,652 |
| Net comprehensive income (loss) for the period | | | | 272,056 | | 272,056 |
| BALANCE, MARCH 31, 2019 | 96,972,705 | \$33,912,460 | \$9,302,308 | \$(35,426,347) | \$2,903,789 | \$10,692,210 |
| Stock option and warrant expense | | | 85,336 | | | 85,336 |
| Net comprehensive income (loss) for the period | | | | (240,138) | | (240,138) |
| BALANCE, SEPTEMBER 30, 2019 | 96,972,705 | \$33,912,460 | \$9,387,644 | \$(35,666,485) | \$2,903,789 | \$10,537,409 |
| Stock option and warrant expense | | | 64,364 | | | 64,364 |
| Issue of Warrants pursuant to Private Placement | | | 748,550 | | | 748,550 |
| Share Issuance pursuant to Private Placement | 11,800,000 | 1,611,450 | | | | 1,611,450 |
| Share Issue Costs pursuant to Private Placement | | (166,766) | (42,476) | | | (209,242) |
| Net comprehensive income (loss) for the period | | | | (804,295) | | (804,295) |
| BALANCE, MARCH 31, 2020 | 108,772,705 | \$35,357,144 | \$10,158,082 | \$(36,470,779) | \$2,903,789 | \$11,948,236 |

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. Currently it has 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 principal place of business of the Company is located at 265 Watline Avenue, Mississauga, Ontario, L4Z 1P3.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and are presented in Canadian dollars. The accounting policies used in the preparation of these interim consolidated financial statements conform with those in the Company’s audited annual consolidated financial statements for the year ended September 30, 2019, except as set out in note 4. These interim consolidated financial statements do not include all of the information and disclosures required in annual financial statements and, accordingly, should be read in conjunction with the Company’s annual consolidated financial statements for the year ended September 30, 2019.

The Board of Directors approved these interim condensed consolidated financial statements on May 12, 2020.

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, which is the Company’s functional currency.

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.

Global pandemic

In early 2020, the coronavirus (“COVID-19”) was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a global pandemic.

As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic, the Company has reviewed the estimates, judgments and assumptions used in the preparation of its financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets and the credit risk of its counterparties.

Although the Company has determined that no significant revisions to such estimates, judgments or assumptions were required for the second quarter of fiscal 2020, revisions may be required in future periods. Any such revision (due to COVID-19 or otherwise) could have a material impact on the Company’s results of operations and financial condition.

While the Company believes the current conditions related to the COVID-19 pandemic to be temporary, the situation is dynamic and the impact of COVID-19 on its results of operations and financial condition cannot be reasonably estimated at this time. The Company continues to evaluate the situation and monitor any impacts or potential impacts to its business.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the adoption of the new, revised or amended accounting standards noted below, these interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended September 30, 2019. The disclosure contained in these interim condensed consolidated financial statements does not include all requirements in IAS 1, Presentation of Financial Statements. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended September 30, 2019.

Leases – policy applicable from October 1, 2019*The Company as lessee*

The Company determines whether a contract is or contains a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

i) Right-of-use assets

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the lessor makes the leased asset available for use by the Company. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Right-of-use assets are subject to impairment.

ii) Lease liabilities

The Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the interest rate implicit in the lease. The lease payments include fixed payments (including in-substance fixed payments), variable payments that depend on an index or a rate, renewal options that are reasonably certain to be exercised less any lease incentives receivable. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event that triggers the payment occurs. In addition, the carrying amount of lease payments is remeasured if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments. The Company has elected to apply the practical expedient to not separate the lease component and its associated non-lease component.

Management exercises judgment in the process of applying IFRS 16 and determining the appropriate lease term on a lease by lease basis. Renewal options are only included if Management are reasonably certain that the option will be renewed.

As most of the Company's operating lease contracts do not provide the implicit interest rate, nor can the implicit interest rate be readily determined, the Company uses its incremental borrowing rate as the discount rate for determining the present value of lease payments. The Company's incremental borrowing rate for a lease is the rate that the Company would pay to borrow an amount necessary to obtain an asset of a similar value to the right-of-use asset on a collateralized basis over a similar term.

iii) Short term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less and leases of low-value assets, e.g. laptop computers. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4. IMPACT OF NEW ACCOUNTING STANDARDS**NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2020**

The Company has adopted new amendments to the following accounting standards effective for its interim and annual consolidated financial statements commencing October 1, 2019. The effect of these pronouncements on the Company's results and operations are described below.

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.

