MICROBIX BIOSYSTEMS INC.

ANNUAL REPORT 2017

MICROBIX

Message to Shareholders

Fiscal 2017 proved to be a year of both achievements and challenges for Microbix, with it finishing the year poised for strong results and accelerating success in 2018.

Important achievements for the year included revenues of over $10 million – another new record. Of even greater importance, Microbix has positioned to capture growth in antigen product demand by completing validation of its state-of-the-art bioreactor process and expanding its overall production capacity. With two important customer contracts executed in the year and demand growth across its broader customer base, Microbix is now well-positioned for sustained double-digit sales growth and consistent profitability.

The emerging product line for helping diagnostics industry participants meet quality assurance objectives also advanced in 2017. One sub-category of such products already represents 10% of total sales, a proportion that Microbix aims to grow. Work is ongoing to achieve sales growth objectives, including the development of new products, upgrading of quality systems and relating to intellectual property.

Progress was also made with Microbix' two major development projects - Kinlytic® urokinase for clearing blood clots and LumiSort™ cell-sorting technology.

For Kinlytic, an important consultation was undertaken with FDA to clarify the path to return the product to the United States market. From there, detailed 3rd party costing has been completed to support partnering of the project in 2018.

For LumiSort, the dynamics of the livestock sex-selection market have been challenging, with the incumbent and its largest customer suing each other. In that environment, LumiSort partnering discussions continue, but Microbix is proceeding cautiously. In 2017, new LumiSort IP issued in multiple nations and for 2018 Microbix will continue to pursue commercialization options and more fully explore potential human health applications of its cell-sorting technology.

Discussion of fiscal 2017 cannot ignore the challenges that arose during the year. While non-recurring in nature, such challenges negatively impacted Microbix' financial results. Several matters impacted cash flow, such as legal disputes, a production issue and management transitions, that when combined increased costs by $1.7 million and reduced revenues by $0.6 million. In addition, a non-cash debt-restructuring expense resulted in a further charge of $2.5 million. While Microbix recorded a net loss for 2017, backing-out such non-recurring items reveals a clearer picture of results.

For fiscal 2018, Microbix expects continuing growth in sales of its antigens and quality products, with positive net earnings and no apparent headwinds. Success with partnering of Kinlytic or LumiSort would further add to such value creation and is very much targeted. Our team is therefore optimistic about the prospects for Microbix.

Personally and on behalf of all my colleagues, I thank you for your continuing support and wish you the best for 2018.

Cameron L. Groome
Chief Executive Officer and President

The Company's Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited Consolidated Financial Statements, and notes for the year ended September 30, 2017, 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 19, 2017.

COMPANY OVERVIEW

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX) develops biological products and technologies. The Company has viral and bacterial 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® Urokinase, an FDA regulated human thrombolytic drug, and is developing LumiSort™, a technology platform for ultra-rapid and efficient sorting of somatic cells that can be used to enrich cell populations of interest, such as in sexing semen.

Revenue from the Virology business is expected to continue growing for the foreseeable future with this growth recently accelerating as certain public health tests are starting to be adopted in the Asia Pacific region. The Virology business is targeted to provide free cash flow to cover operating and debt service costs, and funding for business initiatives that leverage this expertise and are related to this field.

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, Mississauga, Ontario.

FINANCIAL OVERVIEW **Canadian Funds**

Year Ending September 30, 2017

Total revenue was $10,185,798, a 7% increase over 2016's revenue of $9,517,137. Included was Virology product revenue of $9,891,859, 7% higher than 2016, with the growth due to increased sales to long standing customers. Revenue from royalties were up slightly at $293,939 (2016 - $280,985).

Gross margins of 47% (2016 – 52%) decreased by $167,671 versus 2016, due to changes in the product mix and in large part to a production processing issue in the second half of fiscal 2017

Expenses in 2017 increased by $4,210,824 compared to last year. This was primarily due to non-recurring costs related to (1) a non-cash adjustment of $2,457,014 to restructure the Company's convertible debentures as part of a debt refinancing initiative that was necessary in order to implement an enhanced revolving credit facility for the Company, (2) the settlement of a dispute with the buyer of the Company's WFI business in 2012 in the amount of $273,540 and (3) last year the Company capitalized $850,947 more internal development costs, related to the new bioreactor manufacturing process. In addition, the Company incurred $687,795 more in legal costs than last year, the majority of which were non-recurring legal costs related to a lawsuit that was resolved to our satisfaction at the end of fiscal 2017.

As a result, the Company experienced a net loss for the year of $3,780,088 (2016 – $748,407 net profit). After these non-recurring costs, the net operating loss before debt restructuring and WFI settlement expenses was $1,499,534 for the year compared to a net operating profit of $148,407 last year.

Cash generated from operations in this period was $297,047 compared to $913,308 in 2016. Cash used in investing activities was $640,750 (2016 - $1,641,126), due to decreased spending on capital equipment and internal development of intangible assets. Cash generated from financing activities was $392,748 (2016 - $629,053), primarily due to no issuance of common shares this fiscal year vs. prior year. Net change in cash for the year was $49,045 in 2017 (2016 - $98,765 negative).

Three Months Ending September 30, 2017

Total revenues for the quarter were $2,813,282, down 19% versus Q4 of 2016 revenues of $3,470,580. Included was Virology product revenue of $2,719,619, down 20% versus Q4 2016, due to higher than normal sales to a key customer in Q4 2016. Approximately $0.6 million of this decrease in Virology sales was due to a product shipment delay past year end. Revenue from royalties were $93,662 (2016 - $58,314).

