MICROBIX BIOSYSTEMS INC.

FIRST INTERIM REPORT

For the three months
ended December 31, 2022

MICROBIX

Message to Shareholders

Results for the first quarter of fiscal 2023 ended December 31, 2022 ("Q1") were below targets and expectations. Microbix's revenues were impacted by a lack of DxTM sales and the timing of orders for both Antigens and QAPs, reaching just $2.5 million. As a result, too few gross margin dollars were generated for covering fixed costs and a meaningful loss of $1.3 million was incurred. More happily, we do not expect either lower sales or net losses to persist too long.

Specifically Q1 reflects negative shorter-term sales issues with each of Microbix's three business lines, coupled with a supplier quality issue. For DxTM, the principal client, The Province of Ontario, has begun a reorganization of its procurement processes that has led to a pause in its ordering. For QAPs, a process of client test-design iteration has delayed Microbix being able to finalize specifications and begin sales. In relation to Antigens, there were fewer customer deliveries scheduled in Q1, onto which was added a quality failure by a supplier that led to multiple batch write-offs – negatively impacting our margins.

Some of these matters have already been resolved. Purchases from the failed supplier have been ended and much of Microbix's Antigen production will be running flat-out for the balance of fiscal 2023. I'm also pleased to report that the iterating QAPs client has now locked-in its specifications, which should result in material orders from Microbix during fiscal 2023. Engagement with Ontario about DxTM is ongoing and progress will be reported when made.

Looking more broadly, Microbix sees the diagnostic testing market changing quickly and positively. Now that COVID is moving to endemic from pandemic, doctor-patient contact is resuming and in turn leading to more normal testing practices. This promises to benefit our test-ingredients (Antigens) business, which had been supressed by COVID. Additionally, we are beginning to benefit from our broadening catalogue of QAPs, with sales of non-respiratory SKUs picking up – such as multiplex tests for sexually-transmitted and cutaneous diseases.

Microbix is also proud to be helping the roll-out of PCR-based cervical cancer screening. Our QAPs are being selected to support quality management of molecular testing for high-risk types of HPV – to identify those at-risk and enable preventative measures years before cervical cancer can develop. Microbix will provide detailed disclosures as each such program finalizes and starts ordering QAPs.

We also remain very active in business development, most notably in relation to QAPs. The drive for greater usage of point-of-care testing (PoCT) is not slowing down and Microbix sees considerable need for its FLOQSwab-formatted QAPs to support test and test-workflow accuracy in this field. Multiple collaborations for in-kit supply of QAPs are ongoing, with the objective of our securing further material purchase and supply contracts.

Upgrade work is also continuing with respect to our "ERP" and "eQMS" systems. Our implementation teams are moving toward system "go-live" dates in fiscal 2023 and we are pleased with the progress on these essential growth-enabling initiatives.

Alongside its business activities, Microbix has been active in buying back shares under the Normal-Course Issuer Bid announced in early October, 2022. Over the first three months of this program, over 750,000 shares have been purchased and cancelled – Increasing the value of each remaining Microbix share during a period in which our stock, along with that of most smaller-capitalization companies, has been declining in price. Microbix fully intends to keep using its "NCIB" over the balance of fiscal 2023 and we're pleased to be in a position to prudently repurchase and cancel shares rather than needing to raise new equity capital.

In summary, we had our rare but inevitable "bad quarter" in Q1, have addressed most of its causes and are hard at work on achieving the best possible results for the rest of 2023. Our reasoned belief in Microbix's bright future as a creator, maker, and marketer of innovative, proprietary, branded, and fully-regulated medical devices remains undimmed.

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

Cameron L. Groome
Chief Executive Officer and President

The Company's Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited Consolidated Financial Statements and notes for the year ended September 30, 2022, prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board 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, quality assessment products, and viral transport medium businesses, 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 8, 2023.

COMPANY OVERVIEW

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX, OTCQX: MBXBF) is an award-winning life sciences innovator, manufacturer, and exporter making critical ingredients that enable the production of clinical diagnostics (antigens), creating and manufacturing medical devices, including quality assessment products that help ensure test accuracy (also known as QAPs™) and viral transport medium for enabling the collection of patient samples to test for pathogens such as the virus causing COVID-19 disease (branded as DxTM™). In the context of Microbix's business, antigens are purified and inactivated bacteria, viruses, or their components 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 (usually unbranded "white label"), (ii) incorporated into kits of test consumables by multinational diagnostics companies (usually unbranded "white label"), (iii) test development, instrument validation and technician training (often branded PROCEEDx®), or (iv) the quality management of patient test-workflows by clinical laboratories (branded as REDx®). Microbix' antigens and QAPs are sold to more than 100 customers worldwide, primarily to multinational diagnostics companies and laboratory accreditation organizations. Sales of antigens and QAPs ongoing to the respective customer categories described. The first private sector sales of Microbix's DxTM™ were recorded in fiscal Q2, 2021 followed by a material first order from the Province of Ontario received in April, 2021 and a material reorder secured in December, 2021. Further DxTM re-orders from Ontario are being pursued, along with other private-sector and governmental customers.

COMPANY OVERVIEW (Continued)

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

The COVID-19 pandemic and its health, economic, and societal impacts are affecting all industries, including medical diagnostics. As a result, trend discussions here may be disrupted. For example, since early fiscal 2020 sales of antigens have been reduced due to fewer patients seeking or receiving care in relation to diseases other than COVID-19. At the end of calendar 2022 however, Microbix is seeing evidence of antigen demand recovering toward pre-COVID levels.

As COVID moves from pandemic to endemic, revenue from the antigens and QAPs business (Antigens & QAPs) are 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, more recently, increased global testing for multiple respiratory pathogens. QAPs sales growth are expected to be driven by Microbix's creation of new value-added and proprietary products for test-makers and clinical laboratories, and by increasing American, European and international quality-management regulation of clinical laboratories. Sales of DxTM began in fiscal Q2 of 2021 and, based on multiple purchase orders from representatives of the Province of Ontario and interest in supply chain security from other parties across Canada, has been a material new product category for Microbix. However, production and sales of DxTM are currently paused – due in large part to an ongoing reorganization of the procurement systems of the Province of Ontario. As a result it is unclear when sales of DxTM will resume or the extent to which Microbix will be called to supply the needs of the Province of Ontario.

