

Notice of no auditor review of condensed interim consolidated financial statements

Under Part 4, subsection 4.3(3)(a) of National Instrument 51-102 – Continuous Disclosure Obligations, if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of Microbix Biosystems Inc. (the “Company”) have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

MICROBIX**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****Unaudited****As at June 30, 2023 and September 30, 2022****Canadian Funds**

	As at June 30 2023	As at September 30 2022
ASSETS		
CURRENT ASSETS		
Cash	\$ 13,409,156	\$ 13,488,075
Accounts receivable	3,347,154	3,057,797
Inventories (Note 4)	6,050,353	5,284,920
Prepaid expenses and other assets	636,113	546,318
Investment tax credit receivable	56,266	31,262
TOTAL CURRENT ASSETS	23,499,042	22,408,372
LONG-TERM ASSETS		
Long-term deposits	332,250	332,250
Property, plant and equipment (Note 5)	9,080,600	8,906,256
Intangible assets	1,383,203	1,498,318
TOTAL LONG-TERM ASSETS	10,796,053	10,736,824
TOTAL ASSETS	\$ 34,295,095	\$ 33,145,196
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,516,741	\$ 1,828,539
Current portion of long-term debt (Note 7)	111,120	111,120
Current portion of lease liability (Note 5)	152,906	156,231
Deferred revenue (Note 18)	2,570,332	554,631
TOTAL CURRENT LIABILITIES	5,351,089	2,650,521
Debentures (Note 6)	1,744,506	1,628,262
Lease liability (Note 5)	738,835	846,114
Long-term debt (Note 7)	3,817,382	3,081,644
TOTAL LONG-TERM LIABILITIES	6,300,723	5,556,020
TOTAL LIABILITIES	\$ 11,651,812	\$ 8,206,541
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	\$ 49,097,340	\$ 49,918,916
Equity component of convertible debentures (Note 6)	2,272,566	2,272,566
Contributed surplus	10,182,063	9,619,104
Accumulated deficit	(38,908,686)	(36,871,931)
TOTAL SHAREHOLDERS' EQUITY	\$ 22,643,283	\$ 24,938,655
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 34,295,095	\$ 33,145,196

Commitments and Contingencies (Note 20)

(Signed) "Martin Marino"

MARTIN MARINO
DIRECTOR

(Signed) "Cameron L. Groome"

CAMERON L. GROOME
DIRECTOR

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

MICROBIX

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)				Unaudited
For the three months and nine months ended June 30				Canadian Funds
	2023	2022	2023	2022
SALES				
Antigens, QAPs and DxTM	\$ 4,065,426	\$ 4,915,926	\$ 10,509,148	\$ 14,435,795
Royalties/Other	1,464,726	95,099	1,741,399	311,394
TOTAL SALES (Notes 17, 18)	5,530,152	5,011,025	12,250,547	14,747,189
COST OF GOODS SOLD				
Antigens, QAPs and DxTM	3,171,667	2,232,114	6,131,701	5,593,392
Royalties	15,600	12,765	62,706	49,494
TOTAL COST OF GOODS SOLD (Note 4)	3,187,267	2,244,879	6,194,407	5,642,886
GROSS MARGIN	2,342,885	2,766,146	6,056,140	9,104,303
EXPENSES				
Selling and business development	374,357	435,534	1,112,844	1,154,581
General and administrative	2,104,025	1,134,256	5,207,161	3,727,866
Research and development	531,121	387,400	1,482,004	1,354,758
Financial expenses (Note 14)	102,490	170,454	290,887	614,329
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	\$ (769,108)	\$ 638,502	\$ (2,036,756)	\$ 2,252,769
NET INCOME (LOSS) PER SHARE				
Basic (Note 12)	\$ (0.006)	\$ 0.005	\$ (0.015)	\$ 0.016
Diluted (Note 12)	\$ (0.006)	\$ 0.004	\$ (0.015)	\$ 0.016

