

MICROBIX**CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION****Unaudited****AS AT JUNE 30, 2019 AND SEPTEMBER 30, 2018****Canadian Funds**

	As at June 30, 2019	As at September 30, 2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 14,478	\$ 44,358
Accounts receivable (Note 22)	1,849,269	1,313,480
Inventory (Note 5)	5,338,775	4,446,968
Prepaid expenses and other assets (Note 6)	116,390	169,965
Investment tax credit receivable (Note 18)	67,874	92,247
TOTAL CURRENT ASSETS	7,386,786	6,067,018
LONG-TERM ASSETS		
Deferred tax asset (Note 3)	1,489,315	1,580,000
Property, plant and equipment (Note 7)	6,533,675	6,646,730
Intangible assets (Note 8)	4,911,890	5,016,319
TOTAL LONG-TERM ASSETS	12,934,880	13,243,049
TOTAL ASSETS	\$ 20,321,666	\$ 19,310,067
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,580,435	\$ 1,766,592
Bank indebtedness (Note 10)	1,430,000	260,000
Current portion of finance lease obligation	79,868	80,627
Current portion of long-term debt (Note 10)	438,120	438,120
Current portion of debentures (Note 9)	749,448	684,953
Deferred revenue (Note 11)	1,075,168	931,125
TOTAL CURRENT LIABILITIES	5,353,039	4,161,417
Finance lease obligation	189,435	249,526
Non-convertible debenture (Note 9)	763,692	779,536
Convertible debentures (Note 9)	1,342,730	1,304,960
Long-term debt (Note 10)	2,132,536	2,461,126
TOTAL LONG-TERM LIABILITIES	4,428,393	4,795,148
TOTAL LIABILITIES	\$ 9,781,432	\$ 8,956,565
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	\$ 33,912,460	\$ 33,912,460
Equity component of convertible debentures (Note 9)	2,903,789	2,903,789
Contributed surplus (Note 13)	9,341,654	9,235,656
Accumulated deficit	(35,617,669)	(35,698,403)
TOTAL SHAREHOLDERS' EQUITY	\$ 10,540,234	\$ 10,353,502
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 20,321,666	\$ 19,310,067

Commitments and Contingencies (Note 26)

(Signed) "William J. Gastle"

WILLIAM J. GASTLE
DIRECTOR

(Signed) "Cameron L. Groome"

CAMERON L. GROOME
DIRECTOR

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

MICROBIX**CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****Unaudited****Canadian Funds**

	Three Months ended June 30		Nine Months ended June 30	
	2019	2018	2019	2018
SALES				
Antigen products and technologies	\$ 3,028,397	\$ 3,158,058	\$ 9,564,459	\$ 8,882,444
Royalties	82,218	77,166	260,597	238,540
TOTAL SALES	3,110,615	3,235,224	9,825,056	9,120,984
COST OF GOODS SOLD				
Antigen products and technologies (Notes 17)	1,576,505	1,696,644	4,800,314	5,074,946
Royalties	14,787	15,066	53,373	50,996
TOTAL COST OF GOODS SOLD	1,591,292	1,711,710	4,853,687	5,125,942
GROSS MARGIN	1,519,323	1,523,514	4,971,369	3,995,043
EXPENSES				
Selling and business development (Note 17)	192,185	148,684	488,507	417,746
General and administrative (Note 17)	981,649	882,651	2,738,402	2,609,808
Research and development (Note 17)	266,481	275,710	771,665	771,507
Financial expenses (Note 19)	270,330	215,511	801,376	631,654
OPERATING INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, BEFORE INCOME TAXES	(191,322)	958	171,419	(435,672)
INCOME TAXES				
Deferred income taxes (Note 3)	-	-	90,685	-
Current income taxes	-	-	-	-
NET COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	\$ (191,322)	\$ 958	\$ 80,734	\$ (435,672)
NET COMPREHENSIVE INCOME (LOSS) PER SHARE				
Basic (Note 16)	\$ (0.002)	\$ 0.000	\$ 0.001	\$ (0.005)
Diluted (Note 16)	\$ (0.002)	\$ 0.000	\$ 0.001	\$ (0.005)

