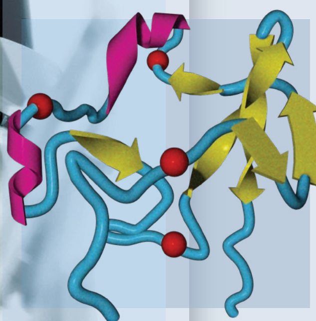
MICROBIX
BIOSYSTEMS INC.



ANNUAL REPORT 2016

Message to Shareholders

As we reflect on 2016, we have made important progress in terms of our financial results and the execution of our strategy. This has setup the coming year as one of the most important in the Company's history.

I am pleased to report that the Company achieved record sales performance for the fiscal year ended September 30th. Although sales in the first quarter were weak, we subsequently experienced successive sales records in the second and fourth quarters, which contributed to the Company's highest-ever annual sales of $9.5 million, an improvement of 13% over 2015.

All indicators suggest customer demand will remain strong through 2017 setting the Company on a course for another year of strong sales growth. The recent start-up of the new bioreactor manufacturing process provides the expanded production capacity needed to satisfy this additional demand, while also contributing significant savings in operating costs. We are well positioned to deliver higher sales volume and improved margins going forward.

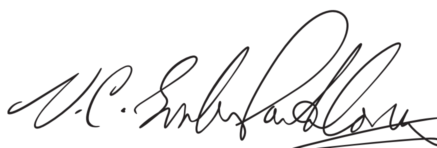
Finally, with careful management of operating expenses in 2016 contributing a 12% improvement compared to last year, overall we delivered a 22% improvement in net income and more than 50% improvement in operating cash flow compared to last year. The Company has now achieved four consecutive years of continuously improving profitability, and established a track record of predictable operating results.

Our new molecular controls product offering is advancing with the continued development of upgraded manufacturing processes and quality systems that will ensure our operation becomes ISO13485 compliant. Product development will start in the near future and shipments are expected to commence in the fall of 2017.

Discussions with several parties interested in re-launching Kinlytic® in different markets have reached the stage where the Company is now preparing for a meeting with the U.S. Food and Drug Administration in early 2017. The objective of this meeting is to establish a more specific clinical and regulatory pathway for the reintroduction of the drug to the U.S. market. Our prospective partners include lead and secondary investors, license partners and government agencies all of whom are looking forward to the outcome of this meeting with the FDA, as it will address specific questions about the proposed Kinlytic® clinical program. I am optimistic we can close a partnership to fund Kinlytic® in 2017.

We continue to work with a small group of companies interested in a partnership with Microbix to complete the development and commercialization of the LumiSort technology. There are different complexities being addressed in these negotiations that are contributing to the extended timeline, including the challenging legal landscape in the North American animal genetics industry. This groundbreaking technology can ultimately provide the livestock industry with superior yields and throughput of sexed semen and, in so doing, we believe it can unlock significant value for the industry. We will continue to provide updates as developments materialize.

On behalf of my colleagues, I thank you for your continuing loyalty and I extend best wishes for 2017.



Vaughn C. Embro-Pantalony
President and Chief Executive Officer

The Company's Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited Consolidated Interim Financial Statements and notes and should also be read in conjunction with the audited Consolidated Financial Statements, notes and MD&A for the year ended September 30, 2016, prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on Sedar. Additional information relating to the Company, including its Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com. Reference to "we", "us", "our", or the "Company" means Microbix Biosystems Inc. unless otherwise stated. All amounts are presented in Canadian dollars unless otherwise stated. Statements contained herein, which are not historical facts, are forward looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth or implied. These forward-looking statements involve risks and uncertainties, including the difficulty in predicting product approvals, acceptance of and demand for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, regulatory enforcement, changes in operating results and other risks, some or any of which could make the results differ materially from those discussed or implied in the forward-looking statements. The Company disclaims any intent or obligation to update these forward-looking statements.

The Management Discussion and Analysis is dated December 20, 2016.

COMPANY OVERVIEW

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX) develops biological products and technologies. The Company has a Virology Products (Virology) business including the manufacturing and sale of cell culture-based biological products, including one of the world's most expansive sources of Infectious Disease Antigens targeted at the diagnostics market. The Company owns Kinlytic®, an FDA approved human thrombolytic drug, and is developing LumiSort™, a semen sexing technology.

Revenue from the Virology business which is expected to continue growing for the foreseeable future, provides for operating and debt service costs, and funding for the Company's development programs.

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

Year Ending September 30, 2016

Total revenue was $9,517,137, a 7% increase over 2015's $8,873,912. Included was Virology product revenue at $9,236,152, 13% higher than 2015, due to strong growth into Asian markets.

Revenue from licensing fees was $ nil (2015 - $413,895) due to a one time recognition of non-refundable deferred revenue received from a prospective distributor of the Company's LumiSort™ technology in 2015. Revenue from royalties was $280,985 (2015 - $268,297).

Gross margin decreased by 15%, one half of which was due to lower licensing revenues in 2016 described in the foregoing.. The balance of the decrease was due to higher material costs. Operating expenses decreased by 12%, compared to 2015, due to significantly lower legal costs with the termination of the VIRUSMAX litigation in the previous year. Net income was $748,407 (2015 - $613,984).

Cash generated from operations in fiscal 2016 was $913,308 compared to a $595,402 in fiscal 2015. Cash used in investing activities was $1,641,126 (2015 - $4,842,022), a decrease due to completion of the LumiSort™ prototype in the previous year. Cash generated from financing activities in fiscal 2016 was $629,053 (2015 - $3,803,444) primarily due to a reduction in loan proceeds of $840,000 in 2016 compared to 2015, and no common share warrants having been exercised in 2016 compared to $1,738,434 warrants exercised in 2015. Net cash flow was $98,765 negative in fiscal 2016 (2015 - $443,176 negative).

Quarter Ending September 30, 2016

Virology product revenue of $3,349,785 was significantly higher than the same period last year (2015 - $1,612,615), as antigen shipments to a large European customer returned to normal levels compared to the fourth quarter last year; also sales in East Asia grew significantly year over year. This growth is expected to continue in fiscal 2017.

Gross margins were slightly lower at $2,077,335 ($2,124,627 – 2015) as the comparative quarter in fiscal 2015 realized a one-time recognition of $413,895 profit in licensing revenues. Operating expenses were down by $454,184 versus the last quarter of fiscal 2015, due to the one-time legal costs incurred for the VIRUSMAX litigation during the same period last year. Net income for the quarter was $862,930 (2015 - $403,116).

Cash provided by operations was $367,235 compared to $84,394 provided by operations for the same period last year. Cash used in investing activities was $267,276 (2015 - $499,512), reflecting completion of the Lumisort™ prototype early in fiscal 2016 and completion of the development of the new automation process for manufacturing Virology products in the last quarter of fiscal 2016. Cash used by financing activities was $99,633 reflecting a reduction of debt in the quarter versus financing provided of $541,624 in the comparative quarter of fiscal 2015 to finance the Company's investment in equipment and process development. In summary, the fourth quarter's net cash flow was $325 positive (2015 – $ 125,865).

CHANGES IN FINANCIAL POSITION

Canadian Funds

	2016 $	2015 $
Total Revenue	**9,517,137**	**8,873,912**
Operating income	**148,407**	**348,984**
Cash	**5,415**	**104,180**
Accounts receivable	**2,021,872**	**1,692,074**
Total current assets	**5,661,219**	**5,788,161**
Total assets	**25,247,463**	**23,546,958**
Total current liabilities	**5,248,993**	**4,135,457**
Total liabilities	**9,955,722**	**9,870,048**
Total shareholders' equity	**15,291,741**	**13,676,910**
Current ratio	**1.08**	**1.40**
Debt to equity ratio	**0.65**	**0.72**

SELECTED QUARTERLY FINANCIAL INFORMATION

	Dec-31-14 $	Mar-31-15 $	Jun-30-15 $	Sep-30-15 $	Dec-31-15 $	Mar-31-16 $	Jun-30-16 $	Sep-30-16 $
SALES	**1,995,833**	**2,544,900**	**2,219,019**	**2,114,160**	**1,063,405**	**2,729,779**	**2,253,373**	**3,470,580**
Operating Income (1)	**90,553**	**86,335**	**147,769**	**123,434**	**(428,420)**	**161,979**	**(141,082)**	**555,930**

(1) Operating income represents net operating income and comprehensive operating income for the year as reported on the Company's consolidated statement of comprehensive income.