Gross margins of 39% (2016 – 54%) decreased by $1,047,492 versus Q4 2016, primarily due to decreased sales as a result of production processing issues and resulting delay in product shipments in the second half of 2017. Operating expenses increased by $518,350 compared to the fourth quarter last year. This was primarily due to higher legal costs versus last year and increased stock option expenses.

In total, the Company experienced a net loss for the period of $1,009,911 (2016 – $862,930 net profit).

Cash used in operations in this quarter was $447,812 compared to cash provided of $367,235 in Q4 2016, due to higher deferred revenue from key customers in the same period last year. Cash used in investing activities was ($26,157) (2016 - $267,276), due to decreased spending on internal development of intangible assets and purchase of equipment. Cash provided by financing activities was $312,168 (2016 – $99,633), primarily due to proceeds from our bank credit facility offset by debt and debenture payments. Net change in cash was ($109,486) in the fourth quarter of 2017 (2016 - $325).

CHANGES IN FINANCIAL POSITION

Canadian Funds

	2017	2016
Total Revenue	**$10,185,798**	**$9,517,137**
Gross Margin	**4,812,373**	**4,980,044**
S,G&A Expenses	**4,392,734**	**3,647,390**
R&D Expense	**994,584**	**493,610**
Financial Expenses	**924,589**	**690,637**
Net Operating Income (Loss) (Before Debt Restructuring and Settlement Costs)	**(1,499,534)**	**148,407**
Cash Provided by Operating Activities	**297,047**	**913,308**
Cash	**54,460**	**5,415**
Accounts receivable	**1,337,488**	**2,021,872**
Total current assets	**6,161,837**	**5,661,219**
Total assets	**26,437,611**	**25,247,463**
Total current liabilities	**6,516,249**	**5,248,993**
Total liabilities	**11,262,928**	**9,955,722**
Total shareholders' equity	**15,174,683**	**15,291,741**
Current ratio	**0.95**	**1.08**
Debt to equity ratio	**0.74**	**0.65**

SELECTED QUARTERLY FINANCIAL INFORMATION

	Dec-31-15 $	Mar-31-16 $	Jun-30-16 $	Sep-30-16 $	Dec-31-16 $	Mar-31-17 $	Jun-30-17 $	Sep-30-17 $
Sales	**1,063,405**	**2,729,779**	**2,253,373**	**3,470,580**	**1,952,502**	**2,646,649**	**2,773,365**	**2,813,282**
Operating Income (Loss)	**(428,420)**	**161,979**	**(141,082)**	**555,930**	**(3,366,472)**	**107,649**	**38,646**	**(1,009,911)**
Operating Income (Loss), before Debt restructuring and settlement costs	**(428,420)**	**161,979**	**(141,082)**	**555,930**	**(525,406)**	**107,649**	**(164,104)**	**(917,673)**

OUTLOOK

Microbix' business of producing high quality viral and bacterial antigens is the result of nearly three decades of experience in the field, including strain selection, culturing organisms reliably and at scale, purification of biomass and methods of inactivation. As a result of Microbix' expertise and manufacturing capabilities, its products have received widespread and longstanding customer acceptance, with continuing growth in demand. More recently, growth in demand for its products has been accelerating – as a number of diagnostics for infectious diseases important to public health are beginning to be adopted in the Asia-Pacific region.

Microbix is reinvesting in its business to help ensure that it can meet this growth in demand. Such work includes upgrading its manufacturing technologies, processes and capacity, along with developing and launching new diagnostics-oriented products.

Based on order projections from its customers, management expects sales of viral and bacterial antigens will continue to grow for the foreseeable future. Accordingly, the company is increasing its production – by way of expanding the capacity to make antigen using bioreactors, reallocating its roller-bottle antigen production space and improving in-process controls and downstream production methods. It is intended that these steps increase the revenue potential of current production facilities while also improving margins. As a result of these efforts, management expects to grow sales and improve profitability.

OUTLOOK (Continued) **Canadian Funds**

An emerging product line involves the development and sale of products that assist diagnostics industry participants with meeting quality assurance objectives or requirements – broadly characterized as quality assurance products. Some such products are currently being sold, with more in development. The regulatory requirements of this category of products are dependent on their intended usages and Microbix plans to upgrade its quality systems to meet the highest such requirements – to enable it to realize the full scope of such opportunities. At present, such products comprise approximately 10% of annual sales, with that proportion expected to increase.

Microbix has two sizeable development projects that, to date, have not generated revenues from product sales – Kinlytic® urokinase (Kinlytic) and LumiSort™ cell-sorting technology (LumiSort). In 2017, management has determined that full realization of the value of these assets will best be accomplished by partnering both projects, as opposed to funding them with Company resources. Management is of the opinion that both projects were meaningfully advanced over the course of the year.

For Kinlytic, a consultation was undertaken with FDA about Microbix' specific manufacturing, clinical and regulatory plans for the re-introduction of the product into the U.S. market. Management believes that the formal feedback received from FDA clarifies important questions about Kinlytic's return to market and greatly de-risks the project. Following the FDA consultation, Microbix has obtained third-party quotations for the key elements of its re-introduction plan and will shortly begin partnering outreaches for this project as a "bolt-on" for larger entities with the appropriate qualifications. It is management's objective to secure an alliance that fully funds the Kinlytic project in fiscal 2018, thereby securing near and longer term financial benefits to Microbix.