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

MICROBIX

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Unaudited

Canadian Funds

	Three Months ended June 30		Nine Months ended June 30	
	2019	2018	2019	2018
OPERATING ACTIVITIES				
Net comprehensive income (loss) for the period	\$ (191,322)	\$ 958	\$ 80,734	\$ (435,672)
Items not affecting cash				
Amortization and depreciation	143,730	175,262	423,574	510,229
Accretion of debentures	56,802	41,532	160,570	116,839
Stock options and warrants expense (Note 15)	39,346	115,002	105,998	445,164
Deferred tax asset (Note 3)	-	-	90,685	-
Change in non-cash working capital balances (Note 18)	(250,339)	(250,528)	(1,391,763)	(1,523,349)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(201,783)	82,226	(530,202)	(886,788)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment (Note 7)	(103,952)	(300,925)	(206,091)	(877,728)
Additions from internal development of intangible assets (Note 8)	-	(34,182)	-	(263,123)
CASH USED IN INVESTING ACTIVITIES	(103,952)	(335,107)	(206,091)	(1,140,851)
FINANCING ACTIVITIES				
Repayments of long-term debt (Note 10)	(109,530)	(84,120)	(328,590)	(252,360)
Repayments of convertible and non-convertible debentures (Note 9)	(26,051)	(23,959)	(74,148)	(67,875)
Repayments of shareholders' loans	-	-	-	(200,000)
Repayments of finance lease	(19,657)	(19,790)	(60,849)	(52,322)
Proceeds (repayments) of credit facility (Note 10)	450,000	290,000	1,170,000	(695,000)
Proceeds from exercise of stock options and warrants	-	-	-	104,608
Issue of common shares, net of issue costs	-	55,000	-	3,192,283
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	294,762	217,131	706,413	2,029,334
NET CHANGE IN CASH - DURING THE PERIOD	(10,973)	(35,749)	(29,880)	1,695
CASH - BEGINNING OF PERIOD	25,451	91,904	44,358	54,460
CASH - END OF PERIOD	\$ 14,478	\$ 56,155	\$ 14,478	\$ 56,155

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

MICROBIX

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited

As at June 30, 2019 and September 30, 2018

Canadian Funds

	SHARE CAPITAL (Note 12)		CONTRIBUTED SURPLUS	INCOME/ (DEFICIT)	EQUITY COMPONENT OF DEBENTURE	TOTAL SHAREHOLDERS' EQUITY
	NUMBER OF SHARES	STATED CAPITAL				
BALANCE, SEPTEMBER 30, 2017	84,704,257	\$31,299,416	\$8,048,315	\$(27,076,837)	\$2,903,789	\$15,174,683
Stock option expense			400,196			400,196
Share Issuance pursuant to Stock Options Exercised	400,000	181,516	(77,516)			104,000
Share Issuance pursuant to Warrants Exercised	1,815	811	(203)			608
Issue of Warrants pursuant to Private Placement			743,905			743,905
Share Issuance pursuant to Private Placement	11,666,633	2,756,085				2,756,085
Share Issue Costs pursuant to Private Placement		(272,354)	(90,353)			(362,707)
Share Issuance for Services	200,000	55,000				55,000
Warrants Issuance for Services			44,969			44,969
Net comprehensive income (loss) for the period				(435,672)		(435,672)
BALANCE, JUNE 30, 2018	96,972,705	\$34,020,474	\$9,069,313	\$(27,512,509)	\$2,903,789	\$18,481,067
Stock option and warrant expense			58,329			58,329
Share Issue Costs pursuant to Private Placement		(108,014)	(12,314)			(120,328)
Issuance of Broker Warrants			120,328			120,328
Net comprehensive loss for the year				(8,185,894)		(8,185,894)
BALANCE, SEPTEMBER 30, 2018	96,972,705	33,912,460	9,235,656	(35,698,403)	2,903,789	10,353,502
Stock option expense			105,998			105,998
Net comprehensive income (loss) for the period				80,734		80,734
BALANCE, JUNE 30, 2019	96,972,705	\$33,912,460	\$9,341,654	\$(35,617,669)	\$2,903,789	\$10,540,234

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

1. NATURE OF THE BUSINESS

Microbix Biosystems Inc. (the “Company” or “Microbix”), incorporated under the laws of the Province of Ontario, develops and commercializes proprietary biological and technology solutions for human health and wellbeing. Microbix manufactures a wide range of critical biological materials for the global diagnostics industry, notably antigens used in immunoassays or quality assessment and proficiency testing controls (the Antigen Business).

Microbix has also applied its biological expertise and infrastructure to create proprietary new products or technologies. Currently it has two; (1) Kinlytic[®] urokinase, a biologic thrombolytic drug (used to dissolve blood clots), and (2) LumiSort[™] cell-sorting, a technology platform for ultra-rapid and efficient sorting of particles that can be used to enrich cell populations of interest (such as sexing semen for the livestock industry).

The registered office and principle place of business of the Company is located at 265 Watline Avenue, Mississauga, Ontario, L4Z 1P3.

2. BASIS OF PREPARATION

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”) and are presented in Canadian dollars. The accounting policies used in the preparation of these interim consolidated financial statements conform with those in the Company’s audited annual consolidated financial statements for the year ended September 30, 2018, except as set out in note 4. These interim consolidated financial statements do not include all of the information and disclosures required in annual financial statements and, accordingly, should be read in conjunction with the Company’s annual consolidated financial statements for the year ended September 30, 2018.

The Board of Directors approved these interim consolidated financial statements on August 8, 2019.

3. SUMMARY OF 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. 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, over which the Company has control. Control exists when the entity is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The non-controlling interest component, if any, of the Company’s subsidiaries is included in equity.

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 quarters ended June 30, 2019 and 2018. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of estimates and judgments

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Use of estimates and judgements (Continued)**

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. The amortization period and amortization method for intangible assets are reviewed at least at the end of each reporting period.