The sales resulting from antigens, QAPs, and DxTM activities are targeted 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. A third adjacent site at 275 Watline Avenue was leased as of July, 2021 and renovations have since been completed to support DxTM production, workstations and warehousing. 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, 2022 ("Q1")

Q1 revenue was $2,502,072, a decrease from Q1 2022 revenues of $4,855,600. Included were antigen revenues of $1,003,807 (2021 - $1,766,416). QAPs revenues were $1,333,503 (2021 - $1,149,151) for segment growth of 16%. In turn, revenue from DxTM was zero in Q1 (2021 - $1,817,245), and royalties were $164,762 (2021 - $122,787). The Q1 2022 sales shortfall was most influenced by lack of Ontario-driven deliveries of DxTM, weaker antigen sales due to order timing, which were only partly offset by continued diagnostics industry uptake of QAPs.

Q1 gross margin was 47%, down from 66% in Q1 2021, due to a greater proportion of lower margin antigen product sales, a lack of DxTM sales, and the impact of a supplier quality issue more than offsetting continued strength in QAPs product sales. In addition, we continue to see double digit increases in our supply chain.

Operating expenses in Q1 increased by 6% relative to Q1 2022, due to increased investment in IT infrastructure to support our continued growth objectives – namely start-up costs relating to our "ERP" and "eQMS" implementations. Finance expenses were lower than the prior year due to repayment of debentures and long-term debt during fiscal 2022 and short-term investment of cash balances. Overall,

FINANCIAL OVERVIEW (Continued)

Quarter ending December 31, 2022 ("Q1")

weaker sales led to an operating loss and net loss of $1,299,262 versus a Q1 2022 operating income and net income of $880,778. Cash used in operating activities was $713,867, compared to cash used in operating activities of $284,014 in Q1 2022, with the majority of the change coming from operating losses incurred during the quarter.

At the end of Q1, Microbix's current ratio (current assets divided by current liabilities) was 6.32 and its debt to equity ratio (total debt over shareholders' equity) was 0.39.

Financial Highlights

As at and for the quarter ended	December 31, 2022	December 31, 2021
Total Revenue	$ 2,502,072	$ 4,855,600
Gross Margin	1,185,975	3,221,858
SG&A Expenses	1,963,201	1,635,869
R&D Expense	424,958	464,461
Financial Expenses	97,078	240,750
Operating Income for the period	(1,299,262)	880,778
Net Income and Comprehensive Income for the period	(1,299,262)	880,778
Cash Provided (Used) by Operating Activities	(713,867)	(284,014)

	December 31, 2022	September 30, 2022
Cash	12,425,322	13,488,075
Accounts receivable	2,838,376	3,057,797
Total current assets	22,065,997	22,408,372
Total assets	32,693,681	33,145,196
Total current liabilities	3,489,193	2,650,521
Total liabilities	9,232,431	8,206,541
Total shareholders' equity	23,461,250	24,938,655
Current ratio	6.32	8.45
Debt to equity ratio	0.39	0.33

SELECTED QUARTERLY FINANCIAL INFORMATION

	Mar-31-21 $	Jun-30-21 $	Sep-30-21 $	Dec-31-21 $	Mar-31-22 $	Jun-30-22 $	Sep-30-22 $	Dec-31-22 $
Total Revenue	4,353,773	5,451,834	5,629,694	4,855,600	4,880,564	5,011,025	4,329,052	2,502,072
Net Income (Loss) and Comprehensive Income (Loss)	807,463	1,516,178	778,929	880,778	733,489	638,502	(464,080)	(1,299,262)
Operating Income (Loss) before Impairment of Assets, Interest Accretion Expense and Finance Expenses	1,073,460	1,789,360	1,580,553	1,121,528	936,614	808,956	(256,885)	(1,202,184)

OUTLOOK

Microbix's business was started over 30 years ago by our founder, Bill Gastle, a skilled virologist. The first products were types of the growth media used in cell-culturing, which were sold to public health laboratories and research-oriented customers across Ontario. Eventually, this was followed by such regional lab customers asking Microbix to do some of their bacteriological, cellular, and viral culturing work. In due course, international manufacturers of diagnostic tests learned of Microbix's abilities and approached the company to grow such organisms on a large-scale, then purify and inactivate them to become "antigens" – the biological ingredients at the heart of "immunoassay" tests used to diagnose infection with, exposure to, or immunity from, bacteria and viruses.

That test-ingredients business remained Microbix's only major source of revenues for many years, and underpins its deep expertise in matters relating to infectious disease diagnostics. During those years, Microbix sought to branch out into other areas of healthcare, such as into the production of biological therapeutics and vaccines. Although it had much of the expertise required for such initiatives, it sadly could not gain access to the capital required to bring those projects to fruition. That being recounted, one asset from that era remains in the Microbix portfolio, a well-validated biological "clot-buster" drug called Kinlytic® urokinase. Kinlytic is not assigned any value on Microbix's balance sheet, but may yet be advanced to meaningful revenues by way of partnering with a better-funded entity.

Microbix's antigen test-ingredients business had been 90% or more of sales. Over the past five years however, Microbix has sought to more broadly employ its deep diagnostics industry expertise and thereby incrementally build its revenues. This effort has succeeded, with test-ingredients comprising only 43% of Microbix's sales in fiscal 2022 due to its creating and growing other revenue streams.

Notably, Microbix has been successfully transformed from being a manufacturer of largely-unregulated test-ingredients, into the producer of a catalogue of fully-regulated medical devices. The Company has thereby created new opportunities for both increasing sales and expanding gross margins. Specifically, Microbix medical devices products are innovative, proprietary, and branded – permitting access to new markets and customers at better margins than are usual for test-ingredients. Upgrading to the ISO 13485 medical devices quality standard, obtaining a Health Canada Medical Devices Establishment License, and taking the necessary steps to be able to sell into the EU, US, and other markets were integral to those goals.

In medical devices, the first category of Microbix products are its diagnostic-test quality assessment products, which are branded as "QAPs™" and colloquially known as test-controls. The QAPs business started with providing mimics of positive patient-samples to enable assessment of the proficiency of clinical laboratories by industry accreditation agencies. Sales of Microbix QAPs were largely limited to that customer base and had come to exceed C$ 1.0 million per year (i.e., about 10% of sales) when the COVID-19 pandemic began (the "Pandemic").

While respiratory virus tests were not the principal focus of QAPs in early 2020, Microbix suspected the Pandemic in January of that year and validated its first COVID-related product by the end of March. Microbix has since supported governments and industry with many QAPs products related to testing for respiratory pathogens – to lab accreditation agencies, international test-makers, governments and hospitals, clinical labs, and many workplaces and schools. Respiratory disease has become an important portion of QAPs sales, but the Microbix portfolio has been expanded to include QAPs for many bacteria, viruses, and parasites that can cause acute sickness, chronic disease, and even cancers. Collectively, QAPs comprised 28% of sales across fiscal 2022 and Microbix expects this segment to be its fastest-growing revenue source for the foreseeable future.

