

Pursuant to National Instrument 51-102, Part 4, sub section 4.3(3)(a) issued by the Canadian Securities Administrators, if an audit has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that they have not been reviewed by the auditor.

**MICROBIX****CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

As at June 30, 2017 and September 30, 2016

	As at June 30, 2017 \$	Canadian Funds As at September 30, 2016 \$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	163,947	5,415
Accounts receivable	865,843	2,021,872
Inventory (note 5)	4,416,464	3,395,993
Prepaid expenses and other assets (Note 6)	112,380	55,541
Investment tax credit receivable	149,794	182,398
<b>TOTAL CURRENT ASSETS</b>	<b>5,708,428</b>	<b>5,661,219</b>
<b>LONG-TERM ASSETS</b>		
Deferred tax assets	1,580,000	1,130,000
Property, plant and equipment (Note 7)	12,308,521	12,251,984
Intangible assets (Note 8)	6,606,029	6,204,260
<b>TOTAL LONG-TERM ASSETS</b>	<b>20,494,550</b>	<b>19,586,244</b>
<b>TOTAL ASSETS</b>	<b>26,202,978</b>	<b>25,247,463</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	2,347,554	1,898,515
Current portion of finance lease obligations	22,870	1,647
Current portion of long-term debt (Note 10)	1,461,480	1,069,455
Current portion of debentures (Note 9)	1,114,444	1,595,882
Deferred revenue (Note 11)	1,106,027	683,494
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,052,375</b>	<b>5,248,993</b>
Finance lease obligations	80,170	11,012
Non-convertible debentures (Note 9)	623,918	635,020
Convertible debentures (Note 9)	901,108	1,127,657
Long-term debt (Note 10)	2,685,030	2,933,040
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>4,290,226</b>	<b>4,706,729</b>
<b>TOTAL LIABILITIES</b>	<b>10,342,601</b>	<b>9,955,722</b>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 12)	31,299,416	31,299,416
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (Note 9)	2,903,789	2,351,425
CONTRIBUTED SURPLUS (Note 13)	7,724,099	4,937,649
ACCUMULATED DEFICIT	(26,066,927)	(23,296,749)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>15,860,377</b>	<b>15,291,741</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>26,202,978</b>	<b>25,247,463</b>

Commitments and Contingencies (Note 28)

Subsequent Events (Note 28)



WILLIAM J. GASTLE  
DIRECTOR



CAMERON L. GROOME  
DIRECTOR

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

**MICROBIX****CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

For the Three and Nine Months Ended June 30

Canadian Funds

	Three months		Nine Months	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>SALES</b>				
Virology products and technologies	2,705,411	2,195,059	7,172,240	5,886,367
Royalties	67,954	58,314	200,276	160,190
<b>Total Sales</b>	<b>2,773,365</b>	<b>2,253,373</b>	<b>7,372,516</b>	<b>6,046,557</b>
<b>COST OF GOODS SOLD</b>				
Virology products and technologies (Note 5, 17)	1,262,905	1,084,850	3,577,090	3,159,472
Royalties	12,673	11,663	68,117	39,596
<b>TOTAL COST OF GOODS SOLD</b>	<b>1,275,578</b>	<b>1,096,513</b>	<b>3,645,206</b>	<b>3,199,068</b>
<b>GROSS MARGIN</b>	<b>1,497,787</b>	<b>1,156,861</b>	<b>3,727,310</b>	<b>2,847,490</b>
<b>EXPENSES</b>				
Selling and business development (Note 17)	89,819	83,761	331,994	370,459
General and administrative (Note 17)	1,072,369	884,823	2,660,857	2,127,719
Research and development (Note 17)	270,016	145,431	643,790	197,575
Financial expenses (Note 19)	229,687	183,928	672,530	559,260
<b>NET COMPREHENSIVE OPERATING INCOME (LOSS)</b>				
<b>BEFORE DEBT RESTRUCTURING AND SETTLEMENT EXPENSES</b>	<b>(164,104)</b>	<b>(141,082)</b>	<b>(581,861)</b>	<b>(407,523)</b>
Debt restructuring expense (Note 9)	(202,750)	-	2,379,776	-
Settlement expense (Note 27)	-	-	258,540	-
<b>NET COMPREHENSIVE OPERATING INCOME (LOSS) FOR THE PERIOD</b>				
	<b>38,646</b>	<b>(141,082)</b>	<b>(3,220,177)</b>	<b>(407,523)</b>
<b>INCOME TAXES</b>				
Deferred income taxes	(150,000)	(210,000)	(450,000)	(400,000)
Current income taxes	-	20,965	-	107,000
<b>NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>				
	<b>188,646</b>	<b>47,953</b>	<b>(2,770,177)</b>	<b>(114,523)</b>
<b>NET COMPREHENSIVE INCOME (LOSS) PER SHARE</b>				
Basic (Note 16)	0.002	0.001	(0.033)	(0.001)
Diluted (Note 16)	0.002	0.001	(0.033)	(0.001)

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

**MICROBIX****CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

For the Three and Nine Months Ended June 30

Canadian Funds

	Three months		Nine Months	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	188,646	47,953	(2,770,177)	(114,523)
<b>Items not affecting cash</b>				
Amortization and depreciation	105,159	103,590	308,089	307,527
Accretion of debentures	53,015	17,045	133,406	48,766
Stock options expense (Note 15)	54,154	82,996	160,870	250,833
Deferred revenue	(16,565)	970,859	422,533	979,579
Debt restructuring expense (Note 27)	(202,750)	-	2,379,776	-
Deferred tax assets	(150,000)	(210,000)	(450,000)	(400,000)
Change in non-cash working capital balances (Note 18)	259,936	(510,980)	560,362	(595,601)
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>291,596</b>	<b>501,463</b>	<b>744,859</b>	<b>476,581</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment (Note 7)	(121,734)	(116,259)	(193,463)	(577,613)
Additions from internal development of intangible assets (Note 8)	(23,748)	(147,632)	(473,444)	(726,746)
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(145,482)</b>	<b>(263,890)</b>	<b>(666,907)</b>	<b>(1,304,358)</b>
<b>FINANCING ACTIVITIES</b>				
Repayments of long term debt (Note 10)	(84,120)	(86,295)	(255,985)	(233,975)
Repayments of convertible and non-convertible debentures (Note 9)	(16,064)	(19,847)	(55,298)	(56,458)
Repayments of shareholders' loans	-	-	(200,000)	-
Repayments of finance lease	(4,799)	(1,564)	(8,137)	(4,575)
Proceeds of credit facility (Note 10)	90,000	(132,234)	600,000	242,020
Proceeds from equipment loans (Note 10)	-	-	-	250,000
Issue of common shares, net of issue costs	-	-	-	531,674
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>(14,984)</b>	<b>(239,940)</b>	<b>80,580</b>	<b>728,686</b>
<b>NET CHANGE IN CASH - DURING THE PERIOD</b>	<b>131,130</b>	<b>(2,366)</b>	<b>158,532</b>	<b>(99,090)</b>
CASH - BEGINNING OF PERIOD	32,817	7,456	5,415	104,180
<b>CASH - END OF PERIOD</b>	<b>163,947</b>	<b>5,090</b>	<b>163,947</b>	<b>5,090</b>