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.

vi) Impairments:

The recoverable amount of intangible assets and property, plant and equipment is based on estimates and assumptions regarding the expected market outlook and cash flows from each cash generating unit ("CGU").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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.

Amounts the Company expects to earn over the next year 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.

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, 2019 or 2018.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Financial assets and liabilities (Continued)**

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

	Classification	Measurement	2019	2018
Financial assets:				
Cash	Held-for-trading	Fair value	\$ 14,478	\$ 56,155
Accounts receivable	Loans and receivables	Amortized cost	1,849,269	1,936,125
Financial liabilities:				
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	\$ 1,580,435	\$ 1,912,745
Bank Indebtedness	Other liabilities	Amortized cost	1,430,000	660,000
Deferred revenue	Other liabilities	Amortized cost	1,075,168	1,346,224
Finance lease obligation	Other liabilities	Amortized cost	269,303	350,551
Non-convertible debentures	Other liabilities	Amortized cost	1,200,580	1,178,002
Convertible debentures	Other liabilities	Amortized cost	1,655,290	1,566,082
Long-term-debt	Other liabilities	Amortized cost	2,570,656	2,685,030
Total Financial liabilities			\$ 9,781,432	\$ 9,698,634

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 at each reporting date for finished goods and work-in-process.

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.

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

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 quarterly 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.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period they are incurred.

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. No forfeiture rate is incorporated into the Company's assumptions on awarding options. To the extent actual forfeitures occur, share-based compensation related to these awards will be different from the Company's estimate and are revised.

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

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.

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 period-end date. Exchange gains and losses arising on these transactions are included in the consolidated statements of loss and comprehensive loss for the period.

Income (loss) per common share

The Company calculates basic income per share amounts for profit or loss attributable to ordinary equity holders. Basic income (loss) 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.

Microbix recognized \$1.58 million of deferred tax assets (DTA's) across fiscal 2014, 2015, 2016 and 2017. Those DTA's will be amortized against earnings at Microbix' applicable corporate tax rate (25% in fiscal 2019).

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. IMPACT OF NEW ACCOUNTING STANDARDS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the 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 described below.

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2019

The Company has adopted new amendments to the following accounting standards effective for its interim and annual consolidated financial statements commencing October 1, 2018. The effect of these pronouncements on the Company’s results and operations are described below.

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.

IFRS 9 - Financial instruments (“IFRS 9”)

The Company has adopted IFRS 9, effective October 1, 2018 on a modified retrospective basis, in accordance with the transitional provisions of IFRS 9. As such, comparative figures have not been restated. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments and includes a new model for hedge accounting aligning the accounting treatment with risk management activities.

As detailed below, the Company has changed its accounting policy for financial instruments retrospectively, except where described below.

Financial assets

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument’s contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets, the Company has classified and measured its financial assets as described below:

Cash and cash equivalents measured at fair value through profit or loss under International Accounting Standard 39 - Financial Instruments: Recognition and Measurement (“IAS 39”) continue to be measured as such under IFRS 9.

Accounts receivable classified as financial assets continue to be measured at amortized cost under IFRS 9.

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company’s financial assets on the transition date.

4. IMPACT OF NEW ACCOUNTING STANDARDS (Continued)**NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2019 (Continued)*****IFRS 9 - Financial instruments (“IFRS 9”) (Continued)******Financial liabilities***

Financial liabilities are recognized initially at fair value, and in the case of financial liabilities, not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and, since the Company does not have any financial liabilities designated at fair value through profit or loss, the adoption of IFRS 9 did not impact the Company’s accounting policies for financial liabilities. Accounts payable and accrued liabilities, interest payable, and long-term debt are classified as financial liabilities to be subsequently measured at amortized cost.

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company’s financial liabilities on the transition date.

Expected credit loss impairment model

IFRS 9 requires a forward-looking expected credit loss impairment (“ECL”) model as opposed to an incurred credit loss model under IAS 39. As the Company’s financial assets are substantially made up of trade receivables, the Company has opted to use the simplified approach for measuring the loss allowance at an amount equal to lifetime ECL. The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECLs at all times. Lifetime ECL represents the ECL that would result from all possible default events over the expected life of a financial instrument. The adoption of the ECL model did not have a significant impact on the Company’s financial statements, and did not result in a transitional adjustment.

Financial instruments

The Company’s financial assets and liabilities (financial instruments) include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt financial instruments. All financial instruments are recorded at fair value at recognition. Subsequent to initial recognition, financial instruments classified as accounts receivables, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost using the effective interest method. Other financial assets and liabilities are recorded at fair value subsequent to initial recognition.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

Effective October 1, 2018, the Company adopted IFRS 15. IFRS 15 supersedes International Accounting Standard 18, Revenue (“IAS 18”). IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The Company has elected to use the modified retrospective method, which requires the cumulative effect of initially applying the Standard to be recognized at the date of initial application, which is October 1, 2018, and that the financial information previously presented for the year ended September 30, 2018 would remain unchanged. The transition to the new standard had no material impact on the measurement and recognition of revenue in the current or prior periods.

