

MICROBIX**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****Unaudited****AS AT JUNE 30, 2020 AND SEPTEMBER 30, 2019****Canadian Funds**

	As at June 30, 2020	As at September 30, 2019
ASSETS		
CURRENT ASSETS		
Cash	\$ 402,116	\$ 95,571
Accounts receivable	1,256,808	1,709,470
Inventory (Note 5)	4,835,154	4,480,192
Prepaid expenses and other assets	158,654	99,201
Investment tax credit receivable	47,390	67,874
TOTAL CURRENT ASSETS	6,700,122	6,452,308
LONG-TERM ASSETS		
Deferred tax asset	1,568,237	1,568,237
Property, plant and equipment (Note 4, 6)	7,361,389	6,650,380
Intangible assets (Note 7)	4,855,419	4,958,648
TOTAL LONG-TERM ASSETS	13,785,045	13,177,265
TOTAL ASSETS	\$ 20,485,167	\$ 19,629,573
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,378,433	\$ 1,462,616
Bank indebtedness (Note 9)	-	1,400,000
Current portion of long-term debt (Note 9)	267,950	408,260
Current portion of debentures (Note 8)	870,447	774,178
Current portion of lease liability (Note 4)	161,144	80,378
Deferred revenue (Note 21)	1,417,587	640,463
TOTAL CURRENT LIABILITIES	4,095,561	4,765,895
Non-convertible debentures (Note 8)	712,787	750,350
Convertible debentures (Note 8)	1,401,468	1,353,905
Lease liability (Note 4)	420,926	169,149
Long-term debt (Note 9)	2,300,269	2,052,866
TOTAL LONG-TERM LIABILITIES	4,835,450	4,326,270
TOTAL LIABILITIES	\$ 8,931,011	\$ 9,092,165
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	\$ 35,357,144	\$ 33,912,460
Equity component of convertible debentures (Note 8)	2,903,789	2,903,789
Contributed surplus	10,204,235	9,387,644
Accumulated deficit	(36,911,012)	(35,666,485)
TOTAL SHAREHOLDERS' EQUITY	\$ 11,554,156	\$ 10,537,408
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 20,485,167	\$ 19,629,573

Commitments and Contingencies (Note 23)

(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**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS****Unaudited****For the three months and nine months ended June 30****Canadian Funds**

	2020	2019	2020	2019
SALES				
Antigen products and technologies	\$ 2,816,060	\$ 3,028,397	\$ 7,572,442	\$ 9,564,459
Royalties	82,268	82,218	246,730	260,597
TOTAL SALES	2,898,328	3,110,615	7,819,172	9,825,056
COST OF GOODS SOLD				
Antigen products and technologies (Notes 5, 14)	1,528,393	1,576,505	4,051,181	4,800,314
Royalties	14,340	14,787	48,049	53,373
TOTAL COST OF GOODS SOLD	1,542,733	1,591,292	4,099,230	4,853,687
GROSS MARGIN	1,355,595	1,519,323	3,719,942	4,971,369
EXPENSES				
Selling and business development (Note 14)	154,014	192,185	519,407	488,507
General and administrative (Note 14)	1,090,355	981,649	2,805,299	2,738,402
Research and development (Note 14)	294,774	266,481	837,726	771,665
Financial expenses (Note 16)	256,685	270,330	802,038	801,376
OPERATING LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD, BEFORE INCOME TAXES	(440,233)	(191,322)	(1,244,528)	171,419
INCOME TAXES				
Deferred income taxes	-	-	-	90,685
Current income taxes	-	-	-	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	\$ (440,233)	\$ (191,322)	\$ (1,244,528)	\$ 80,734
NET LOSS PER SHARE				
Basic (Note 13)	\$ (0.004)	\$ (0.002)	\$ (0.012)	\$ 0.001
Diluted (Note 13)	\$ (0.004)	\$ (0.002)	\$ (0.012)	\$ 0.001

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

MICROBIX**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****Unaudited****For the three months and nine months ended June 30****Canadian Funds**