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

**MICROBIX****CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

As at September 30 and June 30

Canadian Funds

	SHARE CAPITAL (Note 12)		CONTRIBUTED SURPLUS \$	DEFICIT \$	EQUITY COMPONENT OF DEBENTURE \$	TOTAL SHAREHOLDERS' EQUITY \$
	NUMBER OF SHARES	STATED CAPITAL \$				
<b>BALANCE, SEPTEMBER 30, 2015</b>	<b>83,204,257</b>	<b>30,990,459</b>	<b>4,380,182</b>	<b>(24,045,156)</b>	<b>2,351,425</b>	<b>13,676,910</b>
Stock option expense			250,833			250,833
Share issuances pursuant to private placement	1,500,000	362,069	237,931			600,000
Share issue costs pursuant to private placement		(53,112)	(15,214)			(68,326)
Net comprehensive income (loss) for the period				(114,523)		(114,523)
<b>BALANCE, JUNE 30, 2016</b>	<b>84,704,257</b>	<b>31,299,416</b>	<b>4,853,732</b>	<b>(24,159,679)</b>	<b>2,351,425</b>	<b>14,344,894</b>
Stock option expense			83,917			83,917
Net comprehensive income (loss) for the period				862,930		862,930
<b>BALANCE, SEPTEMBER 30, 2016</b>	<b>84,704,257</b>	<b>31,299,416</b>	<b>4,937,649</b>	<b>(23,296,749)</b>	<b>2,351,425</b>	<b>15,291,740</b>
Stock option expense			160,870			160,870
Issuance of warrants pursuant to refinancing of convertible debentures			245,860			245,860
Conversion of a convertible debenture to a non-convertible debenture			86,680		(86,680)	-
Extinguishment of convertible debenture			2,293,040		(2,264,745)	28,295
Refinancing of convertible debentures					2,903,789	2,903,789
Net comprehensive income (loss) for the period				(2,770,177)		(2,770,177)
<b>BALANCE, JUNE 30, 2017</b>	<b>84,704,257</b>	<b>31,299,416</b>	<b>7,724,099</b>	<b>(26,066,937)</b>	<b>2,903,789</b>	<b>15,860,377</b>

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

**1. NATURE OF THE BUSINESS**

Microbix Biosystems Inc. (“Microbix” or the “Company”) (TSX: MBX) is incorporated under the laws of Province of Ontario. The Company develops biological products and technologies. The Virology Business (“Virology”) manufactures and develops cell culture-based biological products and technologies. The Company has developed and acquired two technologies for large markets including the thrombolytic drug, Kinlytic® (Urokinase), and an animal reproductive technology in development, LumiSort™. The Company continually invests in Virology to adopt current technologies and standards. The manufacturing facility operates under an infectious diseases biological license from the Canadian Food Inspection Agency.

The Company operates the Virology Business in its owned manufacturing facility at 265 Watline Avenue, Mississauga, Ontario, L4Z 1P3.

**2. BASIS OF PREPARATION**

The Company’s management prepared these consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of financial statements for the three months ended June 30, 2017. The Board of Directors approved these consolidated financial statements on August 10, 2017.

**3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES*****Basis of Measurement***

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. For each entity, the Company determines the functional currency and items included in the financial statements of each entity are measured using the functional currency, which represents the currency of the primary economic environment in which each entity operates. The consolidated financial statements are presented in Canadian dollars.

***Basis of consolidation***

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Crucible Biotechnologies Limited, which the Company has control. Control exists when the entity is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The non-controlling interest component, if any, of the Company’s subsidiaries is included in equity.

The financial statements of the Company’s subsidiary is prepared for the same reporting period as the Company, using consistent accounting policies. All intra-company balances, transactions, unrealized gains and losses resulting from intra-company transactions and dividends are eliminated in full.

There has been no business activity in the subsidiary during the three months ended June 30, 2017 and 2016. All significant intercompany transactions and balances have been eliminated upon consolidation.

***Use of estimates and judgements***

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from estimates and such differences could be material.

Key areas of managerial judgements and estimates are as follows:

**i) Property, plant and equipment:**

Measurement of property, plant and equipment involves the use of estimates for determining the expected useful lives of depreciable assets. Management’s judgement is also required to determine depreciation methods and an asset’s residual value and whether an asset is a qualifying asset for the purposes of capitalizing borrowing costs.

**ii) Internally generated intangible assets:**

Management monitors the progress of each internal research and development project. Significant judgement is required to distinguish between the research and development phases. Development costs are recognized as an asset when the following criteria are met: (i) technical feasibility; (ii) management’s intention to complete the project; (iii) the ability to use or sell; (iv) the ability to generate future economic benefits; (v) availability of technical and financial resources; (vi) ability to measure the expenditures reliably. Research costs are expensed as incurred. Management also monitors whether the recognition requirements for development assets continue to be met and whether there are any indicators that capitalized costs may be impaired.

**3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)***Use of estimates and judgements (continued)***iii) Financial assets and liabilities:**

Estimates and judgements are also made in the determination of fair value of financial assets and liabilities and include assumptions and estimates regarding future interest rates, the relative creditworthiness of the Company to its counterparties, the credit risk of the Company's counterparties relative to the Company, the estimated future cash flows and discount rates.

**iv) Income taxes:**

The Company recognizes deferred tax assets, related tax-loss carry-forwards and other deductible temporary differences where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. This requires significant estimates and assumptions regarding future earnings, and the ability to implement certain tax planning opportunities in order to assess the likelihood of utilizing such losses and deductions.

**v) Fair value of share-based compensation:**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, dividend yield and forfeiture rates and making assumptions about them.

***Revenue recognition***

Revenues from product sales are recognized when persuasive evidence of an arrangement exists, the product is shipped, received or accepted by the customer, there are no future performance obligations, the purchase price is fixed and determinable, and collectability is reasonably assured.

Revenues from licensing are recognized when the service is rendered or the deliverables are substantially complete and other revenue recognition criteria are met.

For upfront, non-refundable payments received in accordance with the execution of licensing and collaboration agreements, revenue is deferred and recognized over the performance period, the period over which the Company maintains substantive contractual obligations.

Amounts the Company expects to earn in the current year are included in the current portion of deferred revenue and amounts expected to be earned in subsequent periods are included in deferred revenue. The term over which upfront fees are recognized is revised if the period over which the Company maintains substantive contractual obligations changes.

Milestone payments are immediately recognized as licensing revenue when the condition is met, if the milestone is not a condition to future deliverables and collectability is reasonably assured. Otherwise, they are recognized over the remaining term of the agreement or the performance period.

## 3. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

*Cash*

Cash consists of cash on hand and deposits with banks and investments in highly liquid instruments with original maturities of three months or less. There are no cash equivalents held at June 30, 2017 or 2016.

