MICROBIX BIOSYSTEMS INC.

FIRST INTERIM REPORT

For the three months
ended December 31, 2020

MICROBIX

Message to Shareholders

Our results for the first quarter of fiscal 2021 ending December 31, 2020 ("Q1") also mark the start of everyone's second pandemic year. While we're all now tired, we should also be proud that Microbix is supporting critical aspects of public health's efforts to control COVID-19 by supporting accurate, rapid, and widespread testing. As a result of our efforts and the trust of our many stakeholders, we're now helping the literal "Who's Who" of the global diagnostics industry. For our whole team, there is nothing more important we could be doing.

Our Q1 results are beginning to reflect the results of that skillful and sustained dedication. Q1 sales were up over 50% from 2019, to a record $3.16 million. Most gratifying, QAPs™ sales for Q1 increased over 3600% from the prior year – to almost $1 million and a near doubling from Q4 2020. QAPs, in their white-label "PT", PROCEEDx™ "RUO", and REDx™ "IVD" variants, now comprise 30% of overall sales, up from 10% historically and with sales likely to accelerate as we add more new customers, products, and regions. These are indisputably positive results that led to our most meaningfully-profitable fiscal Q1 and we believe we've now attained sustainable profitability.

It is notable that we continue working to increase not just sales of, but the number of, our innovative, proprietary, branded, and regulated QAPs products. We now have over 60 QAPs, of which ten (10) are now classed as "IVD" to permit regular use by clinical labs, with work progressing to potentially double that IVD number over the balance of 2021.

In Q1, we created an entirely new line of business, namely the viral transport medium (VTM) needed to preserve the SARS-CoV-2 virus in patient specimens for later testing at clinical laboratories. Microbix's VTM project was undertaken with 50% grant support from the Ontario Together Fund of up to $1.45 million, as announced in October, 2020. Branded as DxTM™, our medium is now available for use in Ontario and across Canada, with production initially scaled to 50,000 vials/week and plans to increase to over 400,000 vials/week later in 2021. It is intended for DxTM to soon become of similar significance to Microbix's sales of antigens and QAPs.

Our antigen operations are likewise progressing, with a start of recovery in demand for non-COVID testing and strong progress by our teams upon improving batch yields and gross margins. Equally, every department within Microbix has been meeting the twin challenges presented by growing both sales and productivity amid a pandemic. I am personally thankful to everyone for their diligent hard work.

I also want to take a moment to welcome our new Director, Mr. Anthony Giovinazzo. Anthony joins our Board with energy, enthusiasm, and the best possible qualifications in building value at publicly-listed life science companies. We are delighted he has agreed to serve and confident that he will make great contributions to strategy and governance.

For Microbix, the rest of 2021 should continue showing the benefits of our transformation into an internationally-recognized creator, manufacturer, and marketer of medical devices that are innovative, proprietary, and branded. A strategic partner in that endeavor is Copan Italia S.p.A., the global leader in specimen collection technologies and with which we executed an agreement in December, 2020. Our agreement contemplates collaboration well beyond purchase/supply of FLOQSwabs™ for QAPs, adding IP licensing, co-branding, and co-marketing. We're very privileged to now be allied to such a great firm.

To summarize, activities are intensifying across each of our three revenue-oriented business segments – antigens, QAPs, and now VTM. With antigens, we are optimistic about a return to pre-pandemic sales of approximately $1 million/month at improved gross margins. For QAPs, we see sales continuing to grow, having already moved-up to $1 million per quarter from that amount yearly. In turn, sales of VTM are now starting, with well-grounded reason to believe they'll become as important as antigens and QAPs. Collectively, our operations should enable record fiscal 2021 sales and, with discipline on spending, result in sustained and growing profitability.

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 unaudited interim condensed Consolidated Financial Statements for the three months ended December 31, 2020 and 2019 as well as the audited Consolidated Financial Statements and notes for the year ended September 30, 2020, 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 February 10, 2021.

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 or an analogue to 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 test-workflows 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 its emerging project to manufacture viral transport media (generally known at VTM and branded as DExTM™) for stabilizing patient samples to enable lab-based molecular (PCR) testing, and Kinlytic® urokinase, a biologic thrombolytic drug used to treat blood clots.

It must be recognized that the COVID-19 pandemic is impacting all industries, including medical diagnostics. As a result trend discussions here may be disrupted. For example, in fiscal 2020 sales of antigens were depressed due to fewer patients seeking or receiving care for diseases other than COVID-19. However, more broadly speaking, revenue from the antigens and QAPs business (Antigens & QAPs) is expected to continue growing for the foreseeable future. Antigen sales growth may be largely driven by certain public health tests becoming more widely used in the Asia Pacific region and,

COMPANY OVERVIEW (Continued)

more recently, increased global testing for respiratory pathogens. QAPs sales growth may 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. Sales of DxTM are also expected to begin in fiscal 2021.

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.

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, along with further production and lab spaces, are in a leased building located at 235 Watline Avenue, Mississauga, Ontario. Microbix is ISO 9001 & 13485 accredited, FDA & Health Canada establishment licensed, Australian TGA registered, and provides CE marked products.

FINANCIAL OVERVIEW

Quarter Ending December 31, 2020 ("Q1")

Q1 revenue was $3,157,659, a 54% increase from Q1 2020 revenue of $2,046,348. Included were antigen product revenues of $2,137,829 (Q1 2020 - $1,946,459), a recovery of 9.8%. QAPs revenues were $962,421, an increase of 3585% from Q1 2020 sales of $26,114, a prior year quarter that contained no REDx™ and few PROCEEDx™ branded QAPs sales. Finally, royalties were $57,409 (Q1 2020 - $73,775). Q1 sales were most influenced by the broadening diagnostics industry uptake of Microbix's COVID-19 related QAPs, especially REDx™FLOQ® and PROCEEDx™FLOQ®, followed by the start of a broad-based recovery in antigen sales.

Q1 gross margin was 55.3%, up from 51.0% in Q1 2020, due to a greater proportion of sales of QAPs and the effects of antigen product sales mix.