OUTLOOK

The business of Microbix described in these documents is the result of years of research and development, which has delivered products and technologies that have received wide customer acceptance and experienced continued growth in demand. Microbix has both the manufacturing capacity and the scientific capability to support this growth, including the continuous demand for competitive process improvements and new products.

Virology product revenues are expected to continue growing in the coming years. The Company continues to expand its conventional antigen product line and recently announced the launch of its molecular diagnostic products. In addition, the Company is experiencing a net favourable currency effect. The Company continues to invest in new process technologies to improve its manufacturing cost base and expand its production capacity. In light of all of these developments, management expects to realize improved profitability from the Virology business.

Management is preparing to meet with the FDA in early 2017 to confirm its specific clinical and regulatory plans for the re-introduction of Kinlytic® to the U.S. market. Management is optimistic about closing a partnership in fiscal 2017 with prospective partners awaiting the outcome of the meeting with the FDA.

The Lumisort™ prototype was successfully built and tested in 2015 and partnering discussions with global animal genetics companies continued through 2016. However, ongoing patent litigation among the three largest animal genetics companies in the U.S. has caused significant uncertainty within the A.I. industry, which has resulted in slower paced discussions with potential LumiSort partners. Management expects to close a partnership arrangement in fiscal 2017 to complete the development of LumiSort.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Canadian Funds

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") on a going concern basis, which presumes the Company will continue operating for the foreseeable future and will be able to realize a return on its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred historical losses resulting in an accumulated deficit of $23,296,749 as at September 30, 2016. However, each of the past four fiscal years have been profitable with an accumulated net income of $1,532,748.

Management continuously monitors the financial position of the Company with respect to working capital needs, as well as long-term capital requirements compared to the annual operating budget. Variances are highlighted and actions are taken to ensure the Company is appropriately capitalized.

Subsequent to September 30, 2016, the Company has arranged a new secured revolving credit facility jointly with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The new credit facility will be used for general corporate purposes, including the execution of the Company's overall growth strategy. Specific terms of this new credit facility will be disclosed in the interim report for the first fiscal quarter of 2017.

Future Liquidity and Capital Needs

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

In fiscal 2017 cash flow is expected to improve considerably as the year progresses due to: 1) continued growth in Virology sales, 2) implementation in early fiscal 2017 of a newly expanded operating credit line negotiated with the Company's bank, 3) improved profit contribution from the Virology business due to lower material costs and higher efficiencies as the Company continues to work with customers to commercialize its new bioreactor production process, and 4) completing the independent funding of both Lumisort™ and Kinlytic® through partnership arrangements. Management expects these developments will significantly improve the Company's overall liquidity position in fiscal 2017.

Contractual Obligations

a) Commitments and Contingencies

Over the next five years the Company has long-term commitments as at September 30, 2016 as described in the following tables:

i) Lease commitments

	$
2017	41,152
2018	7,602
2019	3,096
2020	-
2021	-
	51,850

ii) Minimum annual payments on convertible and non-convertible debentures

	$
2017	1,626,742
2018	604,242
2019	604,242
2020	604,242
2021 and thereafter	8,944,891
	12,384,359

See Note 29 Subsequent Events for changes to convertible debenture subsequent to September 30, 2016.

b) Outstanding Share Capital

Share capital issued and outstanding as at December 20, 2016 was $31,299,416 for 84,704,257 common shares versus 83,204,257 common shares at September 30, 2015.

LONG-TERM ASSETS

a) Tangible Assets

During fiscal 2016 the Company spent $702,579 on Lumisort™ development and Virology production equipment.

b) Intangible Assets

During fiscal 2016 the Company spent $938,547 on the development of its new bioreactor automation process.

Technology Investment - Lumisort™

In 2005 the Company acquired Sequent Biotechnologies Inc. a developer of semen-sexing technology. For financial purposes the Company recognized the acquisition cost at the fair value of this technology.

Additional investment has been recognized under the ongoing development program, including intellectual property in the form of new patents, as well as the work completed in the past two years to build and successfully test the new LumiSort prototype instrument.

Technology Investment – Urokinase/Kinlytic®

On September 23, 2008, Microbix completed a $2,770,529 acquisition of all Kinlytic® assets from ImaRx Therapeutics, Inc.

Technology Investment – Bioreactor

The Company has automated its manufacturing process with the implementation of the bioreactor process, which increases the efficiency and output of its virology products. The bioreactor process was completed September 30, 2016.

Business Development Corporation Debt

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

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

The loans are secured against the building and equipment. For loans totalling $3,000,000, consecutive monthly principal payments of $9,260 are due until February 2037 on the outstanding balance of $2,379,820 (September 30, 2015 - $2,490,940). For loans totalling $61,000, consecutive monthly principal payments of $725 are due until February 2017 on the outstanding balance of $3,625 (September 30, 2015 – $12,325).

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

	$
Equipment for Bioreactor Project	615,000
Construction of Manufacturing Facility	50,000
Purchase of Equipment for Facility	200,000
Working capital loan	250,000
	1,115,000

For loans totalling $615,000, consecutive monthly principal payments of $10,250 are due until July 2020 on the outstanding balance of $471,500 (September 30, 2015 - $594,500). For loans totalling $50,000, consecutive monthly principal payments of $1,040 are due to December 2019 on the outstanding balance of $40,560 (September 30, 2015 – $50,000). For loans totalling $200,000, consecutive monthly principal payments of $3,330 are due until December 2020 on the outstanding balance of $169,830 (Sept 30, 2015 – $200,000). On October 9, 2015, the Company entered into a loan agreement with BDC for $250,000, monthly principal payments of $4,160 are due until December 22, 2020 on the outstanding balance of $212,160 (Sept 30, 2015 – $Nil).

All of these loans have a floating interest rate based on BDC's floating base rate plus 0.5%. At September 30, 2016, the floating base rate was 4.7%.

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

	$
2017	340,105
2018	336,480
2019	336,480
2020	306,620
2021	133,590
2022	1,824,220

On April 16, 2015, the Company entered into a revolving line of credit agreement with its Canadian chartered bank. The agreement allows the Company to draw to a limit of $500,000 bearing interest at the bank's prime lending rate plus 2.25%. Accounts receivable and property, plant and equipment are pledged as collateral for the bank credit facility.

In the second quarter of fiscal 2016, the Canadian chartered bank offered an additional $100,000 in temporary credit, for a revised temporary credit limit of $600,000, while the bank worked with management to evaluate an expanded credit facility, which was approved subsequent to September 30, 2016. The Company had drawn $525,000 of this temporary facility as at September 30, 2016.

SUBSEQUENT EVENTS

1) On December 12, 2016, the Company announced that it has arranged a new secured revolving credit facility jointly with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The new credit facility will be used for general corporate purposes, including the execution of the Company's overall growth strategy.

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

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

   The second debenture holder has two convertible debentures of $0.5 million each, both originally convertible at $0.90 per common share and maturing on October 12, 2016 and February 15, 2017, respectively. Terms of these debentures have also been amended. The October debenture now matures on April 30, 2017 and it becomes non-convertible, and the stated interest rate increases from 9% to 12% for the remaining term. The February debenture maturity date has been extended to February 15, 2022, and the conversion price has been revised to $0.23 per common share. In addition, the second debenture holder has received 1.5 million common share purchase warrants, with an exercise price of $0.23 per common share and a term of five years.

   The convertible debenture amendments and the issuance of warrants has been approved by the Toronto Stock Exchange.

2) On October 5, 2016, Zeptometrix Corporation filed a statement of claim against Microbix in Canadian Federal Court alleging infringement of its Canadian patent. Microbix is defending the allegation maintaining it does not infringe this patent.

TREND INFORMATION

Historical spending patterns are no indication of future expenditures. Investment in the new products and technologies is at the discretion of management. The Company is not aware of any material trends related to its business that have not been discussed in this Management Discussion and Analysis dated December 20, 2016.