*Financial assets and liabilities*

All financial instruments, including derivatives, are included on the consolidated statement of financial position and are measured either at fair market value or, in limited circumstances, at cost or amortized cost. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications as follows:

- Held-for-trading financial assets, measured at fair value with subsequent changes in fair value recognized in current period net income;
- Held-to-maturity assets, loans and receivables and other financial liabilities, initially measured at fair value and subsequently measured at amortized cost with changes recognized in current period net income; and
- Available-for-sale financial assets, measured at fair value with subsequent gains or losses included in other comprehensive income until the asset is removed from the consolidated statements of financial position.

The following summarizes the Company's classification and measurement of financial assets and liabilities as at June 30:

	Classification	Measurement	As at June 30	
			2017	2016
			\$	\$
Financial assets:				
Cash	Held-for-trading	Fair value	163,947	5,090
Accounts receivable	Loans and receivables	Amortized cost	865,843	1,998,861
Financial liabilities:				
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	2,347,554	2,152,856
Finance lease obligation	Other liabilities	Amortized cost	103,040	14,261
Non-convertible debentures	Other liabilities	Amortized cost	1,137,995	651,851
Convertible debentures	Other liabilities	Amortized cost	1,501,475	2,699,455
Long-term-debt	Other liabilities	Amortized cost	4,146,510	4,072,700
Deferred revenue	Other liabilities	Fair value	1,106,027	1,169,129
<b>Total Financial liabilities</b>			<b>10,342,601</b>	<b>10,760,252</b>

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or financial liabilities, other than financial assets and financial liabilities measured at fair value through profit and loss ("FVTPL"), are accounted for as part of the carrying amount of the respective asset or liability at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Transaction costs on financial assets and financial liabilities measured at FVTPL are expensed in the period incurred. Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred. All derivative instruments, including embedded derivatives, are recorded in the financial statements at fair value.

*Inventories*

Inventory is carried at the lower of cost and market. Cost consists of direct materials, direct labour and an overhead allocation and is determined on a first-in, first-out basis. Market is defined as net realizable value, which is defined as the summation of the estimated selling price less the cost to complete less the cost to sell. Management reviews its reserve for obsolete inventory annually for finished goods and work-in-process.

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

Property and equipment are measured at cost less accumulated depreciation and impairment (if any). Cost includes the cost of material, labour and other costs directly attributable to bringing the asset to a working condition for its intended use.

Depreciation is calculated at rates which will reduce the original cost to estimated residual value over the estimated useful life of each asset. Depreciation commences once the asset is available for use.

Depreciation is provided for at the following basis and rates:

Research and development equipment	Declining balance, 10-100%
Other equipment and fixtures	Declining balance, 10-30%
Buildings	Straight line, 50 years

Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

*Finance lease obligation*

Leases that transfer substantially all of the benefits and risks of ownership of the asset to the Company are accounted for as finance leases. At the time a finance lease is entered into, an asset is recorded together with its related long-term obligation, reflecting the fair value of future lease payments, discounted at the appropriate interest rates. Finance lease obligations are amortized over their estimated useful lives at the same rates used for other equipment and fixtures. All other leases are classified as operating leases and expensed on a straight-line basis.

*Intangible assets*

Intangible assets represent technology costs, patents and trademarks, and rights and licenses. Each is recorded at cost and is amortized on a straight-line basis over the term of the agreements or over the useful life of the asset. Amortization commences when the intangible asset is available for use. Intangible assets with definite lives but not yet available for use are assessed annually for impairment.

*Impairment of long-lived assets*

An impairment charge is recognized for long-lived assets, including intangible assets with definite lives, when an event or change in circumstances indicates that the assets' carrying value may not be recoverable. The impairment loss is calculated as the difference between the carrying value of the asset and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use.

Management has determined that no long-lived assets of the Company as at June 30, 2017 have met the criteria for impairment.

*Share-based compensation*

The Company applies the fair value method of accounting for share-based compensation for awards granted to officers, directors and employees of the Company. The fair value of the award at the time of granting is determined using the Black-Scholes option pricing model, and recognized as a compensation expense over the vesting period with an offsetting amount recorded to contributed surplus. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value.

Share options issued to consultants of the Company are based on the fair value of the services provided. The amount of the compensation cost recognized at any date at least equals the value of the portion of the options vested at that date. When stock options are exercised, the consideration paid by employees or directors, together with the related amount in contributed surplus, is credited to share capital. When an employee leaves the Company, vested options must be exercised within 90 days, or the options expire. Any options that are unvested are reversed in the period that the employee leaves. A forfeiture rate is incorporated into the Company's assumptions. Forfeitures are estimated at the time of grant and are based on historical experience. To the extent that the actual forfeiture rate is different from the Company's estimate, share-based compensation related to these awards will be different from the Company's estimate and forfeiture rates for subsequent periods are revised.

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

Foreign currency denominated revenues and expenses are translated by use of the exchange rate in effect at the end of the month in which the transaction occurs. Foreign currency denominated monetary assets and liabilities are translated at the year-end date. Exchange gains and losses arising on these transactions are included in the consolidated statements of comprehensive income for the period.

*Income per common share*

The Company calculates basic income per share amounts for profit or loss attributable to ordinary equity holders. Basic income per share is calculated using the weighted average number of common shares outstanding during the period. Diluted income per share is calculated in the same manner as basic income per share except for adjusting the profit or loss attributable to ordinary equity holders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares.

*Deferred taxes*

Deferred income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective income tax bases. Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which temporary differences can be utilized. Deferred income tax assets and liabilities are measured using tax rates expected to be in effect when the temporary differences are expected to be recovered or settled. The effects of changes in income tax rates are reflected in deferred income tax assets and liabilities in the year that the rate changes are substantively enacted, with a corresponding charge to income. The amount of deferred tax assets recognized is limited to the amount that is more likely than not to be realized.

*Research and development expenses*

Costs associated with research and development activities are expensed during the year in which they are incurred net of tax credits earned, except where product development costs meet the criteria under IFRS for deferral and amortization.

*Investment tax credits*

The Company is entitled to Canadian federal and provincial investment tax credits which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. Investment tax credits are accounted for as a reduction of the related expenditure for items of a current nature and a reduction of the related asset cost for items of a long-term nature. These credits are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the credits in the foreseeable future.

**4. 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 ("IFRS") 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 that 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 periods 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, as well as any impact on the classification and measurement of its financial liabilities.

**4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED (continued)***IFRS 15 - Revenue from Contracts with Customers*

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) was issued by the 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. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, 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 commenced a review process to assess any impact on its current revenue recognition policies and reporting processes.

*IAS 16 – Property, Plant and Equipment and IAS 38 – Intangibles*

In May 2014, the IASB issued amendments to IAS 16 and IAS 38, prohibiting the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016 and is to be applied prospectively. The Company has reviewed these standards and determined there is no material impact on the consolidated financial statements.