IFRS 16 – *Leases* supersedes IAS 17 – *Leases*, IFRIC 4 – *Determining whether an Arrangement contains a Lease*, SIC 15 – *Operating Leases - Incentives* and SIC 27 – *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. The Company is not currently a lessor.

The Company applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2019 has not been restated. The lease liabilities were recorded as the present value of the remaining lease payments discounted at the Company's incremental borrowing rate as at the date of application. The right-of-use assets were recorded at an amount equal to the lease liabilities, adjusted for any prepaid or accrued lease payments (nil).

The Company elected to use the practical expedient on transition allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 was applied to these leases from October 1, 2019. The opening right-of-use assets includes \$319,321 that was previously recognized as a lease asset and the opening lease liability included \$249,527 that was previously recognized as a lease liability under IAS 17.

Impact on the financial statements on transition

On transition to IFRS 16 at October 1, 2019, the Company recognized right-of-use assets of \$763,541 and lease liabilities of \$693,747, respectively. There was no impact on retained earnings.

Lease liabilities for leases that were classified as operating leases at September 30, 2019 were discounted using the incremental borrowing rate at October 1, 2019. The weighted average rate applied was 3.7%.

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended March 31, 2020 and 2019

Canadian Funds

4. IMPACT OF NEW ACCOUNTING STANDARDS (Continued)

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2020 (Continued) IFRS 16, Leases (“IFRS 16”) (Continued)

Activity within right-of-use assets and lease liabilities during the period were as follows:

| | Right-of-Use Assets | | Lease |
|--------------------------------|---------------------|-------------------|-------------------|
| | Property | Equipment | Liabilities |
| Balance, October 1, 2019 | \$ 419,843 | \$ 343,698 | \$ 693,747 |
| Additions | - | 6,695 | 6,695 |
| Depreciation Expense | (37,044) | (23,696) | - |
| Payments | - | - | (78,546) |
| Balance, March 31, 2020 | \$ 382,799 | \$ 326,697 | \$ 621,896 |

Right-of-use assets are included in property, plant and equipment on the statement of financial position.

IFRS Interpretation Committee Interpretation 23, Uncertainty over Income Tax Treatments (“IFRIC 23”)

IFRIC 23 was issued in June 2017 and is effective for years beginning on or after January 1, 2019 and was adopted by the Company effective October 1, 2019, to be applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. The adoption of this interpretation did not have a material impact on the interim condensed consolidated financial statements.

5. INVENTORIES

Inventories consist of the following:

| | March 31, 2020 | September 30, 2019 |
|-----------------|---------------------|---------------------|
| Raw materials | \$ 717,954 | \$ 496,021 |
| Work in process | 1,449,151 | 1,387,824 |
| Finished goods | 2,623,528 | 2,596,347 |
| | \$ 4,790,632 | \$ 4,480,192 |

During the quarter ended March 31, 2020, inventories in the amount of \$1,532,957 (2019 - \$2,070,694) were recognized as an expense through cost of sales. The allowance for inventory impairment as at March 31, 2020 was \$55,747 (September 30, 2019 - \$55,747).

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended March 31, 2020 and 2019

Canadian Funds

6. PROPERTY, PLANT AND EQUIPMENT

The freehold land and buildings have been pledged as security for bank loans under a mortgage (see Note 9). Property, plant and equipment consists of:

| | Building | Development Equipment | Equipment and Fixtures | Right of Use Assets | Land | Total |
|--------------------------------------|---------------------|--------------------------|---------------------------|------------------------|-------------------|---------------------|
| COST | | | | | | |
| Balance, as at September 30, 2019 | \$ 4,987,107 | \$ 517,131 | \$ 5,702,212 | \$ - | \$ 800,000 | \$ 12,006,450 |
| IFRS 16 Adoption (Note 4) | | - | (403,989) | 848,209 | - | 444,220 |
| Additions | - | 38,625 | 265,009 | 6,695 | - | 310,329 |
| Disposals | - | - | - | - | - | - |
| Balance, as at March 31, 2020 | 4,987,107 | 555,756 | 5,563,232 | 854,904 | 800,000 | 12,760,999 |
| ACCUMULATED DEPRECIATION | | | | | | |
| Balance, as at September 30, 2019 | 1,573,858 | 433,989 | 3,348,222 | - | - | 5,356,070 |
| IFRS 16 Adoption (Note 4) | | | (84,668) | 84,668 | | |
| Depreciation | 83,695 | 6,217 | 115,106 | 60,740 | - | 265,758 |
| Disposals | - | - | - | - | - | - |
| Balance, as at March 31, 2020 | 1,657,553 | 440,207 | 3,378,660 | 145,408 | - | 5,621,828 |
| NET BOOK VALUE | | | | | | |
| Balance, September 30, 2019 | 3,413,249 | 83,142 | 2,353,990 | - | 800,000 | 6,650,380 |
| Balance, as at March 31, 2020 | \$ 3,329,554 | \$ 115,549 | \$ 2,184,572 | \$ 709,496 | \$ 800,000 | \$ 7,139,171 |