	2020	2019	2020	2019
OPERATING ACTIVITIES				
Net Loss for the Period	\$ (440,233)	\$ (191,322)	\$ (1,244,528)	\$ 80,734
Items not affecting cash				
Amortization and depreciation (Note 14)	178,353	143,730	513,730	423,574
Accretion of debentures (Note 8)	66,094	56,802	186,906	160,570
Stock options and warrants expense (Note 12)	46,153	39,346	110,517	105,998
Accretion Interest Expense	6,430	-	15,733	-
Deferred tax asset (Note 3)	-	-	-	90,685
Change in non-cash working capital balances (Note 15)	907,910	(250,339)	642,290	(1,391,763)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	764,707	(201,783)	224,648	(530,202)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment (Note 6)	(365,761)	(103,952)	(669,395)	(206,091)
Additions from internal development of intangible assets (Note 7)	-	-	(1,200)	-
CASH USED IN INVESTING ACTIVITIES	(365,761)	(103,952)	(670,595)	(206,091)
FINANCING ACTIVITIES				
Repayments of long-term debt (Note 9)	(106,410)	(109,530)	(322,350)	(328,590)
Proceeds from Equipment Loan (Note 9)	-	-	286,094	-
Proceeds from Government Loan (Note 9)	13,353	-	248,607	-
Repayments of convertible and non-convertible debentures (Note 8)	(27,968)	(26,051)	(80,636)	(74,148)
Payment of lease liabilities	(43,535)	(19,657)	(129,981)	(60,849)
Issue of common shares, net of issue costs	-	-	2,150,758	-
Proceeds (repayments) of credit facility (Note 9)	-	450,000	(1,400,000)	1,170,000
CASH PROVIDED BY FINANCING ACTIVITIES	(164,560)	294,762	752,492	706,413
NET CHANGE IN CASH - DURING THE PERIOD	\$ 234,386	\$ (10,973)	\$ 306,545	\$ (29,880)
CASH - BEGINNING OF PERIOD	167,730	25,451	95,571	44,358
CASH - END OF PERIOD	\$ 402,116	\$ 14,478	\$ 402,116	\$ 14,478

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

MICROBIX

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited

As at June 30, 2020 and September 30, 2019

Canadian Funds

	SHARE CAPITAL (Note 10)		CONTRIBUTED SURPLUS	DEFICIT	EQUITY COMPONENT OF DEBENTURE	TOTAL SHAREHOLDERS' EQUITY
	NUMBER OF SHARES	STATED CAPITAL				
BALANCE, SEPTEMBER 30, 2018	96,972,705	\$33,912,460	\$9,235,656	\$(35,698,403)	\$2,903,789	\$10,353,502
Stock option and warrant 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
Stock option and warrant expense			45,990			45,990
Net comprehensive income (loss) for the period				(48,816)		(48,816)
BALANCE, SEPTEMBER 30, 2019	96,972,705	\$33,912,460	\$9,387,644	\$(35,666,484)	\$2,903,789	\$10,537,409
Stock option and warrant expense			110,517			110,517
Issue of Warrants pursuant to Private Placement			748,550			748,550
Share Issuance pursuant to Private Placement	11,800,000	1,611,450				1,611,450
Share Issue Costs pursuant to Private Placement		(166,766)	(42,476)			(209,242)
Net comprehensive income (loss) for the period				(1,244,528)		(1,244,528)
BALANCE, JUNE 30, 2020	108,772,705	\$35,357,144	\$10,204,235	\$(36,911,012)	\$2,903,789	\$11,554,156

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 principal place of business of the Company is located at 265 Watline Avenue, Mississauga, Ontario, L4Z 1P3.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and are presented in Canadian dollars. The accounting policies used in the preparation of these interim consolidated financial statements conform with those in the Company’s audited annual consolidated financial statements for the year ended September 30, 2019, 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, 2019.

The Board of Directors approved these interim condensed consolidated financial statements on August 11, 2020.

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, which is the Company’s functional currency.

Basis of consolidation

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

Global pandemic

In early 2020, the coronavirus (“COVID-19”) was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a global pandemic.

As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic, the Company has reviewed the estimates, judgments and assumptions used in the preparation of its financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets and the credit risk of its counterparties.

Although the Company has determined that no significant revisions to such estimates, judgments or assumptions were required for the third quarter of fiscal 2020 and revisions may be required in future periods. Any such revision (due to COVID-19 or otherwise) could have a material impact on the Company’s results of operations and financial condition.

While the Company believes the current conditions related to the COVID-19 pandemic to be temporary, the situation is dynamic and the impact of COVID-19 on its results of operations and financial condition cannot be reasonably estimated at this time. The Company continues to evaluate the situation and monitor any impacts or potential impacts to its business.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the adoption of the new, revised or amended accounting standards noted below, these interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended September 30, 2019. The disclosure contained in these interim condensed consolidated financial statements does not include all requirements in IAS 1, Presentation of Financial Statements. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended September 30, 2019.

Leases – policy applicable from October 1, 2019*The Company as lessee*

The Company determines whether a contract is or contains a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

i) Right-of-use assets

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the lessor makes the leased asset available for use by the Company. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Right-of-use assets are subject to impairment.

ii) Lease liabilities

The Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the interest rate implicit in the lease. The lease payments include fixed payments (including in-substance fixed payments), variable payments that depend on an index or a rate, renewal options that are reasonably certain to be exercised less any lease incentives receivable. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event that triggers the payment occurs. In addition, the carrying amount of lease payments is reassessed if there is a modification, a change in the lease term or a change in the in-substance fixed lease payments. The Company has elected to apply the practical expedient to not separate the lease component and its associated non-lease component.