**5. INVENTORIES**

Inventories as at June 30 consist of the following:

	Jun 30 2017	Jun 30 2016
	\$	\$
Raw material	575,361	498,821
Work in process	1,576,809	1,066,721
Finished goods	2,264,294	2,008,311
	4,416,464	3,573,853

During the three months ended June 30, 2017, inventories in the amount of \$1,275,578, (2016 - \$1,096,513) were recognized as an expense through cost of sales. The allowance for inventory impairment as at June 30, 2017 was \$30,561 (2016 - \$53,597).

AS AT AND FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

**6. PREPAID EXPENSES AND OTHER ASSETS**

Prepaid expenses and other assets as at June 30, 2017 were \$112,380 (2016 - \$68,462) and primarily consist of insurance policy premiums.

**7. PROPERTY, PLANT AND EQUIPMENT**

The freehold land and buildings have been pledged as security for bank loans under a mortgage (see Note 10). Property plant and equipment consists of:

	Building	Research and development equipment	Other equipment and fixtures	Land	Total
<u>Cost</u>	\$	\$	\$	\$	\$
Balance, Sep 30, 2016	4,562,383	6,794,312	4,472,883	800,000	16,629,578
Additions	-	181,968	110,983	-	292,951
Disposals	-	-	-	-	-
<b>Balance, June 30, 2017</b>	<b>4,562,383</b>	<b>6,976,280</b>	<b>4,583,866</b>	<b>800,000</b>	<b>16,922,529</b>
<b><u>Accumulated depreciation</u></b>					
Balance, Sep 30, 2016	1,095,112	559,099	2,723,383	-	4,377,594
Disposals	-	-	-	-	-
Depreciation	114,270	17,902	104,243	-	236,414
<b>Balance, June 30, 2017</b>	<b>1,209,382</b>	<b>577,001</b>	<b>2,827,626</b>	<b>-</b>	<b>4,614,008</b>
<b><u>Net book value</u></b>					
Balance, Sept 30, 2016	3,467,271	6,235,213	1,749,500	800,000	12,251,984
<b>Balance, June 30, 2017</b>	<b>3,353,001</b>	<b>6,399,280</b>	<b>1,756,240</b>	<b>800,000</b>	<b>12,308,521</b>

Included in research and development equipment is \$6,205,814 not yet available for use. Included in these amounts is directly attributable interest from borrowings to finance these asset additions of \$263,003 since inception. These assets are not yet subject to depreciation. During the quarter the Company entered into a five year lease agreement for the acquisition of production equipment and \$98,518 was capitalized to Other Equipment and Fixtures.

AS AT AND FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

**8. INTANGIBLE ASSETS**

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

License agreement, LumiSort™ (Note 8a)	5%
Technology investments, patents and trademarks LumiSort™ (Note 8a)	5%

Intangible assets consist of:

	Capitalized development costs		Patents and trademarks		Licenses	Total
	LumiSort™ (a) \$	Bioreactor (c) \$	Kinlytic® (b) \$	LumiSort™ (a) \$	LumiSort™ (a) \$	
<b>Cost</b>						
Balance at September 30, 2016	30,532	2,000,973	2,770,529	2,041,777	278,528	7,122,339
Additions from internal developments	77,238	87,600	308,057	549	-	473,444
<b>Balance at June 30, 2017</b>	<b>107,770</b>	<b>2,088,573</b>	<b>3,078,586</b>	<b>2,042,326</b>	<b>278,528</b>	<b>7,595,783</b>
<b><u>Accumulated amortization</u></b>						
<b>Balance at September 30, 2016</b>	<b>5,757</b>	-	-	<b>676,646</b>	<b>235,676</b>	<b>918,079</b>
Amortization expense	743	-	-	54,863	16,069	71,675
<b>Balance at June 30, 2017</b>	<b>6,500</b>	-	-	<b>731,509</b>	<b>251,745</b>	<b>989,754</b>
<b><u>Net book value</u></b>						
Balance, September 30, 2016	24,775	2,000,973	2,770,529	1,365,131	42,852	6,204,260
<b>Balance, June 30, 2017</b>	<b>101,270</b>	<b>2,088,573</b>	<b>3,078,586</b>	<b>1,310,817</b>	<b>26,783</b>	<b>6,606,029</b>

**(a) LumiSort™**

The Company acquired a license agreement from Sequent Biotechnologies Inc. ("Sequent"), a biotechnology company solely involved in the development and commercialization of the LumiSort™ technology under license. New intellectual property with the issue of patents has resulted from this research program. These assets are in the process of being developed and new patents are pending and under development.

The recoverable amount of the Lumisort intangible has been determined based on its fair value less cost to sell. Key assumptions include growth rates in line with industry expectations and a discount rate determined based on the Company's best estimate of a risk adjusted discount rate.

**(b) Kinlytic®**

The Company acquired the assets and rights pertaining to development, production, and licensing of Kinlytic® from ImaRX Therapeutics, Inc. in 2008. These assets are in the process of being developed and new patents are pending and under development.

The recoverable amount of the Kinlytic® intangible has been determined based on its fair value less cost to sell. This estimate uses risk-adjusted cash flow projections based on financial budgets.

Management made these assumptions based on probabilities of technical, regulatory and clinical acceptances and financial support. Management believes that any reasonably-possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount. The discount rate has been determined based on the Company's best estimate of a risk adjusted discount rate.

AS AT AND FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

**8. INTANGIBLE ASSETS (continued)**

## (c) Bioreactor

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

**9. DEBENTURES**

The Company has convertible and non-convertible debentures issued and outstanding as at June 30, 2017. The carrying values of the debt component of these debentures are as follows:

	Non-convertible Debentures		Non-convertible Debentures Total	Convertible Debentures		Convertible Debentures Total	
	Jan, 2014	Apr, 2017		Oct, 2016	Oct, 2016	Oct, 2016	
Proceeds of issue	\$2,000,000	\$500,000		\$1,500,000	\$500,000	\$2,500,000	
	\$	\$	\$	\$	\$	\$	
<b>Balance, October 1, 2016</b>	<b>879,304</b>	<b>-</b>	<b>879,304</b>	<b>537,686</b>	<b>492,812</b>	<b>949,971</b>	<b>1,980,469</b>
Balance, date of extinguishment	-	500,000	500,000	538,965	497,502	952,564	1,989,031
Fair value of new debentures	-	268,955	268,955	461,550	223,050	780,750	1,465,350
Difference	-	231,045	231,045	77,415	274,452	171,814	523,681
Balance, Prior to accretion/ repayments	<b>879,304</b>	<b>268,955</b>	<b>1,148,259</b>	<b>461,550</b>	<b>223,050</b>	<b>780,750</b>	<b>1,465,350</b>
Accretion	172,111	15,838	187,949	107,781	51,067	181,027	339,875
Repayments	(183,213)	(15,000)	(198,213)	(101,250)	(33,750)	(168,750)	(303,750)
<b>Balance, June 30, 2017</b>	<b>868,202</b>	<b>269,793</b>	<b>1,137,995</b>	<b>468,081</b>	<b>240,367</b>	<b>793,027</b>	<b>1,501,475</b>
Less: current portion	244,284	269,793	514,077	135,000	240,367	225,000	600,367
Non-current portion	623,918	-	623,918	333,081	-	568,027	901,108
Note	(a)	(b)		(c)	(d)	(e)	

During the first quarter the Company arranged a new secured revolving credit facility jointly 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 expand its existing business, including the recently announced expansion of Virology product sales in the Asia Pacific region.