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended March 31, 2020 and 2019

Canadian Funds

7. INTANGIBLE ASSETS

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

| | |
|-------------------------|----|
| Technology investments: | |
| Kinlytic® (Note 8b) | 0% |
| Bioreactor (Note 8c) | 7% |

Intangible assets consist of:

| | Capitalized Development Costs | | Patents and Trademarks | | Total |
|--------------------------------------|----------------------------------|------------------|------------------------|------------------|-------|
| | Bioreactor (c) | Kinlytic® (b) | QAPs (d) | | |
| COST | | | | | |
| Balance, as at September 30, 2019 | \$ 2,088,575 | \$ 3,078,586 | \$ 81,567 | \$ 5,248,728 | |
| Additions | - | - | 1,200 | 1,200 | |
| Balance, as at March 31, 2020 | 2,088,575 | 3,078,586 | 82,767 | 5,249,928 | |

ACCUMULATED AMORTIZATION

| | | | | |
|--------------------------------------|----------------|----------|----------|----------------|
| Balance, as at September 30, 2019 | 290,080 | - | - | 290,080 |
| Amortization expense | 69,620 | | | 69,620 |
| Balance, as at March 31, 2020 | 359,700 | - | - | 359,700 |

NET BOOK VALUE

| | | | | |
|--------------------------------------|------------------|-----------|---------------|------------------|
| Balance, as at September 30, 2019 | 1,798,495 | 3,078,586 | 81,567 | 4,958,648 |
| Balance, as at March 31, 2020 | 1,728,875 | - | 82,767 | 4,890,228 |

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 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) LumiSort™

The Company acquired a license agreement from Sequent Biotechnologies Inc. ("Sequent"), a biotechnology company solely involved in the development and commercialization of the LumiSort™ technology under license. Subsequent to the acquisition and in prior years, the Company incurred new intellectual property with the issue of patents has resulted from this research program, as well as the cost incurred for the research and development equipment that is not yet available for use.

In fiscal 2018, the Company assessed that it could not fund the development of LumiSort™ assets in a timely manner and that licensing terms may not adequately support its continued value. The decision was therefore made to write down all of the LumiSort™ related assets, including the original investment, capitalized research and development equipment, prototype costs and patent related costs.

7. INTANGIBLE ASSETS (Continued)**b) 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. The recoverable amount considered assumptions based on probabilities of technical, regulatory and clinical acceptances and financial support. Further, Management uses risk-adjusted cash flow projections based on financial budgets. 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.

c) Bioreactor

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

d) Quality Assessment Products ("QAPs")

To enhance its QAPs business of providing sample mimics for use in quality checks across various laboratory test applications, Microbix has been developing intellectual property. Accordingly, it has capitalized various patent application costs. When the resulting patent issues in key markets, those costs will begin to be amortized in accordance with IFRS standards.

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended March 31, 2020 and 2019

Canadian Funds

8. DEBENTURES

The Company has convertible and non-convertible debentures issued and outstanding as at March 31, 2020. 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, 2019 | 858,854 | 340,765 | 1,199,618 | 500,375 | 324,909 | 853,530 | 1,678,814 |
| Accretion | 40,466 | 22,266 | 62,732 | 10,637 | 27,566 | 19,877 | 58,080 |
| Repayments | (52,668) | - | (52,668) | - | - | - | - |
| Balance, March 31, 2020 | 846,652 | 363,031 | 1,209,682 | 511,012 | 352,475 | 873,407 | 1,736,894 |
| Less: current portion | 113,483 | 363,031 | 476,514 | - | 352,475 | - | 352,475 |
| Non-current portion | 733,169 | - | 733,169 | 511,012 | - | 873,407 | 1,384,419 |
| Balance, March 31, 2020 | \$ 846,652 | \$ 363,031 | \$ 1,209,683 | \$ 511,012 | \$ 352,475 | \$ 873,407 | \$ 1,736,894 |
| Equity component at March 31, 2020 | - | - | - | 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 | Interest | | Interest | Interest | Interest | |
| | and interest only | only | | only | only | 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 Interim Condensed Consolidated Financial Statements As at and for the three months ended March 31, 2020 and 2019

