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, 2017, prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on Sedar. Additional information relating to the Company, including its Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com. Reference to "we", "us", "our", or the "Company" means Microbix Biosystems Inc. unless otherwise stated. All amounts are presented in Canadian dollars unless otherwise stated. Statements contained herein, which are not historical facts, are forward looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth or implied. These forward-looking statements involve risks and uncertainties, including the difficulty in predicting product approvals, acceptance of and demand for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, regulatory enforcement, changes in operating results and other risks, some or any of which could make the results differ materially from those discussed or implied in the forward-looking statements. The Company disclaims any intent or obligation to update these forward-looking statements.

The Management Discussion and Analysis is dated December 19, 2017.

COMPANY OVERVIEW

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX) develops biological products and technologies. The Company has viral and bacterial products (Virology) business including the manufacturing and sale of cell culture-based biological products, including one of the world's most expansive sources of infectious disease antigens targeted at the diagnostics market. The Company owns Kinlytic® Urokinase, an FDA regulated human thrombolytic drug, and is developing LumiSort™, a technology platform for ultra-rapid and efficient sorting of somatic cells that can be used to enrich cell populations of interest, such as in sexing semen.

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

The Company owns and operates a Virology manufacturing facility at 265 Watline Avenue in Mississauga, Ontario. The facility has an infectious diseases biological license from the Canadian Food Inspection Agency. The Company's administrative offices are located at 211 Watline Avenue, Mississauga, Ontario.

FINANCIAL OVERVIEW **Canadian Funds**

Year Ending September 30, 2017

Total revenue was $10,185,798, a 7% increase over 2016's revenue of $9,517,137. Included was Virology product revenue of $9,891,859, 7% higher than 2016, with the growth due to increased sales to long standing customers. Revenue from royalties were up slightly at $293,939 (2016 - $280,985).

Gross margins of 47% (2016 – 52%) decreased by $167,671 versus 2016, due to changes in the product mix and in large part to a production processing issue in the second half of fiscal 2017

Expenses in 2017 increased by $4,210,824 compared to last year. This was primarily due to non-recurring costs related to (1) a non-cash adjustment of $2,457,014 to restructure the Company's convertible debentures as part of a debt refinancing initiative that was necessary in order to implement an enhanced revolving credit facility for the Company, (2) the settlement of a dispute with the buyer of the Company's WFI business in 2012 in the amount of $273,540 and (3) last year the Company capitalized $850,947 more internal development costs, related to the new bioreactor manufacturing process. In addition, the Company incurred $687,795 more in legal costs than last year, the majority of which were non-recurring legal costs related to a lawsuit that was resolved to our satisfaction at the end of fiscal 2017.

As a result, the Company experienced a net loss for the year of $3,780,088 (2016 – $748,407 net profit). After these non-recurring costs, the net operating loss before debt restructuring and WFI settlement expenses was $1,499,534 for the year compared to a net operating profit of $148,407 last year.

Cash generated from operations in this period was $297,047 compared to $913,308 in 2016. Cash used in investing activities was $640,750 (2016 - $1,641,126), due to decreased spending on capital equipment and internal development of intangible assets. Cash generated from financing activities was $392,748 (2016 - $629,053), primarily due to no issuance of common shares this fiscal year vs. prior year. Net change in cash for the year was $49,045 in 2017 (2016 - $98,765 negative).

Three Months Ending September 30, 2017

Total revenues for the quarter were $2,813,282, down 19% versus Q4 of 2016 revenues of $3,470,580. Included was Virology product revenue of $2,719,619, down 20% versus Q4 2016, due to higher than normal sales to a key customer in Q4 2016. Approximately $0.6 million of this decrease in Virology sales was due to a product shipment delay past year end. Revenue from royalties were $93,662 (2016 - $58,314).

Gross margins of 39% (2016 – 54%) decreased by $1,047,492 versus Q4 2016, primarily due to decreased sales as a result of production processing issues and resulting delay in product shipments in the second half of 2017. Operating expenses increased by $518,350 compared to the fourth quarter last year. This was primarily due to higher legal costs versus last year and increased stock option expenses.

In total, the Company experienced a net loss for the period of $1,009,911 (2016 – $862,930 net profit).