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

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

	2023	2022	2023	2022
OPERATING ACTIVITIES				
Net Income (Loss) for the Period	\$ (769,108)	\$ 638,502	\$(2,036,754)	\$ 2,252,769
Items not affecting cash				
Amortization and depreciation (Note 17)	304,219	263,922	847,943	745,298
Accretion of debentures (Note 6)	41,667	39,842	116,244	169,368
Stock options expense (Note 11)	202,445	187,928	562,959	466,019
Accretion Interest expense (Note 14)	53,585	38,810	133,376	88,633
Change in non-cash working capital balances (Note 13)	2,298,550	1,540,541	737,868	(403,324)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,131,358	2,709,545	361,635	3,318,763
INVESTING ACTIVITIES				
Purchase of property, plant and equipment (Note 5)	(215,114)	(264,660)	(898,379)	(818,315)
CASH USED IN INVESTING ACTIVITIES	(215,114)	(264,660)	(898,379)	(818,315)
FINANCING ACTIVITIES				
Repayments of long-term debt (Note 7)	(27,780)	(27,780)	(83,340)	(362,850)
Proceeds from Government Loan and Grant (Note 7)	-	-	1,507,393	1,072,102
Repayments of convertible and non-convertible debentures (Note 6)	-	(500,000)	-	(1,816,821)
Payment of lease liabilities	(45,613)	(59,922)	(144,652)	(186,130)
Repurchase of common shares	(166,050)	-	(926,836)	-
Proceeds from exercise of warrants and options (Note 10, 11)	10,750	105,000	105,260	2,970,130
CASH PROVIDED BY FINANCING ACTIVITIES	(228,693)	(482,702)	457,825	1,676,431
NET CHANGE IN CASH - DURING THE PERIOD	1,687,551	1,962,183	(78,919)	4,176,879
CASH - BEGINNING OF PERIOD	11,721,605	12,201,008	13,488,075	9,986,312
CASH - END OF PERIOD	\$ 13,409,156	\$14,163,191	\$13,409,156	\$ 14,163,191

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

MICROBIX

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited

For the three months ended June 30, 2023 and 2022

Canadian Funds

	SHARE CAPITAL (Note 9)		CONTRIBUTED SURPLUS	DEFICIT	EQUITY COMPONENT OF DEBENTURES	TOTAL SHAREHOLDERS' EQUITY
	NUMBER OF SHARES	STATED CAPITAL				
BALANCE, SEPTEMBER 30, 2021	126,377,167	\$43,609,601	\$10,703,374	\$(38,660,620)	\$2,903,789	\$18,556,144
Stock option expense	-	-	466,019	-	-	466,019
Share Issuance pursuant to						
Exercise of Warrants	7,030,294	3,604,673	(1,096,343)	-	-	2,508,330
Exercise of Options	1,710,000	781,070	(319,270)	-	-	461,800
Conversion of Debenture	2,173,913	1,131,222	-	-	(631,223)	500,000
Net income and comprehensive income for the period	-	-	-	2,252,769	-	2,252,769
BALANCE, JUNE 30, 2022	137,291,374	\$49,126,566	\$9,753,780	\$(36,407,851)	\$2,272,566	\$24,745,062
Share-based compensation expense	-	-	183,674	-	-	183,674
Share Issuance pursuant to						
Exercise of Warrants	450,000	203,399	(74,400)	-	-	128,999
Exercise of Options	1,250,000	588,950	(243,950)	-	-	345,000
Net income and comprehensive income for the period	-	-	-	(464,079)	-	(464,079)
BALANCE, SEPTEMBER 30, 2022	138,991,374	\$49,918,915	\$9,619,104	\$(36,871,930)	\$2,272,566	\$24,938,655
Stock option expense	-	-	562,959	-	-	562,959
Share Issuance pursuant to						
Exercise of Warrants	21,000	7,561	-	-	-	7,561
Exercise of Options	430,000	97,700	-	-	-	97,700
Repurchase of Shares	(2,138,500)	(926,836)	-	-	-	(926,836)
Net income and comprehensive income for the period	-	-	-	(2,036,756)	-	(2,036,756)
BALANCE, JUNE 30, 2023	137,303,874	\$49,097,340	\$10,182,063	\$(38,908,686)	\$2,272,566	\$22,643,283

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

1. NATURE OF THE BUSINESS

Microbix Biosystems Inc. and its subsidiaries (the “Company” or “Microbix”), incorporated under the laws of the Province of Ontario, develops and commercializes proprietary biological and technology solutions for human health and well-being. Microbix manufactures a wide range of critical biological materials and medical devices for the global diagnostics industry, notably test ingredients (Antigen business) used in immunoassays, quality assessment products to help ensure test and test-workflow accuracy (QAPsTM business), and sample-collection devices such as viral transport medium (DxTMTM business).