The Company has elected to make use of the following practical expedients:

- (i) Completed contracts under IAS 18 before the date of transition have not been reassessed.
- (ii) Financing components are not considered in the Company’s transaction price as the time gap between payment and delivery of goods and services is expected to be less than one year.
- (iii) Contract costs incurred related to contracts with an amortization period of less than one year have been expensed as incurred.

4. IMPACT OF NEW ACCOUNTING STANDARDS (Continued)**NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2019 (Continued)*****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 has elected to adopt IFRIC 22 prospectively beginning on October 1, 2018. The adoption of the standard has had no significant impact on the Company’s unaudited interim consolidated financial statements for the three-month ended period June 30, 2019.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED***IFRS 16, Leases (“IFRS 16”)***

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

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.

5. INVENTORIES

Inventories as at June 30 consist of the following:

	2019	2018
Raw material	\$ 732,124	\$ 720,330
Work in process	1,562,221	1,308,701
Finished goods	3,044,430	2,673,455
	\$ 5,338,775	\$ 4,702,486

During the quarter ended June 30, 2019, inventories in the amount of \$1,576,505 (2018 - \$1,696,644) were recognized as an expense through cost of sales. The allowance for inventory impairment as June 30, 2019 was \$55,747 (2018 - \$20,000).

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets as at June 30, 2019 were \$116,390 (2018 - \$171,703), consisting of insurance policy premiums, deposits for trade shows and other prepaid amounts.

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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
COST					
Balance, as at Sept 30, 2018	4,923,033	500,709	5,349,475	800,000	11,573,217
Additions	53,164	9,299	143,628	-	206,091
Disposals	-	-	-	-	-
Balance, June 30, 2019	4,976,197	510,008	5,493,103	800,000	11,779,308
ACCUMULATED DEPRECIATION					
Balance, as at Sept 30, 2018	1,406,798	423,354	3,096,334	-	4,926,487
Disposals	-	-	-	-	-
Depreciation	125,132	7,709	186,305	-	319,146
Balance, June 30, 2019	1,531,930	431,064	3,282,640	-	5,245,633
NET BOOK VALUE					
Balance, Sept 30, 2018	3,516,235	77,355	2,253,141	800,000	6,646,730
Balance, June 30, 2019	\$3,444,267	\$78,944	\$2,210,463	\$800,000	\$6,533,675

MICROBIX

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8. INTANGIBLE ASSETS

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

Technology investments:	
Kinlytic® (Note 8a)	0%
Bioreactor (Note 8b)	7%

Intangible assets consist of:

	Capitalized development costs Bioreactor	Patents and trademarks Kinlytic®	Total
	(b)	(a)	
COST			
Balance, as at September 30, 2018	\$2,088,575	\$3,078,586	\$5,167,161
Additions from internal developments	-	-	-
Balance, as at June 30, 2019	2,088,575	3,078,586	5,167,161
ACCUMULATED AMORTIZATION			
Balance at September 30, 2018	150,842	-	150,842
Amortization expense	104,429	-	104,429
Balance, as at June 30, 2019	255,271	-	255,271
NET BOOK VALUE			
Balance, September 30, 2018	1,937,733	3,078,586	5,016,319
Balance, as at June 30, 2019	1,833,304	3,078,586	4,911,890

At each reporting date, the Company is required to assess its long-lived assets for potential indicators of impairment. If any such indication exists, the Company estimates the recoverable amount of the asset or CGU and compares it to the carrying value. In addition, irrespective of whether there is any indication of impairment, the Company is required to test long-lived assets with definite lives which are not yet available for use at least annually.

a) Kinlytic®

The Company acquired the assets and rights pertaining to development, production, and licensing of Kinlytic® from ImaRX Therapeutics, Inc. in 2008. The asset is not yet available for use, accordingly no amortization has been recorded.

The recoverable amount of the Kinlytic® intangible has been determined based on its fair value less cost to sell. 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.

b) Bioreactor

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

9. DEBENTURES

The Company has convertible and non-convertible debentures issued and outstanding as at June 30, 2019. The carrying values of the debt component of these debentures are as follows:

	Non-convertible debentures		Total non-convertible debentures	Convertible debentures			Total convertible debentures
	(a)	(b)		(c)	(d)	(e)	
Date of issue	Jan, 2014	Apr, 2017		Oct, 2016	Oct, 2016	Oct, 2016	
Face value	\$ 2,000,000	\$ 500,000	\$ 2,500,000	\$ 1,500,000	\$ 500,000	\$ 2,500,000	\$ 4,500,000
Liability component at the date of issue	928,373	268,955	-	461,550	223,050	780,750	
Balance, September 30, 2018	879,140	304,874	1,184,014	483,329	280,475	821,631	1,585,435
Accretion	64,798	25,916	90,714	12,295	32,085	25,475	69,855
Repayments	(74,148)	-	(74,148)	-	-	-	-
Balance, June 30, 2019	869,790	330,790	1,200,580	495,624	312,560	847,106	1,655,290
Less: current portion	106,098	330,790	436,888	-	312,560	-	312,560
Non-current portion	763,692	-	763,692	495,624	-	847,106	1,342,730
Balance, June 30, 2019	\$ 869,790	\$ 330,790	\$ 1,200,580	\$ 495,624	\$ 312,560	\$ 847,106	\$ 1,655,290
Equity component at June 30, 2019	-	-	-	574,435	631,222	1,698,132	2,903,789
Conversion price per common share	\$ -	\$ -		\$ 0.23	\$ 0.23	\$ 0.23	
Effective interest rate charged	25.69%	30.20%		31.07%	30.20%	30.85%	
Payment frequency	Quarterly	Quarterly		Quarterly	Quarterly	Quarterly	
Maturity of financial instrument	Jan, 2029	Apr, 2022		Jan, 2029	Feb, 2022	Sep, 2028	
Stated interest rate	9%	12%		9%	9%	9%	
Terms of repayment	Principal and interest	Interest only		Interest only	Interest only	Interest only	
Blended quarterly repayment	\$ 61,071	N/A		N/A	N/A	N/A	

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

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

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

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

a) The Company has term loans with the Business Development Bank (“BDC”) for a variety of purposes. The following summarizes these loans as at June 30, 2019:

Term Loans with the Business Development Bank (“BDC”)	(a)	(b)	(c)	(d)	(e)	(f)	Total
Effective date of loan	Jun, 2008	Oct, 2014	Oct, 2015	Oct, 2015	Nov, 2015	Jul, 2018	
Initial Loan Amount	\$ 3,000,000	\$ 615,000	\$ 50,000	\$ 200,000	\$ 250,000	\$ 323,906	\$ 4,438,906
Balance, September 30, 2018	2,157,580	225,500	15,600	89,910	112,320	298,336	2,899,246
Proceeds from loan	-	-	-	-	-	-	-
Loan repayments during the period	(83,340)	(92,250)	(9,360)	(29,970)	(37,440)	(76,230)	(328,590)
Balance, June 30, 2019	\$ 2,074,240	\$ 133,250	\$ 6,240	\$ 59,940	\$ 74,880	\$ 222,106	\$ 2,570,656
Current Portion	111,120	123,000	12,480	39,960	49,920	101,640	\$ 438,120
Non-current portion	1,963,120	10,250	(6,240)	19,980	24,960	120,466	2,132,536
Payment frequency	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	
Maturity of loan	Feb, 2038	Jul, 2020	Dec, 2019	Dec, 2020	Dec, 2020	Sep, 2021	
Terms of repayment	Principal and interest						

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

All BDC loans have a floating interest rate based on BDC’s floating base rate plus 0.5% - 1.8%. At June 30, 2019, the rate was 6.55% (2018 – 6.05%). The loans are secured with the building and equipment.

As at June 30, 2019, the commitments for the next five fiscal years and thereafter for the BDC loans is as follows:

	Amount
2019	\$ 109,530
2020	408,260
2021	228,646
2022	111,120
2023	111,120
2024 and thereafter	\$ 1,601,980

On April 28, 2017, the Company received approval from its Chartered Bank to increase the borrowing limit on its credit facility to \$1.5 million. The expanded credit facility was made available on May 4, 2017.

As at June 30, 2019 the Company had drawn on \$1,430,000 of the facility (2018 - \$660,000). The Company’s usage of this facility varies across its manufacturing, sales and AR collection cycles.

- b) On September 12, 2017, the Company issued two outstanding shareholder interest bearing loans for total proceeds of \$200,000. These loans were repaid on October 23, 2017.
- c) On May 3, 2017, the Company signed an agreement with Business Development Corporation for a new equipment credit facility in the amount of \$610,000. On July 4, 2018 the Company received funds in the amount of \$323,906, drawn on this facility. No further funds have been drawn since that date.

11. DEFERRED REVENUE

As at June 30, 2019, the Company has received payment, in the amount of \$1,075,168 (2018 - \$1,346,224), 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 loss and comprehensive loss.

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.

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 \$3,137,283 after share issuance costs of \$362,707. Each unit consisted 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. Fair value of the common share purchase warrants was determined to be \$1,102,144. Gross proceeds were allocated to common shares and common share purchase warrants in the amount of \$2,756,085 and \$743,905 respectively. The financing was brokered. Cash commissions of \$226,729 were paid and an aggregate of 755,764 Broker's Warrants were issued in the private placement offering. Fair value of the broker warrants was determined to be \$120,328 using the Black-Scholes option pricing model. The volatility of the stock for the Black-Scholes options pricing model was based on 5-year historic volatility of the Company's stock price on the Toronto Stock Exchange (86%), a risk free rate of interest of 1.45% based upon the two year Government of Canada Bond Yield at the date of the award of the Broker's warrants and a two year term. Management believes that the historic stock volatility provides a fair and appropriate basis of estimate for the expected future volatility of the stock. Each Broker's Warrant entitles the holder to purchase one unit at a price of \$0.335 for a period of two years. All securities issued under the private placement will be subject to a holding period, expiring four months and one day from the date of closing.