To accommodate the additional security required by TD Bank and EDC, effective October 12, 2016, the Company negotiated amended terms with the two holders of its issued and outstanding convertible debentures, in exchange for reducing their security position to one of unlimited subordination to the credit facility lenders.

The largest debenture holder has two convertible debentures; a \$2.5 million debenture, (e) above, maturing in 2028 that was originally convertible at \$0.65 per common share, and a \$1.5 million debenture, (c) above, maturing in 2029 that was originally convertible at \$0.35 per common share. The conversion price for both of these debentures has been amended to \$0.23 per common share, and these debentures are now subject to restricted conversion privileges of a combined total of 1 million shares per year for the next five years, with the remaining balances being eligible for conversion through the end of their expiry dates in 2028 and 2029, respectively.

The second debenture holder has two convertible debentures of \$0.5 million each, both originally convertible at \$0.90 per common share and maturing on October 12, 2016 and February 15, 2017. Terms of these debentures have also been amended. The October debenture was to mature on April 30, 2017 and it becomes non-convertible, shown at (b) above, and the stated interest rate increases from 9% to 12% for the remaining term (see paragraph below for further details on this debenture). The February debenture maturity date has been extended to February 15, 2022, and the conversion price has been revised to \$0.23 per common share, see (d) above. The February debenture is callable at the option of the holder at any time after February 15, 2017 for outstanding principal and accrued interest. In addition, the second debenture holder has received 1.5 million common share purchase warrants, with an exercise price of \$0.23 per common share and a term of five years.

## 9. DEBENTURES (continued)

The Company has accounted for the modifications to each of the debentures as an extinguishment with the recognition of a new instrument. Upon extinguishment of the debentures, the Company has recognized a non-cash loss of \$2,336,666 in the consolidated statement of income and comprehensive income. The Company measured the non-cash loss based on the change in fair value of the debentures under the original terms and the modified terms. In addition, the Company has recognized the warrants at the time of grant for an amount based on the Black-Scholes option pricing model of \$245,860, which is affected by the Company's share price as well as assumptions regarding a number of subjective variables.

On April 28, 2017 the Company announced it has reached an agreement with one of its debenture holders to extend the maturity date on a \$500,000 non-convertible debenture set to mature on April 30, 2017. The arms' length debenture holder has agreed to extend the maturity date of the debenture to April 30, 2022. The debenture is callable at the option of the holder upon sixty days written notice to the Company. The debenture holder also receives amendments to an aggregate of 300,000 common share purchase warrants they currently hold. Each warrant currently entitles the holder to purchase one common share of Microbix at a price of \$0.55 until August 21, 2019. Microbix has agreed to extend the term of the warrants to August 21, 2022 and to amend the exercise price of the warrants to \$0.25 per share.

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

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

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

Note	(a)	(b)	(c)	(d)	(e)
Date of issue	Jan, 2014	Apr, 2017	Oct, 2016	Oct, 2016	Oct, 2016
Face value	\$ 2,000,000	\$ 500,000	\$ 1,500,000	\$ 500,000	\$ 2,500,000
Liability component at					
the date of issue	\$ 928,373	\$ 268,955	\$ 461,550	\$ 223,050	\$ 780,750
the report date	\$ 868,202	\$ 269,793	\$ 468,081	\$ 240,367	\$ 793,027
Equity component reclassified to					
contributed surplus upon extinguishment	-	\$ 28,295	\$ 916,971	\$ 111,042	\$ 1,236,732
Equity component at					
report date	-	\$ -	\$ 574,435	\$ 631,222	\$ 1,698,132
Conversion price per common share	-	\$ -	\$ 0.23	\$ 0.23	\$ 0.23
Effective interest rate charged	25.69%	30.20%	31.07%	30.20%	30.85%
Payment frequency	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Maturity of financial instrument	Jan, 2029	Apr, 2022	Jan, 2029	Feb, 2022	Sep, 2028
Stated interest rate	9%	12%	9%	9%	9%
Terms of repayment	Principal and interest	Interest only	Interest only	Interest only	Interest only
Blended quarterly repayment	\$ 61,071	N/A	N/A	N/A	N/A

**AS AT AND FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016****10. LONG-TERM DEBT**

a) In fiscal 2009 the Company negotiated a series of loans totalling \$3,061,000 with the Business Development Bank (“BDC”) for the original purchase and build-out of its manufacturing facility.

	\$
Purchase of the building	1,500,000
Construction of manufacturing facility	1,500,000
Purchase of equipment for facility	61,000
	3,061,000

The loans are secured with the building and equipment. For loans totalling \$3,000,000, consecutive monthly principal payments of \$9,260 are due to February 2037 on the outstanding balance of \$2,296,480 (September 30, 2016 - \$2,379,820). For loans totalling \$61,000, consecutive monthly principal payments of \$725 are due to February 2017 on the outstanding balance of \$0 (September 30, 2016 – \$3,625), as this loan is now fully paid. Both of the loans have a floating interest rate based on BDC’s Floating Base Rate plus 0.5%. At June 30, 2017 the Floating Base Rate was 4.8%.

In fiscal 2015 and 2016 the Company negotiated a series of loans totalling \$1,115,000 with the BDC, for process equipment upgrades in its manufacturing facility.

	\$
Equipment for bioreactor project	615,000
Construction of manufacturing facility	50,000
Purchase of equipment for facility	200,000
Working capital loan	250,000
	1,115,000

For loans totalling \$615,000, consecutive monthly principal payments of \$10,250 are due to July 2020 on the outstanding balance of \$379,250 (September 30, 2016 - \$471,500). or loans totalling \$50,000, consecutive monthly principal payments of \$1,040 are due to December 2019 on the outstanding balance of \$31,200 (September 30, 2016 – \$40,560). For loans totalling \$200,000, consecutive monthly principal payments of \$3,330 are due to December 2020 on the outstanding balance of \$143,190 (Sept 30, 2016 – \$169,830). On October 9, 2015, the Company entered into a loan agreement with BDC for \$250,000, monthly principal payments of \$4,160 are due on December 22, 2020 on the outstanding balance of \$171,390 (Sept 30, 2016 – \$212,160).

All BDC loans have a floating interest rate based on BDC’s floating base rate plus 0.5% - 1.8%. At June 30, 2017, the floating base rate was 4.8%.

The commitment for the next five years for the BDC loans is as follows:

	\$
2017	84,120
2018	336,480
2019	336,480
2020	306,620
2021	133,590
2022 and thereafter	1,824,220

**10. LONG-TERM DEBT (continued)**

b) On October 20, 2016, the Company arranged a new revolving line of credit agreement with its Canadian chartered bank. The agreement currently allows the Company to draw on to a limit of \$1,000,000 bearing interest at the bank's prime lending rate plus 2.25%. Accounts receivable and inventory are pledged as collateral for the bank credit facility.