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

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and are presented in Canadian dollars. The accounting policies used in the preparation of these interim condensed consolidated financial statements conform with those in the Company’s audited annual consolidated financial statements for the year ended September 30, 2022, except as set out in note 3. These interim consolidated financial statements do not include all of the information and disclosures required in annual financial statements and, accordingly, should be read in conjunction with the Company’s annual consolidated financial statements for the year ended September 30, 2022.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*Use of estimates and judgments*

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

Global pandemic

In early 2020, a novel Coronavirus (named “SARS-CoV-2” and causing the disease “COVID-19”) was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a global pandemic. As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic and its public health, economic, and geopolitical aftermaths, the Company has reviewed and continues to review, the estimates, judgments and assumptions used in the preparation of its financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets and the credit risk of its counterparties.

The extent to which the COVID-19 pandemic or another geopolitical crisis impacts the Company’s business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of a current or future pandemic or crisis and the societal actions required to continue to contain the pandemic or crisis or remedy its impact, among others.

Any of these developments, and others, have had a material adverse effect on the Company’s business, financial condition, operations and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in the Company’s financial statements will change and the effect of any such changes could be material, which could result in, among other things, an impairment of inventories or long-lived assets or a change in the estimated credit losses on accounts receivable. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business. The COVID-19 pandemic and its health, economic, and political impacts continue to evolve, as do the effects of the downstream government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Accounting standards and amendments issued but not yet adopted**Amendments to IAS 1*

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

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

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

Amendments to IAS 1 and IFRS Practice Statement 2

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

Amendments to IAS 12 – Income Taxes (“IAS 12”)

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

Amendments to IAS 37: Onerous Contracts (“IAS 37”)

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

As at and for the three and six months ended June 30, 2023 and 2022**4. INVENTORIES**

Inventories consist of the following:

	June 30, 2023	September 30, 2022
Raw materials	\$ 1,849,434	\$ 1,106,113
Work in process	1,811,829	1,716,451
Finished goods	2,389,090	2,462,356
	\$ 6,050,353	\$ 5,284,920

During the quarter ended June 30, 2023, inventories in the amount of \$3,171,667 (June 30, 2022 - \$2,232,114) were recognized as an expense through cost of goods sold. That amount of expensed inventory included \$949,256 for DxTM inventory that was determined likely to expire before it could be sold, thereby increasing the allowance for inventory impairment as at June 30, 2023 to \$1,229,219 (September 30, 2022 - \$279,963). This impairment of DxTM was unexpected and related to a change in the purchasing practices of agents of the Government of Ontario, which inexplicably returned to their pre pandemic practice of importing all of the province's needs for viral transport medium. Prior to this change in purchasing practices, agents of the Government of Ontario had been Microbix's principal customer for DxTM.

MICROBIX**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Canadian Funds

As at and for the three and six months ended June 30, 2023 and 2022

5. PROPERTY, PLANT, AND EQUIPMENT AND LEASES

The freehold land and buildings have been pledged as security for bank loans under a mortgage (see Note 7). Property, plant and equipment consists of:

	Building and Leasehold Improvements	Research and Development Equipment	Other Equipment and Fixtures	Right of Use Assets	Land	Total
COST						
Balance, as at September 30, 2022	\$ 6,198,311	\$ 600,258	\$ 7,072,624	\$ 1,697,014	\$ 800,000	\$ 16,368,206
Additions	100,807	94,493	703,079	8,796	-	907,175
Balance, as at June 30, 2023	6,299,118	694,750	7,775,703	1,705,810	800,000	17,275,381
ACCUMULATED DEPRECIATION						
Balance, as at September 30, 2022	2,221,807	472,737	4,249,204	518,203	-	7,461,950
Depreciation	333,331	8,721	257,746	133,033	-	732,831
Balance, as at June 30, 2023	2,555,138	481,457	4,506,950	651,236	-	8,194,781
NET BOOK VALUE						
Balance, September 30, 2022	3,976,504	127,521	2,823,420	1,178,811	800,000	8,906,256
Balance, as at March 31, 2023	\$ 3,743,980	\$ 213,293	\$ 3,268,753	\$ 1,054,574	\$ 800,000	\$ 9,080,600