Canadian Funds

9. 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 March 31, 2020:

| 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, 2018 | |
| Initial Loan Amount | \$ 3,000,000 | \$ 615,000 | \$ 50,000 | \$ 200,000 | \$ 250,000 | \$ 323,906 | \$ 4,438,906 |
| Balance, September 30, 2019 | 2,046,460 | 102,500 | 3,120 | 49,950 | 62,400 | 196,696 | 2,461,126 |
| Proceeds from loan | - | - | - | - | - | 286,094 | 286,094 |
| Loan repayments during the period | (55,560) | (61,500) | (3,120) | (19,980) | (24,960) | (50,820) | (215,940) |
| Balance, March 31, 2020 | \$ 1,990,900 | \$ 41,000 | \$ - | \$ \$29,970 | \$ 37,440 | \$ 431,970 | \$ 2,531,280 |
| Current Portion | 111,120 | 41,000 | - | 29,970 | 37,440 | 101,640 | \$ 321,170 |
| Non-current portion | 1,879,780 | - | - | - | - | 330,330 | 2,210,110 |
| 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 | |

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 March 31, 2020, the rate was 5.05-5.55% (2019 – 6.55%). The loans are secured with the building and equipment.

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. During Q1 2020, the Company received the remaining funds of \$286,094.

As at March 31, 2020, the commitments for the next five fiscal years and thereafter for the BDC loans is as follows:

| | Amount |
|---------------------|--------------|
| 2020 | \$ 192,320 |
| 2021 | 235,230 |
| 2022 | 212,760 |
| 2023 | 212,760 |
| 2024 | 187,350 |
| 2025 and thereafter | \$ 1,490,860 |

9. LONG-TERM DEBT, BANK INDEBTEDNESS AND OTHER DEBT (Continued)

b) On September 18, 2019, the Company received approval from its Chartered Bank to increase the borrowing limit on its line of credit to \$2.0 million. This line of credit bears interest at prime plus 2% (5.95% on March 31, 2020).

As at March 31, 2020 the Company had no funds drawn on the facility (September 30, 2019- \$1,400,000). The Company's usage of this facility varies across its manufacturing, sales and AR collection cycles.

c) On July 29, 2019, the Company signed an agreement with Federal Economic Development Agency for Southern Ontario to provide a repayable government contribution where the Federal Development Agency has agreed to contribute funding for 30% of the Business Scale-up and Productivity Project expenditures made by the Company, up to \$2,752,500 over the next four years. The Company is required to submit eligible expenses on a quarterly basis to receive the interest-free contributions. Repayment of the contribution does not begin until December 15, 2024. As at March 31, 2020, the Company has received contributions totalling \$235,254 (September 30, 2019 – nil). The Company is in compliance with the covenants associated with this loan as at March 31, 2020.

The estimated repayments on the existing term facilities in future fiscal years are as follows:

| Fiscal Years | Amount |
|--------------|-----------|
| 2025 | \$ 39,209 |
| 2026 | 47,051 |
| 2027 | 47,051 |
| 2028 | 47,051 |
| 2029 | 47,051 |
| 2030 | 7,841 |

10. 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 January 30, 2020 (the "Closing Date"), the Company completed a private placement offering of an aggregate of 11,800,000 units for total gross proceeds of \$2,360,000, net proceeds of \$2,150,159 after share issuance costs of \$209,241. Each unit consists of one common share of Microbix and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of \$0.36 for five years. Fair value of the common share purchase warrants was determined to be \$ 1,205,892. Gross proceeds were allocated to common shares and common share purchase warrants in the amount of \$ 1,611,450 and \$748,550 respectively. The financing was non-brokered. Cash commissions of \$104,300 were paid and an aggregate of 521,500 Broker's Warrants were issued in the private placement offering. Fair value of the broker warrants was determined to be \$42,476 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 (69%) and the risk free rate of interest of 1.38% is based upon the Government of Canada benchmark bond yields - 3 to 5 year at the date of the award of the Broker's warrants and a five 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 \$0.36 for a period of five 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.

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended March 31, 2020 and 2019

Canadian Funds

10. SHARE CAPITAL (Continued)

The number of issued and outstanding common shares and the stated capital of the Company are presented below:

| | Number of Shares | Stated Capital |
|--------------------------------------|---------------------|----------------------|
| Balance, as at September 30, 2019 | 96,972,705 | \$ 33,912,460 |
| Issued on private placement | 11,800,000 | 1,444,684 |
| Balance, as at March 31, 2020 | 108,772,705 | \$ 35,357,144 |

11. COMMON SHARE PURCHASE WARRANTS

A continuity of the Company's warrants outstanding as at March 31, 2020 is presented in the following table:

| | Units | Weighted average exercise price |
|--------------------------------|-------------------|--|
| Balance, September 30, 2019 | 11,718,816 | \$ 0.36 |
| Issued | 12,321,500 | 0.36 |
| Expired | (755,764) | 0.34 |
| Balance, March 31, 2020 | 23,284,552 | \$ 0.36 |

For details on warrants issued during this period, refer to note 10.