RISKS AND UNCERTAINTIES

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

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

A significant share of the Company's Virology products sales are sold to a few key customers globally. These products contributed a significant share of the revenue in 2016. The loss of a key customer, or restrictions on export, import, or international transportation of its products, raw materials or insufficient marketing resources, could materially impact revenue and profitability.

Environmental, safety and other regulatory

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

Manufacturing of Kinlytic®

The Company has entered into confidentiality agreements with several parties and advanced discussions are continuing with a select group of potential partners interested in returning Kinlytic to the U.S. and Canadian markets, and ultimately to Europe, Asia and developing world markets. There is no assurance the Company will be successful in this endeavour.

LumiSort™ technology

The Company has developed a proprietary semen sexing technology that has a global patent estate. In 2015 the Company successfully completed a prototype instrument that confirms the key patent claims. The Company is currently working to secure a partner within the animal genetics industry to fund the next stage of development, to build a commercial instrument and conduct field trials. There is no assurance the Company will be successful in this endeavour.

Products in development

The Company has several products under development. It is impossible to ensure that these development activities will result in the completion of new commercial products. If the Company is unable to develop and commercialize products, it will be unable to recover the related research and development, and investment.

Product commercialization requires strategic relationships

To commercialize large market products in development, Microbix may need to establish strategic partnerships, joint ventures or licensing relationships with pharmaceutical, biotechnology or animal genetics companies. It is possible the Company may be unable to negotiate mutually acceptable terms.

Operating and capital requirements

Microbix earns a profit on the sale of its Virology Products, which is a major source of funding for its research and development activities. The Company believes that cash generated from operations is sufficient to meet normal operating and capital requirements. However, the Company may need to raise additional funds, from time to time for several reasons including, to advance its current research and development programs, to support various collaboration initiatives with third parties, to underwrite the cost of filing, prosecuting and enforcing patents and other intellectual property rights, to invest in acquisitions, new technologies and new market developments. Additional financing may not be available, and even if available, may not be offered on acceptable terms.

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

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

Failure to obtain and protect intellectual property could adversely affect business

Microbix' future success depends, in part, on its ability to obtain patents, or licenses to patents, maintain trade secret protection and enforce its rights against others. The Company's intellectual property includes trade secrets and know-how that may not be protected by patents. There is no assurance that the Company will be able to protect its trade secrets. To help protect its intellectual property, the Company requires employees, consultants, advisors and collaborators to enter into confidentiality agreements. However, these agreements may not adequately protect trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Protection of intellectual property may also entail prosecuting claims against others who the Company believes are infringing its rights. Involvement in intellectual property litigation could result in significant costs, adversely affecting the development of products or sales of the challenged product, or intellectual property, and divert the efforts of its scientific and management personnel, whether or not such litigation is resolved in the Company's favour.

Microbix will continue to face significant competition

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

FINANCIAL RISK MANAGEMENT

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

Credit risk:

The Company's customers are primarily large multi-national companies with very high quality credit ratings. Given this track record, management perceives the credit risk to be low. Typically the outstanding accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. At September 30, 2016, five customers accounted for 59% (2015 – six for 63%) of the outstanding balance. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $10,000 (2015 - $18,295).

Currency risk:

The Company is exposed to currency risk given its global customer base. Over 90% of its revenue is denominated in either U.S. dollars or Euros. The Company does not use financial instruments to hedge this currency risk. At September 30, 2016, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Cash	5,259	41,015	29	-
Accounts receivable	1,065,198	944,667	674,433	934,864
Accounts payable and accrued liabilities	474,498	554,642	22,451	76,552

The impact of a 5% increase in the Canadian dollar against the US dollar would result in a revenue loss of about 4.7%. The impact of a 5% increase in the Canadian dollar against the Euro would result in a revenue loss of about 5%.

Liquidity risk

Liquidity risk measures the Company's ability to meet its financial obligations when they fall due. To manage this situation, the Company projects and monitors its cash requirements to accommodate changes in liquidity needs.

Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk include those assets and liabilities with a variable interest rate. Exposure to interest rate risk is primarily on the BDC debt that has a variable rate pegged to the bank rate. The rate can be fixed, if the outlook indicates interest rates will move higher. The only other variable debt the Company has is the $600,000 line of credit that bears interest at the bank's prime lending rate plus 2.25%. A 1% increase in the bank rate would cost the Company approximately $30,000 per year for BDC and about $6,000 on the line of credit usage if it were fully used throughout the fiscal year.

Market risk

Market risk reflects changes in pricing for both Virology products and raw materials based on supply and demand criteria; also market forces can affect foreign currency exchange rates as well as interest rates which could affect the Company's financial performance or the value of its financial instruments. Microbix products are valuable components in our customers' products and cannot be easily replaced. The Company works closely with customers to ensure its products meet their specific criteria.

Fair value

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

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

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

CRITICAL ACCOUNTING ESTIMATES

Canadian Funds

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company's audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and the reporting currency is Canadian dollars. On an on-going basis, management bases its estimates on historical and other experience and assumptions, which it believes are reasonable in the circumstances. The significant accounting policies that the Company believes are the most critical in fully understanding and evaluating the reported financial results include:

Intangible Assets

Intangible assets include technology costs, patents, trademarks and licenses. Each is recorded at cost and amortized on a straight-line basis over the term of the agreements.

Intangible assets with indefinite lives are not amortized but are assessed for impairment on an annual basis.

Impairment of Long-lived Assets

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

The impairment loss is calculated as the difference between the fair value of the asset and its carrying value. Management has determined that no long-lived assets of the Company as at September 30, 2016 have met the criteria for impairment.

Non-Convertible and Convertible Debentures

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

Deferred income taxes

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

Share-based payments

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

FINANCIAL INSTRUMENTS

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

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

The fair value of the long-term debt is based on rates currently available for items with similar terms and maturities. The fair value of the liability for each convertible debenture has been calculated and the residual is accounted for in equity.

The Company does not have any off balance sheet financial instruments.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in the National Instrument 52-109 Certification of Disclosure in Issuer's Annual Filings (NI 52-109F1). As at September 30, 2016, management has concluded that the disclosure controls are effective in providing reasonable assurance that information required to be disclosed in the Company's reports is recorded, processed summarized and reported within the time periods specified in the Canadian Securities Administrator's rules and forms.

Internal Controls Over Financial Reporting

The design of internal controls over financial reporting ("ICFR") within the company is a management responsibility to provide reasonable assurance that the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with generally accepted accounting principles of IFRS. While the CEO and CFO believe that the internal controls are adequate to provide the above information, the process to evaluate and document all policies and procedures that could impact financial reporting is continuously reviewed with consultation with the Audit Committee. Shareholders should be aware that Microbix is a small company without the department resources associated with larger firms. Management is using the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). Framework and has concluded that the Internal Control over Financial Reporting ("ICFR") as defined in NI 52-109 is effective as at the period ended September 30, 2016.

Examination by the Chief Executive Officer and the Chief Financial Officer showed that there were no changes to the internal controls over financial reporting during the period ended September 30, 2016 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED

Canadian Funds

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

IAS 1 - Presentation of Financial Statements

IAS 1, Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements.

For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of the financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information presented in the financial disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

IAS 16 and IAS 38 – Property, Plant and Equipment and Intangible Assets

IAS 16 and IAS 38, Property, Plant and Equipment and Intangible Assets were amended by IASB in December 2013. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset are not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

IFRS 9 - Financial Instruments

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

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

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

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

IFRS 15 - Revenue from Contracts with Customers

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

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

IFRS 16, Leases

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

The new standard will be effective for annual periods beginning on or after January 1, 2019. Early recognition is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16. The Company has commenced a review process to assess any impact on its current revenue recognition policies and reporting processes.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Microbix Biosystems Inc.

We have audited the accompanying consolidated financial statements of **Microbix Biosystems Inc.**, which comprise the consolidated statement of financial position as at September 30, 2016, and the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Microbix Biosystems Inc.** as at September 30, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of **Microbix Biosystems Inc.** for the year ended September 30, 2015, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements dated December 31, 2015.