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

	Right-of-Use Assets		Lease Liabilities
	Property	Equipment	
Balance, September 30, 2022	\$ 941,619	\$ 235,944	\$ 1,002,346
Additions	8,795	1	-
Depreciation Expense	(113,390)	(18,395)	-
Interest Accretion	-	-	17,079
Payments	-	-	(127,684)
Balance, June 30, 2023	\$ 837,024	\$ 217,550	\$ 891,741
Current Portion			\$ 152,906
Non-current portion			738,835

MICROBIX

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Canadian Funds

As at and for the three and six months ended June 30, 2023 and 2022

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

Lease liabilities for leases that were entered during the period ended June 30, 2023 were discounted using an incremental borrowing rate of 7.0% (June 30, 2022 – 3.5%).

Lease obligations as at June 30, 2023 are:

	Amount
2023	\$ 45,665
2024	182,662
2025	153,410
2026	98,451
2027	95,606
2028 and thereafter	445,081
Total	\$ 1,020,876

6. DEBENTURES

The Company has convertible debentures issued and outstanding as at June 30, 2023. The carrying values of the debt component of these debentures are as follows:

	Convertible debentures		Total convertible debentures
	(a)	(b)	
Date of issue	Oct, 2016	Oct, 2016	
Face value	\$ 1,500,000	\$ 2,500,000	\$ 4,000,000
Liability component at the date of issue	461,550	780,750	-
Balance, September 30, 2022	596,208	1,032,054	1,628,262
Accretion	40,697	75,547	116,244
Repayments	-	-	-
Balance, June 30, 2023	636,905	1,107,601	1,744,506
Less: current portion	-	-	-
Non-current portion	636,905	1,107,601	1,744,506
Balance, June 30, 2023	\$ 636,905	1,107,601	1,744,506
Equity component at June 30, 2023	574,435	1,698,131	2,272,566
Conversion price per common share	\$ 0.23	\$ 0.23	
Effective interest rate charged	31.07%	30.85%	
Payment frequency	Quarterly	Quarterly	
Maturity of financial instrument	Jan, 2029	Sep, 2028	
Stated interest rate	9%	9%	
Terms of repayment	Interest only	Interest only	
Blended quarterly repayment	N/A	N/A	

6. DEBENTURES (Continued)

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

The convertible debentures are convertible at the option of the holder, at any time, into fully paid and non-assessable common shares of the Company at the conversion price then in effect.

All of the debentures were issued to shareholders of the Company. Over the term of the convertible debentures, the debt components are being accreted to the face value of the debentures by the recording of additional interest expense using the effective interest rate, as detailed above.

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

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

a) The Company has used term loans with the Business Development Bank (“BDC”) for a variety of purposes. The following summarizes these loans as at June 30, 2023:

Term Loans with the Business Development Bank (“BDC”)	(a)	(b)	Total
Effective date of loan	Jun, 2008	Jul, 2018	
Initial Loan Amount	\$ 3,000,000	\$ 323,906	\$ 3,773,906
Balance, September 30, 2021	1,824,220	279,510	2,103,730
Proceeds from loan	-	-	-
Loan repayments during the period	(111,120)	(279,510)	(390,630)
Balance, September 30, 2022	\$ 1,713,100	\$ -	\$ 1,713,100
Proceeds from loan	-	-	-
Loan repayments during the period	(83,340)	-	(83,340)
Balance, June 30, 2023	\$ 1,629,760	-	\$ 1,629,760
Current Portion	\$ 111,120	-	\$ 111,120
Non-current portion	1,518,640	-	1,518,640

As at and for the three and six months ended June 30, 2023 and 2022

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

The remaining BDC loan has a floating interest rate based on BDC's floating base rate less 1.0%. At June 30, 2023, the rate was 8.05% (2022 – 3.8%). The loan is secured with the building and equipment. On December 3, 2021 the Company prepaid in full the outstanding balance including accrued interest for loan (b) above, totalling \$266,094.