Operating expenses in Q1 decreased by 1% relative to Q1 2020, in spite of a heightened level of overall business activity. Operating expenses were helped by wage subsidies received during one month of Q1, with some other expenses offset by funding from the previously-announced Ontario Together Fund grant. Overall, greater sales and more available gross margin dollars during the entirety of Q1 led to an operating income and net income of $130,819 versus an operating and net loss of $585,265 in Q1 2020. Cash provided by operating activities was $186,802, compared to cash provided from operations of $237,792 in Q1 2020, with the decline due to increased investment of working capital into inventory.

At the end of Q1, Microbix's current ratio (current assets divided by current liabilities) was 1.62% and its debt to equity ratio (total debt over shareholders' equity) was 1.31.

Canadian Funds

Financial Highlights
as at and for the quarter ended

	December 31, 2020	December 31, 2019
Total Revenue	$ 3,157,659	$ 2,046,348
Gross Margin	1,747,298	1,043,734
SG&A Expenses	1,156,198	1,086,666
R&D Expense	197,878	265,349
Financial Expenses	262,403	276,984
Operating Income (Loss) for the period	130,819	(585,265)
Net Income (Loss) and Comprehensive Income (Loss) for the period	130,819	(585,265)
Cash Provided (Used) by Operating Activities	186,802	237,792

	December 31, 2020	September 30, 2020
Cash	417,365	92,661
Accounts receivable	1,886,027	1,877,009
Total current assets	7,136,088	6,492,832
Total assets	16,286,793	15,598,011
Total current liabilities	4,395,608	4,090,038
Total liabilities	9,242,521	8,978,534
Total shareholders' equity	7,044,272	6,619,477
Current ratio	1.62	1.59
Debt to equity ratio	1.31	1.36

SELECTED QUARTERLY FINANCIAL INFORMATION

	Mar-31-19 $	Jun-30-19 $	Sep-30-19 $	Dec-31-19 $	Mar-31-20 $	Jun-30-20 $	Sep-30-20 $	Dec-31-20 $
Revenue	4,253,629	3,110,615	3,587,285	2,046,348	2,874,496	2,898,328	2,705,732	3,157,659
Net Income (Loss) and Comprehensive Income (Loss)	391,352	(191,322)	(48,816)	(585,265)	(219,030)	(440,233)	(4,982,997)	130,819
Operating Income (Loss) before debt restructuring, settlement expenses and Impairment of assets	482,037	(191,322)	(127,738)	(585,265)	(219,030)	(440,233)	(336,175)	130,819

OUTLOOK

Microbix' primary business is the result of over 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 being the general trend. 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.

From 2017 until the emergence of the COVID-19 pandemic, growth in demand for Microbix' antigens had been stronger to end-customers in both established and emerging markets. Much of that growth was 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 were achieving growing sales into Asia. While we believe Asia-Pacific demand for antigens should continue to grow over time, sales to this newer market were also adding to the quarter-to-quarter volatility of Microbix's revenues. In 2020, antigen demand has demonstrated further volatility as a result of the COVID-19 pandemic and its impacts on patient behaviours and global allocation of testing resources.

Beyond COVID-19, the long-term effect of increasing Asia-Pacific test usage may be to take Microbix's potential market from being the population of North America and Western Europe to closer to the much larger overall global population. 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 market driver emerged in the form of the COVID-19 pandemic. While Microbix does not currently supply native or recombinant antigens for immunoassay tests for the Coronavirus that causes COVID-19 disease (properly called the SARS-CoV-2 virus), it does expect to see lasting long-term benefits within its antigens business. Such benefits would initially come from increased testing capacity in general, and specifically from increased testing for respiratory pathogens other than the SARS-CoV-2 virus. Notably, healthcare practitioners and public health authorities 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 has begun to see its flow of orders for some of its respiratory antigens increase, as its products form an integral part of some approved tests. However, in the short term, patient testing for diseases other than respiratory infections are being disrupted as a result of several factors, including testing resources limitations, patient reluctance to see medical professionals for non-emergency issues, and recurring societal lockdowns. It is important to note that these factors are not unique to Microbix, but are affecting the entire diagnostics industry on a worldwide basis.

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 sample collection swabs (i.e., Copan® "FLOQSwabs®"). 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 and is performing properly, or if reagents have spoiled. Such innovative, proprietary, and branded 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 encouraging labs to increase use of quality products from qualified third-parties across their ever-broadening portfolio of tests. In the current quarter, Microbix derived 30% of its sales from providing QAPs – to laboratory accreditation organizations, diagnostic test and instrument-makers and to clinical laboratories (directly and via distributors). This is an increase from 20% of sales in Q4 of fiscal 2020, 15% across fiscal 2020, and 10% historically – reflecting the strong growth of the QAPs product category (e.g., sales increase of 3585% for Q1 fiscal 2021 compared to the prior year Q1).

OUTLOOK (Continued)

The COVID-19 pandemic has presented a pertinent illustration of the need for QAPs and Microbix's capabilities to create, license/register, and manufacture 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, Health Canada (MDEL) licensing of commercial products on April 21, U.S. FDA registration on May 7, and the European Union "CE Mark" on June 5. Microbix announced the first shipment of QAPs as licensed medical devices to support accuracy of the testing programs of Canadian clinical labs on May 6, to European distributors on June 15, and to Microbix's U.S. distributor on June 30. Subsequent to the September 30 fiscal year-end, Microbix announced two further projects to support the fight against the pandemic – A project to produce viral transport media (VTM) in support of Ontario's RT-PCR testing for COVID-19 disease (October 13), and the creation of QAPs to support antigen-based testing for COVID-19 disease (October 20). Throughout this very challenging year, everyone at Microbix has been working hard to help conquer the new challenges to human health and well-being.

Due to the positive prospects of each of the above lines of its business and products, 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 resources, 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. Starting in fiscal 2018, multiple upgrades to facilities have been completed and further investments will be made in infrastructure going forward, such as those announced on May 27 and October 13. Additionally, Microbix will be investing in our 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 has been positioning for continuing sales growth, particularly of its QAPs product lines, 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.