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
December 20, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at September 30, 2016 and 2015 **Canadian Funds**

	2016 **$**	2015 $
ASSETS		
Current Assets		
Cash	5,415	104,180
Accounts receivable (note 24)	2,021,872	1,692,074
Inventory (note 5)	3,395,993	3,625,268
Prepaid expenses and other assets (note 6)	55,541	216,389
Investment tax credit receivable (note 18)	182,398	150,250
Total Current Assets	5,661,219	5,788,161
Long-term Assets		
Deferred tax assets (note 18)	1,130,000	530,000
Property, plant and equipment, net (note 7)	12,251,984	11,867,476
Intangible assets, net (note 8)	6,204,260	5,361,321
Total Long-term Assets	19,586,244	17,758,797
Total Assets	25,247,463	23,546,958
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	1,898,515	2,488,013
Current portion of finance lease obligations	1,647	6,180
Current portion of long-term debt (note 10, 27)	1,069,455	757,430
Current portion of debentures (note 9)	1,595,882	694,284
Deferred revenue	683,494	189,550
Total Current Liabilities	5,248,993	4,135,457
Finance lease obligations	11,012	12,658
Non-convertible debenture (note 9)	635,020	690,062
Convertible debentures (note 9)	1,127,657	1,966,536
Long-term debt (note 10)	2,933,040	3,065,335
Total Long-term Liabilities	4,706,729	5,734,591
Total Liabilities	9,955,722	9,870,048
SHAREHOLDERS' EQUITY		
Share Capital (note 12)	31,299,416	30,990,459
Equity Component Of Convertible Debentures (note 9)	2,351,425	2,351,425
Contributed Surplus (note 13)	4,937,649	4,380,182
Accumulated Deficit	(23,296,749)	(24,045,156)
Total Shareholders' Equity	15,291,741	13,676,910
Total Liabilities & Shareholders' Equity	25,247,463	23,546,958

Commitments and Contingencies (Note 28)
Subsequent Events (Note 29)

William J. Gastle
Director

Vaughn Embro-Pantalony
Director

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended September 30, 2016 and 2015 **Canadian Funds**

	2016 **$**	2015 $
Sales		
Virology products and technologies	9,236,152	8,191,720
Licensing fees (note 11)	-	413,895
Royalties	280,985	268,297
Total Sales	9,517,137	8,873,912
Cost of goods sold		
Virology products and technologies (note 5, 17)	4,474,038	2,980,615
Royalties	63,055	53,724
Total Cost of Goods Sold	4,537,093	3,034,339
Gross Margin	4,980,044	5,839,573
Expenses		
Selling and business development (note 17)	517,023	602,231
General and administrative (note 17)	3,130,367	2,868,592
Research and development (note 17)	493,610	1,277,327
Financial expenses (note 21)	690,637	742,439
Total Expenses	4,831,637	5,490,589
Net Operating Income and Comprehensive Operating Income for the Year	148,407	348,984
Income Taxes		
Deferred income taxes (note 18)	(600,000)	(265,000)
Current income taxes (note 18)	-	-
Net Income and Comprehensive Income for the year	748,407	613,984
Net Comprehensive Income Per Share		
Basic (note 16)	0.009	0.008
Diluted (note 16)	0.009	0.007

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30, 2016 and 2015 | **Canadian Funds**

	2016 **$**	2015 $
OPERATING ACTIVITIES		
Net comprehensive income for the year	748,407	613,984
Items not affecting cash		
Amortization and depreciation (note 17)	413,679	418,423
Accretion of debentures	83,849	110,676
Stock options expense (note 15)	334,750	580,627
Deferred revenue (note 11)	493,944	(223,100)
Deferred tax assets (note 18)	(600,000)	(265,000)
Change in non-cash working capital balances related to operations (note 19)	(561,321)	(640,208)
CASH PROVIDED BY OPERATING ACTIVITIES	913,308	595,402
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (note 7)	(702,580)	(3,438,607)
Additions from internal development of intangible assets (note 8)	(938,546)	(1,403,415)
CASH USED IN INVESTING ACTIVITIES	(1,641,126)	(4,842,022)
FINANCING ACTIVITIES		
Repayments of long-term debt (note 10)	(320,270)	(140,320)
Repayments of debentures (note 9)	(76,171)	(55,338)
Proceeds from finance lease	(6,180)	18,838
Proceeds from equipment loans (note 10)	250,000	865,000
Proceeds from issuance of credit facility (note 10)	50,000	475,000
Proceeds from shareholder loan	200,000	-
Proceeds from exercise of warrants, net of issue costs (note 14)	-	1,738,434
Issue of common shares, net of issue costs	531,674	901,830
CASH PROVIDED BY FINANCING ACTIVITIES	629,053	3,803,444
NET CHANGE IN CASH DURING THE YEAR	(98,765)	(443,176)
CASH - BEGINNING OF YEAR	104,180	547,356
CASH - END OF YEAR	5,415	104,180

Supplementary Cash Flow Information (Note 20)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

As at and for the years ended September 30, 2016 and 2015 **Canadian Funds**

	Share Capital (note 12)					
	Number of Shares	Stated Capital $	Contributed Surplus $	Deficit $	Equity Component of Debenture $	Total Shareholders' Equity $
Balance, September 30, 2014	**75,954,458**	**27,662,112**	**4,487,638**	**(24,659,140)**	**2,351,425**	**9,842,035**
Share issuances pursuant to stock options exercised	2,442,000	1,589,913	(688,083)			901,830
Share issuances pursuant to conversion of warrants	4,807,799	1,738,434				1,738,434
Stock option expense			580,627			580,627
Net comprehensive income for the year				613,984		613,984
Balance, September 30, 2015	**83,204,257**	**30,990,459**	**4,380,182**	**(24,045,156)**	**2,351,425**	**13,676,910**
Share issuances pursuant to private placement	1,500,000	362,069				362,069
Issuance of warrants pursuant to private placement			237,931			237,931
Share issue costs pursuant to private placement		(53,112)	(15,214)			(68,326)
Stock option expense			334,750			334,750
Net comprehensive income for the year				748,407		748,407
Balance, September 30, 2016	**84,704,257**	**31,299,416**	**4,937,649**	**(23,296,749)**	**2,351,425**	**15,291,741**

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF THE BUSINESS

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

The Company operates their Virology Business in its owned manufacturing facility at 265 Watline Avenue, Mississauga, Ontario, which is also the Company's registered office.

2. BASIS OF PREPARATION

The Company's management prepared these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of consolidated financial statements for the years ended September 30, 2016 and 2015. The Board of Directors approved these consolidated financial statements on December 20, 2016.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

There has been no business activity in the subsidiary during the fiscal years ended September 30, 2016, and 2015. All significant intercompany transactions and balances have been eliminated upon consolidation.

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

Key areas of managerial judgements and estimates are as follows:

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

Use of estimates and judgements (Continued)

ii) Internally generated intangible assets:
Management monitors the progress of each internal research and development project. Significant judgment is required to distinguish between the research and development phases. Development costs are recognized as an asset when the following criteria are met: (i) technical feasibility; (ii) management's intention to complete the project; (iii) the ability to use or sell; (iv) the ability to generate future economic benefits; (v) availability of technical and financial resources; and (vi) the ability to measure the expenditures reliably. Research costs are expensed as incurred. Management also monitors whether the recognition requirements for development assets continue to be met and whether there are any indicators that capitalized costs may be impaired. Upon satisfying the recognition requirements for development activities, management assesses the useful life of the long lived assets in addition to assessing for impairment.

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

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

v) Impairment of non-financial assets:
The Company reviews the carrying value of non-financial assets with definite lives for potential impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of non-financial assets with indefinite lives, and of non-financial assets with definite lives but not ready for use, are assessed at least annually for impairment based on the impairment test on cash-generating units (CGUs). The impairment test on CGUs is carried out by comparing the carrying amount of the CGU and its recoverable amount. The recoverable amount of a CGU is the higher of fair value, less costs to sell and its value in use. This complex valuation process entails the use of methods such as the discounted cash method which requires various judgmental assumptions to estimate future cash flows. The recoverable amount is impacted significantly by the discount rate selected to be used in the discounted cash flow model, as well as the quantum and timing of risk-adjusted future cash flows and the growth rate used for the extrapolation. Management has determined that its CGUs are Virology products and related technologies, LumiSort and Kinlytic® (note 25).