A summary of the Company's warrants outstanding as at March 31, 2020 and September 30, 2019 is presented in the following table:

| | March 31, 2020 | | | September 30, 2019 | | |
|---------------------------|-----------------------|--|--|-----------------------|--|--|
| | 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 | 1,500,000 | \$ 0.55 | 0.53 | 1,500,000 | \$ 0.55 | 1.03 |
| \$0.23 to \$0.46 | 21,784,552 | 0.35 | 3.16 | 10,218,816 | 0.33 | 1.37 |
| | 23,284,552 | \$ 0.36 | 2.99 | 11,718,816 | \$ 0.36 | 1.32 |

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended March 31, 2020 and 2019

Canadian Funds

12. 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 March 31, 2020, the Company has a total of 9,893,000 options (September 30, 2019 – 7,738,000) issued and pending and is eligible to issue up to a total of 10,877,270 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, the Company's stock option plan vests options in equal amounts across a period following their issue date. The options granted during this quarter and future options grants will generally be vested in a single step on the third anniversary date following their issue. 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 quarter ended March 31, 2020 is as follows:

| | Units | Weighted average exercise price |
|------------------------------------|------------------|------------------------------------|
| Balance, September 30, 2019 | 7,693,000 | \$ 0.35 |
| Stock options issued | 2,200,000 | \$ 0.22 |
| Balance, March 31, 2020 | 9,893,000 | \$ 0.32 |
| Exercisable, March 31, 2020 | 5,423,000 | \$ 0.39 |

The exercise price of each option equals the closing market price of the Company's capital stock on the day preceding the grant date. The following table reflects the number of options, their weighted average price and the weighted average remaining contract life for the options grouped by price range as of March 31, 2020 and September 30, 2019:

| | March 31, 2020 | | | September 30, 2019 | | |
|---------------------------|-----------------------|--|--|-----------------------|--|--|
| | 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 | 2,373,000 | \$ 0.54 | 0.55 | 2,418,000 | \$ 0.54 | 1.08 |
| \$0.23 to \$0.28 | 7,520,000 | \$ 0.25 | 3.55 | 5,320,000 | \$ 0.26 | 3.72 |
| | 9,893,000 | \$ 0.32 | 2.83 | 7,738,000 | \$ 0.39 | 3.41 |

12. STOCK OPTION PLAN (Continued)

The fair value of options granted during the period ended March 31, 2020 was estimated at the grant date using the Black-Scholes options pricing model, resulting in the following weighted-average assumptions:

| | |
|--|---------|
| Share price on issue date | \$0.215 |
| Dividend yield | 0.00% |
| Volatility | 69.0% |
| Risk-free interest rate | 1.38% |
| Expected option life (years) | 5 |
| Weighted average fair value of each option (\$/option) | \$0.12 |

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 quarter were expensed and credited to contributed surplus. During the quarter, the Company recorded share-based compensation expense of \$36,525 (2019 - \$33,232).

13. INCOME PER SHARE

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

| for the quarter ended March 31 | 2020 | 2019 |
|--|--------------|------------|
| Numerator for basic loss per share: | | |
| Net loss available to common shareholders | \$ (219,030) | \$ 391,352 |
| Denominator for basic income (loss) per share: | | |
| Weighted average common shares outstanding | 101,954,432 | 96,972,705 |
| Effect of dilutive securities: | | |
| Warrants | - | 114,458 |
| Stock Options | - | 7,631 |
| Convertible debentures | - | - |
| Denominator for diluted net loss per share | 101,954,432 | 97,094,793 |
| Net loss per share: | | |
| Basic | (\$0.002) | \$0.004 |
| Diluted | (\$0.002) | \$0.004 |

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

| | 2020 | 2019 |
|------------------------------------|------------|------------|
| Pursuant to warrants | 23,284,552 | 15,054,121 |
| Under stock options | 9,893,000 | 7,502,369 |
| Pursuant to convertible debentures | 19,565,217 | 19,565,217 |
| | 52,742,769 | 42,121,708 |

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended March 31, 2020 and 2019

Canadian Funds

14. EXPENSES BY NATURE

The Company has chosen to present its consolidated statements of income (loss) and comprehensive income (loss) based on the functions of the entity and include the following expenses by nature for the quarter ended March 31:

Depreciation and amortization

| | Three months | | Six months | |
|-------------------------------------|--------------|------------|------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Included in: | | | | |
| Cost of goods sold | 148,001 | 136,376 | 289,377 | \$ 272,470 |
| General and administrative expenses | 19,892 | 1,842 | 39,784 | 2,235 |
| Research and development | 3,524 | 2,593 | 6,217 | 5,139 |
| Total depreciation and amortization | \$ 171,417 | \$ 140,812 | \$ 335,378 | \$ 279,844 |

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

| | Three months | | Six months | |
|--|--------------|--------------|--------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Short-term wages, bonuses and benefits | \$ 1,732,768 | \$ 1,523,330 | \$ 3,350,420 | \$ 2,992,691 |
| Share based payments | 22,212 | 48,884 | 43,690 | 38,482 |
| Total employee costs | 1,754,980 | 1,572,214 | 3,394,110 | 3,031,173 |
| Included in: | | | | |
| Cost of goods sold | \$ 922,928 | \$ 879,735 | 1,813,465 | \$ 1,593,924 |
| Research and development | 283,570 | 189,746 | 533,536 | 462,821 |
| General and administrative expenses | 411,935 | 395,278 | 787,282 | 746,748 |
| Selling and business development | 136,547 | 107,455 | 259,827 | 227,680 |
| Total employee costs | \$ 1,754,980 | \$ 1,572,214 | \$ 3,394,110 | \$ 3,031,173 |

15. CHANGES IN NON-CASH WORKING CAPITAL

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 | Six months ended March 31, 2020 | Six months ended March 31, 2019 |
|--|---|---|---------------------------------------|---------------------------------------|
| Accounts receivable | \$ (751,163) | \$ (868,927) | \$ (230,665) | \$ (540,946) |
| Inventory | 18,669 | 103,356 | (310,440) | (773,703) |
| Prepaid expenses and other assets | (102,759) | (46,145) | (28,907) | 8,814 |
| Deferred Revenue | 228,677 | (262,557) | 413,404 | 312,854 |
| Accounts payable and accrued liabilities | (227,455) | (16,468) | (109,011) | (172,815) |
| | \$ (834,031) | \$ (1,066,368) | \$ (265,620) | \$ (1,141,423) |

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended March 31, 2020 and 2019

Canadian Funds

16. FINANCIAL EXPENSES

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 | Six months ended March 31, 2020 | Six months ended March 31, 2019 |
|-----------------------------|---|---|---------------------------------------|---------------------------------------|
| Cash interest: | | | | |
| Interest on long-term debt | \$ 41,578 | \$ 44,399 | \$ 82,904 | \$ 90,510 |
| Interest on debentures | 150,692 | 155,378 | 301,975 | 306,545 |
| Interest other | 8,831 | 19,466 | 30,360 | 30,224 |
| Non-cash interest: | | | | |
| Accretion on debentures | 61,985 | 53,143 | 120,811 | 103,767 |
| Accretion on leases and LTD | 5,283 | - | 9,303 | - |
| Financial expenses | \$ 268,369 | \$ 272,386 | \$ 545,353 | \$ 531,046 |

17. 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 drawn portion of the revolving line of credit, shareholders' equity, the Business Development Bank capital loans, and the debentures. The capital at March 31, 2020 was \$16,993,509 (September 30, 2019 - \$17,276,967).

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 \$2,000,000 with its Canadian chartered bank, Note 9.

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 quarter in how the Company defines its capital or how it manages its capital.

18. 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 quarter ended March 31, 2020 and year ended September 30, 2019, the Company has carried at fair value financial instruments in Level 1. At March 31, 2020, 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 quarter.

The three levels are defined as follows:

- Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.
- 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
- Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

MICROBIX**Notes to the Unaudited Interim Condensed Consolidated Financial Statements
As at and for the three months ended March 31, 2020 and 2019****Canadian Funds****18. FINANCIAL INSTRUMENTS (Continued)**

| | 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-Mar-20 | \$ 167,730 | - | - |
| Liabilities for which fair values are disclosed: | | | | |
| Non-convertible debentures | 31-Mar-20 | - | - | \$ 1,209,683 |
| Convertible debentures | 31-Mar-20 | - | - | 1,736,894 |
| Long-term-debt and other debt | 31-Mar-20 | - | \$ 2,664,242 | - |

| | 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 | 30-Sep-19 | \$ 95,571 | - | - |
| Liabilities for which fair values are disclosed: | | | | |
| Non-convertible debentures | 30-Sep-19 | - | - | \$ 1,199,618 |
| Convertible debentures | 30-Sep-19 | - | - | 1,678,814 |
| Long-term-debt and other debt | 30-Sep-19 | - | \$ 3,861,126 | - |

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 and is repriced to floating market interest rates and as such, the carrying value of the long-term debt and other debt approximates fair value. The convertible and non-convertible debenture fair values are estimated based on rates for items with similar terms and maturity. 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.