During 2018, the Company issued 200,000 shares at a price of \$0.275 and 250,000 warrants at an exercise price of \$0.30 as partial compensation for a consulting agreement. The transaction was measured at the fair value of the common shares issued and warrants awarded, as the fair value of the services provided could not be measured reliably. The number of issued and outstanding common shares and the stated capital of the Company as at June 30, 2019 are presented below:

	Number of Shares	Stated Capital
Balance, as at September 30, 2018	96,972,705	\$ 33,912,460
Issued on private placement	-	-
Exercise of Warrants	-	-
Exercise of stock options	-	-
Balance, June 30, 2019	96,972,705	\$ 33,912,460

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13. CONTRIBUTED SURPLUS

Changes in contributed surplus up to June 30, 2019 are described as follows:

Balance, as at September 30, 2018	\$ 9,235,656
Stock options expensed	105,998
Balance, as at June 30, 2019	\$ 9,341,654

14. COMMON SHARE PURCHASE WARRANTS

Changes (if any) to the Company's warrants outstanding as at June 30, 2019 and September 30, 2018 is presented in the following table:

	Units	Weighted average exercise price
Balance, September 30, 2018	15,168,579	\$ 0.40
Balance, June 30, 2019	15,168,579	\$ 0.40

A summary of the Company's warrants outstanding as at June 30, 2019 and September 30, 2018 is presented in the following table:

	June 30, 2019			September 30, 2018		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life years	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life years
Range of exercise prices:						
\$0.47 to \$0.55	4,949,763	\$ 0.55	0.49	4,949,763	\$ 0.55	1.24
\$0.23 to \$0.46	10,218,816	0.33	1.62	10,218,816	0.33	2.37
	15,168,579	\$ 0.40	1.25	15,168,579	\$ 0.40	2.00

15. STOCK OPTION PLAN

On March 28, 2018 the shareholders of the Company approved a resolution to amend the Company's stock option plan. This amendment changed the total number of common shares available to be issued under the plan from a maximum of 12,000,000 common shares to a rolling maximum of 10% of issued and outstanding common shares. Under the plan as at June 30, 2019, the Company has a total of 7,738,000 options (2018 – 5,590,000) issued and pending and is eligible to issue up to a total of 9,697,270 options.

The exercise price of each option equals no less than the market price at the date immediately preceding the date of the grant. In general, the Company's stock option plan vests options in equal amounts across a period following their issue date. The options granted during this quarter and future options grants will generally be vested in a single step on the third anniversary date following their issue. Management does not expect any remaining unvested stock options at the year-end to be forfeited before they vest.

The activity under the Company's stock option plan for the year ended June 30, 2019 is as follows:

	Units	Weighted average exercise price
Balance, September 30, 2018	5,590,000	\$ 0.39
Stock options exercised	-	-
Stock options forfeited	(22,000)	0.54
Stock options issued	2,170,000	0.23
Balance, June 30, 2019	7,738,000	\$ 0.34
Exercisable, June 30, 2019	4,772,483	\$ 0.38

The exercise price of each option equals the closing market price of the Company's capital stock on the day preceding the grant date. The following table reflects the number of options, their weighted average price and the weighted average remaining contract life for the options grouped by price range as of June 30, 2019 and September 30, 2018:

	June 30, 2019			September 30, 2018		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life years	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life years
Range of exercise prices:						
\$0.54	2,418,000	\$ 0.54	1.33	2,440,000	\$ 0.54	2.08
\$0.23 to \$0.28	5,320,000	\$ 0.25	3.98	3,150,000	\$ 0.28	4.18
	7,738,000	\$ 0.34	3.07	5,590,000	\$ 0.39	3.41

15. STOCK OPTION PLAN (Continued)

The fair value of options granted during the quarter ended June 30, 2019 was estimated at the grant date using the Black-Scholes options pricing model, resulting in the following weighted-average assumptions:

Share price on issue date	\$0.25
Dividend yield	0.00%
Volatility	67.2%
Risk-free interest rate	0.50%
Expected option life (years)	5
Weighted average fair value of each option (\$/option)	\$0.14

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. During the quarter, the Company recorded share-based compensation expense of \$39,346 (2018 - \$70,034).

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 June 30	2019	2018
Numerator for basic income per share:		
Net income (loss) available to common shareholders (\$)	\$ (191,322)	\$ 958
Denominator for basic income per share:		
Weighted average common shares outstanding	96,972,705	96,972,705
Effect of dilutive securities:		
Warrants	336,585	-
Stock Options	86,643	-
Convertible debentures	-	-
Denominator for diluted net income (loss) per share	97,395,934	96,972,705
Net income (loss) per share:		
Basic	(\$0.002)	\$0.000
Diluted	(\$0.002)	\$0.000

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

	2019	2018
Pursuant to warrants	14,831,993	15,168,579
Under stock options	7,651,357	5,590,000
Pursuant to convertible debentures	19,565,217	19,565,217
	42,048,568	40,323,796

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

Depreciation and amortization

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Included in:				
Cost of goods sold	\$ 139,810	\$ 136,624	\$ 412,281	\$ 394,312
General and administrative expenses	1,350	238	3,585	714
Research and development	2,570	38,401	7,709	115,203
Total depreciation and amortization	\$ 143,730	\$ 175,262	\$ 423,574	\$ 510,229

Amortization expense included within cost of goods sold includes amortization of Bioreactor development costs that were capitalized in previous years and began amortization at the beginning of fiscal 2018.