For LumiSort, Microbix has been navigating a contentious market dynamic in the livestock genetics industry – where the incumbent sex-selection provider and its largest customer are in litigation. Partnering discussions are ongoing for this asset, but Microbix is being appropriately cautious in light of this environment. Our actions have been focused upon ensuring national-level issuances of Microbix' latest cell-sorting patent and on staying fully-apprised of market developments. For fiscal 2018, Microbix will continue to pursue commercialization options in the field of livestock sex-selection and also more fully explore potential human health applications of its cell-sorting innovations.

To summarize, management believes the outlook for Microbix' antigens and controls business is positive and that increased sales, margins and profits are likely from those operations. In turn, Microbix is working to realize value from its Kinlytic and LumiSort development projects via successful partnering.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

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 $27,076,837 as at September 30, 2017. 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 adequately capitalized.

Future Liquidity and Capital Needs

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

In fiscal 2018 cash flow is expected to improve due to: 1) continued growth in Virology sales, 2) improvements in product pricing and other sales terms, 3) commencement of sales of higher margin product from the Company's bioreactor production process, and 4) other business development and financial initiatives. Management expects these developments will significantly improve the Company's overall liquidity position in fiscal 2018.

Contractual Obligations

New Distribution Agreement
On January 12, 2017 Microbix signed a distribution agreement with Meridian Life Science, Inc. Under the terms of the Agreement, Meridian will receive exclusive distribution rights to Microbix' branded antigen products for China, Hong Kong, Taiwan and Macau. Additionally, Microbix will also provide bulk-finished product to Meridian to be sold under Meridian-label to customers in the Asia Pacific region. Both companies will explore additional collaboration opportunities in the future.

The relationship will enable Microbix to leverage its expanding manufacturing capacity and Meridian's substantial commercial presence to better serve the region's diagnostic customers. Overall, the distribution collaboration is expected to significantly expand the business relationship between the two companies, and serve as a platform for the continued growth and expansion of their respective products and services.

Expanded Customer Agreement
On August 8, 2017 Microbix announced the execution of an expanded customer supply agreement. Under the agreement, Microbix will supply an existing long-term customer with an increasing quantity of viral antigen products over the next five years, with the parties having the option to extend that term. Sales from the agreement are expected to total $25 million, with approximately $10 million to be incremental business.

The agreement is with a major global diagnostics company with growing sales of infectious disease tests that require more antigen supply. The parties' obligations under the agreement are those customary for the supply and purchase of biological materials and its renewal and expansion provides Microbix with a secure base of business and underpins its decision to increase its production by expanding bioreactor capacity and other measures.

Settlement of Disputes

On December 30, 2016 Microbix reached a final settlement with Irvine Scientific Inc. over a dispute related to the sale of the Company's Water-for-Injection business to Irvine in December 2012. Microbix has agreed to pay Irvine (U.S.) $192,500 in three installments as follows -

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

As of the end of this quarter, all financial obligations relating to this settlement have been completed.

On October 11, 2017 Microbix announced the court approval of a legal dispute settlement with Zeptometrix Corporation, with the latter party's claims of patent infringement being withdrawn. The withdrawal of the lawsuit was 'with prejudice', following a settlement agreement between the parties that was to Microbix' satisfaction.

Outstanding Share Capital

Share capital issued and outstanding as at September 30, 2017 was $31,299,416 for 84,704,257 common shares, unchanged from September 30, 2016.

SUBSEQUENT EVENTS

Canadian Funds

On October 18, 2017 and October 26, 2017 (the "Closing Date"), the Company completed a private placement offering of an aggregate of 11,666,633 units for total gross proceeds of $3,499,990, net proceeds of $3,201,997 after share issuance costs of $297,993. Each unit consists of one common share of Microbix and one half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $0.36 for three years. The financing was brokered. Cash commissions of $299,784 were paid and an aggregate of 755,764 Broker's Warrants were issued in the private placement offering. Each Broker's Warrant entitles the holder to purchase one unit at a price of $0.335 for a period of two years. All securities issued under the private placement will be subject to a hold period expiring four months and one day from the date of closing.

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 19, 2017.

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 contribute a significant share of the revenue. 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 in 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® Urokinase

The Company is undertaking to return Kinlytic to the U.S. market and intends to do so by way of partnering with third parties. There is no assurance the Company will be successful in this endeavour.

LumiSort™ technology

The Company has developed a proprietary technology platform for ultra-rapid and efficient sorting of somatic cells that can be used to enrich cell populations of interest, such as in sexing semen, which includes 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 positive gross margins on the sale of its Virology Products, which are 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 on 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 resources and general capabilities in the areas of scientific and product development, legal review, manufacturing, sales and marketing, and financial support than Microbix. While the Company continues to expand its technological, commercial, legal and financial capabilities in order to remain competitive, Microbix' competitors are likely also making significant investments in these areas, which could make it more difficult for Microbix to commercialize its products and technologies.

FINANCIAL RISK MANAGEMENT

Canadian Funds

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, 2017, five customers accounted for 63% (2016 – five for 59%) 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 (2016 - $10,000).