As the Pandemic emerged, Microbix was also quick to recognize the fragility of supply-chains for testing-related medical supplies. This alertness extended to noting pending shortages of viral transport medium ("VTM"), a medical device that is essential for stabilizing collected patient-samples in order that they remain intact while transported to, and when processed at, the central laboratories conducting most PCR-based tests. Having decades of expertise in producing complex cell-culturing media, Microbix volunteered to begin domestic production of VTM for the province of Ontario. With the assistance of a grant from the Ontario Together Fund of

OUTLOOK (Continued)

the Ministry of Economic Development, Job Creation, and Trade, Microbix created a VTM formulation to meet the exacting requirements of Public Health Ontario, perfected its methods, scaled its production, and became the only fully-regulated and validated local supplier to the Province. Sales of Microbix's "DxTM™" brand VTM began in fiscal 2021 and comprised 26% of Microbix's revenues in fiscal 2022. However, production and sales of DxTM are currently paused – due in large part to an ongoing reorganization of the procurement systems of the Province of Ontario. As a result it is unclear when sales of DxTM will resume or the extent to which Microbix will be called to supply the needs of the Province of Ontario.

Looking ahead, Microbix believes that it has considerable opportunities to continue growing its sales to the global diagnostics and clinical laboratory industries. Most notable among its business segments is QAPs, for which it has identified the Point-of-Care-Test ("PoCT") companies as its most promising customers. While PoCT has been promised for many years, the Pandemic resulted in major investments to roll-out sophisticated and high-quality testing beyond central-lab settings. Today, table-top sized and portable PCR-based or antigen-based PoCT instruments are coming into widespread usage in settings such as local clinics, long-term care homes, pharmacies, schools, and workplaces. However, such PoCTs require accompanying test-controls to satisfy health regulators that errors relating to operators, consumables, or instruments will be quickly and reliably identified. Microbix QAPs are ideally-suited for that purpose, most notably when formatted onto the FLOQSwab™ flocked-swabs of Copan Italia S.p.A., made using Microbix's innovative techniques, and protected by the intellectual property of each firm.

The largest of such opportunities involves FLOQswab-based QAPs being incorporated into kits of PoCT cartridges at fixed ratios (e.g., 1 QAP per 20 PoCT tests) for use to help ensure test or test-workflow accuracy. With major international test-makers intending to sell millions of cartridges per month across multiple pathogen categories, it is not difficult to see how revenues may build for Microbix in this industry area. A first such alliance was announced by Microbix in August 2022, and meaningful revenues are expected as soon as that multinational test-maker, and others, wend their way through the needed design optimization and regulatory approvals for instruments and test kits.

Microbix is also enhancing infrastructure to support its growth objectives and expectations. Such enhancements include investments into people, equipment, and systems. Concerning people, the Company continues to work to retain our current great team, while adding new members with further skills and capabilities. For equipment, Microbix is investing to improve reliability, enhance capacity, and remove drudgery. With systems, the Company is making material investments into modernized and scalable Enterprise Resource Planning (ERP) software, alongside moving to a paperless Quality Management System (eQMS) – both of which are essential for Microbix continuing to grow the business. In the immediate term such investments can compress margins, but Management is convinced of their mid- and long-term benefits.

We thereby come to Microbix today and tomorrow. Already, a Company approaching C$ 20 million in annual sales with deep and broad life sciences capabilities that has achieved profitability for two consecutive years and attained a strong financial position. Now a fully-fledged medical devices firm poised to benefit from medical diagnostics being used more effectively and frequently than ever, via over 100 established international customer relationships. Management's near-term goals comprise still higher and more consistent sales volumes at expanding gross margins to drive growth in net earnings, free cash flow, and the value of Microbix's common stock for all shareholders.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

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

The Company has incurred historical losses resulting in an accumulated deficit of $38,171,193 as at December 31, 2022. Management continuously monitors the financial position of the Company with respect to working capital needs, as well as long-term capital requirements compared to the annual operating budget. Variances are highlighted and actions are taken to ensure the Company is appropriately capitalized.

Future Liquidity and Capital Needs

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 2023, cash flow is expected to improve due to: 1) continued growth in overall product sales, 2) improvements in product pricing or other sales terms, 3) greater sales of higher percentage gross margin products, and 4) other business development and financial initiatives. Management expects these developments will continue to 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 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 were subject to a hold period which expired four months and one day from the date of closing.

In addition, on May 19, 2021, the Company completed a public offering and concurrent private placement offering of an aggregate of 11,500,000 units for total gross proceeds of $6,900,000, and net proceeds of $6,131,568 after share issuance costs of $768,432. Each unit consisted of one common share of Microbix and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $0.80 for two years. The financing was a "bought deal", with co-lead underwriters of the Offering (iA Private Wealth Inc. and Bloom Burton Securities Inc.). Cash commissions of $402,500 were paid and an aggregate of 670,833 Broker's Warrants were issued in the public offering. Each Broker's Warrant entitles the holder to purchase one unit at a price of $0.60 for a period of two years. All securities issued under the concurrent private placement were subject to a hold period which expired four months and one day from the date of closing.

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"). The Grant of $1,445,000 was to 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 medium (generically "VTM" and branded "DxTM™") needed for Ontario's lab-based testing for COVID-19 disease or other tests of concern to public health or safety. 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 was paid upon project completion and a review of Eligible Project Expenditures incurred during the project, up to February 28, 2022. During the year ended September 30, 2021 the Company recognized $717,587 (2020 - nil) of grant income. The company also recorded a $680,202 reduction in capital asset costs.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES (Continued)

***Future Liquidity and Capital Needs* (Continued)**

During the year ending September 30, 2022, the Company received $2,637,330 from the exercise of 7,480,293 warrants and received $806,800 from the exercise of 2,960,00 options. In addition, a $500,000 debenture was converted to 2,173,913 shares during the fourth quarter of fiscal 2022.

During fiscal 2022, the Company made an early repayment of the remaining outstanding principal relating to a $2.0 million non-convertible 9% interest debenture. A payment of $1,331,758, including accrued interest, was made on October 1, 2021. In addition, in April 2022 the Company repaid a non-convertible $500,000 debenture when it came due.

On December 3, 2021 the Company prepaid in full the outstanding balance including accrued interest for a BDC loan, totaling $266,094. See the long-term debt note for further details.

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

Outstanding Share Capital

Share capital issued and outstanding as at December 31, 2022 was $49,654,958 for 138,453,873 common shares and September 30, 2022 was $49,918,916 for 138,991,373 common shares.