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

Revenue Recognition

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

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

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

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

Revenue Recognition (Continued)

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

Cash

Cash consists of cash on hand and deposits with banks and investments in highly liquid instruments with original maturities of three months or less. There are no cash equivalents held as at September 30, 2016 or 2015.

Financial assets and liabilities

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

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

The following summarizes the Company's classification and measurement of financial assets and liabilities:

	Classification	Measurement	2016	2015
			$	$
Financial assets:				
Cash	Held-for-trading	Fair value	5,415	104,180
Accounts receivable	Loans and receivables	Amortized cost	2,021,872	1,692,074
Financial liabilities:				
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	1,898,515	2,488,013
Deferred revenue	Other liabilities	Amortized cost	683,494	189,550
Finance lease obligation	Other liabilities	Amortized cost	12,659	18,838
Non-convertible debentures	Other liabilities	Amortized cost	879,304	934,346
Convertible debentures	Other liabilities	Amortized cost	2,479,255	2,416,536
Long-term-debt	Other liabilities	Amortized cost	4,002,495	3,822,765
Total Financial liabilities			9,955,722	9,870,048

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

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

Inventories

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

Property, plant and equipment

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

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

Property, plant and equipment (Continued)

Depreciation is provided for at the following basis and rates:

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

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

Finance lease obligation

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

Intangible assets

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

Impairment of long-lived assets

An impairment charge is recognized for long-lived assets, including intangible assets with definite lives, when an event or change in circumstances indicates that the assets' carrying value may not be recoverable. The impairment loss is calculated as the difference between the carrying value of the asset and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. Management has determined that no long-lived assets of the Company in the years ended September 30, 2016 and 2015 have met the criteria for impairment.

Share-based compensation

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

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income and comprehensive income, net of any reimbursement.

Foreign currency translation

Each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect on the date the transaction occurs. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate determined by the Bank of Canada as at the year-end date. Exchange gains and losses arising from these transactions are included in the consolidated statement of comprehensive income for the year.

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

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

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

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

Investment tax credits
The Company is entitled to Canadian federal and provincial investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. These credits are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the credits in the foreseeable future.

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED

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

IAS 1 - Presentation of Financial Statements
IAS 1, Presentation of Financial Statements was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements.

For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of the financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information presented in the financial disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

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

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

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

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

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED (Continued)

IFRS 15 - Revenue from Contracts with Customers

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

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

IFRS 16, Leases

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

The new standard will be effective for annual periods beginning on or after January 1, 2019. Early recognition is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16. The Company has commenced a review process to assess any impact on its current revenue recognition policies and reporting processes.

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

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

5. INVENTORIES

Inventories as at September 30, 2016 and 2015 consist of the following:

	2016 $	2015 $
Raw material	253,556	685,332
Work in process	840,249	739,826
Finished goods	2,302,188	2,200,110
	3,395,993	**3,625,268**

During the year ended September 30, 2016, inventories in the amount of $4,474,038 (2015 - $2,980,615) were recognized as an expense through cost of sales. The allowance for inventory impairment as at September 30, 2016 amounted to $30,561 (2015 - $53,597).

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets as at September 30, 2016 amounted to $55,541 (2015 - $216,389) and primarily consist of insurance policy premiums, and in the prior year a contractually-required refundable deposit with a research and development partner, and retainers with the Company's legal counsel.

7. PROPERTY, PLANT, AND EQUIPMENT

Canadian Funds

The freehold land and building have been pledged as security for bank loans under a mortgage (see Notes 9 and 10). Property, plant and equipment consists of:

	Building	Research & development equipment	Other equipment & fixtures	Land	Total
Cost	**$**	**$**	**$**	**$**	**$**
Balance, Oct 1, 2014	4,536,288	3,581,508	3,570,596	800,000	12,488,392
Additions	14,814	2,645,503	778,290	-	3,438,607
Disposals	-	-	-	-	-
Balance, Sept 30, 2015	4,551,102	6,227,011	4,348,886	800,000	15,926,999
Additions	11,281	567,301	123,997	-	702,579
Disposals	-	-	-	-	-
Balance, Sept 30, 2016	4,562,383	6,794,312	4,472,883	800,000	16,629,578
Accumulated depreciation					
Balance, Oct 1, 2014	790,320	501,115	2,445,197	-	3,736,632
Disposals	-	-	-	-	-
Depreciation	152,288	30,162	140,441	-	322,891
Balance, Sept 30, 2015	942,608	531,277	2,585,638	-	4,059,523
Disposals	-	-	-	-	-
Depreciation	152,504	27,822	137,745	-	318,071
Balance, Sept 30, 2016	1,095,112	559,099	2,723,383	-	4,377,594
Net book value					
Balance, October 1, 2014	3,745,968	3,080,393	1,125,399	800,000	8,751,760
Balance, September 30, 2015	3,608,494	5,695,734	1,763,248	800,000	11,867,476
Balance, September 30, 2016	3,467,271	6,235,213	1,749,500	800,000	12,251,984

Included in research and development equipment is $6,004,352 related to assets not yet available for use. Included in this amount is directly attributable interest from borrowings to finance these asset additions of $154,492 (2015 - $135,000). These assets are not yet subject to depreciation.

8. INTANGIBLE ASSETS

Canadian Funds

Intangible assets, which comprise of capitalized development costs, patents and trademarks and licenses are on average depreciated on a straight line basis at the following rates:

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

Intangible assets consist of:

	Capitalized development costs		Patents and trademarks		Licenses	
	LumiSort™	Bioreactor	Kinlytic®	LumiSort™	LumiSort™	Total
	(a)	(c)	(b)	(a)	(a)	
Cost	**$**	**$**	**$**	**$**	**$**	
Balance at October 1, 2014	24,795	-	2,770,529	1,706,525	278,528	4,780,377
Additions from internal developments	5,737	1,062,426	-	335,252	-	1,403,415
Balance at September 30, 2015	**30,532**	**1,062,426**	**2,770,529**	**2,041,777**	**278,528**	**6,183,792**
Additions from internal developments	-	938,547	-	-	-	938,547
Balance at September 30, 2016	**30,532**	**2,000,973**	**2,770,529**	**2,041,777**	**278,528**	**7,122,339**
Accumulated amortization						
Balance at October 1, 2014	**3,769**	-	-	**530,344**	**192,826**	**726,939**
Amortization expense	956	-	-	73,151	21,425	95,532
Balance at September 30, 2015	**4,725**	-	-	**603,495**	**214,251**	**822,471**
Amortization expense	1,032	-	-	73,151	21,425	95,608
Balance at September 30, 2016	**5,757**	-	-	**676,646**	**235,676**	**918,079**
Net book value						
Balance, October 1, 2014	21,026	-	2,770,529	1,176,181	85,702	4,053,438
Balance, September 30, 2015	25,807	1,062,426	2,770,529	1,438,282	64,277	5,361,321
Balance, September 30, 2016	24,775	2,000,973	2,770,529	1,365,131	42,852	6,204,260

a) **Lumisort™**

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

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

b) Kinlytic®

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

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

b) Kinlytic® (Continued)

Management made these assumptions based on probabilities of technical, regulatory and clinical acceptances and financial support. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The discount rate has been determined based on the Company's best estimate of a risk adjusted discount rate.

c) Bioreactor

The Company has internally developed an improved bioreactor production process to increase the efficiency and output of manufacturing certain virology products. As at September 30, 2016, the process development is complete.

9. DEBENTURES

The Company has convertible and non-convertible debentures issued and outstanding as at year-end. The carrying values of the debt component of these debentures are as follows:

Note	(a)	(b)	(c)	(d)	(e)
Date of issue	Jan, 2014	Jan, 2014	Feb, 2007	Oct, 2006	Sep, 2008
Face value	$ 2,000,000	$ 1,500,000	$ 500,000	$ 500,000	$ 2,500,000
Issue costs	$ -	$ 65,559	$ -	$ -	$ -
Liability component at:					
the date of issue	$ 928,373	$ 517,470	$ 388,958	$ 413,320	$ 885,089
the report date	$ 879,304	$ 537,686	$ 492,812	$ 498,786	$ 949,971
Equity component at:					
the date of issue and report date	$ -	$ 916,971	$ 111,042	$ 86,680	$ 1,236,732
Conversion price per common share	$ -	$ 0.35	$ 0.90	$ 0.90	$ 0.65
Effective interest rate charged	25.69%	27.03%	13.00%	12.00%	25.69%
Payment frequency	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Maturity of financial instrument	Jan, 2029	Jan, 2029	Feb, 2017	Oct, 2016	Jan, 2028
Stated interest rate	9%	9%	9%	9%	9%
Terms of repayment	Principal and interest	Interest only	Interest only	Interest only	Interest only
Blended quarterly repayment	$ 61,071	N/A	N/A	N/A	N/A

The debentures denoted as (a), (b), and (e) 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 (c) 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.