Currency risk:

The Company is exposed to currency fluctuations given its global customer base. Over 95% of its revenue is denominated in either U.S. dollars or Euros, while the majority of its costs are denominated in Canadian dollars. The Company does not use financial instruments to hedge this currency risk. At September 30, 2017, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	2017	2016	2017	2016
Cash	$ 52,902	$ 5,259	$ 5	$ 29
Accounts receivable	458,941	1,065,198	413,117	647,433
Accounts payable and accrued liabilities	$ 406,000	$ 474,498	$ 11,987	$ 22,451

The impact of a 5% increase in the U.S. dollar against the Canadian dollar would result in an increase in annual U.S. dollar based revenue of about $284,600 Cdn. The impact of a 5% increase in the Euro against the Canadian dollar would result in an increase in annual Euro based revenue of about $201,800. Correspondingly, the impact of a 5% decrease in the U.S. dollar against the Canadian dollar would result in a loss in annual U.S. dollar based revenue of about $284,600 Cdn. The impact of a 5% decrease in the Euro against the Canadian dollar would result in a loss in annual Euro-based revenue of about $201,800.

Liquidity risk

Liquidity risk measures the Company's ability to meet its financial obligations when they fall due. To manage this situation, the Company projects and monitors its cash requirements to accommodate changes in liquidity needs. During the first quarter the Company implemented a new secured revolving credit facility with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The new credit facility is being used to fund the Company's need for working capital to grow its existing business. Management expects this new facility will help satisfy the Company's liquidity needs and manage the liquidity risk going forward.

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 applies primarily to 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 $1,500,000 line of credit that bears interest at the bank's prime lending rate plus 2.25%. A 1% increase in the bank rate would cost the Company approximately $30,000 per year for BDC and about $15,000 on the line of credit usage if it were fully used throughout the fiscal year.

Market risk

Market risk reflects changes in pricing for both Virology products and raw materials based on supply and demand criteria. 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 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

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, 2017 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.

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, 2017, 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

Internal Controls Over Financial Reporting (Continued)

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, 2017.

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, 2017 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED

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

IFRS 9 - Financial Instruments

IFRS 9, Financial Instruments 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 and 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 Programs, 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 not yet determined the impact on its consolidated financial statements.

IFRS 2, Share-based Payment ("IFRS 2")

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled. The effective date for this standard is for reporting periods beginning on or after January 1, 2018, with earlier application permitted. The Company has completed the review process to assess the impact and application of the aforementioned amendments and has determined it will have no impact on the Company.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

In 2016, the IASB issued IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration ("IFRIC 22") which provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. On initial application, entities have the option to apply either retrospectively or prospectively. The Company is in the process of evaluating the impact of adopting these amendments on the Company's consolidated financial statements.

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 statements of financial position as at September 30, 2017 and 2016, and the consolidated statements of (loss) income and comprehensive (loss) income, changes in shareholders' equity and cash flows for the years 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 audits. We conducted our audits 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 audits 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
December 19, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at September 30, 2017 and 2016 **Canadian Funds**

	2017	2016
ASSETS		
Current Assets		
Cash	$ 54,460	$ 5,415
Accounts receivable	1,337,488	2,021,872
Inventory (Note 5)	4,467,106	3,395,993
Prepaid expenses and other assets (Note 6)	152,989	55,541
Investment tax credit receivable (Note 18)	149,794	182,398
Total Current Assets	6,161,837	5,661,219
Long-term Assets		
Deferred tax assets (Note 18)	1,580,000	1,130,000
Property, plant and equipment, net (Note 7)	12,211,770	12,251,984
Intangible assets, net (Note 8)	6,484,004	6,204,260
Total Long-term Assets	20,275,774	19,586,244
Total Assets	$ 26,437,611	$ 25,247,463
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 2,841,950	$ 1,898,515
Current portion of finance lease obligations	23,070	1,647
Current portion of long-term debt (Note 10, 27)	1,891,480	1,069,455
Current portion of debentures (Note 9)	614,563	1,595,882
Deferred revenue (Note 11)	1,145,185	683,494
Total Current Liabilities	6,516,249	5,248,993
Finance lease obligations	74,327	11,012
Non-convertible debenture (Note 9)	802,819	635,020
Convertible debentures (Note 9)	1,268,623	1,127,657
Long-term debt (Note 10)	2,600,910	2,933,040
Total Long-term Liabilities	4,746,679	4,706,729
Total Liabilities	$ 11,262,928	$ 9,955,722
SHAREHOLDERS' EQUITY		
Share Capital (Note 12)	$ 31,299,416	$ 31,299,416
Equity Component Of Convertible Debentures (Note 9)	2,903,789	2,351,425
Contributed Surplus (Note 13)	8,048,315	4,937,649
Accumulated Deficit	(27,076,837)	(23,296,749)
Total Shareholders' Equity	$ 15,174,683	$ 15,291,741
Total Liabilities & Shareholders' Equity	$ 26,437,611	$ 25,247,463

Commitments and Contingencies (Note 27)
Subsequent Events (Note 29)

On behalf of the Board:

(Signed) "William J. Gastle"
William J. Gastle
Director

(Signed) "Cameron L. Groome"
Cameron L. Groome
Director

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

For the year ended September 30, 2017 and 2016 **Canadian Funds**

	2017	2016
SALES		
Virology products and technologies	$ 9,891,859	$ 9,236,152
Royalties	293,939	280,985
TOTAL SALES	10,185,798	9,517,137
COST OF GOODS SOLD		
Virology products and technologies (Note 5, 17)	5,287,781	4,474,038
Royalties	85,644	63,055
TOTAL COST OF GOODS SOLD	5,373,425	4,537,093
GROSS MARGIN	4,812,373	4,980,044
EXPENSES		
Selling and business development	464,909	517,023
General and administrative	3,927,825	3,130,367
Research and development	994,584	493,610
Financial expenses (Note 20)	924,589	690,637
OPERATING INCOME (LOSS) BEFORE DEBT RESTRUCTURING AND SETTLEMENT EXPENSES	(1,499,534)	148,407
Debt restructuring expense (Note 9)	2,457,014	-
Settlement expense (Note 28)	273,540	-
OPERATING INCOME (LOSS) FOR THE YEAR, BEFORE INCOME TAXES	(4,230,088)	148,407
INCOME TAXES		
Deferred income taxes (Note 18)	(450,000)	(600,000)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ (3,780,088)	$ 748,407
NET COMPREHENSIVE INCOME (LOSS) PER SHARE		
Basic (Note 16)	$ (0.045)	$ 0.009
Diluted (Note 16)	$ (0.045)	$ 0.009

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended September 30, 2017 and 2016 — **Canadian Funds**

	2017	2016
OPERATING ACTIVITIES		
Net comprehensive income (loss) for the year	$ (3,780,088)	$ 748,407
Items not affecting cash		
Amortization and depreciation (Note 17)	510,159	413,679
Accretion of debentures	198,560	83,849
Stock options expense (Note 15)	485,086	334,750
Deferred revenue (Note 11)	461,691	493,944
Debt restructuring expense (Note 27)	2,379,776	-
Deferred tax assets (Note 18)	(450,000)	(600,000)
Change in non-cash working capital balances related to operations (Note 19)	491,863	(561,321)
CASH PROVIDED BY OPERATING ACTIVITIES	297,047	913,308
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (Note 7)	(182,055)	(702,579)
Additions from internal development of intangible assets (Note 8)	(458,695)	(938,547)
CASH USED IN INVESTING ACTIVITIES	(640,750)	(1,641,126)
FINANCING ACTIVITIES		
Repayments of long-term debt (Note 10)	(340,106)	(320,270)
Repayments of debentures (Note 9)	(83,367)	(76,171)
Repayments of finance lease (Note 27)	(13,779)	(6,180)
Proceeds from equipment loans (Note 10)	-	250,000
Proceeds from credit facility (Note 10)	830,000	50,000
Proceeds from shareholder loan	-	200,000
Issue of common shares, net of issue costs	-	531,674
CASH PROVIDED BY FINANCING ACTIVITIES	392,748	629,053
NET CHANGE IN CASH DURING THE YEAR	49,045	(98,765)
CASH - BEGINNING OF YEAR	5,415	104,180
CASH - END OF YEAR	54,460	5,415

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

As at September 30, 2017 and 2016 **Canadian Funds**

	Share Capital (note 12) Number of Shares	Stated Capital	Contributed Surplus	Deficit	Equity Component of Debenture	Total Shareholders' Equity
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**
Stock option expense			485,086			485,086
Issuance of warrants pursuant to refinancing of convertible debentures			245,860			245,860
Conversion of a convertible debenture to a non-convertible debenture			86,680		(86,680)	
Extinguishment of convertible debenture			2,293,040		(2,264,745)	28,295
Refinancing of convertible debentures					2,903,789	2,903,789
Net comprehensive income (loss) for the year				(3,780,088)		(3,780,088)
Balance, September 30, 2017	**84,704,257**	**$31,299,416**	**$8,048,315**	**$(27,076,837)**	**$2,903,789**	**$15,174,683**

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's registered office and owned manufacturing facility is located at 265 Watline Avenue, Mississauga, Ontario, L4Z 1P3.

2. BASIS OF PREPARATION

The Company's management prepared these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of financial statements for the year ended September 30, 2017. The Board of Directors approved these consolidated financial statements on December 19, 2017.

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 year ended September 30, 2017 and 2016. All significant intercompany transactions and balances have been eliminated upon consolidation.

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

Key areas of managerial judgements and estimates are as follows:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates and judgements (Continued)

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

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

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

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

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

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 recorded in long term deferred revenue. The term over which upfront fees are recognized is revised if the period over which the Company maintains substantive contractual obligations changes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

	Classification	Measurement	2017	2016
Financial assets:				
Cash	Held-for-trading	Fair value	$ 54,460	$ 5,415
Accounts receivable	Loans and receivables	Amortized cost	1,337,488	2,021,872
Financial liabilities:				
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	2,841,950	1,898,515
Deferred revenue	Other liabilities	Amortized cost	1,145,185	683,494
Finance lease obligation	Other liabilities	Amortized cost	97,398	12,659
Non-convertible debentures	Other liabilities	Amortized cost	1,170,117	879,304
Convertible debentures	Other liabilities	Amortized cost	1,515,888	2,479,255
Long-term-debt	Other liabilities	Amortized cost	4,492,390	4,002,495
Total Financial liabilities			$ 11,262,928	$ 9,955,722

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation is provided for at the following basis and rates:

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

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

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

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

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

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

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

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

Share options issued to consultants of the Company are based on the fair value of the services provided. The amount of the compensation cost recognized at any date at least equals the value of the portion of the options vested at that date. When stock options are exercised, the consideration paid by employees or directors, together with the related amount in contributed surplus, is credited to share capital. When an employee leaves the Company, vested options must be exercised within 90 days, or the options expire. Any options that are unvested are reversed in the period that the employee leaves. 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED

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

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

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

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

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

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

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

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

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

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

IFRS 2, Share-based Payment ("IFRS 2")
In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled. The effective date for this standard is for reporting periods beginning on or after January 1, 2018, with earlier application permitted. The Company has completed the review process to assess the impact and application of the aforementioned amendments and has determined it will have no impact on the Company.