Fiscal 2020 proved to be challenging for many companies, including Microbix. The COVID-19 pandemic is disrupting normal antigen ordering patterns and has delayed the widespread uptake of Microbix' novel and innovative QAPs for high-risk Human Papilloma Virus (HPV) molecular testing. The development and registration of leading-edge QAPs to support COVID-19 test accuracy partially, but not fully, offset these disruptions and delays in fiscal 2020. The first quarter of 2021 however, has provided firm evidence of the interest in Microbix's QAPs from the global diagnostics and clinical laboratory industries, with Q1 fiscal 2021 sales of close to $1.0 million with substantial growth from both the prior quarter (Q4 fiscal 2020) and prior year (Q1 fiscal 2020). Management sees this growth continuing.

Also notable in 2020 was a departure from yield/margin objectives for bioreactor production – principally in Q3 fiscal 2020. Specifically, equipment and materials failures, as we moved to a more intensive level of production, led to an unacceptably high rate of batch failures over the period. Steps have since been successfully undertaken to correct that situation, including heightened preventative maintenance and part-change programs, tighter scrutiny on materials, along with process-related steps to increase the yield of successful batches. Management at all levels took responsibility for the resulting margin losses, which were largely responsible for the net loss reported in Q3 fiscal 2020. Progress upon Corrective and Preventative Actions (CAPAs) has been material, with a near cessation of batch losses and significant improvements to average net yields that will be reflected from Q2 fiscal 2021 onward.

OUTLOOK (Continued)

Going forward, Microbix is continuously working to improve its percentage gross margin while also growing its sales of antigens and QAPs, and commencing sales of VTM. Percentage gross margin improvements, as seen in fiscal Q1 2021, should be achievable by way of an increasing proportion of bioreactor-driven antigen sales, improving antigen yields on a broader basis, larger sales of a broader suite of quality assessment products, and making VTM a meaningful third source of sales. Achievement of Microbix's sales and gross margin goals is expected to lead to increasingly meaningful quarterly net earnings. Quarterly reporting will update shareholders on progress with such operational goals.

With regards to Kinlytic urokinase, Microbix's biologic clot-buster therapeutic, it is management's opinion that the COVID-19 pandemic has increased the difficulty of securing a partnering agreement to obtain the required re-development funding. This is for two reasons: (i) the pandemic has disrupted the business of the hospital-oriented product companies that are the logical partners for this asset (due to fewer normal-course procedures being done) and thereby constrained the new product budgets of such companies, and (ii) ongoing restrictions on physical travel (i.e., closed borders, quarantines, etc.) are making it more difficult to advance negotiations, conclude partnerships, and manage off-site manufacturing or clinical trial work.

Accordingly, Microbix cannot represent a precise timeline for securing a funding partner to advance the re-development of Kinlytic to sBLA filing and renewed commercial sales. As a consequence, management was required to follow International Financial Reporting Standards (IFRS) and fully impair the book value of this asset, incurring a non-cash charge to earnings and reducing the carried value of Kinlytic to zero on Microbix's financial statements. Even though this asset was written down in Q4 of fiscal 2020, management intends to continue efforts to partner this asset and return the drug to the United States market for its catheter-clearance sub-indication.

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 long-term demand for antigens, implementation of innovative antigen production methods, the launch of new QAPs product lines, the commercialization of DxTM, 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 interim condensed 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 $41,763,191 as at December 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 2021, cash flow is expected to improve due to: 1) continued growth in antigen and quality assessment 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, such as DxTM. 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 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 December 31, 2020 was $35,667,127 for 109,446,580 common shares and September 30, 2020 was $35,357,144 for 108,772,705 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.

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.

The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company's business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to continue to contain the COVID-19 virus or remedy its impact, among others.

Any of these developments, and others, could have a material adverse effect on the Company's business, financial condition, operations and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in the Company's financial statements will change in the near term and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets or a change in the estimated credit losses on accounts receivable. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business.

See the "Risks and uncertainties" section of this MD&A for a further discussion of the COVID-19 pandemic.

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 February 10, 2021.

RISKS AND UNCERTAINTIES

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 19 to the unaudited interim condensed consolidated financial statements for the three months ended December 31, 2020.

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; disrupting or prolonging business development initiatives such as the partnering of Kinlytic® urokinase. 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. The Company is exposed to business risks, both known and unknown, which may or may not affect its operations. Management works continuously to mitigate unacceptable risk, while still allowing the business to grow and prosper. These risk factors include the following:

RISKS AND UNCERTAINTIES (Continued)

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

A significant share of the Company's antigens products sales are sold to a few key customers globally. These products contributed a significant share of the revenues. The loss of a key customer, or restrictions on export, import, or international transportation of its products, raw materials or insufficient marketing resources, could materially impact revenue and profitability.

Environmental, safety and other regulatory

Microbix' research and manufacturing operations involves potentially hazardous materials. The Company takes extensive precautions to appropriately manage these materials as regulated by the applicable environmental and safety authorities. Changes in environmental and safety legislation may limit the Company's activities or increase costs. An environmental accident could adversely impact its operations. Microbix' antigen products are considered a production ingredient and not directly regulated by governments in Canada or other jurisdictions. Commercialization of certain quality assessment products require approval of regulatory agencies such as the FDA, in which case Microbix will not receive revenue until regulatory approval is obtained.

Quality Assessment Products in development

The Company has multiple quality assessment products under development, with the goal of building its sales of this category of product. There is no assurance that these development activities will result in the completion of new commercial products. If the Company is unable to develop and commercialize products, it will be unable to recover its related product development investments.

Product commercialization requires strategic relationships

To commercialize large market products in development, Microbix may need to establish strategic partnerships, joint ventures or licensing relationships with pharmaceutical, biotechnology or animal genetics companies. It is possible the Company may be unable to negotiate mutually acceptable terms.

Operating and capital requirements

Microbix seeks to earn a profit on the sale of its Antigens & QAPs, which is a major source of funding for its research and development activities. The Company believes that cash generated from operations is sufficient to meet normal operating and capital requirements. However, the Company may need to raise additional funds, from time to time for several reasons including, to expand production capacity, to advance its current research and development programs, to support various collaboration initiatives with third parties, to underwrite the cost of filing, prosecuting and enforcing patents and other intellectual property rights, to invest in acquisitions, new technologies and new market developments. Additional financing may not be available, and even if available, may not be offered on acceptable terms.