Management exercises judgment in the process of applying IFRS 16 and determining the appropriate lease term on a lease by lease basis. Renewal options are only included if Management are reasonably certain that the option will be renewed.

As most of the Company's operating lease contracts do not provide the implicit interest rate, nor can the implicit interest rate be readily determined, the Company uses its incremental borrowing rate as the discount rate for determining the present value of lease payments. The Company's incremental borrowing rate for a lease is the rate that the Company would pay to borrow an amount necessary to obtain an asset of a similar value to the right-of-use asset on a collateralized basis over a similar term.

(iii) Short term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less and leases of low-value assets, e.g. laptop computers. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4. IMPACT OF NEW ACCOUNTING STANDARDS**NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2020**

The Company has adopted new amendments to the following accounting standards effective for its interim and annual consolidated financial statements commencing October 1, 2019. The effect of these pronouncements on the Company's results and operations are described below.

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.

IFRS 16 – *Leases* supersedes IAS 17 – *Leases*, IFRIC 4 – *Determining whether an Arrangement contains a Lease*, SIC 15 – *Operating Leases - Incentives* and SIC 27 – *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. The Company is not currently a lessor.

The Company applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2019 has not been restated. The lease liabilities were recorded as the present value of the remaining lease payments discounted at the Company's incremental borrowing rate as at the date of application. The right-of-use assets were recorded at an amount equal to the lease liabilities, adjusted for any prepaid or accrued lease payments (nil).

The Company elected to use the practical expedient on transition allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 was applied to these leases from October 1, 2019. The opening right-of-use assets includes \$319,321 that was previously recognized as a lease asset and the opening lease liability included \$249,527 that was previously recognized as a lease liability under IAS 17.

Impact on the financial statements on transition

On transition to IFRS 16 at October 1, 2019, the Company recognized right-of-use assets of \$763,541 and lease liabilities of \$693,747, respectively. There was no impact on retained earnings.

Lease liabilities for leases that were classified as operating leases at September 30, 2019 were discounted using the incremental borrowing rate at October 1, 2019. The weighted average rate applied was 3.7%.

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended June 30, 2020 and 2019

Canadian Funds

4. IMPACT OF NEW ACCOUNTING STANDARDS (Continued)

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2020 (Continued) IFRS 16, Leases (“IFRS 16”) (Continued)

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

	Right-of-Use Assets		Lease
	Property	Equipment	Liabilities
Balance, October 1, 2019	\$ 419,843	\$ 343,698	\$ 693,747
Additions	-	6,695	6,695
Depreciation Expense	(55,566)	(35,648)	-
Payments	-	-	(118,372)
Balance, June 30, 2020	\$ 364,277	\$ 314,745	\$ 582,070

Right-of-use assets are included in property, plant and equipment on the statement of financial position.

IFRS Interpretation Committee Interpretation 23, Uncertainty over Income Tax Treatments (“IFRIC 23”)

IFRIC 23 was issued in June 2017 and is effective for years beginning on or after January 1, 2019 and was adopted by the Company effective October 1, 2019, to be applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. The adoption of this interpretation did not have a material impact on the interim condensed consolidated financial statements.

5. INVENTORIES

Inventories consist of the following:

	June 30, 2020	September 30, 2019
Raw materials	\$ 1,125,370	\$ 496,021
Work in process	1,284,153	1,387,824
Finished goods	2,425,631	2,596,347
	\$ 4,835,154	\$ 4,480,192

During the quarter ended June 30, 2020, inventories in the amount of \$1,528,393 (2019 - \$1,576,505) were recognized as an expense through cost of sales. The allowance for inventory impairment as at June 30, 2020 was \$55,747 (September 30, 2019 - \$55,747).