19. 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 March 31, 2020, five customers accounted for 74% (September 30, 2019 - five customers accounted for 78%) of the outstanding balance. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of \$25,625 (September 30, 2019 - \$25,625).

Trade accounts receivable are aged as follows:

| | March 31, 2020 | September 30, 2019 |
|---------------------------|----------------|--------------------|
| Current | \$ 1,750,533 | \$ 1,602,262 |
| 0 - 30 days past due | 182,378 | 102,962 |
| 31 - 60 days past due | 5,405 | 4,246 |
| 61 days and over past due | 1,820 | - |
| | \$ 1,940,135 | \$ 1,709,470 |

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

| | U.S. dollars | | Euros | |
|--|--------------|-----------|-----------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| Cash | \$ 96,936 | \$ 19,327 | \$ 21,183 | \$ 4,596 |
| Accounts receivable | 988,555 | 939,753 | 784,716 | 708,289 |
| Accounts payable and accrued liabilities | 205,568 | 141,275 | 2,516 | 2,858 |

The Company's revenue and expenses by foreign currency for the quarters ended March 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|-----------------|------|------|
| Revenue | | |
| Euros | 36% | 52% |
| U.S. dollars | 61% | 46% |
| Expenses | | |
| U.S. dollars | 6% | 6% |

Based upon 2019 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 \$354,100 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 \$298,700. 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 \$354,100 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 \$298,700.

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 and sourcing of financing. Based on current funds available and expected cash flow from operating activities, management believes that the Company has sufficient funds available to meet its liquidity requirements for the foreseeable future. However, if cash from operating activities is significantly lower than expected, if the Company incurs major unanticipated expenses or the Company's borrowings are called, it may be required to seek additional capital in the form of debt or equity or a combination of both. Management's current expectations with respect to future events are based on currently available information and the actual outcomes may differ materially from those current expectations.

19. FINANCIAL RISK MANAGEMENT (Continued)**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 \$2,000,000 line of credit that bears interest at the bank's prime lending rate plus 2.0%. A 1% increase in the bank rate would cost the Company approximately \$30,000 per year for BDC and about \$20,000 on the line of credit usage if it were fully used throughout the fiscal year.

20. 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 quarter ended March 31, segmented between antigens, Lumisort and Kinlytic:

| | Segment revenue | | Segment profit (loss) | |
|-----------------------------------|-----------------|--------------|-----------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Antigen Products and Technologies | \$ 2,874,496 | \$ 4,253,629 | \$ (161,600) | \$ 507,994 |
| Lumisort™ | - | - | (46,669) | (78,973) |
| Kinlytic® | - | - | (10,761) | (37,669) |
| Total for continuing operations | \$ 2,874,496 | \$ 4,253,629 | \$ (219,030) | \$ 391,352 |

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2019 - \$Nil).

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 March 31 are as follows:

| | Segment assets | | Segment liabilities | |
|-----------------------------------|----------------|---------------|---------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Antigen Products and Technologies | \$ 16,045,293 | \$ 15,736,330 | \$ 8,743,880 | \$ 8,632,020 |
| Lumisort™ | - | - | - | - |
| Kinlytic® | 3,078,586 | 3,078,585 | - | - |
| Total for continuing operations | \$ 19,123,879 | \$ 18,814,915 | \$ 8,743,880 | \$ 8,632,020 |

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. During fiscal 2018, a decision was made to write-down all of the Lumisort™ related assets. 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.

MICROBIX**Notes to the Unaudited Interim Condensed Consolidated Financial Statements
As at and for the three months ended March 31, 2020 and 2019****Canadian Funds****20. SEGMENTED INFORMATION (Continued)**

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

| | Depreciation and amortization | | Additions to non-current assets | |
|-----------------------------------|----------------------------------|-------------------|------------------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Antigen Products and Technologies | \$ 171,417 | \$ 140,812 | \$ 173,896 | \$ 71,543 |
| Lumisort™ | - | - | - | - |
| Kinlytic® | - | - | - | - |
| | <u>\$ 171,417</u> | <u>\$ 140,812</u> | <u>\$ 173,896</u> | <u>\$ 71,543</u> |