On April 28, 2017 the Company received approval from its Chartered Bank to increase the borrowing limit on its new credit facility to \$1.5 million. The new credit facility was implemented in November 2016 with an initial limit of \$1.0 million, replacing the Company's previous credit facility of \$0.5 million. The newly expanded credit facility was available on May 4, 2017.

As at June 30, 2017 the Company had drawn on \$1,125,000 of the facility (2016 - \$630,000).

c) On December 31, 2015 the Company issued two outstanding shareholder loans for total proceeds of \$200,000. These loans were repaid on December 31, 2016.

d) On May 3, 2017 the Company signed an agreement with Business Development Corporation for a new equipment credit facility in the amount of \$610,000. As of June 30, 2017 no funds have been withdrawn against this loan.

**11. DEFERRED REVENUE**

As at June 30, 2017, the Company has received payment, in the amount of \$1,106,077 (2016 - \$1,169,129), for a portion of product sales which was not yet shipped. This amount has been recognized as deferred revenue under the current liabilities in the consolidated statements of financial position.

**12. SHARE CAPITAL**

The Company is authorized to issue an unlimited number of common shares with no par value and an unlimited number of preference shares with no par value.

The number of issued and outstanding common shares and the stated capital of the Company as at June 30, 2017 are presented below:

	Number of Shares	Stated Capital (\$)
<b>Balance, September 30, 2016</b>	84,704,257	31,299,416
Exercise of warrants	-	-
Exercise of stock options	-	-
<b>Balance, December 31, 2016</b>	84,704,257	31,299,416
Exercise of warrants	-	-
Exercise of stock options	-	-
<b>Balance, June 30, 2017</b>	84,704,257	31,299,416

**MICROBIX****NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Canadian Funds

AS AT AND FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

**13. CONTRIBUTED SURPLUS**

Changes in contributed surplus up to June 30, 2017 are described as follows:

	\$
<b>Balance, September 30, 2016</b>	4,937,649
Issuance of warrants pursuant to refinancing of convertible debentures	245,860
Reclassification of equity portion of a convertible debenture converted to a non convertible debenture	86,680
Reclassification of equity portion of extinguished convertible debentures	2,264,745
Stock options expensed	55,576
<b>Balance, December 31, 2016</b>	7,590,510
Stock options exercised	-
Stock options expense	51,140
<b>Balance, March 31, 2017</b>	7,641,650
Revaluation of warrants pursuant to refinancing of non convertible debenture	28,295
Stock options expense	51,140
<b>Balance, June 30, 2017</b>	7,724,099

**14. COMMON SHARE PURCHASE WARRANTS**

A continuity of the Company's warrants outstanding as at June 30, 2017 and September 30, 2016 is presented in the following table:

	Units	Weighted average exercise price \$
<b>Balance, September 30, 2016</b>	<b>7,024,392</b>	<b>\$ 0.54</b>
Issued	1,500,000	\$ 0.23
Exercised	-	-
Expired	(193,079)	\$ 0.25
<b>Balance, December 31, 2016</b>	<b>8,331,313</b>	<b>\$ 0.49</b>
Issued	-	-
Exercised	-	-
Expired	-	-
<b>Balance, March 31, 2017</b>	<b>8,331,313</b>	<b>0.49</b>
Issued	-	-
Exercised	-	-
Expired	-	-
<b>Balance, June 30, 2017</b>	<b>8,331,313</b>	<b>0.48</b>

AS AT AND FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

## 14. COMMON SHARE PURCHASE WARRANTS (continued)

A summary of the Company's warrants outstanding as at June 30, 2017 and September 30, 2016 is presented in the following table:

	June 20, 2017			September 30, 2016		
	Number outstanding	Weighted average exercise price \$	Weighted average remaining contractual life years	Number outstanding	Weighted average exercise price \$	Weighted average remaining contractual life years
Range of exercise prices:						
\$0.55	6,531,313	\$ 0.55	2.43	6,831,313	\$ 0.55	3.13
\$0.23 to \$0.40	1,800,000	\$ 0.23	4.34	193,079	\$ 0.25	0.02
	-	-	-	-	-	-
	8,331,313	\$ 0.48	2.84	7,024,392	\$ 0.54	3.13

## 15. STOCK OPTION PLAN

On March 5, 2013 and January 16, 2015 the shareholders of the Company approved resolutions to amend the Company's stock option plan. This amendment changed the total number of common shares available to be issued under the plan from a maximum of 10,000,000 to a maximum of 12,000,000 common shares. Under the plan, the Company has a total of 3,570,000 options issued and pending (2016 – 4,872,000).

The exercise price of each option equals no less than the market price at the date immediately preceding the date of the grant. In general, options issued under the plan vest and are exercisable in equal amounts in three steps, at the issue date and at the anniversary date in the subsequent two years.

The activity under the Company's stock option plan for the six months ended June 30, 2017 is as follows:

	Options	Weighted average exercise price \$
<b>Balance, September 30, 2016</b>	<b>4,007,000</b>	<b>\$ 0.47</b>
Issued	320,000	\$ 0.23
Exercised	-	\$ -
Expired or forfeited	-	\$ -
<b>Balance, December 31, 2016</b>	<b>4,327,000</b>	<b>\$ 0.47</b>
Issued	-	\$ -
Exercised	-	\$ -
Expired or forfeited	(398,000)	\$ 0.29
<b>Balance, March 31, 2017</b>	<b>3,929,000</b>	<b>\$ 0.47</b>
Issued	-	\$ -
Exercised	-	\$ -
Expired or forfeited	(359,000)	\$ 0.30
<b>Balance, June 30, 2017</b>	<b>3,570,000</b>	<b>\$ 0.49</b>
<b>Exercisable, June 30, 2017</b>	<b>1,488,000</b>	<b>\$ 0.48</b>

The exercise price of each option equals the closing market price of the Company's capital stock on the day preceding the grant date.

AS AT AND FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

## 15. STOCK OPTION PLAN (continued)

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 June 30, 2017 and September 30, 2016:

	June 30, 2017			September 30, 2016		
	Number outstanding	Weighted average exercise price \$	Weighted average remaining contractual life years	Number outstanding	Weighted average exercise price \$	Weighted average remaining contractual life years
Range of exercise prices:						
\$0.33 to \$0.55	2,920,000	\$ 0.54	3.25	2,923,000	\$ 0.54	2.79
\$0.23 to \$0.32	650,000	\$ 0.25	2.94	1,084,000	\$ 0.28	2.10
	3,570,000	\$ 0.49	3.19	4,007,000	\$ 0.47	2.60

The volatility of the stock for the Black-Scholes options pricing model was based on 5-year historic volatility of the Company's stock price on the Toronto Stock Exchange. Management believes that the historic stock volatility provides a fair and appropriate basis of estimate for the expected future volatility of the stock. Stock options are assumed to be exercised at the end of the option's life, as management believes the probability of an early exercise is remote. During the period, the fair value of the options vested in the year were expensed and credited to contributed surplus.