Future success may depend on successfully commercializing new products or technologies

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

RISKS AND UNCERTAINTIES (Continued)

Failure to obtain and protect intellectual property could adversely affect business

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

Microbix will continue to face significant competition

Competition from life sciences companies, and academic and research institutions is significant. Many competitors have substantially greater resources and may have greater general capabilities in the areas of scientific and product development, legal review, manufacturing, sales and marketing, and financial support than Microbix. While the Company continues to expand its technological, commercial, legal and financial capabilities in order to remain competitive, Microbix' competitors may also be making significant investments in all of these areas, which could make it more difficult for Microbix to commercialize its products and technologies.

FINANCIAL RISK MANAGEMENT

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

Credit risk:

The Company's 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 trade receivable balance is relatively concentrated with a few large customers representing the majority of the value. As at December 31, 2020, five customers accounted for 83% (December 31, 2019 - five customers accounted for 78%) of the outstanding balance. In addition, for the quarter ended December 31, 2020, five customers accounted for 69% (December 31, 2019 - five customers accounted for 74%) of revenues. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $10,000 (December 31, 2019 - $25,625).

Canadian Funds

FINANCIAL RISK MANAGEMENT (Continued)

Currency risk:

The Company is exposed to currency risk given its global customer base. Over 90% of its revenue is denominated in either U.S. dollars or Euros. The Company does not use financial instruments to hedge this currency risk. At December 31, 2020, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	December 31, 2020	September 30, 2020	December 31, 2020	September 30, 2020
Cash	**$ 191,528**	$ 15,397	**$ 31,156**	$ 1,551
Accounts receivable	**963,392**	1,186,876	**518,106**	273,858
Accounts payable and accrued liabilites	**163,927**	150,600	**10,366**	-

Based upon 2020 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 $327,900 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 $180,200.

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 $327,900 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 $180,200.

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 December 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 December 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 December 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 December 31, 2020 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION — Unaudited

As at December 31, 2020 and September 30, 2020 — **Canadian Funds**

	As at December 31, 2020	As at September 30, 2020
ASSETS		
CURRENT ASSETS		
Cash	$ 417,365	$ 92,661
Accounts receivable	1,886,027	1,877,009
Inventory (Note 4)	4,529,178	4,292,664
Prepaid expenses and other assets	293,085	220,065
Investment tax credit receivable	10,433	10,433
TOTAL CURRENT ASSETS	7,136,088	6,492,832
LONG-TERM ASSETS		
Property, plant and equipment (Note 5)	7,443,491	7,363,155
Intangible assets (Note 6)	1,707,214	1,742,024
TOTAL LONG-TERM ASSETS	9,150,705	9,105,179
TOTAL ASSETS	$ 16,286,793	$ 15,598,011
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,598,552	$ 1,488,312
Current portion of long-term debt (Note 8)	212,760	235,230
Current portion of debentures (Note 7)	926,948	892,125
Current portion of lease liability	156,126	158,633
Deferred revenue (Note 9, 21)	1,501,222	1,315,738
TOTAL CURRENT LIABILITIES	4,395,608	4,090,038
Non-convertible debenture (Note 7)	703,571	713,853
Convertible debentures (Note 7)	1,439,620	1,419,834
Lease liability	345,389	383,306
Long-term debt (Note 8)	2,358,333	2,371,503
TOTAL LONG-TERM LIABILITIES	4,846,913	4,888,496
TOTAL LIABILITIES	$ 9,242,521	$ 8,978,534
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	$ 35,667,127	$ 35,357,144
Equity component of convertible debentures (Note 7)	2,903,789	2,903,789
Contributed surplus	10,236,547	10,252,554
Accumulated deficit	(41,763,191)	(41,894,010)
TOTAL SHAREHOLDERS' EQUITY	$ 7,044,272	$ 6,619,477
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 16,286,793	$ 15,598,011

Commitments and Contingencies (Note 23)

(Signed) "Martin Marino"
MARTIN MARINO
DIRECTOR

(Signed) "Cameron L. Groome"
CAMERON L. GROOME
DIRECTOR

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) **Unaudited**

For the three months ended December 31 **Canadian Funds**

	2020	2019
SALES		
Antigen and QAPs	$ 3,100,250	$ 1,972,573
Royalties	57,409	73,775
TOTAL SALES	3,157,659	2,046,348
COST OF GOODS SOLD		
Antigen and QAPs (Notes 4, 14)	1,402,583	989,831
Royalties	7,778	12,783
TOTAL COST OF GOODS SOLD	1,410,361	1,002,614
GROSS MARGIN	1,747,298	1,043,734
EXPENSES		
Selling and business development (Note 14)	171,724	204,173
General and administrative (Note 14)	984,474	882,493
Research and development (Note 14)	197,878	265,349
Financial expenses (Note 16)	262,403	276,984
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	130,819	(585,265)
NET INCOME (LOSS) PER SHARE		
Basic (Note 13)	$ 0.001	$ (0.006)
Diluted (Note 13)	$ 0.001	$ (0.006)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS **Unaudited**

For the three months ended December 31 **Canadian Funds**

	2020	2019
OPERATING ACTIVITIES		
Net income (loss) for the period	$ 130,819	$ (585,265)
Items not affecting cash		
Amortization and depreciation (Note 14)	174,109	163,961
Accretion of debentures (Note 7)	72,827	58,826
Stock options expense (Note 12)	51,381	27,839
Accretion interest expense	9,139	4,020
Change in non-cash working capital balances (Note 15)	(251,473)	568,411
CASH PROVIDED BY OPERATING ACTIVITIES	186,802	237,792
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (Note 5)	(648,956)	(130,938)
Proceeds from Government Grant	429,321	-
CASH USED IN INVESTING ACTIVITIES	(219,635)	(130,938)
FINANCING ACTIVITIES		
Repayments of long-term debt (Note 8)	(75,660)	(109,530)
Proceeds from Equipment Loan (Note 8)	-	286,094
Proceeds from Government Loan and Grant (Notes 8, 9)	262,900	69,616
Repayments of convertible and non-convertible debentures (Note 7)	(28,500)	(26,039)
Payment of lease liabilities	(43,798)	(43,041)
Proceeds from exercise of warrants	242,595	-
Proceeds (repayments) of credit facility (Note 8)	-	(310,000)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	357,537	(132,900)
NET CHANGE IN CASH - DURING THE PERIOD	324,704	(26,046)
CASH - BEGINNING OF YEAR	92,661	95,571
CASH - END OF PERIOD	$ 417,365	$ 69,525