As at June 30, 2023, the commitments for the next five fiscal years and thereafter for the BDC loan is as follows:

	Amount
2023	\$ 27,780
2024	111,120
2025	111,120
2026	111,120
2027	111,120
2028 and thereafter	\$ 1,157,500

- b) The Company has a \$2,000,000 line of credit with its Chartered Bank that is available for use. This line of credit bears interest at prime plus 2% (8.95% on June 30, 2023). As at June 30, 2023 the Company had no funds drawn on the facility (September 30, 2022- nil). The Company's availability and usage of this facility varies across its manufacturing, sales and Accounts Receivable collection cycles.
- c) On July 29, 2019, the Company signed an agreement with Federal Economic Development Agency for Southern Ontario to provide a repayable government contribution where the Federal Development Agency has agreed to contribute funding for 30% of the Business Scale-up and Productivity Project expenditures made by the Company, up to \$2,752,500 over the following four years. The Company is required to submit eligible expenses on a quarterly basis to receive the interest-free contributions. On February 14, 2023 the Company agreed to an amendment to the original agreement providing an additional \$840,000 of repayable contributions, increasing the total funding up to \$3,592,500. Repayment of all contributions does not begin until December 15, 2024. As at June 30, 2023, the Company has received contributions totalling \$3,161,996 (June 30, 2022 – \$2,158,603). The Company determined that the "Loan" consists of two components: an obligation to repay; and a government grant in the form of exemption from interest. The Company fair valued the obligation to repay at \$2,253,333 (June 30, 2022 – \$1,352,426), based on a discount rate of 8%, which represents management's best estimate of fair value. The residual amount of \$908,663 (June 30, 2022 – \$806,178) is allocated to the associated government grant and recognized as income over the period in which the related costs they are intended to compensate are recognized. As at June 30, 2023, the carrying value of the Loan is \$2,253,333 (June 30, 2022 – \$1,449,466) and \$444,578 is recognized as a deferred grant within deferred revenue on the statement of financial position (June 30, 2022– \$365,725).

The Company is in compliance with the covenants associated with this loan as at June 30, 2023.

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

Fiscal Years	Amount
2025	\$ 526,999
2026	632,399
2027	632,399
2028	632,399
2029	632,399
2030	105,401

As at and for the three and six months ended June 30, 2023 and 2022

8. GOVERNMENT GRANT

On October 13, 2020, the Company announced a grant agreement with the Ontario Together Fund (“OTF”) of the Ministry of Economic Development, Job Creation and Trade (the “Grant”). The Grant of \$1,445,000 was to cover 50% of the cost to automate production of the Company’s quality assessment products (QAPs™) that help ensure the accuracy of infectious disease diagnostic testing, and enable local, secure, and cost-effective automated production of the quantities of viral transport medium (generically “VTM” and branded “DxTM™”) needed for Ontario’s lab-based testing for COVID-19 disease or other tests of concern to public health or safety.

An initial Grant disbursement, upon execution of the agreement, in the amount of \$867,000, was received on October 13, 2020. The remaining \$578,000 of the grant was paid upon project completion following a review of Eligible Project Expenditures incurred during the project, up to February 28, 2022. During the year ended September 30, 2021 the Company recognized \$717,587 of grant income. The company also recorded a \$680,202 reduction in capital asset costs. The excess claims of \$578,000 for the remainder of the grant have been previously recognized in accounts receivable. During Q3 of fiscal 2022, a final review of the project was completed and the contractual \$578,000 holdback was received by Microbix during April 2022.

On March 20, 2023, the Company announced an additional grant agreement with the Ontario Together Fund (“OTF”) of the Ministry of Economic Development, Job Creation and Trade (the “Grant”). The Grant of \$840,000 is to cover 50% of the cost to further expand our capabilities and capacity for manufacturing specialized products relating to diagnostic testing for infectious diseases. The Government of Ontario is supporting the expansions at Microbix’s three adjacent sites in Mississauga. An initial Grant disbursement, upon execution of the agreement, in the amount of \$504,000, was received on March 13, 2023. The remaining \$356,000 of the grant will be paid upon project completion following a review of Eligible Project Expenditures incurred during the project. During the quarter \$22,450 of grant income was recognized.