## 16. INCOME PER SHARE

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

For the three months ended March 31

	2017	2016
Numerator for basic and diluted earnings per share:		
Net income (loss) available to common shareholders (\$)	188,646	47,953
Denominator for basic earnings per share:		
Weighted average common shares outstanding	84,704,257	84,704,257
Effect of dilutive securities:		
Warrants	-	1,764
Stock Options	-	345
Convertible Debentures	-	-
<u>Denominator for diluted net income (loss) per share</u>	<u>84,704,257</u>	<u>84,706,366</u>
Net income (loss) per share		
Basic	\$0.002	\$0.001
Diluted	\$0.002	\$0.001

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

	2017	2016
Pursuant to warrants	8,331,313	6,831,313
Under stock options	3,570,000	4,472,000
Pursuant to convertible debentures	19,565,217	9,242,979
	31,466,530	20,546,292

AS AT AND FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

## 17. EXPENSES BY NATURE

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

*Depreciation and amortization*

	Three months ended Jun 30, 2017	Three months ended Jun 30, 2016	Nine months ended Jun 30, 2017	Nine months ended Jun 30, 2016
	\$	\$	\$	\$
Included in:				
Cost of goods sold	75,300	72,732	218,513	214,953
General and administrative expenses	248	258	744	774
Research and development	29,611	30,600	88,834	91,800
<b>Total depreciation and amortization</b>	<b>105,159</b>	<b>103,590</b>	<b>308,090</b>	<b>307,527</b>

*Employee costs*

	Three months ended Jun 30, 2017	Three months ended Jun 30, 2016	Nine months ended Jun 30, 2017	Nine months ended Jun 30, 2016
	\$	\$	\$	\$
Short-term wages, bonuses and benefits	1,159,200	913,637	3,218,112	2,525,795
Share based payments	54,154	82,996	160,870	250,833
<b>Total employee costs</b>	<b>1,213,354</b>	<b>996,633</b>	<b>3,378,982</b>	<b>2,776,628</b>

## Included in:

Cost of goods sold	707,712	571,100	1,945,679	1,614,734
Research and development	184,257	107,244	492,505	215,277
General and administrative expenses	246,102	226,222	695,163	661,973
Selling and business development	75,282	92,067	245,635	284,644
<b>Total employee costs</b>	<b>1,213,354</b>	<b>996,633</b>	<b>3,378,982</b>	<b>2,776,628</b>

## 18. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended Jun 30, 2017	Three months ended Jun 30, 2016	Nine months ended Jun 30, 2017	Nine months ended Jun 30, 2016
	\$	\$	\$	\$
Accounts receivable	458,973	(644,117)	1,156,029	(306,787)
Inventory	(446,396)	88,547	(1,020,471)	51,415
Prepaid expenses & other assets	(23,342)	22,234	(56,839)	147,927
Investment tax credit receivable	72,604	(52,999)	32,604	(152,999)
Accounts payable and accrued liabilities	198,097	75,355	449,039	(335,157)
	<b>259,936</b>	<b>(510,980)</b>	<b>560,362</b>	<b>(595,601)</b>

**19. FINANCIAL EXPENSES**

	Three months ended Mar 31, 2017 \$	Three months ended Mar 31, 2016 \$	Nine months ended Mar 31, 2017 \$	Nine months ended Mar 31, 2016 \$
Cash interest:				
Interest on long-term debt	40,357	37,703	122,641	113,845
Interest on debentures	121,525	119,974	366,075	363,005
Interest other	14,790	9,206	50,408	34,258
Interest income	-	-	-	(615)
Non-cash interest:				
Accretion on debentures	53,015	17,045	133,406	48,766
Financial expenses	229,687	183,928	672,530	559,259

**20. CAPITAL MANAGEMENT**

The Company's capital management objective is to safeguard its ability to function as a going concern to maintain its virology operations and to fund its development activities. Microbix defines its capital to include the revolving line of credit, shareholders' equity, the Business Development Bank capital loans, and the debentures. The capital at June 30, 2017 was \$22,646,355 (2016 - \$21,078,599).

To date, the Company has used common equity issues, debentures, bank mortgage and other financing to fund its activities. The equity is through private placements, the debentures are all controlled by private individuals known to the Company and the mortgage and other financing are with the Business Development Bank. If possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including investment tax credits, grants and interest income. The Company has a revolving line of credit of \$1,500,000 with its Canadian chartered bank, Note 10 (b).

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

**21. FINANCIAL INSTRUMENTS**

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

For the three months ended June 30, 2017 and 2016, the Company has carried at fair value financial instruments in Level 1. At June 30, 2017, 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:

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

AS AT AND FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016

## 21. FINANCIAL INSTRUMENTS (continued)

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

	Date of valuation	Quoted prices in active markets (Level 1) \$	Significant observable inputs (Level 2) \$	Significant un observable inputs (Level 3) \$
Assets measured at fair value:				
Cash	30-Jun-17	163,947	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Jun-17	-	-	1,137,995
Convertible debentures	30-Jun-17	-	-	1,501,475
Long-term-debt	30-Jun-17	-	4,146,510	-

	Date of valuation	Quoted prices in active markets (Level 1) \$	Significant observable inputs (Level 2) \$	Significant un observable inputs (Level 3) \$
Assets measured at fair value:				
Cash	30-Jun-16	5,090	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Jun-16	-	-	651,851
Convertible debentures	30-Jun-16	-	-	2,699,455
Long-term-debt	30-Jun-16	-	4,072,700	-

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

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

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

**22. FINANCIAL RISK MANAGEMENT**

The primary risks that affect the Company are set out below and the risks have not changed during the reporting periods. The list does not cover all risks to the Company, nor is there an assurance that the strategy of management to mitigate the risks is sufficient to eliminate the risk.

*Risks arising from financial instruments and risk management*

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is the responsibility of the corporate finance function. Material risks are monitored and are regularly discussed with the Audit Committee of the Board of Directors.

*Credit risk*

The Company's cash and cash equivalents are 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. There is a concentration of accounts receivable risk due to the few large customers comprising the Company's international customer base. In the three months ended June 30, 2017, five customers accounted for 58% (2016 - five customers accounted for 60%) of revenue. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of \$10,000 (2016 - \$18,295).

Trade accounts receivable are aged as follows at June 30:

	As at Jun 30, 2017 \$	As at Jun 30, 2016 \$
Current	778,460	1,625,638
0-30 days past due	80,825	74,564
31-60 days past due	499	260,323
61 days and over past due	6,060	38,336
	<u>865,843</u>	<u>1,998,861</u>

*Market risk and foreign currency risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, will affect the Company's income or the value of its financial instruments. The Company's activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products and services to customers invoiced in foreign currencies and the purchase of services invoiced in foreign currencies. The Company does not use financial instruments to hedge these risks. As at June 30 the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	Jun 30, 2017 \$	Jun 30, 2016 \$	Jun 30, 2017 \$	Jun 30, 2016 \$
Cash	162,330	96	54	7,528
Accounts receivable	325,428	651,347	294,467	1,148,384
Accounts payable and accrued liabilities	404,796	525,577	-	21,834

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

The Company's revenue and expenses by foreign currency for the quarters ended June 30, 2017 and 2016 are as follows:

	2017	2016
<b>Revenue</b>		
European Euro	43%	39%
U.S. dollars	57%	56%
<b>Expenses</b>		
U.S. dollars	13%	13%

The impact of a 5% increase in the Canadian dollar against the US dollar would result in an annual U.S. dollar based revenue loss of about 4.7%. The impact of a 5% increase in the Canadian dollar against the Euro would result in an annual Euro based revenue loss of about 5%. Correspondingly, the impact of a 5% decrease in the Canadian dollar against the US dollar would result in an annual U.S. dollar based revenue increase of about 4.7%. The impact of a 5% increase in the Canadian dollar against the Euro would result in an annual Euro based revenue increase of about 5%.