MICROBIX**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**
As at and for the three months ended June 30, 2020 and 2019**Canadian Funds****6. PROPERTY, PLANT AND EQUIPMENT**

The freehold land and buildings have been pledged as security for bank loans under a mortgage (see Note 9). Property, plant and equipment consists of:

	Building	Research and Development Equipment	Other Equipment and Fixtures	Right of Use Assets	Land	Total
COST						
Balance, as at September 30, 2019	\$ 4,987,107	\$ 517,131	\$ 5,702,212	\$ -	\$ 800,000	\$ 12,006,450
IFRS 16 Adoption (Note 4)		-	(403,989)	848,209	-	444,220
Additions	169,418	40,177	459,801	6,695	-	676,090
Disposals	-	-	-	-	-	-
Balance, as at June 30, 2020	5,156,525	557,308	5,758,024	854,904	800,000	13,126,760
ACCUMULATED DEPRECIATION						
Balance, as at September 30, 2019	1,573,858	433,989	3,348,222	-	-	5,356,070
IFRS 16 Adoption (Note 4)			(84,668)	84,668		
Depreciation	128,083	9,388	180,616	91,214	-	409,301
Disposals	-	-	-	-	-	-
Balance, as at June 30, 2020	1,701,942	443,378	3,444,170	175,882	-	5,765,371
NET BOOK VALUE						
Balance, September 30, 2019	3,413,249	83,142	2,353,990	-	800,000	6,650,380
Balance, as at June 30, 2020	\$ 3,454,583	\$ 113,930	\$ 2,313,854	\$ 679,022	\$ 800,000	\$ 7,361,389

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended June 30, 2020 and 2019

Canadian Funds

7. INTANGIBLE ASSETS

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

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

Intangible assets consist of:

	Capitalized Development Costs		Patents and Trademarks		Total
	Bioreactor (c)	Kinlytic® (b)	QAPs (d)		
COST					
Balance, as at September 30, 2019	\$ 2,088,575	\$ 3,078,586	\$ 81,567	\$ 5,248,728	
Additions	-	-	1,200	1,200	
Balance, as at June 30, 2020	2,088,575	3,078,586	82,767	5,249,928	
ACCUMULATED AMORTIZATION					
Balance, as at September 30, 2019	290,080	-	-	290,080	
Amortization expense	104,429	-	-	104,429	
Balance, as at June 30, 2020	394,509	-	-	394,509	
NET BOOK VALUE					
Balance, as at September 30, 2019	1,798,495	3,078,586	81,567	4,958,648	
Balance, as at June 30, 2020	1,694,066	3,078,586	82,767	4,855,419	

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) 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. Subsequent to the acquisition and in prior years, the Company incurred new intellectual property with the issue of patents has resulted from this research program, as well as the cost incurred for the research and development equipment that is not yet available for use.

In fiscal 2018, the Company assessed that it could not fund the development of LumiSort™ assets in a timely manner and that licensing terms may not adequately support its continued value. The decision was therefore made to write down all of the LumiSort™ related assets, including the original investment, capitalized research and development equipment, prototype costs and patent related costs.

7. INTANGIBLE ASSETS (Continued)**b) 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. The recoverable amount considered assumptions based on probabilities of technical, regulatory and clinical acceptances and financial support. Further, Management uses risk-adjusted cash flow projections based on financial budgets. 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.

c) Bioreactor

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

d) Quality Assessment Products ("QAPs")

To enhance its QAPs business of providing sample mimics for use in quality checks across various laboratory test applications, Microbix has been developing intellectual property. Accordingly, it has capitalized various patent application costs. When the resulting patent issues in key markets, those costs will begin to be amortized in accordance with IFRS standards.

8. DEBENTURES

The Company has convertible and non-convertible debentures issued and outstanding as at June 30, 2020. The carrying values of the debt component of these debentures are as follows:

	Non-convertible debentures		Total non-convertible debentures	Convertible debentures			Total convertible debentures
	(a)	(b)		(c)	(d)	(e)	
Date of issue	Jan, 2014	Apr, 2017		Oct, 2016	Oct, 2016	Oct, 2016	
Face value	\$ 2,000,000	\$ 500,000	\$ 2,500,000	\$ 1,500,000	\$ 500,000	\$ 2,500,000	\$ 4,500,000
Liability component at the date of issue	928,373	268,955	-	461,550	223,050	780,750	-
Balance, September 30, 2019	858,854	340,765	1,199,618	500,375	324,909	853,530	1,678,814
Accretion	61,740	34,675	96,415	16,583	42,929	30,979	90,491
Repayments	(80,636)	-	(80,636)	-	-	-	-
Balance, June 30, 2020	839,958	375,440	1,215,397	516,958	367,838	884,509	1,769,305
Less: current portion	116,341	375,440	491,781	-	367,838	-	367,838
Non-current portion	723,617	-	723,617	516,958	-	884,509	1,401,467
Balance, June 30, 2020	\$ 839,958	\$ 375,440	\$ 1,215,398	\$ 516,958	\$ 367,838	\$ 884,509	\$ 1,769,305
Equity component at June 30, 2020	-	-	-	574,435	631,222	1,698,132	2,903,789
Conversion price per common share	\$ -	\$ -		\$ 0.23	\$ 0.23	\$ 0.23	
Effective interest rate charged	25.69%	30.20%		31.07%	30.20%	30.85%	
Payment frequency	Quarterly	Quarterly		Quarterly	Quarterly	Quarterly	
Maturity of financial instrument	Jan, 2029	Apr, 2022		Jan, 2029	Feb, 2022	Sep, 2028	
Stated interest rate	9%	12%		9%	9%	9%	
Terms of repayment	Principal	Interest		Interest	Interest	Interest	
	and interest only	only		only	only	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.