Global pandemic

In early 2020, a novel Corona virus (SARS-COV-2) was identified to be spreading in human populations around the world and on March 11, 2020, the World Health Organization declared a global pandemic (The "Pandemic"). The Pandemic has since caused significant health, social, and economic harms and instability that continues to be felt worldwide.

Microbix has reviewed, and continues to review, the effects of the Pandemic and its aftermath on its operations. Such effects may include impacts on the Company's business that cannot be predicted, including upon the estimates, judgments, and assumptions used in the preparation of its financial statements, the setting of strategic objectives, or the realization of such objectives.

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

Normal Course Issuer Bid ("NCIB")

On October 3, 2022 the Company initiated Normal Course Issuer Bid ("NCIB") program for the repurchase and cancellation of outstanding common shares. In accordance with the rules of the Toronto Stock Exchange and as detailed in the Company's news release of September 28, 2022, the NCIB enables the Company to repurchase up to 5% of its common shares over a 12-month period. During the first quarter of fiscal 2023 the Company repurchased 756,000 shares at a cost of $360,678 and cancelled 558,500 shares.

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 December 31, 2022.

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 21 to the audited consolidated financial statements for the year ended September 30, 2022.

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 pricing, availability and measures to prevent its spread and associated government economic policies 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 materials needed for its products; (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:

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 antigen product 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, as well as the value of inventories and other assets.

Environmental, safety and other regulatory

Microbix' research and manufacturing operations involve 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.

RISKS AND UNCERTAINTIES (Continued)

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.

Viral Transport Medium Products (DxTM)

Microbix's newest product offering, DxTM is principally reliant upon sales to designates of the Government of Ontario. There is no assurance that sales to such designates will be ongoing or that other customers will be secured.

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

Future success may depend on successfully commercializing new products or technologies

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

Failure to obtain and protect intellectual property could adversely affect business

Microbix' future success depends, in part, on its ability to obtain patents, or licenses to patents, maintain trade secret protection and enforce its rights against others. The Company's intellectual property includes trade secrets and know-how that may not be protected by patents. There is no assurance that the Company will be able to protect its trade know-how. To help protect its intellectual property, the Company requires employees, consultants, advisors and collaborators to enter into confidentiality agreements. However, these agreements may not adequately protect trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Protection of intellectual property may also entail prosecuting claims against others who the Company believes are infringing its rights or securing its freedom to operate relative to the rights of other 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.

RISKS AND UNCERTAINTIES (Continued)

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 accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. As at December 31, 2022, five customers accounted for 63% (September 30, 2022 - five customers accounted for 56%) of the outstanding balance. In addition, for the quarter ended December 31, 2022, five customers accounted for 72% (December 31, 2021 - five customers accounted for 79%) of revenues. The Company has had minimal bad debts over the past several quarters and accordingly management has recorded an allowance of $35,000 (September 30, 2022 - $35,000).

Currency risk:

The Company is exposed to currency risk given its global customer base. 60-70% 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, 2022 and September 30, 2022, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	U.S. dollars		**Euros**	
	December 31 2022	September 30 2022	December 31 2022	September 30 2022
Cash	**$ 1,915,048**	$ 302,698	**$ 4,431**	$ 87,613
Accounts receivable	**$ 1,850,803**	$ 1,645,040	**$ 360,324**	$ 1,221,837
Accounts payable and accrued liabilities	**$ 314,692**	$ 126,716	**$ -**	$ 45,994

Based upon 2022 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 $478,300 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 $165,800. 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 $478,300 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 $165,800.

FINANCIAL RISK MANAGEMENT (Continued)

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. When employed, this facility has helped to satisfy the Company's liquidity needs and to manage the liquidity risk.

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, 2022 the Company has not drawn on this line of credit. A 1% increase in the bank rate would cost the Company approximately $17,000 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.

Fair value

The fair value of a financial instrument is approximated by the consideration that would be agreed to in an arm's length transaction between willing parties and through appropriate valuation methods, but considerable judgement is required for the Company to determine the value. The actual amount that could be realized in a current market exchange could be different than the estimated value. The fair values of financial instruments included in current assets and current liabilities approximate their carrying values due to their short-term nature.

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

CRITICAL ACCOUNTING ESTIMATES

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

Intangible Assets

Intangible assets include technology costs, patents, trademarks and licenses. Each is recorded at cost and amortized on a straight-line basis over the term of the agreements 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.

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.

CRITICAL ACCOUNTING ESTIMATES (Continued)

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, 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, 2022, management has concluded that the disclosure controls are effective in providing reasonable assurance that information required to be disclosed in the Company's reports is recorded, processed summarized and reported within the time periods specified in the Canadian Securities Administrator's rules and forms.

Internal Controls Over Financial Reporting

The design of internal controls over financial reporting ("ICFR") within the company is a management responsibility to provide reasonable assurance that the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with generally accepted accounting principles of IFRS. While the CEO and CFO believe that the internal controls are adequate to provide the above information, the process to evaluate and document all policies and procedures that could impact financial reporting is continuously reviewed with consultation with the Audit Committee. Shareholders should be aware that Microbix is a small company without the department resources associated with larger firms. Management is using the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). Framework and has concluded that the Internal Control over Financial Reporting ("ICFR") as defined in NI 52-109 is effective as at the period ended December 31, 2022. 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, 2022 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

IMPACT OF NEW ACCOUNTING STANDARDS NOT YET ADOPTED

Amendments to IAS 1

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IFRS 9, Financial Instruments ("IFRS 9")

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on after January 1, 2023. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendment to IAS 1 requires companies to disclose their material accounting policy information rather than its significant accounting policies. The amendment also clarifies that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied prospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

IMPACT OF NEW ACCOUNTING STANDARDS NOT YET ADOPTED (Continued)

Amendments to IAS 12 – Income Taxes ("IAS 12")

Amendments to IAS 12 were issued in May 2021, IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amends IAS 12. The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offset temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively.