9. SHARE CAPITAL

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

On October 3, 2022 the Company initiated Normal Course Issuer Bid (“NCIB”) program for the repurchase and cancellation of outstanding common shares. In accordance with the rules of the Toronto Stock Exchange and as detailed in the Company’s news release of September 28, 2022, the NCIB enables the Company to repurchase up to 5% of its common shares over a 12-month period. During the first nine months of fiscal 2023 the Company repurchased 2,276,500 shares at a cost of \$948,939 and cancelled 2,138,500 shares.

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

	Number of Shares	Stated Capital
Balance, as at September 30, 2022	138,991,374	\$ 49,918,916
Exercise of Warrants	21,000	7,560
Exercise of stock options	430,000	97,700
Stock repurchase and cancellation	(2,138,000)	(926,836)
Balance, as at June 30, 2023	137,303,874	\$ 49,097,340

MICROBIX**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****Canadian Funds****As at and for the three and six months ended June 30, 2023 and 2022****10. COMMON SHARE PURCHASE WARRANTS**

A continuity of the Company's warrants outstanding as at June 30, 2023 is presented in the following table:

	Units	Weighted average exercise price
Balance, September 30, 2022	15,573,397	\$ 0.53
Warrants Exercised	(21,000)	0.36
Expired	(920,833)	0.52
Balance, June 30, 2023	14,631,564	\$ 0.53

A summary of the Company's warrants outstanding as at June 30, 2023 and September 30, 2022 is presented in the following table:

	June 30, 2023			September 30, 2022		
	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:						
\$0.60 to \$0.80	5,750,000	\$ 0.80	0.89	6,420,833	\$ 0.78	0.63
\$0.30 to \$0.36	8,881,564	0.36	1.59	9,152,564	0.36	2.29
	14,631,564	\$ 0.53	1.32	15,573,397	\$ 0.53	1.61

As at and for the three and six months ended June 30, 2023 and 2022

11. STOCK OPTION PLAN

Under the Company's stock option plan, the Company may grant options to purchase common shares up to a maximum of 10% of the Company's issued and outstanding common shares. Under the plan as at June 30, 2023, the Company has a total of 11,959,000 options (September 30, 2022- 9,724,000) issued and is eligible to issue up to a total of 13,730,387 options.

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

The activity under the Company's stock option plan for period ended June 30, 2023 is as follows:

	Units	Weighted average exercise price
Balance, September 30, 2022	9,724,000	\$ 0.44
Stock options exercised	(430,000)	\$ 0.23
Stock options issued	2,815,000	\$ 0.37
Stock options forfeited	(150,000)	\$ 0.63
Balance, June 30, 2023	11,959,000	\$ 0.43
Exercisable, June 30, 2023	4,025,000	\$ 0.24

The exercise price of each option equals the closing market price of the Company's capital stock on the day preceding the grant date. The following table reflects the number of options, their weighted average price and the weighted average remaining contract life for the options grouped by price range as of June 30, 2023 and September 30, 2022:

	June 30, 2023			September 30, 2022		
	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:						
\$0.46 to \$0.73	5,319,000	\$ 0.60	3.18	5,444,000	\$ 0.61	3.94
\$0.215 to \$0.37	6,665,000	\$ 0.29	2.70	4,280,000	\$ 0.22	1.98
	11,984,000	\$ 0.43	3.03	9,724,000	\$ 0.44	3.08

Stock options are assumed to be exercised at the end of the option's life, as management believes the probability of an early exercise is remote. During the quarter, the fair value of the options vested in the quarter were expensed and credited to contributed surplus. During the quarter, the Company recorded share-based compensation expense of \$202,445 (2022 - \$187,928).