Employee costs

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Short-term wages, bonuses and benefits	\$ 1,544,041	\$ 1,487,700	\$ 4,536,733	\$ 4,342,063
Share based payments	25,154	38,617	63,636	149,321
Total employee costs	1,569,195	1,526,318	4,600,368	4,491,385
Included in:				
Cost of goods sold	\$ 800,524	\$ 824,039	\$ 2,394,448	\$ 2,438,352
Research and development	262,736	203,590	725,557	580,488
General and administrative expenses	378,471	393,501	1,125,219	1,158,373
Selling and business development	127,464	105,188	355,144	314,173
Total employee costs	\$ 1,569,195	\$ 1,526,318	\$ 4,600,368	\$ 4,491,385

18. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended June 30, 2019	Three months ended June 30, 2018	Nine months ended June 30, 2019	Nine months ended June 30, 2018
Accounts receivable	\$ 5,157	\$ (1,047,835)	\$ (535,789)	\$ (598,637)
Inventory	(118,104)	(82,976)	(891,807)	(235,380)
Prepaid expenses and other assets	44,761	(78,218)	53,575	(18,714)
Investment tax credits receivable	-	57,546	24,373	57,546
Deferred Revenue	(168,811)	444,674	144,043	201,042
Accounts payable and accrued liabilities	(13,342)	456,281	(186,157)	(929,205)
	\$ (250,339)	\$ (250,528)	\$ (1,391,762)	\$ (1,523,349)

19. FINANCIAL EXPENSES

	Three months ended June 30, 2019	Three months ended June 30, 2018	Nine months ended June 30, 2019	Nine months ended June 30, 2018
Cash interest:				
Interest on long-term debt	\$ 43,517	\$ 41,672	\$ 134,027	\$ 125,184
Interest on debentures	151,271	119,612	457,815	362,838
Interest other	18,741	12,695	48,965	26,793
Interest income	-	-	-	-
Non-cash interest:				
Accretion on debentures	56,802	41,532	160,569	116,839
Financial expenses	\$ 270,330	\$ 215,511	\$ 801,376	\$ 631,654

20. CAPITAL MANAGEMENT

The Company's capital management objective is to safeguard its ability to function as a going concern to maintain and grow its operations and to fund its development activities. Microbix defines its capital to include the drawn portion of the revolving line of credit, shareholders' equity, the Business Development Bank capital loans, and the debentures. The capital at June 30, 2019 was \$17,396,760 (2018 - \$24,570,181).

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

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 quarters ended June 30, 2019 and 2018, the Company has carried at fair value financial instruments in Level 1. At June 30, 2019, 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.

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 unobservable inputs (Level 3)
Assets measured at fair value:				
Cash	30-Jun-19	\$ 14,478	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Jun-19	-	-	\$ 1,200,580
Convertible debentures	30-Jun-19	-	-	1,655,290
Long-term-debt and other debt	30-Jun-19	-	\$ 4,000,656	-

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:				
Cash	30-Jun-18	\$ 56,155	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Jun-18	-	-	\$ 1,178,002
Convertible debentures	30-Jun-18	-	-	1,566,082
Long-term-debt and other debt	30-Jun-18	-	\$ 3,345,030	-

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 is held in accounts or short-term interest bearing accounts at one of the major Canadian chartered banks. Management perceives the credit risk to be low. Typically the outstanding accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. As at June 30, 2019, five customers accounted for 68% (2018 - five customers accounted for 80%) 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 (2018 - \$10,000).

Trade accounts receivable are aged as follows at June 30:

	As at June 30, 2019	As at June 30, 2018
Current	\$ 1,548,173	\$ 1,772,517
0 - 30 days past due	211,265	126,655
31 - 60 days past due	58,960	24,429
61 days and over past due	30,871	12,524
	<u>\$ 1,849,269</u>	<u>\$ 1,936,125</u>

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

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

Canadian Dollar Equivalents	U.S. dollars		Euros	
	2019	2018	2019	2018
Cash	\$ 12,851	\$ 54,578	\$ 99	\$ 24
Accounts receivable	1,325,731	1,280,291	272,119	310,230
Accounts payable and accrued liabilities	172,068	231,931	-	4,058

The Company's revenue and expenses by foreign currency for the quarters ended June 30, 2019 and 2018 are as follows:

	2019	2018
Revenue		
Euros	38%	43%
U.S. dollars	59%	54%
Expenses		
U.S. dollars	6%	6%

Based upon prior year results, the impact of a 5% increase in the U.S. dollar against the Canadian dollar would result in an increase in annual U.S. dollar based revenue of approximately \$330,400 Cdn. The impact of a 5% increase in the Euro against the Canadian dollar would result in an increase in annual Euro based revenue of approximately \$271,500. Correspondingly, the impact of a 5% decrease in the U.S. dollar against the Canadian dollar would result in a loss in annual U.S. dollar based revenue of approximately \$330,400 Cdn. The impact of a 5% decrease in the Euro against the Canadian dollar would result in a loss in annual Euro-based revenue of approximately \$271,500.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to help determine the funds required to support the normal operating requirements on an ongoing basis. The Company has financed its cash requirements primarily through issuance of securities, short-term borrowings, long-term debt and debentures. The Company controls liquidity risk through management of working capital, cash flows and the availability of sourcing of financing.