Amendments to IAS 37: Onerous Contracts ("IAS 37")

In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, to specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The new guidance will be effective for annual periods beginning on or after January 1, 2022 and is to be applied to contracts that have unfulfilled obligations as at the beginning of that period. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION **Unaudited**

As at December 31, 2022 and September 30, 2022 **Canadian Funds**

	As at December 31 2022	As at September 30 2022
ASSETS		
CURRENT ASSETS		
Cash	$ 12,425,322	$ 13,488,075
Accounts receivable	2,838,376	3,057,797
Inventory (Note 4)	6,087,162	5,284,920
Prepaid expenses and other assets	658,871	546,318
Investment tax credit receivable	56,266	31,262
TOTAL CURRENT ASSETS	22,065,997	22,408,372
LONG-TERM ASSETS		
Long-term deposits	332,250	332,250
Property, plant and equipment (Note 5)	8,835,487	8,906,256
Intangible assets	1,459,947	1,498,318
TOTAL LONG-TERM ASSETS	10,627,684	10,736,824
TOTAL ASSETS	$ 32,693,681	$ 33,145,196
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,783,414	$ 1,828,539
Current portion of long-term debt (Note 7)	111,120	111,120
Current portion of lease liability (Note 5)	112,508	156,231
Deferred revenue (Note 18)	1,482,151	554,631
TOTAL CURRENT LIABILITIES	3,489,193	2,650,521
Debentures (Note 6)	1,664,163	1,628,262
Lease liability (Note 5)	846,113	846,114
Long-term debt (Note 7)	3,232,962	3,081,644
TOTAL LONG-TERM LIABILITIES	5,743,238	5,556,020
TOTAL LIABILITIES	$ 9,232,431	$ 8,206,541
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	$ 49,654,958	$ 49,918,916
Equity component of convertible debentures (Note 6)	2,272,566	2,272,566
Contributed surplus	9,704,919	9,619,104
Accumulated deficit	(38,171,193)	(36,871,931)
TOTAL SHAREHOLDERS' EQUITY	$ 23,461,250	$ 24,938,655
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 32,693,681	$ 33,145,196

Commitments and Contingencies (Note 20)

(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 AND COMPREHENSIVE INCOME **Unaudited**

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

	2022	2021
SALES		
Product Sales	$ 2,337,309	$ 4,732,813
Royalties	164,763	122,787
TOTAL SALES (Notes 17, 18)	2,502,072	4,855,600
COST OF GOODS SOLD		
Product costs (Notes 4)	1,291,302	1,616,136
Royalties	24,795	17,606
TOTAL COST OF GOODS SOLD	1,316,097	1,633,742
GROSS MARGIN	1,185,975	3,221,858
EXPENSES		
Selling and business development	362,102	337,781
General and administrative	1,601,099	1,298,088
Research and development	424,958	464,461
Financial expenses (Note 14)	97,078	240,750
NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD	(1,299,262)	880,778
NET INCOME PER SHARE		
Basic (Note 12)	$ (0.009)	$ 0.007
Diluted (Note 12)	$ (0.009)	$ 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**

	2022	2021
OPERATING ACTIVITIES		
Net income for the period	$ (1,299,262)	$ 880,778
Items not affecting cash		
Amortization and depreciation (Note 17)	241,294	223,084
Accretion of debentures (Note 6)	35,901	69,632
Stock options expense (Note 11)	174,974	127,647
Accretion interest expense (Note 14)	39,044	24,132
Change in non-cash working capital balances (Note 13)	94,183	(1,609,287)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(713,867)	(284,014)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (Note 5)	(132,153)	(153,283)
CASH USED IN INVESTING ACTIVITIES	(132,153)	(153,283)
FINANCING ACTIVITIES		
Repayments of long-term debt (Note 7)	(27,780)	(307,290)
Proceeds from Government Loan and Grant (Note 7)	216,563	-
Repayments of convertible and non-convertible debentures (Note 6)	-	(1,316,821)
Payment of lease liabilities	(52,398)	(62,674)
Repurchase of common shares	(360,678)	-
Proceeds from exercise of warrants and options	7,560	2,633,196
CASH PROVIDED BY FINANCING ACTIVITIES	(216,733)	946,411
NET CHANGE IN CASH - DURING THE PERIOD	(1,062,753)	509,114
CASH - BEGINNING OF YEAR	13,488,075	9,986,312
CASH - END OF PERIOD	$12,425,322	$ 10,495,426

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, 2022 and 2021 **Canadian Funds**

	Share Capital (Note 10)					
	Number of Shares	Stated Capital	Contributed Surplus	Deficit	Equity Component of Debentures	Total Shareholders' Equity
Balance, September 30, 2021	126,377,167	$ 43,609,601	$10,703,374	$(38,660,620)	$ 2,903,789	$ 18,556,144
Stock option expense	-	-	127,647	-	-	127,647
Share Issuance pursuant to						
Exercise of Warrants	6,779,919	3,489,000	(1,070,805)	-	-	2,418,195
Exercise of Options	800,000	366,200	(151,200)	-	-	215,000
Net income and comprehensive income for the period	-	-	-	880,778	-	880,778
Balance, December 31, 2021	133,957,086	$ 47,464,801	$ 9,609,016	$(37,779,842)	$ 2,903,789	$ 22,197,764
Share-based compensation expense	-	-	522,046	-	-	522,046
Share Issuance pursuant to						
Exercise of Warrents	700,374	319,072	(99,938)	-	-	219,134
Exercise of Options	2,160,000	1,003,820	(412,020	-	-	591,800
Conversion of Debentures	2,173,913	1,131,222	-	-	(631,223)	499,999
Net income and comprehensive income for the year	-	-	-	907,911	-	907,911
Balance, September 30, 2022	138,991,373	$ 49,918,915	$ 9,619,104	$(36,871,931)	$2,272,566	$ 24,938,654
Stock option expense	-	-	174,974	-	-	174,974
Share Issuance pursuant to						
Exercise of Warrants	21,000	7,561	-	-	-	7,561
Exercise of Options	-	-	-	-	-	-
Repurchase of Shares	(558,500)	(271,518)	(89,159)	-	-	(360,677)
Net income and comprehensive income for the period	-	-	-	(1,299,262)	-	(1,299,262)
Balance, December 31, 2022	**138,453,873**	**$ 49,654,958**	**$ 9,704,919**	**$(38,171,193)**	**$2,272,566**	**$ 23,461,250**

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. and its subsidiaries (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 well-being. Microbix manufactures a wide range of critical biological materials and medical devices for the global diagnostics industry, notably test ingredients (Antigen business) used in immunoassays, quality assessment products to help ensure test and test-workflow accuracy (QAPsTM business), and sample-collection devices such as viral transport medium (DxTM™ 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, 2022, 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, 2022.

The Board of Directors approved these interim condensed consolidated financial statements on February 8, 2023.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates and judgments

The timely preparation of the interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the interim condensed consolidated financial statements.

Global pandemic

In early 2020, a novel Coronavirus (named "SARS-CoV-2" and causing the disease "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 and continues to review, 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 evolving COVID-19 pandemic and the societal actions required to continue to contain the COVID-19 pandemic 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 inventories or 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 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 (Continued)

Accounting standards and amendments issued but not yet adopted

Amendments to IAS 1
In January 2020, the IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IFRS 9, Financial Instruments ("IFRS 9")
As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")
In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company is still assessing the impact of adopting these amendments on its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendment to IAS 1 requires companies to disclose their material accounting policy information rather than its significant accounting policies. The amendment also clarifies that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied prospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amendments to IAS 12 – Income Taxes ("IAS 12")
Amendments to IAS 12 were issued in May 2021, IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amends IAS 12. The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offset temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively.