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY **Unaudited**

For the three months ended December 31, 2020 and 2019 **Canadian Funds**

	Share Capital (Note 10)					
	Number of Shares	Stated Capital	Contributed Surplus	Deficit	Equity Component of Debenture	Total Shareholders' Equity
Balance, September 30, 2019	96,972,705	$ 33,912,460	$ 9,387,644	$ (35,666,485)	$ 2,903,789	$10,537,408
Stock option expense	-	-	27,839	-	-	27,839
Net comprehensive income (loss) for the period	-	-	-	(585,265)	-	(585,265)
Balance, December 31, 2019	**96,972,705**	**$ 33,912,460**	**$ 9,415,483**	**$(36,251,750)**	**$2,903,789**	**$9,979,982**
Stock option expense	-	-	130,997	-	-	130,997
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	-	-	-	(5,642,260)	-	(5,642,260)
Balance, September 30, 2020	108,772,705	35,357,144	10,252,554	(41,894,010)	2,903,789	6,619,477
Stock option expense	-	-	51,381	-	-	51,381
Share Issuance pursuant to Exercise of Warrents	673,875	309,983	(67,388)	-	-	242,595
Net income and comprehensive income for the period	-	-	-	130,819	-	130,819
Balance, December 31, 2020	**109,446,580**	**$35,667,127**	**$10,236,547**	**$(41,763,191)**	**$2,903,789**	**$ 7,044,272**

The accompanying notes and summary of significant accounting policies are an integral part of these interim condensed 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 (Antigen business) used in immunoassays and its quality assessment and proficiency testing controls (QAPs business).

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 condensed consolidated financial statements conform with those in the Company's audited annual consolidated financial statements for the year ended September 30, 2020, except as set out in note 3. 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, 2020.

The Board of Directors approved these interim condensed consolidated financial statements on February 10, 2021.

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 interim condensed 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. All significant intercompany transactions have been eliminated upon consolidation.

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.

The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company's business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the societal actions required to continue to contain the COVID-19 virus or remedy its impact, among others.

Any of these developments, and others, have had a material adverse effect on the Company's business, financial condition, operations and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in the Company's financial statements will change in the near term and the effect of any such changes could be material, which could result in, among other things, an impairment of long-lived assets or a change in the estimated credit losses on accounts receivable. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business. The duration and impact of the COVID-19 pandemic are

2. BASIS OF PREPARATION (Continued)

Global pandemic (Continued)

unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2020. 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, 2020.

4. INVENTORIES

Inventories consist of the following:

	December 31, 2020	September 30, 2020
Raw materials	$ 1,104,987	$ 710,587
Work in process	1,190,001	1,122,584
Finished goods	2,234,191	2,459,493
	$ 4,529,178	$ 4,292,664

During the quarter ended December 31, 2020, inventories in the amount of $1,402,583 (2019 - $989,831) were recognized as an expense through cost of sales. The allowance for inventory impairment as at December 31, 2020 was $68,043 (December 31, 2019 - $55,747).

5. PROPERTY, PLANT AND EQUIPMENT

The freehold land and buildings have been pledged as security for bank loans under a mortgage (see Note 8). Property, plant and equipment consists of:

	Building and Leasehold Improvements	Research and Development Equipment	Other Equipment and Fixtures	Right of Use Assets	Land	Total
COST						
Balance, as at September 30, 2020	$ 5,166,925	$ 557,308	$ 5,890,936	$ 854,904	$ 800,000	$ 13,270,073
Additions	67,791	-	151,844	-	-	219,635
Balance, as at December 31, 2020	**5,234,715**	**557,308**	**6,042,780**	**854,904**	**800,000**	**13,489,707**
ACCUMULATED DEPRECIATION						
Balance, as at September 30, 2020	1,744,844	446,507	3,509,210	206,356	-	5,906,917
Depreciation	44,870	3,154	61,599	29,676	-	139,299
Balance, as at December 31, 2020	**1,789,714**	**449,661**	**3,570,809**	**236,032**	**-**	**6,046,216**
NET BOOK VALUE						
Balance, September 30, 2020	3,422,081	110,801	2,381,726	648,548	800,000	7,363,155
Balance, December 31, 2020	**$ 3,445,001**	**$ 107,647**	**$ 2,471,971**	**$ 618,872**	**$ 800,000**	**$ 7,443,491**

Additions during this quarter are net of $429,321 (2019- nil) in government grants.

6. INTANGIBLE ASSETS

Intangible assets consist of:

	Capitalized development costs Bioreactor	Patents and trademarks QAPs	Total
	(a)	(b)	
COST			
Balance, as at September 30, 2020	$ 2,088,575	$ 82,768	$ 2,171,343
Additions	-	-	-
Balance, as at December 31, 2020	**2,088,575**	**82,768**	**2,171,343**
ACCUMULATED AMORTIZATION			
Balance at September 30, 2020	429,319	-	429,319
Amortization expense	34,810	-	34,810
Balance, as at December 31, 2020	**464,129**	**-**	**464,129**
NET BOOK VALUE			
Balance, September 30, 2020	1,659,256	82,768	1,742,024
Balance, as at December 31, 2020	**1,624,446**	**82,768**	**1,707,214**

The Bioreactor intangible asset is depreciated on a straight line basis at a rate of 7%. 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 (Cash Generating Unit) 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) Bioreactor
The Company has internally developed an improved bioreactor production process ("Bioreactor") to increase the efficiency and output of manufacturing certain Antigen products.

b) 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 national and international patent application costs. When the resulting patent issues in key markets, those costs will begin to be amortized in accordance with IFRS standards.