9. DEBENTURES (Continued)

Canadian Funds

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 method, as detailed below.

	Non-convertible Debentures				Convertible Debentures	Convertible Debentures Total
Date of issue	Jan, 2014	Jan, 2014	Feb, 2007	Oct, 2006	Sep, 2008	
Proceeds of issue	$2,000,000	$1,500,000	$500,000	$500,000	$2,500,000	
	$	$	$	$	$	$
Balance, October 1, 2014	**924,700**	**521,886**	**459,703**	**472,238**	**917,017**	**2,370,844**
Accretion expense	236,790	141,717	59,591	56,485	237,899	495,692
Repayments	(227,144)	(135,000)	(45,000)	(45,000)	(225,000)	(450,000)
Balance, October 1, 2015	**934,346**	**528,603**	**474,294**	**483,723**	**929,916**	**2,416,536**
Accretion expense	189,574	144,083	63,518	60,063	245,055	512,719
Repayments	(244,616)	(135,000)	(45,000)	(45,000)	(225,000)	(450,000)
Balance, September 30, 2016	**879,304**	**537,686**	**492,812**	**498,786**	**949,971**	**2,479,255**
Less: current portion	244,284	135,000	492,812	498,786	225,000	1,351,598
Non-current portion	$635,020	402,686	-	-	724,971	1,127,657
Note	(a)	(b)	(c)	(d)	(e)	

10. LONG-TERM DEBT

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

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

The long-term debt requires the Company to maintain certain qualitative and quantitative covenants. As at September 30, 2016, the Company was in compliance with these covenants.

The loans are secured with the building and equipment. For loans totalling $3,000,000, consecutive monthly principal payments of $9,260 are due until February 2037 on the outstanding balance of $2,379,820 (September 30, 2015 - $2,490,940). For loans totalling $61,000, consecutive monthly principal payments of $725 are due until February 2017 on the outstanding balance of $3,625 (September 30, 2015 – $12,325).

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

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

For loans totalling $615,000, consecutive monthly principal payments of $10,250 are due until July 2020 on the outstanding balance of $471,500 (September 30, 2015 - $594,500). or loans totalling $50,000, consecutive monthly principal payments of $1,040 are due to December 2019 on the outstanding balance of $40,560 (September 30, 2015 – $50,000). For loans totalling $200,000, consecutive monthly principal payments of $3,330 are due until December 2020 on the outstanding balance of $169,830 (Sept 30, 2015 – $200,000). On October 9, 2015, the Company entered into a loan agreement with BDC for $250,000, monthly principal payments of $4,160 are due until December 22, 2020 on the outstanding balance of $212,160 (Sept 30, 2015 – $Nil).

All BDC loans have a floating interest rate based on BDC's floating base rate plus 0.5%. At September 30, 2016, the floating base rate was 4.7%.

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

	$
2017	340,105
2018	336,480
2019	336,480
2020	306,620
2021	133,590
2022	1,824,220

b) On April 16, 2015, the Company entered into a revolving line of credit agreement with its Canadian chartered bank. The agreement allows the Company to draw on to a limit of $500,000 bearing interest at the bank's prime lending rate plus 2.25%. Accounts receivable and property, plant and equipment are pledged as collateral for the bank credit facility.

As at September 30, 2016, the Canadian chartered bank had provided a $100,000 temporary addition to the line of credit and the Company had drawn on $525,000 of the facility (2015 - $475,000).

c) During the year, the Company issued two outstanding shareholder loans for total proceeds of $200,000. These loans are due for repayment December 31, 2016 and bear interest of 10% per annum.

11. DEFERRED REVENUE

In 2007, the Company entered into an agreement with the Animal Fine Breeding Station (partner) of Hebei Province in China, as the exclusive distributor of Microbix' proprietary Semen Sexing Technology ("SST"). Under the terms of the agreement, the Company had received a non-refundable payment of US$400,000 and will receive an additional payment upon a milestone achievement. Royalty fees and payment for materials will be made with product sales. In 2014, this payment was being accounted for in accordance with its substance and was presented in the consolidated financial statements as deferred revenue on the consolidated statement of financial position.

In 2015 the Company advised the partner that the SST program has been abandoned as the Company has gone in a different direction with the recent completion of its LumiSortTM prototype technology. With SST development permanently cancelled, the non-refundable deposit was recorded in the consolidated statement of comprehensive income during the year ended September 30, 2015.

12. SHARE CAPITAL

Canadian Funds

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 13, 2015 and October 19, 2015 (the "Closing Date"), the Company completed a private placement offering of an aggregate of 1,500,000 units for total gross proceeds of $600,000, net proceeds of $531,674 after share issuance costs of $68,326. 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 $0.55 for five years. (note 14) The financing was non-brokered. An aggregate of 81,550 Finder's Warrants were issued in the private placement offering. Each Finder's Warrant entitles the holder to purchase one unit at a price of $0.46 for a period of five years.

The number of issued and outstanding common shares and the share capital of Microbix as at September 30, 2016 are presented below:

	Number of Shares	Stated Capital ($)
Balance, October 1, 2014	75,954,458	27,662,112
Exercise of warrants	4,807,799	1,738,433
Exercise of stock options	2,442,000	1,589,914
Balance, September 30, 2015	83,204,257	30,990,459
Issued on private placement	1,500,000	308,957
Exercise of warrants	-	-
Exercise of stock options	-	-
Balance, September 30, 2016	84,704,257	31,299,416

13. CONTRIBUTED SURPLUS

Changes in contributed surplus as at September 30, 2016 are described as follows:

	$
Balance, October 1, 2014	4,487,638
Stock options exercised	(688,083)
Stock option expense	580,627
Balance, September 30, 2015	4,380,182
Stock options exercised	-
Issuance of warrants pursuant to private placement	237,931
Share issue costs pursuant to private placement	(15,214)
Stock option expense	334,750
Balance, September 30, 2016	4,937,649

14. COMMON SHARE PURCHASE WARRANTS

Canadian Funds

A continuity of the Company's warrants outstanding as at September 30, 2016 and 2015 is presented in the following table:

	Units	Weighted average exercise price
		$
Outstanding, October 1, 2014	**10,280,641**	**$ 0.46**
Exercised	(4,807,799)	$ 0.36
Expired	(30,000)	$ 0.40
Outstanding, September 30, 2015	**5,442,842**	**$ 0.54**
Issued	1,581,550	$ 0.55
Expired	-	$ -
Outstanding, September 30, 2016	**7,024,392**	**$ 0.54**

Warrants are recorded at the time of the grant for an amount based on the Black-Scholes option pricing model, which is affected by the Company's share price as well as assumptions regarding a number of subjective variables.

A summary of the Company's warrants outstanding as at September 30, 2016 and 2015 is presented in the following table:

	2016			2015		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life
		$	years		$	years
Range of exercise prices:						
$0.55	6,831,313	$ 0.55	3.13	5,249,763	$ 0.55	3.92
$0.24 to $0.40	193,079	$ 0.25	0.02	193,079	$ 0.25	0.17
	7,024,392	$ 0.54	3.13	5,442,842	$ 0.54	3.82

15. STOCK OPTION PLAN

On March 5, 2013, 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 10,000,000 to a maximum of 12,000,000 common shares. Under the plan, the Company has a total of 4,007,000 options issued and pending (2015 – 4,872,000).

The exercise price of each option equals no less that the market price at the date immediately preceding the date of the grant. In general, options issued under the plan vest and are exercisable in equal amounts in two steps, at the issue date and at the anniversary date in the subsequent years of each issuance. Management only expects a nominal amount of stock options to be issued in the year.