Cash used in operations in this quarter was $447,812 compared to cash provided of $367,235 in Q4 2016, due to higher deferred revenue from key customers in the same period last year. Cash used in investing activities was ($26,157) (2016 - $267,276), due to decreased spending on internal development of intangible assets and purchase of equipment. Cash provided by financing activities was $312,168 (2016 – $99,633), primarily due to proceeds from our bank credit facility offset by debt and debenture payments. Net change in cash was ($109,486) in the fourth quarter of 2017 (2016 - $325).

CHANGES IN FINANCIAL POSITION

Canadian Funds

	2017	2016
Total Revenue	**$10,185,798**	**$9,517,137**
Gross Margin	**4,812,373**	**4,980,044**
S,G&A Expenses	**4,392,734**	**3,647,390**
R&D Expense	**994,584**	**493,610**
Financial Expenses	**924,589**	**690,637**
Net Operating Income (Loss) (Before Debt Restructuring and Settlement Costs)	**(1,499,534)**	**148,407**
Cash Provided by Operating Activities	**297,047**	**913,308**
Cash	**54,460**	**5,415**
Accounts receivable	**1,337,488**	**2,021,872**
Total current assets	**6,161,837**	**5,661,219**
Total assets	**26,437,611**	**25,247,463**
Total current liabilities	**6,516,249**	**5,248,993**
Total liabilities	**11,262,928**	**9,955,722**
Total shareholders' equity	**15,174,683**	**15,291,741**
Current ratio	**0.95**	**1.08**
Debt to equity ratio	**0.74**	**0.65**

SELECTED QUARTERLY FINANCIAL INFORMATION

	Dec-31-15 $	Mar-31-16 $	Jun-30-16 $	Sep-30-16 $	Dec-31-16 $	Mar-31-17 $	Jun-30-17 $	Sep-30-17 $
Sales	**1,063,405**	**2,729,779**	**2,253,373**	**3,470,580**	**1,952,502**	**2,646,649**	**2,773,365**	**2,813,282**
Operating Income (Loss)	**(428,420)**	**161,979**	**(141,082)**	**555,930**	**(3,366,472)**	**107,649**	**38,646**	**(1,009,911)**
Operating Income (Loss), before Debt restructuring and settlement costs	**(428,420)**	**161,979**	**(141,082)**	**555,930**	**(525,406)**	**107,649**	**(164,104)**	**(917,673)**

OUTLOOK

Microbix' business of producing high quality viral and bacterial antigens is the result of nearly three decades of experience in the field, including strain selection, culturing organisms reliably and at scale, purification of biomass and methods of inactivation. As a result of Microbix' expertise and manufacturing capabilities, its products have received widespread and longstanding customer acceptance, with continuing growth in demand. More recently, growth in demand for its products has been accelerating – as a number of diagnostics for infectious diseases important to public health are beginning to be adopted in the Asia-Pacific region.

Microbix is reinvesting in its business to help ensure that it can meet this growth in demand. Such work includes upgrading its manufacturing technologies, processes and capacity, along with developing and launching new diagnostics-oriented products.

Based on order projections from its customers, management expects sales of viral and bacterial antigens will continue to grow for the foreseeable future. Accordingly, the company is increasing its production – by way of expanding the capacity to make antigen using bioreactors, reallocating its roller-bottle antigen production space and improving in-process controls and downstream production methods. It is intended that these steps increase the revenue potential of current production facilities while also improving margins. As a result of these efforts, management expects to grow sales and improve profitability.

OUTLOOK (Continued) **Canadian Funds**

An emerging product line involves the development and sale of products that assist diagnostics industry participants with meeting quality assurance objectives or requirements – broadly characterized as quality assurance products. Some such products are currently being sold, with more in development. The regulatory requirements of this category of products are dependent on their intended usages and Microbix plans to upgrade its quality systems to meet the highest such requirements – to enable it to realize the full scope of such opportunities. At present, such products comprise approximately 10% of annual sales, with that proportion expected to increase.

Microbix has two sizeable development projects that, to date, have not generated revenues from product sales – Kinlytic® urokinase (Kinlytic) and LumiSort™ cell-sorting technology (LumiSort). In 2017, management has determined that full realization of the value of these assets will best be accomplished by partnering both projects, as opposed to funding them with Company resources. Management is of the opinion that both projects were meaningfully advanced over the course of the year.