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended June 30, 2020 and 2019

Canadian Funds

9. 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, 2020:

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, 2019	2,046,460	102,500	3,120	49,950	62,400	196,696	2,461,126
Proceeds from loan	-	-	-	-	-	286,094	286,094
Loan repayments during the period	(83,340)	(92,250)	(3,120)	(29,970)	(37,440)	(76,230)	(322,350)
Balance, June 30, 2020	\$ 1,963,120	\$ 10,250	\$ -	\$ 19,980	\$ 24,960	\$ 406,560	\$ 2,424,870
Current Portion	111,120	10,250	-	19,980	24,960	101,640	\$ 267,950
Non-current portion	1,852,000	-	-	-	-	304,920	2,156,920
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, 2020, the rate was 4.55-5.05% (2019 – 6.55%). The loans are secured with the building and equipment.

On May 3, 2017, the Company signed an agreement with Business Development Corporation for a new equipment credit facility in the amount of \$610,000. On July 4, 2018 the Company received funds in the amount of \$323,906, drawn on this facility. During Q1 2020, the Company received the remaining funds of \$286,094.

As at June 30, 2020, the commitments for the next five fiscal years and thereafter for the BDC loans is as follows:

	Amount
2020	\$ 85,910
2021	235,230
2022	212,760
2023	212,760
2024	187,350
2025 and thereafter	\$ 1,490,860

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

b) On September 18, 2019, the Company received approval from its Chartered Bank to increase the borrowing limit on its line of credit to \$2.0 million. This line of credit bears interest at prime plus 2% (5.95% on June 30, 2020).

As at June 30, 2020 the Company had no funds drawn on the facility (September 30, 2019- \$1,400,000). The Company's usage of this facility varies across its manufacturing, sales and AR collection cycles.

c) On July 29, 2019, the Company signed an agreement with Federal Economic Development Agency for Southern Ontario to provide a repayable government contribution where the Federal Development Agency has agreed to contribute funding for 30% of the Business Scale-up and Productivity Project expenditures made by the Company, up to \$2,752,500 over the next four years,. The Company is required to submit eligible expenses on a quarterly basis to receive the interest-free contributions. Repayment of the contribution does not begin until December 15, 2024. As at June 30, 2020, the Company has received contributions totalling \$248,608 (September 30, 2019 – nil). The Company is in compliance with the covenants associated with this loan as at June 30, 2020

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

Fiscal Years	Amount
2025	\$ 41,434
2026	49,722
2027	49,722
2028	49,722
2029	49,722
2030	8,286

10. SHARE CAPITAL

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

On January 30, 2020 (the "Closing Date"), the Company completed a private placement offering of an aggregate of 11,800,000 units for total gross proceeds of \$2,360,000, net proceeds of \$2,150,159 after share issuance costs of \$209,241. Each unit consists of one common share of Microbix and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of \$0.36 for five years. Fair value of the common share purchase warrants was determined to be \$ 1,205,892. Gross proceeds were allocated to common shares and common share purchase warrants in the amount of \$ 1,611,450 and \$748,550 respectively. The financing was non-brokered. Cash commissions of \$104,300 were paid and an aggregate of 521,500 Broker's Warrants were issued in the private placement offering. Fair value of the broker warrants was determined to be \$42,476 using the Black-Scholes option pricing model. The volatility of the stock for the Black-Scholes options pricing model was based on 5-year historic volatility of the Company's stock price on the Toronto Stock Exchange (69%) and the risk free rate of interest of 1.38% is based upon the Government of Canada benchmark bond yields - 3 to 5 year at the date of the award of the Broker's warrants and a five year term. Management believes that the historic stock volatility provides a fair and appropriate basis of estimate for the expected future volatility of the stock. Each Broker's Warrant entitles the holder to purchase one unit at a price of \$0.36 for a period of five years. All securities issued under the private placement will be subject to a holding period, expiring four months and one day from the date of closing.

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended June 30, 2020 and 2019

Canadian Funds

10. SHARE CAPITAL (Continued)

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

	Number of Shares	Stated Capital
Balance, as at September 30, 2019	96,972,705	\$ 33,912,460
Issued on private placement	11,800,000	1,444,684
Balance, as at June 30, 2020	108,772,705	\$ 35,357,144

11. COMMON SHARE PURCHASE WARRANTS

A continuity of the Company's warrants outstanding as at June 30, 2020 is presented in the following table:

	Units	Weighted average exercise price
Balance, September 30, 2019	11,718,816	\$ 0.36
Issued	12,321,500	0.36
Expired	(755,764)	0.34
Balance, June 30, 2020	23,284,552	\$ 0.36

For details on warrants issued during this period, refer to note 10.