As at and for the three and six months ended June 30, 2023 and 2022
12. INCOME (LOSS) PER SHARE

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

	For the three months ended June 30		For the nine months ended June 30	
	2023	2022	2023	2022
Net income (loss) for the period for basic earnings per share	\$ (769,108)	\$ 638,502	\$ (2,036,756)	\$ 2,252,769
Net income (loss) for the period for diluted earnings per share	(769,108)	638,502	(2,036,756)	2,369,421
Weighted average common shares outstanding	137,546,693	137,103,874	138,210,977	134,170,883
Dilutive Effect	-	6,382,425	-	25,316,797
Dilutive weighted average common shares outstanding	137,546,693	143,486,299	138,210,977	159,487,680
Net income (loss) per share:				
Basic	(\$0.006)	\$0.005	(\$0.015)	\$0.017
Diluted	(\$0.006)	\$0.004	(\$0.015)	\$0.015

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 three months ended		For the nine months ended	
	2023	2022	2023	2022
Pursuant to warrants	14,631,564	6,420,833	14,631,564	5,750,000
Under stock options	11,959,000	5,344,000	11,959,000	50,000
Pursuant to convertible debentures	17,391,304	17,391,304	17,391,304	-
	43,981,869	29,156,138	43,981,869	5,800,000

As at and for the three and six months ended June 30, 2023 and 2022

13. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended June 30, 2023	Three months ended June 30, 2022	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Accounts receivable	\$ (219,400)	\$ 2,060,759	\$ (289,357)	\$ 1,688,092
Inventory	803,590	43,957	(765,433)	(890,954)
Prepaid expenses and other assets	(86,359)	(491,211)	(114,799)	(1,001,279)
Deferred Revenue	1,039,743	(83,797)	1,441,483	311,519
Accounts payable and accrued liabilities	760,976	10,833	465,974	(510,702)
	\$ 2,298,550	\$ 1,540,541	\$ 737,868	\$ (403,324)

14. FINANCIAL EXPENSES

	Three months ended June 30, 2023	Three months ended June 30, 2022	Nine months ended June 30, 2023	Nine months ended June 30, 2022
Cash interest:				
Interest on long-term debt	\$ 32,574	\$ 19,039	\$ 93,922	\$ 68,413
Interest on debentures	90,000	94,993	270,000	306,269
Interest other	252	(23,783)	866	(23,783)
Interest income	(115,588)	1,553	(323,520)	5,429
Non-cash interest:				
Accretion on debentures	41,666	39,842	116,243	169,368
Accretion interest expense	53,585	38,810	133,376	88,633
Financial expenses	\$ 102,490	\$ 170,454	\$ 290,887	\$ 614,329

15. CAPITAL MANAGEMENT

The Company's capital management objective is to safeguard its ability to function as a going concern while also maintaining and growing its operations and funding its development activities. Microbix defines its capital to include any drawn portion of the revolving line of credit, shareholders' equity, long-term debt, and debentures. The capital at June 30, 2023 was \$28,316,291 (September 30, 2022 - \$29,759,681).

To date, the Company has used cash provided by operating activities, common equity issues, debentures, bank mortgage and other financing to fund its activities. The equity is provided through public offerings or private placements, the debentures are all controlled by private individuals known to the Company and the mortgage and other financing are with the Business Development Bank (BDC), FedDev and TD Bank. If possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including cash provided by operating activities, investment tax credits, grants and interest income. The Company has a revolving line of credit of \$2,000,000 with its Canadian chartered bank, per Note 7.

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

As at and for the three and six months ended June 30, 2023 and 2022

16. FINANCIAL INSTRUMENTS

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

For the periods ended June 30, 2023 and September 30, 2022, the Company has carried at fair value financial instruments in Level 1. At June 30, 2023, the Company's only financial instrument measured at fair value is cash and cash equivalents, which are 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.

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)
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Assets measured at fair value:

Cash and cash equivalents	30-Jun-23	\$ 13,409,156	-	-
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Liabilities for which fair values are disclosed:

Convertible debentures	30-Jun-23	-	1,744,506	-
Long-term-debt and other debt	30-Jun-23	-	3,928,502	-

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
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Assets measured at fair value:

Cash and cash equivalents	30-Sep-22	\$ 13,488,075	-	-
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Liabilities for which fair values are disclosed:

Convertible debentures	30-Sep-22	-	1,628,262	-
Long-term-debt and other debt	30-Sep-22	-	3,192,764	-