For Kinlytic, a consultation was undertaken with FDA about Microbix' specific manufacturing, clinical and regulatory plans for the re-introduction of the product into the U.S. market. Management believes that the formal feedback received from FDA clarifies important questions about Kinlytic's return to market and greatly de-risks the project. Following the FDA consultation, Microbix has obtained third-party quotations for the key elements of its re-introduction plan and will shortly begin partnering outreaches for this project as a "bolt-on" for larger entities with the appropriate qualifications. It is management's objective to secure an alliance that fully funds the Kinlytic project in fiscal 2018, thereby securing near and longer term financial benefits to Microbix.

For LumiSort, Microbix has been navigating a contentious market dynamic in the livestock genetics industry – where the incumbent sex-selection provider and its largest customer are in litigation. Partnering discussions are ongoing for this asset, but Microbix is being appropriately cautious in light of this environment. Our actions have been focused upon ensuring national-level issuances of Microbix' latest cell-sorting patent and on staying fully-apprised of market developments. For fiscal 2018, Microbix will continue to pursue commercialization options in the field of livestock sex-selection and also more fully explore potential human health applications of its cell-sorting innovations.

To summarize, management believes the outlook for Microbix' antigens and controls business is positive and that increased sales, margins and profits are likely from those operations. In turn, Microbix is working to realize value from its Kinlytic and LumiSort development projects via successful partnering.

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 $27,076,837 as at September 30, 2017. 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 adequately capitalized.

Future Liquidity and Capital Needs

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

In fiscal 2018 cash flow is expected to improve due to: 1) continued growth in Virology sales, 2) improvements in product pricing and other sales terms, 3) commencement of sales of higher margin product from the Company's bioreactor production process, and 4) other business development and financial initiatives. Management expects these developments will significantly improve the Company's overall liquidity position in fiscal 2018.

Contractual Obligations

New Distribution Agreement
On January 12, 2017 Microbix signed a distribution agreement with Meridian Life Science, Inc. Under the terms of the Agreement, Meridian will receive exclusive distribution rights to Microbix' branded antigen products for China, Hong Kong, Taiwan and Macau. Additionally, Microbix will also provide bulk-finished product to Meridian to be sold under Meridian-label to customers in the Asia Pacific region. Both companies will explore additional collaboration opportunities in the future.

The relationship will enable Microbix to leverage its expanding manufacturing capacity and Meridian's substantial commercial presence to better serve the region's diagnostic customers. Overall, the distribution collaboration is expected to significantly expand the business relationship between the two companies, and serve as a platform for the continued growth and expansion of their respective products and services.

Expanded Customer Agreement
On August 8, 2017 Microbix announced the execution of an expanded customer supply agreement. Under the agreement, Microbix will supply an existing long-term customer with an increasing quantity of viral antigen products over the next five years, with the parties having the option to extend that term. Sales from the agreement are expected to total $25 million, with approximately $10 million to be incremental business.

The agreement is with a major global diagnostics company with growing sales of infectious disease tests that require more antigen supply. The parties' obligations under the agreement are those customary for the supply and purchase of biological materials and its renewal and expansion provides Microbix with a secure base of business and underpins its decision to increase its production by expanding bioreactor capacity and other measures.

Settlement of Disputes

On December 30, 2016 Microbix reached a final settlement with Irvine Scientific Inc. over a dispute related to the sale of the Company's Water-for-Injection business to Irvine in December 2012. Microbix has agreed to pay Irvine (U.S.) $192,500 in three installments as follows -

December 30, 2016	(U.S.)	$64,167
March 31, 2017	(U.S.)	$64,167
June 30, 2017	(U.S.)	$64,166

As of the end of this quarter, all financial obligations relating to this settlement have been completed.

On October 11, 2017 Microbix announced the court approval of a legal dispute settlement with Zeptometrix Corporation, with the latter party's claims of patent infringement being withdrawn. The withdrawal of the lawsuit was 'with prejudice', following a settlement agreement between the parties that was to Microbix' satisfaction.

Outstanding Share Capital

Share capital issued and outstanding as at September 30, 2017 was $31,299,416 for 84,704,257 common shares, unchanged from September 30, 2016.