15. STOCK OPTION PLAN (Continued) **Canadian Funds**

The activity under the Company's stock option plan for the periods ended September 30, 2016 and 2015 is:

	Units		Weighted average exercise price
			$
Outstanding, October 1, 2014	**4,354,000**	**$**	**0.36**
Issued	3,010,000	$	0.54
Exercised	(2,442,000)	$	0.37
Expired or forfeitted	(50,000)	$	0.35
Outstanding, September 30, 2015	**4,872,000**	**$**	**0.45**
Issued	-	$	-
Exercised	-	$	-
Expired or forfeitted	(865,000)	$	0.37
Outstanding, September 30, 2016	**4,007,000**	**$**	**0.47**
Exercisable, September 30, 2016	**1,668,600**	**$**	**0.37**

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 at September 30, 2016 and 2015:

	2016				2015			
	Number outstanding		Weighted average exercise price	Weighted average remaining contractual life	Number outstanding		Weighted average exercise price	Weighted average remaining contractual life
			$	years			$	years
Range of exercise prices:								
$0.39 to $0.55	2,923,000	$	0.54	2.79	2,985,000	$	0.33	3.09
$0.26 to $0.39	1,084,000	$	0.28	2.10	1,887,000	$	0.32	0.10
	4,007,000	$	0.47	2.60	4,872,000	$	0.45	3.62

The volatility of the stock for the Black-Scholes option pricing model was based on the five year historic volatility of the Company's stock price on the Toronto Stock Exchange. Management believes that the historic stock volatility provides a fair and appropriate basis of estimate for the expected future volatility of the stock. Stock options are assumed to be exercised at the end of the option's life, as management believes the probability of an early exercise is remote. During 2016, the fair value of the options vested in the year were expensed and credited to contributed surplus in the amount of $334,750 (2015 – $580,627).

16. INCOME PER SHARE

Canadian Funds

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:

	2016	2015
Numerator for basic income per share:		
Net income available to common shareholders ($)	$748,407	$613,984
Denominator for basic income per share:		
Weighted average common shares outstanding	84,656,531	80,868,855
Effect of dilutive securities:		
Warrants	20,687	293,822
Stock Options	28,571	984,729
Convertible debentures	-	-
Denominator for diluted income per share	84,705,789	82,147,406
Income per share		
Basic	$0.009	$0.008
Diluted	$0.009	$0.007

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

	2016	2015
Pursuant to warrants	6,831,313	-
Under stock options	3,607,000	-
Pursuant to convertible debentures	9,242,979	7,000,000
	19,681,292	7,000,000

17. EXPENSES BY NATURE

Canadian Funds

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

Depreciation and amortization

	2016	2015
	$	$
Included in:		
Cost of goods sold	290,249	292,729
General and administrative expenses	1,032	956
Reasearch and development expenses	122,398	124,738
Total depreciation and amortization	413,679	418,423

Employee costs

	2016	2015
	$	$
Short-term wages, bonuses and benefits	3,352,076	3,707,140
Share based payments	334,750	580,627
Total employee costs	3,686,826	4,287,767
Included in:		
Cost of goods sold	2,088,639	2,500,247
Research and development expenses	347,081	536,086
General and administrative expenses	878,534	928,248
Selling and business development expenses	372,572	323,186
Total employee costs	3,686,826	4,287,767

18. INCOME TAXES

Income Taxes consist of the following, as at September 30:

	2016	2015
	$	$
Provision based on combined federal and provincial statutory rates of 25.00% (2015 – 26.50%)	37,102	92,481
Increase (decrease) resulting from		
Non deductible expenses	88	402
Stock-based compensation	83,688	153,866
Effect of change in tax rate	205,745	-
Valuation allowance	(789,889)	(894,745)
Other	(136,734)	382,996
Income tax recovery	(600,000)	(265,000)

18. INCOME TAXES (Continued)

Canadian Funds

The Company has unclaimed research and development expenses, research and development investment tax credits and accumulated losses for income tax purposes. Certain of these credits have been recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the credits in the foreseeable future.

The accumulated non-capital losses may be used to reduce taxable income in future years and must be claimed no later than:

	$
2030	352,000
2031	1,145,000
2032	1,223,000
	2,720,000

The significant components of deferred income tax assets are summarized as follows:

	2016	2015
	$	$
Deferred income tax assets:		
Non-capital loss carry-forwards	680,097	930,702
Difference in net book value compared to undepreciated capital cost	535,598	330,406
Deferred revenue	183,325	105,441
Unclaimed research and development expenditures	3,664,086	3,926,246
Deferred income tax liability related to debentures	(862,484)	(955,460)
Tax assets not recognized	(4,200,622)	(4,337,335)
Deferred tax asset	-	-

The unclaimed research and development investment tax credits may be carried forward and used to reduce federal income taxes. These must be claimed no later than:

	$
2023	100,000
2024	149,000
2025	303,000
2026	293,000
2027	304,000
2028	395,000
2029	175,000
2030	220,000
2031	170,000
2032	123,100
2033	107,300
2034	132,000
2035	96,000
2036	60,000
	2,627,400

18. INCOME TAXES (Continued)

Canadian Funds

The associated tax benefits relating to the unclaimed credits are as follows:

	2016	2015
	$	$
Unclaimed research and development tax credits	2,120,578	2,133,674
Tax assets not recognized	(990,578)	(1,603,674)
Deferred tax assets related to investment tax credits	1,130,000	530,000

19. CHANGES IN NON-CASH WORKING CAPITAL

	2016	2015
	$	$
Accounts receivable	(329,798)	449,434
Inventory	229,275	(2,026,839)
Prepaid expenses and other assets	160,848	281,422
Investment tax credits receivable	(32,148)	(6,624)
Accounts payable and accrued liabilities	(589,498)	662,399
	(561,321)	(640,208)

20. SUPPLEMENTARY CASH FLOW INFORMATION

	2016	2015
	$	$
Cash paid for interest	838,597	771,424
Non-cash investing and financing activities:		
Fees for equity placements	-	-
Purchase of assets under capital leases	7,476	15,876

21. FINANCIAL EXPENSES

	2016	2015
	$	$
Cash interest:		
Interest on long-term debt	132,799	142,717
Interest on debentures	463,955	488,682
Interest other	10,650	3,149
Interest income	(616)	(2,785)
Non-cash interest:		
Accretion on debentures	83,849	110,676
Financial expenses	**690,637**	**742,439**

22. CAPITAL MANAGEMENT

The Company's capital management objective is to safeguard its ability to function as a going concern to maintain its virology operations and to fund its development activities. Microbix defines its capital to include the revolving line of credit, shareholders' equity, the BDC capital loans, and the debentures. The capital at September 30, 2016 amounted to $22,328,085 (2015 - $20,423,853).

To date, the Company has used common equity issues, debentures, a 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 BDC. If possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including investment tax credits, grants and interest income. The Company has a revolving line of credit of $600,000 with its Canadian chartered bank (see Note 10).

22. CAPITAL MANAGEMENT (Continued)

Canadian Funds

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

23. FINANCIAL INSTRUMENTS

Fair value

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 2016 and 2015 fiscal periods, the Company has carried at fair value financial instruments in Level 1. At September 30, 2016, the Company's only financial instrument measured at fair value is cash, which is considered to be a Level 1 instrument. There were no transfers between levels during the year.

The three levels are defined as follows:

a) Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.

b) 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

c) 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)
		$	$	$
Assets measured at fair value:				
Cash	30-Sep-16	5,415	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Sep-16	-	-	879,304
Convertible debentures	30-Sep-16	-	-	2,479,255
Long-term-debt	30-Sep-16	-	4,002,495	-

	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-15	104,180	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Sep-15	-	-	934,346
Convertible debentures	30-Sep-15	-	-	2,416,536
Long-term-debt	30-Sep-15	-	3822765	-

23. FINANCIAL INSTRUMENTS (Continued) **Canadian Funds**

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

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

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

24. 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. There is a concentration of accounts receivable risk due to the few large customers comprising the Company's international customer base. In fiscal 2016, five customers account for 59% (2015 - six customers account for 63%) of revenue. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance for doubtful accounts of $10,000 (2015 - $18,295).