IFRIC 22, Foreign Currency Transactions and Advance Consideration
In 2016, the IASB issued IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration ("IFRIC 22") which provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. On initial application, entities have the option to apply either retrospectively or prospectively. The Company is in the process of evaluating the impact of adopting these amendments on the Company's consolidated financial statements.

5. INVENTORIES

Inventories as at September 30 consist of the following:

	2017	2016
Raw material	$ 379,661	$ 253,556
Work in process	1,593,158	840,249
Finished goods	2,494,287	2,302,188
	$ 4,467,106	**$ 3,395,993**

During the year ended September 30, 2017, inventories in the amount of $5,287,781 (2016 - $4,474,038) were recognized as an expense through cost of sales. The allowance for inventory impairment as at September 30, 2017 was $30,561 (2016 - $30,561).

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets as at September 30, 2017 were $152,989 (2016 - $55,541) and primarily consist of insurance policy premiums.

7. PROPERTY, PLANT, AND EQUIPMENT

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

	Building	Research & development equipment	Other equipment & fixtures	Land	Total
Cost					
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
Additions	2,996	145,420	132,157	-	280,573
Disposals	-	-	-	-	-
Balance, Sept 30, 2017	**4,565,379**	**6,939,732**	**4,605,040**	**800,000**	**16,910,151**
Accumulated depreciation					
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
Disposals	-	-	-	-	-
Depreciation	152,420	23,869	144,498	-	320,787
Balance, Sept 30, 2017	**1,247,532**	**582,968**	**2,867,881**	**-**	**4,698,381**
Net book value					
Balance, Sept 30, 2015	3,608,494	5,695,734	1,763,248	800,000	11,867,476
Balance, Sept 30, 2016	3,467,271	6,235,213	1,749,500	800,000	12,251,984
Balance, Sept 30, 2017	**$3,317,847**	**$6,356,764**	**$1,737,159**	**$800,000**	**$12,211,770**

Included in research and development equipment is $6,169,265 not yet available for use. Included in these amounts is directly attributable interest from borrowings to finance these asset additions of $145,421 (2016 - $154,492). These assets are not yet subject to depreciation. During the year, the Company entered into a five-year lease agreement for the acquisition of production equipment and $98,518 was capitalized to Other Equipment and Fixtures.

8. INTANGIBLE ASSETS

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

License agreement, LumiSort™ (Note 8a)	**5%**
Technology investments:	
LumiSort™ (Note 8a)	**5%**
Kinlytic® (Note 8b)	**0%**
Bioreactor (Note 8c)	**7%**

Intangible assets consist of:

	Capitalized development costs		Patents and trademarks		Licenses	
	LumiSort™	Bioreactor	Kinlytic®	LumiSort™	LumiSort™	Total
	(a)	(c)	(b)	(a)	(a)	
Cost						
Balance, as 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
Additions from internal developments	-	87,600	308,057	73,459	-	469,116
Balance at September 30, 2017	**30,532**	**2,088,573**	**3,078,586**	**2,115,236**	**278,528**	**7,591,455**
Accumulated amortization						
Balance, as 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
Amortization expense	991	11,603	-	155,353	21,425	189,372
Balance at September 30, 2017	**6,748**	**11,603**	-	**831,999**	**257,101**	**1,107,451**
Net book value						
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
Balance, September 30, 2017	**$23,784**	**$2,076,970**	**$3,078,586**	**$1,283,237**	**$21,427**	**$6,484,004**

a) Lumisort™

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

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

b) Kinlytic®

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

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

8. INTANGIBLE ASSETS (Continued)

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. No amorization has been recorded, as the assets are not yet available for use.

c) Bioreactor

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

9. DEBENTURES

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

	Non-convertible Debentures		Non-convertible Debentures Total	Convertible Debentures			Convertible Debentures Total
	(a)	(b)		(c)	(d)	(e)	
Date of issue	Jan, 2014	Apr, 2017		Oct, 2016	Oct, 2016	Oct, 2016	
Face value	$ 2,000,000	$ 500,000	$ 2,500,000	$ 1,500,000	$ 500,000	$ 2,500,000	$ 4,500,000
Liability component at the date of issue	928,373	268,955	-	461,550	223,050	780,750	
Balance, September 30, 2017	894,955	275,162	$ 1,170,117	470,692	247,265	797,931	$ 1,515,888
Less: current portion	92,136	275,162	$ 367,298	-	247,265	-	$ 247,265
Non-current portion	802,819	-	$ 802,819	470,692	-	797,931	$ 1,268,623
Balance, September 30, 2017	894,955	275,162	1,170,117	470,692	247,265	797,931	1,515,888
Equity component reclassifed to contributed surplus upon extinguishment	-	28,295	$28,295	916,971	111,042	1,236,732	$ 2,264,745
Equity component at September 30, 2017	-	-	-	574,435	631,222	1,698,132	$ 2,903,789
Loss / (gain) on date of extinguishment - Oct 2016	-	197,578	$ 197,578	494,575	361,460	1,528,913	$ 2,384,948
Loss / (gain) on date of extinguishment - April 2017	-	(202,750)	$ (202,750)	-	-	-	$ -
Conversion price per per common share	$ -	$ -		$ 0.23	$ 0.23	$ 0.23	
Effective interest rate charged	25.69%	30.20%		31.07%	30.20%	30.85%	
Payment frequency	Quarterly	Quarterly		Quarterly	Quarterly	Quarterly	
Maturity of financial instrument	Jan, 2029	Apr, 2022		Jan, 2029	Feb, 2022	Sep, 2028	
Stated interest rate	9%	12%		9%	9%	9%	
Terms of repayment	Principal and interest	Interest only		Interest only	Interest only	Interest only	
Blended quarterly repayment	$ 61,071	N/A		N/A	N/A	N/A	