Amendments to IAS 37: Onerous Contracts ("IAS 37")
In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, to specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The new guidance will be effective for annual periods beginning on or after January 1, 2022 and is to be applied to contracts that have unfulfilled obligations as at the beginning of that period. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

4. INVENTORIES

Inventories consist of the following:

	December 31, 2022	September 30, 2022
Raw materials	$ 1,293,466	$ 1,106,113
Work in process	1,507,947	1,716,451
Finished goods	3,285,749	2,462,356
	$ 6,087,162	$ 5,284,920

During the quarter ended December 31, 2022, inventories in the amount of $1,291,302 (December 31, 2021 - $1,616,136) were recognized as an expense through cost of goods sold. The allowance for inventory impairment as at December 31, 2022 was $204,963 (September 30, 2022 - $279,963).

5. PROPERTY, PLANT, AND EQUIPMENT AND LEASES

The freehold land and buildings have been pledged as security for bank loans under a mortgage (see Note 7). 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, 2022	$ 6,198,311	$ $600,258	$ 7,072,624	$ 1,697,014	$ 800,000	$ 16,368,206
Additions	11,947	28,416	91,791	1	-	132,154
Balance, as at December 31, 2022	**6,210,258**	**628,673**	**7,164,414**	**1,697,015**	**800,000**	**16,500,360**
ACCUMULATED DEPRECIATION						
Balance, as at September 30, 2022	2,221,807	472,737	4,249,204	518,203	-	7,461,950
Depreciation	101,463	3,871	53,440	44,148	-	202,923
Balance, as at December 31, 2022	**2,323,270**	**476,608**	**4,302,644**	**562,351**	**-**	**7,664,873**
NET BOOK VALUE						
Balance, September 30, 2022	3,976,504	127,521	2,823,420	1,178,811	800,000	8,906,256
Balance, December 31, 2022	**$ 3,886,987**	**$ 152,065**	**$ 2,861,771**	**$ 1,134,664**	**$ 800,000**	**$ 8,835,487**

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

	Right-of-Use Assets		
	Property	Equipment	Lease Liabilities
Balance, September 30, 2022	$ 941,619	$ 235,944	$ 1,002,346
Additions	-	-	-
Depreciation Expense	(36,769)	(6,131)	-
Interest Accretion	-	-	8,675
Payments	-	-	(52,400)
Balance, December 31, 2022	**$ 904,850**	**$ 229,814**	**$ 958,621**
Current Portion			$ 112,508
Non-current portion			846,113

5. PROPERTY, PLANT, AND EQUIPMENT AND LEASES (Continued)

Lease liabilities for leases that were entered during the period ended December 31, 2022 were discounted using an incremental borrowing rate of 3.5% (December 31, 2022 – 3.5%).

Lease obligations as at December 31, 2022 are:

	Amount
2023	$ 136,861
2024	180,574
2025	151,322
2026	96,363
2027	93,518
2028 and thereafter	444,211
Total	**$ 1,102,849**

6. DEBENTURES

The Company has convertible and non-convertible debentures issued and outstanding as at December 31, 2022. The carrying values of the debt component of these debentures are as follows:

	Convertible debentures		Total convertible debentures
	(a)	(b)	
Date of issue	Oct, 2016	Oct, 2016	
Face value	$ 1,500,000	$ 2,500,000	$ 4,000,000
Liability component at the date of issue	461,550	780,750	-
Balance, September 30, 2022	596,208	1,032,054	1,628,262
Accretion	12,565	23,336	35,901
Repayments	-	-	-
Balance, December 31, 2022	608,773	1,055,390	1,664,163
Less: current portion	-	-	-
Non-current portion	**608,773**	1,055,390	1,664,163
Balance, December 31, 2022	$ 608,773	1,055,390	1,664,163
Equity component at December 31, 2022	574,435	1,698,131	2,272,566
Conversion price per common share	$ 0.23	$ 0.23	
Effective interest rate charged	31.07%	30.85%	
Payment frequency	Quarterly	Quarterly	
Maturity of financial instrument	Jan, 2029	Sep, 2028	
Stated interest rate	9%	9%	
Terms of repayment	Interest only	Interest only	
Blended quarterly repayment	N/A	N/A	

6. DEBENTURES (Continued)

The debentures denoted as (a), and (b) 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 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. Over the term of the convertible debentures, the debt components are being accreted to the face value of the debentures by the recording of additional interest expense using the effective interest rate, as detailed above.

During fiscal 2022, the Company made an early repayment of a 9% interest non-convertible debenture, repaying in full. A payment of $1,331,758, including accrued interest, was made on October 1, 2021. In addition, on February 15, 2022 a $500,000 convertible debenture was converted into 2,173,913 common shares. During Q3 of fiscal 2022, a $500,000 non-convertible debenture was fully repaid on maturity at the end of April 2022.

7. **LONG-TERM DEBT, BANK INDEBTEDNESS AND OTHER DEBT**

a) The Company has used term loans with the Business Development Bank ("BDC") for a variety of purposes. The following summarizes these loans as at December 31, 2022:

Term Loans with the Business Development Bank ("BDC")	(a)	(b)	Total
Effective date of loan	Jun, 2008	Jul, 2018	
Initial Loan Amount	$ 3,000,000	$ 323,906	$ 3,773,906
Balance, September 30, 2021	1,824,220	279,510	2,103,730
Proceeds from laon	-	-	-
Loan repayments during the period	(111,120)	(279,510)	(390,630)
Balance, September 30, 2022	$ 1,713,100	$ -	$ 1,713,100
Proceeds from loan	-	-	-
Loan repayments during the period	(27,780)	-	(27,780)
Balance, December 31, 2022	**$ 1,685,320**	**-**	**$ 1,685,320**
Current Portion	$ 111,120	-	$ 111,120
Non-current portion	1,574,200	-	1,574,200

The remaining BDC loan has a floating interest rate based on BDC's floating base rate less 1.0%. At December 31, 2022, the rate was 7.55% (2021 – 5.05%). The loan is secured with the building and equipment. On December 3, 2021 the Company prepaid in full the outstanding balance including accrued interest for loan (b) above, totalling $266,094.