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

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

As at and for the three and six months ended June 30, 2023 and 2022

16. FINANCIAL INSTRUMENTS (Continued)

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

17. SEGMENTED INFORMATION

The Company operates in two ways: (i) the development, manufacturing and sales of products relating to the medical diagnostics industry, namely antigens as test ingredients, quality assessment products to help ensure the accuracy of test workflows and viral transport medium to enable collection of patient test samples and, (ii) the development and commercialization of novel and proprietary products or technologies such as Kinlytic. The following is an analysis of the Company's revenues and profits from continuing operations for the quarter ended June 30, segmented between categories (i) and (ii) (including Kinlytic):

Segment Revenue	For the three months		For the nine months	
	2023	2022	2023	2022
Antigens, QAPs and DxTM	\$ 4,065,426	\$ 5,011,025	\$10,509,148	\$14,742,766
Other (Includes Kinlytic®)	1,464,726	-	1,741,399	4,423
Total for continuing operations	\$ 5,530,152	\$ 5,011,025	\$12,250,547	\$14,747,189

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2022 - \$nil).

Operating Income (Loss)	For the three months		For the nine months	
	2023	2022	2023	2022
Antigens, QAPs and DxTM	\$ (1,848,368)	\$ 646,179	\$ (3,631,334)	\$ 2,287,823
Other (Includes Kinlytic®)	1,079,260	(7,677)	1,594,578	(35,054)
Total for continuing operations	\$ (769,108)	\$ 638,502	\$ (2,036,756)	\$ 2,252,769

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

17. SEGMENTED INFORMATION (Continued)

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

	Segment assets		Segment liabilities	
	June 30 2023	September 30 2022	June 30 2023	September 30 2022
Antigens, QAPs and DxTM	\$ 34,295,095	\$ 33,145,196	\$ 11,321,812	\$ 8,206,541
Other (Includes Kinlytic®)	-	-	330,000	-
	\$ 34,295,095	\$ 33,145,196	\$ 11,651,812	\$ 8,206,541

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

Segmented depreciation and amortization, impairment of long-lived assets and additions to non-current assets as at June 30 are as follows:

	Depreciation and amortization		Additions to non-current assets	
	2023	2022	2023	2022
Antigens, QAPs and DxTM	\$ 304,219	\$ 263,922	\$ 215,114	\$ 264,660
Other (Includes Kinlytic®)	-	-	-	-
	\$ 304,219	\$ 263,922	\$ 215,114	\$ 264,660

As at and for the three and six months ended June 30, 2023 and 2022
18. REVENUES AND GEOGRAPHIC INFORMATION

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

Revenues	For the three months		For the nine months	
	2023	2022	2023	2022
North America	\$ 4,108,781	\$ 3,492,693	\$ 8,126,203	\$ 10,945,757
Europe	1,419,738	1,514,039	4,120,379	3,787,137
Other foreign countries (directly)	1,633	4,293	3,965	14,296
Total for continuing operations	\$ 5,530,152	\$ 5,011,025	\$ 12,250,547	\$ 14,747,189

	Non-current assets	
	June 30, 2023	September 30, 2022
North America	\$ 10,796,054	\$ 10,736,824
Europe	-	-
Other foreign countries (directly)	-	-
	\$ 10,796,054	\$ 10,736,824

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

For the period ended June 30,	2023	2022
Balance, beginning of the quarter	\$ 1,553,898	\$ 742,932
Cash payments or advance payments on performance obligations	1,553,262	1,589,314
Revenue recognized during the quarter	(491,070)	(1,277,793)
Deferred government grant and loan (see note 8 and 9)	(45,769)	137,568
Balance, end of quarter	\$ 2,570,322	\$ 1,192,020

MICROBIX

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Canadian Funds

As at and for the three and six months ended June 30, 2023 and 2022

19. RELATED PARTY TRANSACTIONS

Key Management Compensation

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

	Three months ended June 30, 2023	Three months ended June 30, 2022
Short-term wages, bonuses and benefits	\$ 283,477	\$ 267,864
Share based payments	116,986	88,080
Total key management compensation	\$ 400,464	\$ 355,943

20. COMMITMENTS AND CONTINGENCIES

Payments on convertible and non-convertible debentures (Note 6)

	Amount
2023	\$ 90,000
2024	360,000
2025	360,000
2026	360,000
2027	360,000
2028 and thereafter	4,399,497
	\$ 5,929,497

Contingencies

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