9. DEBENTURES (Continued)

The Company had convertible and non-convertible debentures issued and outstanding as at September 30, 2016. The carrying values of the debt component of these debentures were as follows:

	Non-convertible Debentures	Convertible Debentures				Total Convertible Debentures
Note	(a)	(b)	(c)	(d)	(e)	
Date of issue	Jan, 2014	Oct, 2006	Jan, 2014	Feb, 2007	Sep, 2008	
Proceeds of issue	$ 2,000,000	$ 500,000	$ 1,500,000	$ 500,000	$ 2,500,000	$ 5,000,000
Liability component at the date of issue	928,373	413,320	517,470	388,958	885,089	
Balance, September 30, 2016	879,304	498,786	537,686	492,812	949,971	$ 2,479,255
Less: current portion	244,284	498,786	135,000	492,812	225,000	$ 1,351,598
Non-current portion	635,020	-	402,686	-	724,971	$ 1,127,657
Balance, September 30, 2016	879,304	498,786	537,686	492,812	949,971	2,479,255
Equity component at September 30, 2016	-	86,680	916,971	111,042	1,236,732	$ 2,351,425
Conversion price per per common share	$ -	$ 0.90	$ 0.35	0.90	$ 0.65	
Effective interest rate charged	25.69%	12.00%	27.03%	13.00%	25.69%	
Payment frequency	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	
Maturity of financial instrument	Jan, 2029	Oct, 2016	Jan, 2029	Feb, 2017	Sep, 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	

As discussed in note 10, the Company arranged a new secured revolving credit facility jointly with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). To accommodate the additional security required by TD Bank and EDC, effective October 12, 2016, the Company negotiated amended terms with the holders of its issued and outstanding convertible debentures. The following debentures were amended: $2,500,000 debenture (e) above, $1,500,000 debenture (c) above, $500,000 (b) above and $500,000 (d) above, in exchange for reducing their security position to one of unlimited subordination to the credit facility lenders.

The $2,500,000 debenture, (e) above, maturing in 2028 was originally convertible at $0.65 per common share, and the $1,500,000 debenture, (c) above, maturing in 2029 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 two $500,000 debentures, (b) and (d) above, were originally convertible at $0.90 per common share and matured on October 12, 2016 and February 15, 2017, respectively. The first $500,000 debenture, (b) above has been modified to extend its maturity date to April 30, 2017 and was modified to become non-convertible. In addition, the stated interest rate was modified from 9% to 12% for the remaining term (see paragraph below for further details on this debenture). The second $500,000 debenture, (d) above, has been modified to extend its maturity date to February 15, 2022, and the conversion price has been modified from $0.90 to $0.23 per common share. The debenture is now callable at the option of the holder at any time after February 15, 2017 for outstanding principal and accrued interest. In addition, the debenture holder of both $500,000 debentures (b) and (d) received 1.5 million common share purchase warrants, with an exercise price of $0.23 per common share and a term of five years.

9. DEBENTURES (Continued)

The Company has accounted for the modifications to each of the debentures as an extinguishment with the recognition of a new instrument. Upon extinguishment of the debentures, the Company has recognized a non-cash loss of $2,379,776 in the consolidated statement of income and comprehensive income. The Company measured the non-cash loss based on the change in fair value of the debentures under the original terms and the modified terms. In addition, a value of $245,860 has been ascribed to the warrants issued at the time of the grant. The value is determined using 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.

On April 28, 2017, the Company announced it has reached an agreement with one of its debenture holders to extend the maturity date on the $0.5 million non-convertible debenture set to mature on April 30, 2017, (b) above, to April 30, 2022. The debenture is callable at the option of the holder upon sixty days written notice to the Company. The Company has accounted for the modifications to each of the debentures as an extinguishment with the recognition of a new instrument. Upon extinguishment of the debenture, the Company has recognized a non-cash gain of $202,750 in the consolidated statement of income and comprehensive income. In addition, as part of the amendment, the Company amended the terms of 300,000 outstanding common share purchase warrants held by the debenture holder. The terms of the warrants were modified to extend the life of the warrants from August 21, 2019 to August 21, 2022 and modify the exercise price from $0.55 to $0.25 per share. The modification of the debenture was accounted for as an extinguishment with recognition of a new instrument. In addition, the modification of the warrants resulted in a non-cash loss of $28,295.