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

As at December 31, 2022, the commitments for the next five fiscal years and thereafter for the BDC loan is as follows:

	Amount
2023	$ 83,340
2024	111,120
2025	111,120
2026	111,120
2027	111,120
2028 and thereafter	$ 1,157,500

b) The Company has a $2,000,000 line of credit with its Chartered Bank that is available for use. This line of credit bears interest at prime plus 2% (8.45% on December 31, 2022). As at December 31, 2022 the Company had no funds drawn on the facility (December 31, 2021- nil). The Company's availability and usage of this facility varies across its manufacturing, sales and Accounts Receivable 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 following 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, 2022, the Company has received contributions totalling $2,375,166 (December 31, 2021 – $1,086,501). The Company determined that the "Loan" consists of two components: an obligation to repay; and a government grant in the form of exemption from interest. The Company fair valued the obligation to repay at $1,658,762 (December 31, 2021 – $646,118), based on a discount rate of 8%, which represents management's best estimate of fair value. The residual amount of $716,404 (December 31, 2021 – $440,383) 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, 2022, the carrying value of the Loan is $1,658,762 (December 31, 2021 – $690,795) and $352,158 is recognized as a deferred grant within deferred revenue on the statement of financial position (December 31, 2021– $116,947).

The Company is in compliance with the covenants associated with this loan as at December 31, 2022.

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

Fiscal Years	Amount
2025	$ 395,861
2026	475,033
2027	475,033
2028	475,033
2029	475,033
2030	79,173

8. 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"). The Grant of $1,445,000 was to 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 medium (generically "VTM" and branded "DxTM™") needed for Ontario's lab-based testing for COVID-19 disease or other tests of concern to public health or safety.

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 was paid upon project completion following a review of Eligible Project Expenditures incurred during the project, up to February 28, 2022. During the year ended September 30, 2021 the Company recognized $717,587 of grant income. The company also recorded a $680,202 reduction in capital asset costs. The excess claims of $578,000 for the remainder of the grant have been previously recognized in accounts receivable. During Q3 of fiscal 2022, a final review of the project was completed and the contractual $578,000 holdback was received by Microbix during April 2022.

9. 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 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 were subject to a holding period, which expired four months and one day from the date of closing.

On May 19, 2021, the Company completed a public offering and concurrent private placement offering of an aggregate of 11,500,000 units for total gross proceeds of $6,900,000, for net proceeds of $6,131,568 after share issuance costs of $768,432. $5,167,002 has been allocated to stated capital and $964,566 has been allocated to warrants. Each unit consisted of one common share of Microbix and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $0.80 for two years. The financing was a bought deal, with co-lead underwriters of the Offering (iA Private Wealth Inc. and Bloom Burton Securities Inc.). Cash commissions of $402,500 were paid and an aggregate of 670,833 Broker's Warrants were issued in the public offering. Each Broker's Warrant entitles the holder to purchase one unit at a price of $0.60 for a period of two years. Fair value of the broker warrants was determined to be $157,762 using the Black-Scholes option pricing model. The volatility of the stock for the Black-Scholes options pricing model was based on 2-year historic volatility of the Company's stock price (77%) and the risk-free rate of interest of .32% was based upon the Government of Canada benchmark bond yields at the date of the award of the Broker's warrants. 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 $0.60 for a period of two years. All securities issued under the concurrent private placement were subject to a hold period, which expired four months and one day from the date of closing.

9. SHARE CAPITAL (Continued)

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

	Number of Shares	Stated Capital
Balance, as at September 30, 2022	138,991,373	$ 49,918,916
Exercise of Warrants	21,000	7,560
Stock repurchase and cancellation	(558,500)	(271,518)
Balance, as at December 31, 2022	**138,453,873**	**$ 49,654,958**

10. COMMON SHARE PURCHASE WARRANTS

A continuity of the Company's warrants outstanding as at December 31, 2022 is presented in the following table:

	Units	Weighted average exercise price
Balance, September 30, 2022	15,573,397	$ 0.53
Warrants Exercised	(21,000)	0.36
Balance, December 31, 2022	**15,552,397**	**$ 0.53**

A summary of the Company's warrants outstanding as at December 31, 2022 and September 30, 2022 is presented in the following table:

	December 31, 2022			September 30, 2022		
	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:						
$0.60 to $0.80	6,420,833	$ 0.78	0.38	6,420,833	$ 0.78	0.63
$0.30 to $0.36	9,131,564	0.36	2.04	9,152,564	0.36	2.29
	15,552,397	$ 0.53	1.35	15,573,397	$ 0.53	1.61

11. 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, 2022, the Company has a total of 9,724,000 options (September 30, 2022– 9,724,000) issued and is eligible to issue up to a total of 13,845,387 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 year 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 year ended December 31, 2022 is as follows:

	Units	Weighted average exercise price
Balance, September 30, 2022	9,724,000	$ 0.44
Balance, December 31, 2022	**9,724,000**	**$ 0.44**
Exercisable, December 31, 2022	**2,080,000**	**$ 0.24**

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, 2022 and September 30, 2022:

	December 31, 2022			September 30, 2022		
	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:						
$0.46 to $0.73	5,444,000	$ 0.61	3.69	5,444,000	$ 0.61	3.94
$0.215 to $0.28	4,280,000	$ 0.22	1.72	4,280,000	$ 0.22	1.98
	9,724,000	$ 0.44	2.83	9,724,000	$ 0.44	3.08

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 $174,974 (2021 - $127,647).

12. INCOME PER SHARE

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

For the period ended December 31	2022	2021
Numerator for basic income (loss) per share:		
Net income (loss) available to common shareholders	$ (1,299,262)	$ 880,778
Net income (loss) for dilutive earnings per share	$ (1,299,262)	$ 923,843
Denominator for basic income (loss) per share:		
Weighted average common shares outstanding	138,711,434	130,401,577
Dilutive Effect	-	10,369,231
Dilutive weighted average common shares outstanding	138,711,434	140,770,808
Net income (loss) per share:		
Basic	($0.009)	$0.007
Diluted	($0.009)	$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:

For the period ended December 31	2022	2021
Pursuant to warrants	15,552,397	5,750,000
Under stock options	9,724,000	50,000
Pursuant to convertible debentures	17,391,304	13,043,478
	42,667,702	18,843,478

13. CHANGES IN NON-CASH WORKING CAPITAL

For the period ended December 31	2022	2021
Accounts receivable	$ 219,421	$ (1,385,305)
Inventory	(802,242)	(442,788)
Prepaid expenses and other assets	(112,553)	(116,616)
Investment tax credits receivable	(25,004)	762
Deferred Revenue	926,412	328,090
Accounts payable and accrued liabilities	(111,851)	7,332
	$ 94,183	**$ (1,608,525)**

14. FINANCIAL EXPENSES

For the period ended December 31	2022	2021
Cash interest:		
Interest on long-term debt	$ 29,499	$ 28,553
Interest on debentures	90,000	116,250
Interest other	513	2,183
Interest income	(97,878)	-
Non-cash interest:		
Accretion on debentures	35,901	69,632
Accretion interest expense	39,044	24,132
Financial expenses	**$ 97,078**	**$ 240,750**

15. CAPITAL MANAGEMENT

The Company's capital management objective is to safeguard its ability to function as a going concern while also maintaining and growing its operations and funding its development activities. Microbix defines its capital to include any drawn portion of the revolving line of credit, shareholders' equity, long-term debt, and debentures. The capital at December 31, 2022 was $28,469,495 (September 30, 2022 - $29,759,681).