*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 satisfy the Company's liquidity needs and help manage the liquidity risk going forward.

*Interest rate risk*

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

## 23. SEGMENTED INFORMATION

The Company operates in two industries: (i) the development, manufacturing and distribution of cell-based products and technology and, (ii) the provision of facility, technical and production personnel for contract research and development. External revenue by segment is attributed to geographic regions based on the location of customers: North America, Europe and other foreign countries. The following is an analysis of the Company's revenue and profits from continuing operations by reportable segment:

	Segment revenue		Segment profit	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
	\$	\$	\$	\$
Virology Products and Technologies	2,773,365	2,253,375	188,646	47,953
Lumisort™	-	-	-	-
Kinlytic®	-	-	-	-
Total for continuing operations	2,773,365	2,253,375	188,646	47,953

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2016 - \$Nil).

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3. Segment profit represents the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, share of profits of associates, gain recognised on disposal of interest in former associate, investment income, other gains and losses as well as finance costs. 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 June 30 are as follows:

	Segment assets		Segment liabilities	
	2017	2016	2017	2016
	\$	\$	\$	\$
Virology Products and Technologies	15,487,952	14,909,207	9,874,520	10,760,252
Lumisort™	7,636,440	7,425,409	468,081	-
Kinlytic®	3,078,586	2,770,528	-	-
Total for continuing operations	26,202,978	25,105,144	10,342,601	10,760,252

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.

**AS AT AND FOR THE THREE MONTHS ENDED JUNE 30, 2017 AND 2016**
**23. SEGMENTED INFORMATION (continued)**

Segmented depreciation and amortization and additions to non-current assets as at June 30 are as follows:

	Depreciation and amortization		Additions to non-current assets	
	2017	2016	2017	2016
	\$	\$	\$	\$
Virology Products and Technologies	81,515	79,946	24,948	1,029,228
Lumisort™	23,644	23,644	6,879	991,667
Kinlytic®	-	-	212,173	-
Total for continuing operations	105,159	103,590	244,000	2,020,895

**24. GEOGRAPHIC INFORMATION**

The Company operates in three principal geographical areas – North America (country of domicile), Europe and in other foreign countries. The Company's revenue from continuing operations from external customers by location of customer's operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers Three months ended Jun 30		Non-current assets As at Jun 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
North America	1,042,739	705,785	20,494,550	19,155,629
Europe	1,617,225	1,364,782	-	-
Other	113,401	182,806	-	-
	2,773,365	2,253,373	20,494,550	19,155,629

**25. RELATED PARTY TRANSACTIONS**
***Key Management Compensation***

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management includes directors and key management executive officers. Compensation for the Company's key management personnel was as follows:

	Three months ended Jun 30, 2017	Three months ended Jun 30, 2016
	\$	\$
Short-term wages, bonuses and benefits	192,330	189,055
Termination benefits	-	-
Share based payments	39,605	-
Total key management compensation	231,935	189,055

The Company has issued and outstanding debentures with two shareholders of the Company (see note 9). On December 31, 2015 the Company had issued two shareholder loans for total proceeds of \$200,000. On December 31, 2016, the two outstanding shareholder loans were repaid.

**26. COMMITMENTS AND CONTINGENCIES***Lease commitments*

	Amount \$
2017	7,964
2018	31,858
2019	27,661
2020	21,703
2021	21,240
	<u>110,426</u>

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

	Amount \$
2017	177,310
2018	709,242
2019	709,242
2020	709,242
2021	709,242
2022 and thereafter	9,394,399
	<u>12,408,677</u>

*Contingencies*

The Company is party to legal proceedings arising out of the normal course of business. The results of these litigations cannot be predicted with certainty, and management is of the opinion that the outcome of these proceedings is not determinable. Any loss resulting from these proceedings will be charged to operations in the period when the loss becomes probable to occur and reasonably measurable.

**27. SETTLEMENT OF DISPUTE – SALE OF MICROBIX’ WFI BUSINESS TO IRVINE SCIENTIFIC**

On December 30, 2016 Microbix reached a final settlement with Irvine Scientific Inc. over an ongoing dispute related to the sale of the Company’s Water-for-Injection business to Irvine Scientific that occurred in December 2012. Irvine Scientific had filed a Notice of Arbitration with the American Arbitration Association in New York as stipulated in its original agreement with Microbix. Prior to initiation of the arbitration proceeding the companies agreed on final settlement terms, namely Microbix will pay Irvine a total amount of (U.S.) \$192,500 in the following instalments:

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

**28. SUBSEQUENT EVENTS**

On July 24, 2017 the Company announced that it has appointed Mr. Cameron Groome as its President and CEO, with Mr. Vaughn Embro-Pantalony retiring from those positions but remaining an executive director working closely with Mr. Groome until December 31, 2017 to ensure a smooth leadership transition. Effective January 1, 2018, Mr. Embro-Pantalony will become a non-management director on the Company's board.

On August 3, 2017 the Board of Directors signed a resolution granting options to purchase an aggregate of up to 1,400,000 common shares of the Corporation. These options were granted to the following independent Directors; Martin Marino, Mark Cochran and Peter Blecher. On August 3, 2017 the Board of Directors signed a resolution granting options to purchase an aggregate of up to 1,500,000 common shares of the Corporation to Cameron Groome. The above options will have a five (5) year term and expire on August 3, 2022, subject to such earlier termination in accordance with the terms of the Corporation's stock option plan. Options vest one-third on the date of grant and two-thirds in 24 (twenty-four) equal monthly increments with the first increment vesting one month after the date of grant. The issuance of such options shall be subject to any regulatory approvals which may be required and the exercise price shall be \$0.28; being the closing price of the Corporation's common shares on the Toronto Stock Exchange on August 2, 2017.

On August 8, 2017 the Company announced the execution of an agreement to 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. The customer is a major global diagnostics company with growing sales of infectious disease tests that require more antigen supply. Sales under the agreement are expected to total approximately \$25 million over the five year term, with approximately \$10 million being incremental. The agreement also schedules the conversion of the antigen purchases to our new bioreactor-based production, replacing its prior roller-bottle process. The bioreactor platform offers enhanced manufacturing capacity and immediate economic benefits for both the Company and its customers. The companies have also agreed to explore additional opportunities to collaborate.