7. DEBENTURES

The Company has convertible and non-convertible debentures issued and outstanding as at December 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, 2020	832,833	388,784	1,221,617	523,366	384,361	896,468	1,804,195
Accretion	20,918	14,353	35,271	6,906	17,770	12,880	37,556
Repayments	(28,500)	-	(28,500)	-	-	-	-
Balance, December 31, 2020	825,251	403,137	1,228,388	530,272	402,131	909,348	1,841,751
Less: current portion	121,680	403,137	524,817	-	402,131	-	402,131
Non-current portion	703,571	-	703,571	530,272	-	909,348	1,439,620
Balance, December 31, 2020	**$ 825,251**	**$ 403,137**	**$ 1,228,388**	**$ 530,272**	**$ 402,131**	**$ 909,348**	**$ 1,841,751**
Equity component at December 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 and interest	Interest only		Interest only	Interest only	Interest only	
Blended quarterly repayment	$ 61,071	N/A		N/A	N/A	N/A	

The debentures denoted as (a), (c), and (e) above are secured against the real property and the personal property of the Company including, without limiting the foregoing, a registered second mortgage on the property at 265 Watline Avenue, Mississauga, Ontario, in favour of the holder, its successors and assigns subordinate only to indebtedness to a Canadian chartered bank or similar financial institution on normal commercial terms up to their maximum principal. The debentures denoted as (b) and (d) are secured by a subordinated security agreement covering all of the Company's property and assets.

Convertible debentures contain two components: liability and equity elements. The equity element is presented in equity under the heading of "equity component of debentures". Convertible debentures are initially accounted for in accordance with their substance and are presented in the consolidated financial statements in their component parts measured at the time of issue. The debt components were valued first with the residual to shareholders' equity. The convertible debentures are convertible at the option of the holder, at any time, into fully paid and non-assessable common shares of the Company at the conversion price then in effect.

All of the debentures were issued to shareholders of the Company. A holder of a debenture has an economic interest in future earnings of the Lumisort asset and will receive a distribution equal to 10% of any future earnings that are derived from the Lumisort asset. Over the term of the convertible debentures, the debt components will be accreted to the face value of the debentures by the recording of additional interest expense using the effective interest rate, as detailed above.

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

a) The Company has term loans with the Business Development Bank ("BDC") for a variety of purposes. The following summarizes these loans as at December 31, 2020:

Term Loans with the Business Development Bank ("BDC")	(a)	(b)	(c)	(d)	Total
Effective date of loan	Jun, 2008	Oct, 2015	Nov, 2015	Jul, 2018	
Initial Loan Amount	$ 3,000,000	$ 200,000	$ 250,000	$ 323,906	$ 4,438,906
Balance, September 30, 2020	1,935,340	9,990	12,480	381,150	2,338,960
Proceeds from laon	-	-	-	-	-
Loan repayments during the period	(27,780)	(9,990)	(12,480)	(25,410)	(75,660)
Balance, December 31, 2020	**$ 1,907,560**	**-**	**-**	**$ 355,740**	**$2,263,300**
Current Portion	$ 111,120	-	-	$ 101,640	$ 212,760
Non-current portion	1,796,440	-	-	254,100	2,050,540
Payment frequency	Monthly	Monthly	Monthly	Monthly	
Maturity of loan	Feb, 2038	Dec, 2020	Dec, 2020	Jun, 2024	
Terms of repayment	"Principal and interest"	"Principal and interest"	"Principal and interest"	"Principal and interest"	

Notes: (a) Loan for the purchase of manufacturing facility and building improvements.
(b) Loan for the purchase of equipment for our bioreactor project
(c) Loan for the purchase of building improvements.
(d) Loan for the purchase of manufacturing equipment

All BDC loans have a floating interest rate based on BDC's floating base rate plus 0.5% - 1.8%. At December 31, 2020, the rate was 4.45% (Sepember 30, 2020 - 5.05%). 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 December 31, 2020, the commitments for the next five fiscal years and thereafter for the BDC loans is as follows:

	Amount
2021	$ 159,570
2022	212,760
2023	212,760
2024	187,350
2025	111,120
2026 and thereafter	$ 1,379,740

8. 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% (4.45% on December 31, 2020).

As at December 31, 2020 the Company had no funds drawn on the facility (September 30, 2020 – Nil). 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 December 31, 2020, the Company has received contributions totalling $513,705 (December 31, 2019 – $69,616). The Company determined that this "Loan" consists of two components: an obligation to repay; and a government grant in the form of the related exemption from interest. The Company fair valued the obligation to repay at $293,469, based on a discount rate of 8%, which represents management's best estimate of fair value. The residual amount of $220,236 is allocated to the associated government grant and recognized as income over the period in which the related costs they are intended to compensate are recognized. As at December 31, 2020, the carrying value of the Loan is $307,791 (September 30, 2020 – $267,770) and $111,565 is recognized as a deferred grant within deferred revenue on the statement of financial position (September 30, 2020 – $111,210).

The Company is in compliance with the covenants associated with this loan as at December 31, 2020.

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

Fiscal Year		Amount
2025	$	85,617
2026		102,741
2027		102,741
2028		102,741
2029		102,741
2030		17,123

9. GOVERNMENT GRANT

On October 13, 2020, the Company announced a grant agreement with the Ontario Together Fund ("OTF") of the Ministry of Economic Development, Job Creation and Trade. The grant of $1.45 million will cover 50% of the cost to automate production of the Company's quality assessment products (QAPs™) that help ensure the accuracy of infectious disease diagnostic testing, and enable local, secure, and cost-effective automated production of the quantities of viral transport media ("Media") needed for Ontario's nucleic-acid testing for COVID-19.

An initial Grant disbursement, upon execution of the agreement, in the amount of $867,000, was received on October 13, 2020. The remaining $578,000 of the grant will be paid upon project completion and a review of Eligible Project Expenditures incurred during the project. During this quarter the Company recognized $232,493 of grant income and $429,321 reduction in capital asset costs. The remaining $205,186 is recognized as deferred revenue.