21. REVENUES AND 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 | |
|------------------------------------|------------------------------------|---------------------|-----------------------|----------------------|
| | 2020 | 2019 | 2020 | 2019 |
| For the quarter ended March 31, | | | | |
| North America | \$ 1,450,011 | \$ 1,035,906 | \$ 13,597,637 | \$ 12,974,657 |
| Europe | 1,367,769 | 3,164,409 | - | - |
| Other foreign countries (directly) | 56,716 | 53,314 | - | - |
| | <u>\$ 2,874,496</u> | <u>\$ 4,253,629</u> | <u>\$ 13,597,637</u> | <u>\$ 12,974,657</u> |

The following table reflects the movement in the Company's deferred revenues:

| For the period ended March 31, | 2020 | 2019 |
|--|---------------------|---------------------|
| Balance, beginning of the quarter | \$ 825,186 | \$ 1,506,536 |
| Cash payments or advance payments on performance obligations | 682,966 | 865,568 |
| Revenue recognized during the quarter | (454,286) | (1,128,125) |
| Government Grants | 102,308 | - |
| <u>Balance, end of quarter</u> | <u>\$ 1,156,174</u> | <u>\$ 1,243,979</u> |

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended March 31, 2020 and 2019

Canadian Funds

22. 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 March 31, 2020 | Three months ended March 31, 2019 |
|--|--------------------------------------|--------------------------------------|
| Short-term wages, bonuses and benefits | \$ 291,693 | \$ 210,001 |
| Share-based payments | 25,015 | 24,299 |
| Total key management compensation | \$ 316,708 | \$ 234,300 |

23. COMMITMENTS AND CONTINGENCIES

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

| | Amount |
|---------------------|----------------------|
| 2020 | \$ 354,621 |
| 2021 | 709,242 |
| 2022 | 1,657,992 |
| 2023 | 604,242 |
| 2024 | 604,242 |
| 2025 and thereafter | 6,527,924 |
| | <u>\$ 10,458,262</u> |

Contingencies

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

24. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2019 consolidated financial statements.

MICROBIX

DIRECTORS

Peter M. Blecher
Ontario, Canada
Medical Director
Centres for Pain Management

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

Vaughn C. Embro-Pantalony^{(1) (2)}
Ontario, Canada
Pharmaceutical Executive

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

Cameron Groome⁽²⁾
Ontario, Canada
Chief Executive Officer and President
Microbix Biosystems Inc.

Martin A. Marino^{(1) (2)}
Ontario, Canada
Pharmaceutical Executive

Joseph D. Renner^{(1) (2)}
New Jersey, USA
Pharmaceutical Executive

⁽¹⁾Member of Audit Committee.

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

CORPORATE INFORMATION

Corporate Counsel *Boyle & Co. LLP*

Auditors *Ernst Young LLP*
Chartered Accountants

Transfer Agent *AST Trust Company Inc.*
as the Administrative Agent for
CIBC Mellon Trust Company
416-682-3860 1-800-387-0825

Bankers *The Toronto Dominion Bank*

Head Office *Microbix Biosystems Inc.*
265 Watline Avenue, Mississauga,
Ontario Canada L4Z 1P3
Tel: 905-361-8910
Fax: 905-361-8911
www.microbix.com

SENIOR MANAGEMENT

William J. Gastle
Executive Chairman

Cameron L. Groome
Chief Executive Officer and President

James S. Currie
Chief Financial Officer

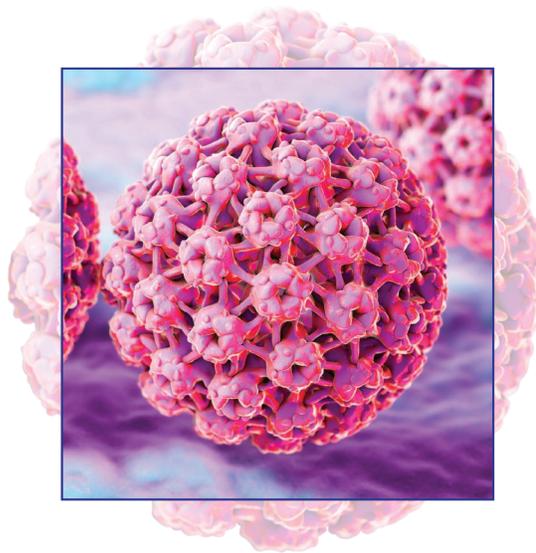
Kenneth Hughes
Chief Operating Officer

Dr. Mark Luscher
Senior Vice-President, Scientific Affairs

Phillip Casselli
Senior Vice-President, Sales & Business Development

Kevin J. Cassidy
Vice-President, Biopharmaceuticals

Christopher B. Lobb
General Counsel & Secretary



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