SUBSEQUENT EVENTS

Canadian Funds

On October 18, 2017 and October 26, 2017 (the "Closing Date"), the Company completed a private placement offering of an aggregate of 11,666,633 units for total gross proceeds of $3,499,990, net proceeds of $3,201,997 after share issuance costs of $297,993. Each unit consists of one common share of Microbix and one half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $0.36 for three years. The financing was brokered. Cash commissions of $299,784 were paid and an aggregate of 755,764 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 $0.335 for a period of two years. All securities issued under the private placement will be subject to a hold period expiring four months and one day from the date of closing.

TREND INFORMATION

Historical spending patterns are no indication of future expenditures. Investment in the new products and technologies is at the discretion of management. The Company is not aware of any material trends related to its business that have not been discussed in this Management Discussion and Analysis dated December 19, 2017.

RISKS AND UNCERTAINTIES

The Company is exposed to business risks, both known and unknown, which may or may not affect its operations. Management works continuously to mitigate unacceptable risk, while still allowing the business to grow and prosper. These risk factors include the following:

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

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

Environmental, safety and other regulatory

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

Manufacturing of Kinlytic® Urokinase

The Company is undertaking to return Kinlytic to the U.S. market and intends to do so by way of partnering with third parties. There is no assurance the Company will be successful in this endeavour.

LumiSort™ technology

The Company has developed a proprietary technology platform for ultra-rapid and efficient sorting of somatic cells that can be used to enrich cell populations of interest, such as in sexing semen, which includes a global patent estate. In 2015 the Company successfully completed a prototype instrument that confirms the key patent claims. The Company is currently working to secure a partner within the animal genetics industry to fund the next stage of development, to build a commercial instrument and conduct field trials. There is no assurance the Company will be successful in this endeavour.

Products in development

The Company has several products under development. It is impossible to ensure 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 the related research and development, and investment.

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 earns positive gross margins on the sale of its Virology Products, which are a major source of funding for its research and development activities. The Company believes that cash generated from operations is sufficient to meet normal operating and capital requirements. However, the Company may need to raise additional funds, from time to time for several reasons including, to 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.

The Company's success depends on the successful commercialization of our technology

The successful commercialization of products under development is key to Microbix' success. Product development in the pharmaceutical and biotechnology industry is uncertain and there is no guarantee of market acceptance.

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 secrets. To help protect its intellectual property, the Company requires employees, consultants, advisors and collaborators to enter into confidentiality agreements. However, these agreements may not adequately protect trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Protection of intellectual property may also entail prosecuting claims against others who the Company believes are infringing on its rights. Involvement in intellectual property litigation could result in significant costs, adversely affecting the development of products or sales of the challenged product, or intellectual property, and divert the efforts of its scientific and management personnel, whether or not such litigation is resolved in the Company's favour.

Microbix will continue to face significant competition

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

FINANCIAL RISK MANAGEMENT

Canadian Funds

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

Credit risk:

The Company's customers are primarily large multi-national companies with very high quality credit ratings. Given this track record, management perceives the credit risk to be low. Typically the outstanding accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. At September 30, 2017, five customers accounted for 63% (2016 – five for 59%) of the outstanding balance. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $10,000 (2016 - $10,000).

Currency risk:

The Company is exposed to currency fluctuations given its global customer base. Over 95% of its revenue is denominated in either U.S. dollars or Euros, while the majority of its costs are denominated in Canadian dollars. The Company does not use financial instruments to hedge this currency risk. At September 30, 2017, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	2017	2016	2017	2016
Cash	$ 52,902	$ 5,259	$ 5	$ 29
Accounts receivable	458,941	1,065,198	413,117	647,433
Accounts payable and accrued liabilities	$ 406,000	$ 474,498	$ 11,987	$ 22,451

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 about $284,600 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 about $201,800. 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 about $284,600 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 about $201,800.

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. During the first quarter the Company implemented a new secured revolving credit facility with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The new credit facility is being used to fund the Company's need for working capital to grow its existing business. Management expects this new facility will help satisfy the Company's liquidity needs and manage the liquidity risk going forward.

Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk include those assets and liabilities with a variable interest rate. Exposure to interest rate risk applies primarily to the BDC debt that has a variable rate pegged to the bank rate. The rate can be fixed, if the outlook indicates interest rates will move higher. The only other variable debt the Company has is the $1,500,000 line of credit that bears interest at the bank's prime lending rate plus 2.25%. A 1% increase in the bank rate would cost the Company approximately $30,000 per year for BDC and about $15,000 on the line of credit usage if it were fully used throughout the fiscal year.

Market risk

Market risk reflects changes in pricing for both Virology products and raw materials based on supply and demand criteria. 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 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 International Financial Reporting Standards ("IFRS") and the reporting currency is Canadian dollars. On an on-going basis, management bases its estimates on historical and other experience and assumptions, which it believes are reasonable in the circumstances. The significant accounting policies that the Company believes are the most critical in fully understanding and evaluating the reported financial results include:

Intangible Assets

Intangible assets include technology costs, patents, trademarks and licenses. Each is recorded at cost and amortized on a straight-line basis over the term of the agreements. Intangible assets with indefinite lives are not amortized but are assessed for impairment on an annual basis.

Impairment of Long-lived Assets

The Company reviews the carrying value of non-financial assets with definite lives for potential impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of non-financial assets with indefinite lives, and of non-financial assets with definite lives but are not ready for use, are assessed at least annually for impairment based on the impairment test on cash-generating units (CGUs). The impairment test on CGUs is carried out by comparing the carrying amount of the CGU and its recoverable amount. The recoverable amount of a CGU is the higher of fair value less costs to sell and its value in use. This complex valuation process entails the use of methods such as the discounted cash method which requires numerous assumptions to estimate future cash flows. The recoverable amount is impacted significantly by the discount rate selected to be used in the discounted cash flow model, as well as the quantum and timing of risk-adjusted future cash flows and the growth rate used for the extrapolation.

The impairment loss is calculated as the difference between the fair value of the asset and its carrying value. Management has determined that no long-lived assets of the Company as at September 30, 2017 have met the criteria for impairment.

Non-Convertible and Convertible Debentures

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

Deferred income taxes

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

Share-based payments

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

FINANCIAL INSTRUMENTS

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

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

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

Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in the National Instrument 52-109 Certification of Disclosure in Issuer's Annual Filings (NI 52-109F1). As at September 30, 2017, 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

Internal Controls Over Financial Reporting (Continued)

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 September 30, 2017.

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 September 30, 2017 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or IFRS Interpretation Committee (IFRIC) that are mandatory at certain dates or later. Management is still assessing the effects of the pronouncements on the Company. The standards impacted that may be applicable to the Company are following:

IFRS 9 - Financial Instruments

IFRS 9, Financial Instruments was issued in final form by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

Most requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements.

The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. In addition, a single, forward-looking expected loss impairment model is introduced, which will require more timely recognition of expected credit losses. IFRS 9 is effective for annual period beginning on or after January 1, 2018. Earlier application is permitted.

The Company will continue to assess any impact on the classification and measurement of the Company's financial assets and its financial liabilities

IFRS 15 - Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers was issued by IASB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue – Barter Transactions Involving Advertising Services.

The Company has commenced a review process to assess any impact on its current revenue recognition policies and reporting processes.

IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16, which outlines requirements for lessees to recognize assets and liabilities for most leases. Lessees are required to recognize the lease liability for the obligations to make lease payments and a right- of-use asset for the right to use the underlying asset for the lease term. Lease liability is measured at the present value of lease payments to be made over the term of the lease. The right-of-use asset is initially measured at the amount of the lease liability and adjusted for prepayments, direct costs and incentives received.

The new standard will be effective for annual periods beginning on or after January 1, 2019. Early recognition is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16. The Company has not yet determined the impact on its consolidated financial statements.

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

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled. The effective date for this standard is for reporting periods beginning on or after January 1, 2018, with earlier application permitted. The Company has completed the review process to assess the impact and application of the aforementioned amendments and has determined it will have no impact on the Company.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

In 2016, the IASB issued IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration ("IFRIC 22") which provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. On initial application, entities have the option to apply either retrospectively or prospectively. The Company is in the process of evaluating the impact of adopting these amendments on the Company's consolidated financial statements.