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 ways: (i) the development, manufacturing and sales of antigens as materials for the medical diagnostic industry or as quality assessment products and, (ii) the development and commercialization of novel and proprietary products or technologies such as Lumisort and Kinlytic. The following is an analysis of the Company's revenues and profits from continuing operations for the quarter, segmented between antigens, Lumisort and Kinlytic:

	Segment revenue		Segment profit (loss)	
	2019	2018	2019	2018
Antigen Products and Technologies	\$ 3,110,615	\$ 3,235,224	\$ (118,611)	\$ 105,450
Lumisort™	-	-	(47,416)	(60,534)
Kinlytic®	-	-	(25,295)	(43,958)
Total for continuing operations	\$ 3,110,615	\$ 3,235,224	\$ (191,322)	\$ 958

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2018 - \$Nil).

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3. Segment loss represents the profit (loss) before tax earned by each segment without allocation of central administration costs, directors' fees, and finance costs. These general costs are reflected in the Antigen Products and Technologies segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segmented assets and liabilities as at June 30 are as follows:

	Segment assets		Segment liabilities	
	2019	2018	2019	2018
Antigen Products and Technologies	\$ 15,753,766	\$ 15,649,253	\$ 8,351,432	\$ 9,038,634
Lumisort™	-	7,871,863	-	-
Kinlytic®	3,078,585	3,078,585	-	-
	\$ 18,832,351	\$ 26,599,701	\$ 8,351,432	\$ 9,038,634

All assets are allocated to reportable segments other than interests in associates and current and deferred tax assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments. During fiscal 2018, a decision was made to write-down all of the Lumisort™ related assets. All liabilities are allocated to reportable segments other than borrowings and current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

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	
	2019	2018	2019	2018
Antigen Products and Technologies	\$ 143,730	\$ 142,027	\$ 103,953	\$ 298,871
Lumisort™	-	33,235	-	74,469
Kinlytic®	-	-	-	-
	\$ 143,730	\$ 175,262	\$ 103,953	\$ 373,340

As at and for the quarters ended June 30, 2019 and 2018

24. GEOGRAPHIC INFORMATION

The Company operates in three principal geographical areas – North America (where it is domiciled), Europe and in other foreign countries. The Company's revenue from external customers is tracked based on the bill-to location. Information about its non-current assets by location of assets are also detailed below. It should be noted that our distribution partner for Asia is based in the United States, so most sales destined to Asia are reflected in the North American total.

	Revenue from external customers		Non-current assets	
	2019	2018	2019	2018
North America	\$ 1,291,453	\$ 1,475,589	\$ 12,934,880	\$ 21,220,984
Europe	1,811,634	1,755,960	-	-
Other foreign countries	7,529	3,676	-	-
	<u>\$ 3,110,615</u>	<u>\$ 3,235,224</u>	<u>\$ 12,934,880</u>	<u>\$ 21,220,984</u>

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 June 30, 2019	Three months ended June 30, 2018
Short-term wages, bonuses and benefits	\$ 231,818	\$ 250,076
Share-based payments	25,631	56,376
Total key management compensation	\$ 257,449	\$ 306,452

On September 12, 2017, the Company issued two outstanding shareholder interest bearing loans for total proceeds of \$200,000. These loans were repaid on October 23, 2017.

MICROBIX

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS As at and for the quarters ended June 30, 2019 and 2018

Canadian Funds

26. COMMITMENTS AND CONTINGENCIES

Lease commitments

	Amount
2019	\$ 42,771
2020	168,770
2021	168,308
2022	133,768
2023	11,339
2024 and thereafter	-
	<u>\$ 524,956</u>

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

	Amount
2019	\$ 177,310
2020	709,242
2021	709,242
2022	1,657,992
2023	604,242
2024 and thereafter	7,132,166
	<u>\$ 10,990,194</u>

Contingencies

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

27. SETTLEMENT OF DISPUTES AND LAWSUITS

Settlement of Zeptomatrix Lawsuit

On October 5, 2016, Zeptomatrix Corporation filed a statement of claim against Microbix in Canadian Federal Court, alleging infringement of its Canadian patent. During fiscal 2017 Microbix defended itself against these allegations, maintaining it did not infringe this patent. On October 11, 2017 Microbix announced the court approval of a legal dispute settlement with Zeptomatrix 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.