A summary of the Company's warrants outstanding as at June 30, 2020 and September 30, 2019 is presented in the following table:

	June 30, 2020			September 30, 2019		
	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	1,500,000	\$ 0.55	0.28	1,500,000	\$ 0.55	1.03
\$0.23 to \$0.46	21,784,552	0.35	2.91	10,218,816	0.33	1.37
	23,284,552	\$ 0.36	2.74	11,718,816	\$ 0.36	1.32

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended June 30, 2020 and 2019

Canadian Funds

12. 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, 2020, the Company has a total of 9,893,000 options (September 30, 2019 – 7,738,000) issued and pending and is eligible to issue up to a total of 10,877,270 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 period ended June 30, 2020 is as follows:

	Units	Weighted average exercise price
Balance, September 30, 2019	7,693,000	\$ 0.35
Stock options issued	2,200,000	\$ 0.22
Balance, June 30, 2020	9,893,000	\$ 0.32
Exercisable, June 30, 2020	5,573,000	\$ 0.39

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, 2020 and September 30, 2019:

	June 30, 2020			September 30, 2019		
	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	2,373,000	\$ 0.54	0.30	2,418,000	\$ 0.54	1.08
\$0.215 to \$0.28	7,520,000	\$ 0.25	3.31	5,320,000	\$ 0.26	3.72
	9,893,000	\$ 0.32	2.58	7,738,000	\$ 0.39	3.41

12. STOCK OPTION PLAN (Continued)

The fair value of options granted during the second quarter of fiscal 2020 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	\$0.215
Dividend yield	0.00%
Volatility	69.0%
Risk-free interest rate	1.38%
Expected option life (years)	5
Weighted average fair value of each option (\$/option)	\$0.12

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 quarter were expensed and credited to contributed surplus. During the quarter, the Company recorded share-based compensation expense of \$46,153 (2019 - \$39,346).

13. INCOME PER SHARE

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

for the quarter ended June 30	2020	2019
Numerator for basic loss per share:		
Net loss available to common shareholders	\$ (440,233)	\$ (191,322)
Denominator for basic income (loss) per share:		
Weighted average common shares outstanding	108,772,705	96,972,705
Effect of dilutive securities:		
Warrants	-	336,585
Stock Options	-	86,643
Convertible debentures	-	-
Denominator for diluted net loss per share	108,772,705	97,395,933
Net loss per share:		
Basic	(\$0.004)	(\$0.002)
Diluted	(\$0.004)	(\$0.002)

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

For the quarter ended June 30	2020	2019
Pursuant to warrants	23,284,552	14,831,993
Under stock options	9,893,000	7,651,357
Pursuant to convertible debentures	19,565,217	19,565,217
	52,742,769	42,048,568

MICROBIX**Notes to the Unaudited Interim Condensed Consolidated Financial Statements
As at and for the three months ended June 30, 2020 and 2019****Canadian Funds****14. EXPENSES BY NATURE**

The Company has chosen to present its consolidated statements of income (loss) and comprehensive income (loss) based on the functions of the entity and include the following expenses by nature for the quarter ended June 30:

Depreciation and amortization

	Three months		Nine months	
	2020	2019	2020	2019
Included in:				
Cost of goods sold	155,291	139,810	444,668	\$ 412,280
General and administrative expenses	19,891	1,350	59,674	3,585
Research and development	3,171	2,570	9,388	7,709
Total depreciation and amortization	\$ 178,353	\$ 143,730	\$ 513,730	\$ 423,574

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		Nine months	
	2020	2019	2020	2019
Short-term wages, bonuses and benefits	\$ 1,651,127	\$ 1,544,041	\$ 4,825,139	\$ 4,536,732
Share based payments	31,840	25,154	75,530	63,636
Total employee costs	1,682,967	1,569,195	4,900,669	4,600,368
Included in:				
Cost of goods sold	\$ 849,855	\$ 800,524	2,486,913	\$ 2,394,448
Research and development	285,076	262,736	818,611	725,557
General and administrative expenses	411,649	378,471	1,198,931	1,125,219
Selling and business development	136,387	127,464	396,214	355,144
Total employee costs	\$ 1,682,967	\$ 1,569,195	\$ 4,900,669	\$ 4,600,368

15. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended June 30, 2020	Three months ended June 30, 2019	Nine months ended June 30, 2020	Nine months ended June 30, 2019
Accounts receivable	\$ 683,327	\$ 5,157	\$ 452,662	\$ (535,789)
Inventory	(44,522)	(118,104)	(354,962)	(891,807)
Prepaid expenses and other assets	(30,546)	44,761	(59,453)	53,575
Investment tax credits receivable	20,484	-	20,484	24,373
Deferred Revenue	258,372	(168,811)	671,775	144,043
Accounts payable and accrued liabilities	20,795	(13,342)	(88,216)	(186,157)
	\$ 907,910	\$ (250,339)	\$ 642,290	\$ (1,391,762)

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended June 30, 2020 and 2019

Canadian Funds

16. FINANCIAL EXPENSES

	Three months ended June 30, 2020	Three months ended June 30, 2019	Nine months ended June 30, 2020	Nine months ended June 30, 2019
Cash interest:				
Interest on long-term debt	\$ 31,642	\$ 43,517	\$ 114,547	\$ 134,027
Interest on debentures	149,352	151,271	451,326	457,815
Interest other	3,167	18,741	33,527	48,965
Non-cash interest:				
Accretion on debentures	66,094	56,802	186,905	160,568
Accretion on leases and LTD	6,430	-	15,733	-
Financial expenses	\$ 256,685	\$ 270,330	\$ 802,038	\$ 801,376

17. CAPITAL MANAGEMENT

The Company's capital management objective is to safeguard its ability to function as a going concern to maintain and grow its operations and to fund its development activities. Microbix defines its capital to include the drawn portion of the revolving line of credit, shareholders' equity, the Business Development Bank capital loans, and the debentures. The capital at June 30, 2020 was \$16,503,032 (September 30, 2019 - \$17,276,967).

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 \$2,000,000 with its Canadian chartered bank, Note 9.

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

18. FINANCIAL INSTRUMENTS

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

For the quarter ended June 30, 2020 and year ended September 30, 2019, the Company has carried at fair value financial instruments in Level 1. At June 30, 2020, the Company's only financial instrument measured at fair value is cash, which is considered to be a Level 1 instrument. There were no transfers between levels during the quarter.

The three levels are defined as follows:

- 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.

MICROBIX**Notes to the Unaudited Interim Condensed Consolidated Financial Statements
As at and for the three months ended June 30, 2020 and 2019****Canadian Funds****18. FINANCIAL INSTRUMENTS (Continued)**

	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-20	\$ 402,116	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Jun-20	-	-	\$ 1,215,398
Convertible debentures	30-Jun-20	-	-	1,769,305
Long-term-debt and other debt	30-Jun-20	-	\$ 2,568,219	-

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:				
Cash	30-Sep-19	\$ 95,571	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Sep-19	-	-	\$ 1,199,618
Convertible debentures	30-Sep-19	-	-	1,678,814
Long-term-debt and other debt	30-Sep-19	-	\$ 3,861,126	-

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 and is repriced to floating market interest rates and as such, the carrying value of the long-term debt and other debt approximates fair value. The convertible and non-convertible debenture fair values are estimated based on rates for items with similar terms and maturity. The fair values of financial instruments in other long-term liabilities approximate their carrying values as they are recorded at the net present values of their future cash flows, using an appropriate discount rate.

19. FINANCIAL RISK MANAGEMENT

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

Risks arising from financial instruments and risk management

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

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

Credit risk

The Company's cash is held in accounts or short-term interest bearing accounts at one of the major Canadian chartered banks. Management perceives the credit risk to be low. Typically the outstanding accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. As at June 30, 2020, five customers accounted for 74% (September 30, 2019 - five customers accounted for 78%) of the outstanding balance. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of \$25,625 (September 30, 2019 - \$25,625).

Trade accounts receivable are aged as follows:

	June 30, 2020	September 30, 2019
Current	\$ 1,229,099	\$ 1,602,262
0 - 30 days past due	26,606	102,962
31 - 60 days past due	141	4,246
61 days and over past due	962	-
	<u>\$ 1,256,808</u>	<u>\$ 1,709,470</u>

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

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

As at June 30 the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	U.S. dollars		Euros	
	2020	2019	2020	2019
Cash	\$ 228,736	\$ 12,851	\$ 185,014	\$ 99
Accounts receivable	717,147	1,325,731	268,022	272,119
Accounts payable and accrued liabilities	109,920	172,068	123	-

The Company's revenue and expenses by foreign currency for the quarters ended June 30, 2020 and 2019 are as follows:

	2020	2019
Revenue		
Euros	49%	38%
U.S. dollars	47%	59%
Expenses		
U.S. dollars	5%	6%

Based upon 2019 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 \$354,100 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 \$298,700. 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 \$354,100 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 \$298,700.