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 provided through public offerings or 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 (BDC), 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 7.

The Company's general policy is to not pay dividends and retain cash to keep funds available to finance the Company's growth. Similarly, the Board of Directors may, from time to time, choose to declare a dividend in assets if warranted by circumstances. Also, the Board of Directors may, from time to time, choose to initiate a buy-back of issued common shares. There was no change during the year in how the Company defines its capital or how it manages its capital.

16. FINANCIAL INSTRUMENTS

The Company categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observation of the inputs used in the measurement.

For the periods ended December 31, 2022 and September 30, 2022, the Company has carried at fair value financial instruments in Level 1. At December 31, 2022, the Company's only financial instrument measured at fair value is cash, which is considered to be a Level 1 instrument. There were no transfers between levels during the year.

The three levels are defined as follows:

a) Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets
b) Level 2: Fair value is based on inputs other than quoted prices included within Level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
c) Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

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-22	$ 12,425,322	-	-
Liabilities for which fair values are disclosed:				
Convertible debentures	31-Dec-22	-	1,664,163	-
Long-term-debt and other debt	31-Dec-22	-	3,344,082	-

	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-22	$ 13,488,075	-	-
Liabilities for which fair values are disclosed:				
Convertible debentures	30-Sep-22	-	1,628,262	-
Long-term-debt and other debt	30-Sep-22	-	3,192,764	-

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.

17. SEGMENTED INFORMATION

The Company operates in two ways: (i) the development, manufacturing and sales of products relating to the medical diagnostics industry, namely antigens as test ingredients, quality assessment products to help ensure the accuracy of test workflows and viral transport medium to enable collection of patient test samples and, (ii) the development and commercialization of novel and proprietary products or technologies such as Kinlytic. The following is an analysis of the Company's revenues and profits from continuing operations for the quarter ended December 31, segmented between categories (i) and (ii) (including Kinlytic):

	Segment revenue		Operating Income (loss)	
For the quarter ended December 31	2022	2021	2022	2021
Antigens, QAPs and DxTM	$ 2,502,072	$ 4,854,356	$(1,295,123)	$ 902,343
Other (Includes Kinlytic®)	-	1,244	(4,140)	(21,565)
Total for continuing operations	$ 2,502,072	$ 4,855,600	$ (1,299,262)	$ 880,778

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2021 - $nil).

Segment income represents the profit before tax earned by each segment without allocation of central administration costs, directors' fees, and finance costs. These general costs are reflected in category (i) and (ii) segments. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

	Segment assets		Segment liabilities	
	December 31 2022	September 30 2022	December 31 2022	September 30 2022
Antigens, QAPs and DxTM	$ 32,693,681	$33,145,196	$ 9,232,431	$ 8,206,541
Other (Includes Kinlytic®)	-	-	-	-
	$ 32,693,681	$33,145,196	$ 9,232,431	$ 8,206,541

17. SEGMENTED INFORMATION (Continued)

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

Segmented depreciation and amortization, 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	
	2022	2022	2022	2022
Antigens, QAPs and DxTM	$ 241,294	$ 223,084	$ 132,153	$ 153,283
Other (Includes Kinlytic®)	-	-	-	-
	$ 241,294	$ 223,084	$ 132,153	$ 153,283

18. 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	2022	2021	2022	2021
North America	$ 2,027,824	$ 3,563,492	$ 10,627,684	$ 9,677,786
Europe	472,381	1,283,591	-	-
Other foreign countries (directly)	1,867	8,517	-	-
	$ 2,502,072	$ 4,855,600	$10,627,684	$ 9,677,786

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

For the period ended December 31	2022	2021
Balance, beginning of the quarter	$ 554,631	$ 742,932
Cash payments or advance payments on performance obligations	968,743	603,175
Revenue recognized during the quarter	(42,330)	(275,084)
Deferred government grant and loan (see notes 8 and 9)	1,108	(7,166)
Balance, end of quarter	$ 1,482,151	$ 1,501,222

19. 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 six independent directors and four key management executive officers. Compensation for the Company's key management personnel was as follows:

	Three months ended December 31, 2022	Three months ended December 31, 2021
Short-term wages, bonuses and benefits	$ 273,655	$ 297,686
Share based payments	87,888	60,032
Total key management compensation	$ 361,543	$ 357,718

20. COMMITMENTS AND CONTINGENCIES

Payments on convertible and non-convertible debentures (Note 8)

	Amount
2023	$ 270,000
2024	360,000
2025	360,000
2026	360,000
2027	360,000
2028 and thereafter	4,399,497
	$ 6,109,497

Contingencies

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

DIRECTORS

Peter M. Blecher
Ontario, Canada
Medical Director
NeuPath Centre for Pain & Spine

Mark A. Cochran [2]
Virginia, USA
Managing Director
Johns Hopkins Medicine

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

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

Jennifer A. Stewart [2]
Ontario, Canada
Chief Executive Officer
Syntax Strategic

[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	*TSX Trust Company*
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

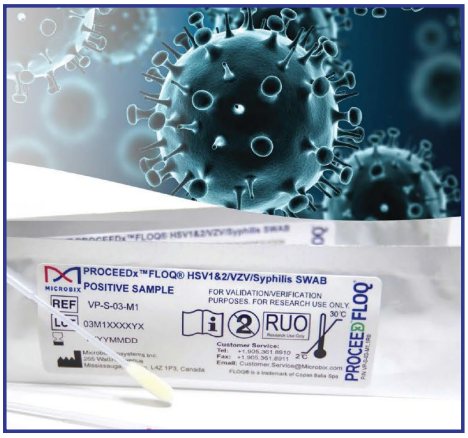
James S. Currie
Chief Financial Officer

Kenneth Hughes
Chief Operating Officer

Dr. Mark Luscher
Senior Vice-President, Scientific Affairs

Phillip Casselli
Senior Vice-President, Sales & Business Development

Christopher B. Lobb
General Counsel & Secretary



MICROBIX

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