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 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 $2,150,759 after share issuance costs of $209,242. 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. 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 (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 common share 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.

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, 2020	108,772,705	$ 35,357,144
Exercise of Warrants	673,875	309,983
Balance, as at December 31, 2020	109,446,580	$ 35,667,127

11. COMMON SHARE PURCHASE WARRANTS

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

	Units	Weighted average exercise price
Balance, September 30, 2020	23,284,552	$ 0.36
Issued	-	-
Exercised	(673,875)	0.36
Expired	(81,550)	0.46
Balance, December 31, 2020	**22,529,127**	**$ 0.36**

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

	December 31, 2020			September 30, 2020		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life
			years			years
Range of exercise prices:						
$0.47 to $0.55	1,500,000	$ 0.55	0.78	1,500,000	$ 0.55	1.03
$0.23 to $0.46	21,029,127	0.35	2.72	21,784,552	0.35	2.93
	22,529,127	$ 0.36	2.59	23,284,552	$ 0.36	2.81

12. STOCK OPTION PLAN

Under the Company's stock option plan, the Company may grant options to purchase common shares up to a maximum of 10% of the Company's issued and outstanding common shares. Under the plan as at December 31, 2020, the Company has a total of 7,740,000 options (September 30, 2020 – 10,040,000) issued and pending and is eligible to issue up to a total of 10,944,648 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 quarter ended December 31, 2020 is as follows:

	Units	Weighted average exercise price
Balance, September 30, 2020	10,040,000	$ 0.25
Stock options issued	100,000	$ 0.46
Options Expired/Forfeited	(2,400,000)	$ 0.54
Balance, December 31, 2020	**7,740,000**	**$ 0.25**
Exercisable, December 31, 2020	**3,250,000**	**$ 0.28**

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

	December 31, 2020			September 30, 2020		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life
			years			years
Range of exercise prices:						
$0.54	-	$ -	-	2,400,000	$ 0.54	0.04
$0.23 to $0.28	7,740,000	$ 0.25	2.96	7,640,000	$ 0.25	3.09
	7,740,000	$ 0.25	2.96	10,040,000	$ 0.32	2.36

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 quarter, 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 $51,381 (2019 - $27,839).

13. INCOME (LOSS) 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:

As at December 31	2020	2019
Numerator for basic loss per share:		
Net loss available to common shareholders	$ 130,819	$ (585,265)
Denominator for basic income (loss) per share:		
Weighted average common shares outstanding	108,995,084	96,972,705
Effect of dilutive securities:		
Warrants	1,545,251	-
Stock Options	849,196	-
Convertible debentures	-	-
Denominator for diluted net loss per share	111,389,531	96,972,705
Net loss per share:		
Basic	$0.001	($0.006)
Diluted	$0.001	($0.006)

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	1,500,000	10,963,052
Under stock options	4,490,000	7,693,000
Pursuant to convertible debentures	19,565,217	19,565,217
	25,555,218	38,221,269

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 December 31:

Depreciation and amortization

	2020	2019
Included in:		
Cost of goods sold	$ 151,200	$ 141,376
General and administrative expenses	19,755	19,892
Reasearch and development	3,154	2,693
Total depreciation and amortization	$ 174,109	$ 163,961

Employee costs

	2020	2019
Short-term wages, bonuses and benefits	$ 1,574,738	$ 1,617,652
Share based payments	44,507	21,478
Total employee costs	1,619,245	1,639,130
Included in:		
Cost of goods sold	$ 821,886	$ 890,538
Research and development	234,544	249,965
General and administrative expenses	435,986	375,347
Selling and business development	126,829	123,280
Total employee costs	$ 1,619,245	$ 1,639,130

During the quarter, the Company received $70,046 (2019- nil) in assistance from the Canada Emergency Wage Subsidy program. This subsidy has been recorded against the related employee costs.

15. CHANGES IN NON-CASH WORKING CAPITAL

	2020	2019
Accounts receivable	$ (9,018)	$ 520,498
Inventory	(236,514)	(329,109)
Prepaid expenses and other assets	(73,020)	73,852
Deferred Revenue	(20,057)	184,727
Accounts payable and accrued liabilities	87,136	118,443
	$ (251,473)	$ 568,411

16. FINANCIAL EXPENSES

	2020	2019
Cash interest:		
Interest on long-term debt	$ 29,095	$ 41,326
Interest on debentures	148,821	151,283
Interest other	2,521	21,529
Non-cash interest:		
Accretion on debentures	72,827	58,826
Accretion interest expense	9,139	4,020
Financial expenses	$ 262,403	$ 276,984

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, long-term debt, and the debentures. The capital at December 31, 2020 was $12,685,504 (September 30, 2020 - $12,052,022).

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, FedDev 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 8. 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.

As at December 31, 2020 and September 30, 2020, the Company has carried at fair value financial instruments in Level 1. At December 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:

a) Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.

b) Level 2: Fair value is based on inputs other than quoted prices included within Level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

c) Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

18. FINANCIAL INSTRUMENTS (Continued)

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities.

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:				
Cash	31-Dec-20	$ 417,365	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	31-Dec-20	-	-	$ 1,228,388
Convertible debentures	31-Dec-20	-	-	1,841,751
Long-term-debt and other debt	31-Dec-20	-	$ 2,571,093	-

	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-20	$ 92,661	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Sep-20	-	-	$ 1,221,617
Convertible debentures	30-Sep-20	-	-	1,804,195
Long-term-debt and other debt	30-Sep-20	-	$ 2,606,733	-

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 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 December 31, 2020, five customers accounted for 83% (December 31, 2019 - five customers accounted for 78%) of the outstanding balance. In addition, for the quarter ended December 31, 2020, five customers accounted for 69% (December 31, 2019 - five customers accounted for 74%) of revenues. The Company has had minimal bad debts over the past several quarters and accordingly management has recorded an allowance of $10,000 (December 31, 2019 - $25,625).