Trade accounts receivable are aged as follows as at September 30:

	2016	2015
	$	$
Current	1,649,260	1,424,128
0 - 30 days past due	96,390	7,715
31 - 60 days past due	276,222	505
61 days and over past due	-	259,726
	2,021,872	1,692,074

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 September 30 the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	2016	2015	2016	2015
	$	$	$	$
Cash	5,259	41,015	29	-
Accounts receivable	1,065,198	944,667	674,433	934,864
Accounts payable and accrued liabilities	474,498	554,642	22,451	76,552

Market risk and foreign currency risk **(Continued)**

Market risk is the risk that changes in product prices based on supply and demand criteria, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments held. Microbix products are valuable components in many of our customers' products and not easily replaced. The Company works closely with key customers to ensure our products meet critical customer results.

The Company's percentage of revenue and expenses by foreign currency for the years ended September 30, 2016 and 2015 are as follows:

	2016	2015
Revenue		
European Euro	39%	45%
U.S. dollars	56%	50%
Expenses		
U.S. dollars	13%	34%

The impact of a 5% increase in the Canadian dollar against the US dollar would result in a revenue loss of about 4.7%. The impact of a 5% increase in the Canadian dollar against the Euro would result in a revenue loss of about 5%.

Liquidity risk

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

Interest rate risk

Financial instruments that potentially subject the Company to cash flow interest rate risk are those assets and liabilities with a variable interest rate. Interest rate risk exposure is primarily on the BDC debt that has a variable rate that is pegged to the bank rate. The rate can be fixed at the Company's option, if the outlook for interest rates should move higher. The only other variable debt the Company has is the $600,000 line of credit that bears interest at the bank's prime lending rate plus 2.25%. A 1% increase in the bank rate would cost the Company approximately $30,000 per year for BDC and about $6,000 on the line of credit usage if it were fully used throughout the fiscal year.

25. SEGMENTED INFORMATION

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

	Segment revenue		Segment profit	
	2016	2015	2016	2015
	$	$	$	$
Virology products and technologies	9,517,137	8,873,912	748,407	613,984
Lumisort ™	-	-	-	-
Kinlytic®	-	-	-	-
Total for continuing operations	9,517,137	8,873,912	748,407	613,984

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2015 - $Nil).

25. SEGMENTED INFORMATION (Continued)

Canadian Funds

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 3. Segment profit represents the profit, after income tax. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

	Segment assets		Segment liabilities	
	2016	2015	2016	2015
	$	$	$	$
Virology Products and Technologies	12,733,028	13,254,452	9,955,722	9,066,596
Lumisort ™	8,613,906	6,991,978	-	803,452
Kinlytic®	2,770,529	2,770,528	-	-
	24,117,463	23,016,958	9,955,722	9,870,048

All assets are allocated to reportable segments other than current and deferred tax assets. Assets used jointly by reportable segments are allocated on the basis of the revenue 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.

	Depreciation and amortization		Additions to non-current assets	
	2016	2015	2016	2015
	$	$	$	$
Virology Products and Technologies	319,103	322,864	1,073,825	1,752,284
Lumisort ™	94,576	95,559	567,301	3,089,738
Kinlytic®	-	-	-	-
	413,679	418,423	1,641,126	4,842,022

26. GEOGRAPHIC INFORMATION

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

	Revenue from external customers		Non-current assets	
	2016	2015	2016	2015
	$	$	$	$
North America	3,496,147	3,138,875	19,586,244	17,758,797
Europe	5,283,841	5,100,407	-	-
Other foreign countries	737,149	634,630	-	-
	9,517,137	8,873,912	19,586,244	17,758,797

27. 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 three executive officers. Compensation for the Company's key management personnel was as follows:

	2016	2015
	$	$ (Restated)
Short-term wages, bonuses and benefits	796,880	796,880
Share based payments	236,329	409,910
Total key management compensation	1,033,209	1,206,790

The Company has issued and outstanding debentures with two shareholders of the Company (see note 9). During the year the Company issued two outstanding shareholder loans for total proceeds of $200,000. These loans are due for repayment December 31, 2016 and bear interest of 10% per annum.

28. COMMITMENTS AND CONTINGENCIES

Lease commitments

	$
2017	41,152
2018	7,062
2019	3,096
2020	-
2021	-
	51,850

Minimum annual payments on convertible and non-convertible debentures (see Note 9)

	$
2017	1,626,742
2018	604,242
2019	604,242
2020	604,242
2021 and thereafter	8,944,891
	12,384,359

Contingencies

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

29. SUBSEQUENT EVENTS

1) On December 12, 2016, the Company announced that it has arranged a new secured revolving credit facility of $1,000,000 jointly with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The new credit facility will be used for general corporate purposes, including the execution of the Company's overall growth strategy.

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

   The largest debenture holder has two convertible debentures; a $2,500,000 debenture maturing in 2028 that was originally convertible at $0.65 per common share, and a $1,500,000 debenture maturing in 2029 that was originally convertible at $0.35 per common share. The conversion price for both of these debentures has been amended to $0.23 per common share, and these debentures are now subject to restricted conversion privileges of a combined total of 1 million shares per year for the next five years, with the remaining balances being eligible for conversion through the end of their expiry dates in 2028 and 2029, respectively.

   The second debenture holder has two convertible debentures of $500,000 each, both originally convertible at $0.90 per common share and maturing on October 12, 2016 and February 15, 2017, respectively. Terms of these debentures have also been amended. The October debenture now matures on April 30, 2017 and it becomes non-convertible, and the stated interest rate increases from 9% to 12% for the remaining term. The February debenture maturity date has been extended to February 15, 2022, and the conversion price has been revised to $0.23 per common share. In addition, the second debenture holder has received 1.5 million common share purchase warrants, with an exercise price of $0.23 per common share and a term of five years.

   The convertible debenture amendments and the issuance of warrants has been approved by the Toronto Stock Exchange.

   The Company is currently assessing the impact of the new revolving credit facility and amended terms to the Company's convertible debentures on the measurement of the Company's financial liabilities.

2) On October 5, 2016, Zeptometrix Corporation filed a statement of claim against Microbix in Canadian Federal Court alleging infringement of its Canadian patent. Microbix is defending the allegation maintaining it does not infringe this patent.

30. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2016 consolidated financial statements.

DIRECTORS

Peter M. Blecher
Ontario, Canada
Staff Emergency Physician
Lakeridge Health Hospital

Mark A. Cochran
Virginia, USA
Managing Director
Johns Hopkins Medicine

Vaughn C. Embro-Pantalony [(1) (2)]
Ontario, Canada
Chief Executive Officer and President
Microbix Biosystems Inc.

William J. Gastle [(1) (2)]
Ontario, Canada
Executive Chairman
Microbix Biosystems Inc.

Cameron Groome [(1)]
Ontario, Canada
Pharmaceutical Executive

Martin A. Marino [(1) (2)]
Ontario, Canada
Pharmaceutical Executive

Joseph D. Renner [(1) (2)]
New Jersey, USA
Pharmaceutical Executive

[(1)] *Member of Audit Committee.*
[(2)] *Member of the Human Resources, Compensation and Governance Committee.*

CORPORATE INFORMATION

Corporate Counsel — *Boyle & Co. LLP*

Auditors — *Ernst Young LLP*
Chartered Accountants

Transfer Agent — *Canadian Stock Transfer Company Inc.*
as the Administrative Agent for
CIBC Mellon Trust Company
416-682-3860   1-800-387-0825

Bankers — *The Toronto Dominion Bank*

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NOTICE OF ANNUAL MEETING

The Annual Meeting of the Shareholders will be held at the University Club, 380 University Avenue, Toronto, Ontario on Wednesday, March 8, 2017 at 1:00 PM.

ANNUAL REPORT

Additional copies of the Company's 2016 Annual Report are available by contacting Microbix' head office.

SENIOR MANAGEMENT

William J. Gastle
Executive Chairman

Vaughn C. Embro-Pantalony
President and Chief Executive Officer

Charles S. Wallace
Chief Finanical Officer

Dr. Mark Luscher
Senior Vice-President, Scientific Affairs

Phillip Casselli
Senior Vice-President, Sales & Business Development

Kevin J. Cassidy
Vice President, Biopharmaceuticals

Christopher B. Lobb
General Counsel & Secretary

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