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 and sourcing of financing. Based on current funds available and expected cash flow from operating activities, management believes that the Company has sufficient funds available to meet its liquidity requirements for the foreseeable future. However, if cash from operating activities is significantly lower than expected, if the Company incurs major unanticipated expenses or the Company's borrowings are called, it may be required to seek additional capital in the form of debt or equity or a combination of both. Management's current expectations with respect to future events are based on currently available information and the actual outcomes may differ materially from those current expectations.

19. FINANCIAL RISK MANAGEMENT (Continued)**Interest rate risk**

Financial instruments that potentially subject the Company to cash flow interest rate risk are those assets and liabilities with a variable interest rate. Interest rate risk exposure is primarily on the BDC debt that has a variable rate that is pegged to the bank rate. The rate can be fixed at the Company's option, if the outlook for interest rates should move higher. The only other variable debt the Company has is the \$2,000,000 line of credit that bears interest at the bank's prime lending rate plus 2.0%. A 1% increase in the bank rate would cost the Company approximately \$30,000 per year for BDC and about \$20,000 on the line of credit usage if it were fully used throughout the fiscal year.

20. SEGMENTED INFORMATION

The Company operates in two ways: (i) the development, manufacturing and sales of antigens as materials for the medical diagnostic industry or as quality assessment products 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 ended June 30, segmented between antigens, Lumisort and Kinlytic:

	Segment revenue		Segment profit (loss)	
	2020	2019	2020	2019
Antigen Products and Technologies	\$ 2,898,328	\$ 3,110,615	\$ (397,464)	\$ (118,611)
Lumisort™	-	-	(35,506)	(47,416)
Kinlytic®	-	-	(7,263)	(25,295)
Total for continuing operations	\$ 2,898,328	\$ 3,110,615	\$ (440,233)	\$ (191,322)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2019 - \$Nil).

Segment loss represents the profit (loss) before tax earned by each segment without allocation of central administration costs, directors' fees, and finance costs. These general costs are reflected in the 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	
	2020	2019	2020	2019
Antigen Products and Technologies	\$ 15,838,345	\$ 15,753,766	\$ 8,931,011	\$ 8,351,432
Lumisort™	-	-	-	-
Kinlytic®	3,078,585	3,078,585	-	-
Total for continuing operations	\$ 18,916,930	\$ 18,832,351	\$ 8,931,011	\$ 8,351,432

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.

MICROBIX**Notes to the Unaudited Interim Condensed Consolidated Financial Statements
As at and for the three months ended June 30, 2020 and 2019****Canadian Funds****20. 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	
	2020	2019	2020	2019
Antigen Products and Technologies	\$ 178,353	\$ 143,730	\$ 365,761	\$ 103,953
Lumisort™	-	-	-	-
Kinlytic®	-	-	-	-
	<u>\$ 178,353</u>	<u>\$ 143,730</u>	<u>\$ 365,761</u>	<u>\$ 103,953</u>

21. REVENUES AND GEOGRAPHIC INFORMATION

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

	Revenue from external customers		Non-current assets	
	2020	2019	2020	2019
For the quarter ended June 30,				
North America	\$ 1,071,081	\$ 1,291,453	\$ 13,785,045	\$ 12,934,880
Europe	1,827,247	1,811,634	-	-
Other foreign countries (directly)	-	7,529	-	-
	<u>\$ 2,898,328</u>	<u>\$ 3,110,615</u>	<u>\$ 13,785,045</u>	<u>\$ 12,934,880</u>

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

For the period ended June 30,	2020	2019
Balance, beginning of the quarter	\$ 1,053,866	\$ 1,243,979
Cash payments or advance payments on performance obligations	942,375	514,746
Revenue recognized during the quarter	(684,003)	(683,556)
Government Grants	105,350	-
<u>Balance, end of quarter</u>	<u>\$ 1,417,587</u>	<u>\$ 1,075,168</u>

MICROBIX

Notes to the Unaudited Interim Condensed Consolidated Financial Statements As at and for the three months ended June 30, 2020 and 2019

Canadian Funds

22. RELATED PARTY TRANSACTIONS

Key management compensation

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

	Three months ended June 30, 2020	Three months ended June 30, 2019
Short-term wages, bonuses and benefits	\$ 237,396	\$ 231,818
Share-based payments	23,893	25,631
Total key management compensation	\$ 261,289	\$ 257,449

23. COMMITMENTS AND CONTINGENCIES

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

	Amount
2020	\$ 177,310
2021	709,242
2022	1,657,992
2023	604,242
2024	604,242
2025 and thereafter	6,527,924
	<u>\$ 10,280,952</u>

Contingencies

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

24. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2019 consolidated financial statements.