Trade accounts receivable are aged as follows:

	December 31, 2020	September 30, 2020
Current	$ 1,142,723	$ 1,872,928
0 - 30 days past due	397,554	1,431
31 - 60 days past due	206,828	732
61 days and over past due	138,922	1,918
	$ 1,886,027	$ 1,877,009

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

	US dollars		Euros	
	December 31, 2020	September 30, 2020	December 31, 2020	September 30, 2020
Cash	**$ 191,528**	$ 15,397	**$ 31,156**	$ 1,551
Accounts receivable	**963,392**	1,186,876	**518,106**	273,858
Accounts payable and accrued liabilites	**163,927**	150,600	**10,366**	-

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

	2020	2019
Revenue		
Euros	35%	29%
U.S. dollars	59%	68%
Expenses		
U.S. dollars	8%	4%

Based upon 2020 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 $327,900 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 $180,200. 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 $327,900 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 $180,200.

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 gross margin dollars resulting from the sales of its products, 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 (as finished products) and, (ii) the development and commercialization of novel and proprietary products or technologies such as Kinlytic® and Lumisort™. The following is an analysis of the Company's revenues and profits from continuing operations for the quarter ended December 31, segmented between antigens and Other (including Kinlytic® and Lumisort™).

	Segment revenue		Operating Income (loss)	
	2020	2019	2020	2019
Antigens and QAPs	$ 3,157,659	$ 2,046,348	$ 139,150	$ (558,739)
Other (Includes Kinlytic ® and Lumisort ™)	-	-	(8,331)	(26,526)
Total for continuing operations	$ 3,157,659	$ 2,046,348	$ 130,819	$ (585,265)

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 Antigens and QAPs 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 are as follows:

	Segment assets		Segment liabilities	
	December 31, 2020	September 30, 2020	December 31, 2020	September 30, 2020
Antigens and QAPs	$ 16,286,793	$ 15,598,010	$ 9,242,521	$ 8,978,534
Other (Includes Kinlytic ® and Lumisort ™)	-	-	-	-
Total for continuing operations	$ 16,286,793	$ 15,598,010	$ 9,242,521	$ 8,978,534

All assets are allocated to reportable segments other than interests in associates and current and deferred tax assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments. All liabilities are allocated to reportable segments other than borrowings and current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

20. SEGMENTED INFORMATION (Continued)

Segmented depreciation and amortization, impairment of long-lived assets and additions to non-current assets as at December 31 are as follows:

	Depreciation and amortization		Additions to non-current assets	
	2020	2019	2020	2019
Antigens and QAPs	$ 174,109	$ 163,961	$ 219,635	$ 130,938
Other (Includes Kinlytic ® and Lumisort ™)	-	-	-	-
	$ 174,109	$ 163,961	$ 219,635	$ 130,938

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	
For the period ended December 31,	2020	2019	2020	2019
North America	$ 1,891,268	$ 1,155,693	$ 9,150,705	$ 13,595,157
Europe	1,265,443	884,883	-	-
Other foreign countries (directly)	948	5,772	-	-
	$ 3,157,659	$ 2,046,348	$ 9,150,705	$ 13,595,157

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

For the period ended December 31,	2020	2019
Balance, beginning of the quarter	$ 1,315,738	$ 640,463
Cash payments or advance payments on performance obligations	1,058,262	377,356
Revenue recognized during the quarter	(1,078,319)	(192,633)
Deferred government grants (Note 8)	205,541	-
Balance, end of quarter	$ 1,501,222	$ 825,186

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 December 31, 2020	Three months ended December 31, 2019
Short-term wages, bonuses and benefits	$ 359,111	$ 231,643
Share-based payments	12,267	12,901
Total key management compensation	$ 371,378	$ 244,544

23. COMMITMENTS AND CONTINGENCIES

Payments on convertible and non-convertible debentures (Note 7)

	Amount
2021	$ 531,931
2022	1,657,992
2023	604,242
2024	604,242
2025	604,242
2026 and thereafter	5,923,682
	$ 9,926,331

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 2021 interim condensed consolidated financial statements.

DIRECTORS

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

Mark A. Cochran
Virginia, USA
Executive Director (Retired)
Johns Hopkins Healthcare

Vaughn C. Embro-Pantalony [(1) (2)]
Ontario, Canada
Pharmaceutical Executive

Anthony J. Giavinazzo [(1) (2)]
Ontario, Canada
Executive Chairman
Sublimity Therapeutics

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

Cameron L. Groome
Chief Executive Officer and President

James S. Currie
Chief Financial Officer

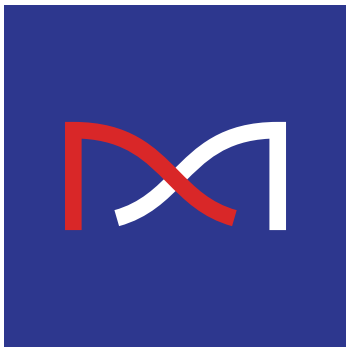
Kenneth Hughes
Chief Operating Officer

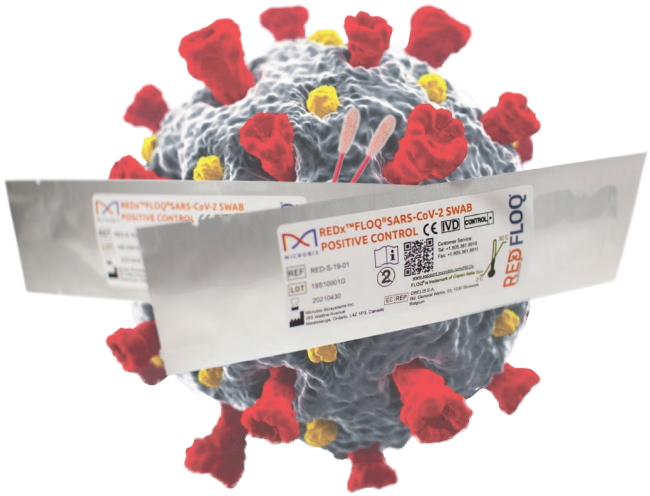
Dr. Mark Luscher
Senior Vice-President, Scientific Affairs

Phillip Casselli
Senior Vice-President, Sales & Business Development

Kevin J. Cassidy
Vice-President, Biopharmaceuticals

Christopher B. Lobb
General Counsel & Secretary





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