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

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

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

10. LONG-TERM DEBT

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

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

The loans are secured with the building and equipment. For loans totalling $3,000,000, consecutive monthly principal payments of $9,260 are due to February 2037 on the outstanding balance of $2,268,700 (September 30, 2016 - $2,379,820). For loans totalling $61,000, consecutive monthly principal payments of $725 are due to February 2017 on the outstanding balance of $0 (September 30, 2016 – $3,625), as this loan is now fully paid. Both of the loans have a floating interest rate based on BDC's Floating Base Rate plus 0.5%. At September 30, 2017, the Floating Base Rate was 5.8%.

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

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

For loans totalling $615,000, consecutive monthly principal payments of $10,250 are due to July 2020 on the outstanding balance of $348,500 (September 30, 2016 - $471,500). For loans totalling $50,000, consecutive monthly principal payments of $1,040 are due to December 2019 on the outstanding balance of $28,080 (September 30, 2016 – $40,560). For loans totalling $200,000, consecutive monthly principal payments of $3,330 are due to December 2020 on the outstanding balance of $129,870 (September 30, 2016 – $169,830). On October 9, 2015, the Company entered into a loan agreement with BDC for $250,000, monthly principal payments of $4,160 are due on December 22, 2020 on the outstanding balance of $162,240 (September 30, 2016 – $212,160).

All BDC loans have a floating interest rate based on BDC's floating base rate plus 0.5% - 1.8%. At September 30, 2017, the floating base rate was 5.8%.

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

2018	$	336,480
2019		336,480
2020		306,620
2021		133,590
2022		111,120
2023 and thereafter	$	1,713,100

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

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

As at September 30, 2017 the Company had drawn on $1,355,000 of the facility (2016 - $525,000).

10. LONG-TERM DEBT (Continued)

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

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

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

11. DEFERRED REVENUE

As at September 30, 2017, the Company has received payment, in the amount of $1,145,185 (2016 - $683,494), for a portion of product sales that was not yet shipped. This amount has been recognized as deferred revenue under current liabilities in the consolidated statements of financial position.

12. SHARE CAPITAL

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

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

	2017	2016
Common shares issued during the year	-	$ 1,500,000
Proceeds, net of financing costs	-	308,957
Warrants exercised	-	-
Stock options exercised	-	-

	Number of Shares	Share Capital
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, as at September 30, 2016 and September 30, 2017	84,704,257	$ 31,299,416

13. CONTRIBUTED SURPLUS

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

	Amount
Balance, as at September 30, 2015	$ 4,380,182
Issuance of warrants pursuant to private placement	237,931
Share issue costs pursuant to private placement	(15,214)
Stock option expense	334,750
Balance, as at September 30, 2016	$ 4,937,649
Issuance of warrants pursuant to refinancing of convertible debentures	245,860
Reclassification of equity portion of a convertible debenture converted to a non convertible debenture	86,680
Extinguishment of convertible debenture	2,293,040
Stock option expense	485,086
Balance, as at September 30, 2017	$ 8,048,315

14. COMMON SHARE PURCHASE WARRANTS

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

	Units	Weighted average exercise price
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
Issued	1,500,000	$ 0.23
Expired	(193,079)	$ 0.25
Outstanding, September 30, 2017	**8,331,313**	**$ 0.48**

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

	2017			2016		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
Range of exercise prices:						
$0.45 to $0.55	6,531,313	$ 0.55	2.18	6,831,313	$ 0.55	3.13
$0.23 to $0.44	1,800,000	0.23	3.65	193,079	0.25	0.02
	8,331,313	$ 0.48	2.50	7,024,392	$ 0.54	3.13

15. STOCK OPTION PLAN

Under the Company's stock option plan, the total number of common shares available to be issued under the plan is 12,000,000 common shares. As at September 30, 2017, the Company has a total of 6,470,000 options issued and pending (2016 – 4,007,000).

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

The activity under the Company's stock option plan for the year ended September 30, 2017 is as follows:

	Units	Weighted average exercise price
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
Issued	3,220,000	0.28
Exercised	-	-
Expired or forfeitted	(757,000)	-
Outstanding, September 30, 2017	**6,470,000**	**0.39**
Exercisable, September 30, 2017	**2,300,500**	**$ 0.50**

The following table reflects the number of options, their weighted average price and the weighted average remaining contract life for the options grouped by price range as of September 30, 2017:

	2017			2016		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
Range of exercise prices:						
$0.54	2,920,000	$ 0.54	3.00	2,923,000	$ 0.54	2.79
$0.23 to $0.28	3,550,000	$ 0.27	4.33	1,084,000	$ 0.28	2.10
	6,470,000	$ 0.39	3.73	4,007,000	$ 0.47	2.60

The fair value of options granted during the year ended September 30, 2017 was estimated at the grant date using the Black-Scholes options pricing model, resulting in the following assumptions:

	Nov. 1, 2016	Aug. 3, 2017
Share price on issue date	$ 0.23	$ 0.27
Dividend yield	$ -	$ -
Volatility	92.9%	86.7%
Risk-free interest rate	1.40%	0.75%
Expected option life (years)	6.0	5.0
Weighted average fair value of each option ($/option)	$ 0.17	$ 0.18

The volatility of the stock for the Black-Scholes options pricing model was based on 5-year historic volatility of the Company's stock price on the Toronto Stock Exchange. Management believes that the historic stock volatility provides a fair and appropriate basis of estimate for the expected future volatility of the stock. Stock options are assumed to be exercised at the end of the option's life, as management believes the probability of an early exercise is remote. During the year, the fair value of the options vested in the year were expensed and credited to contributed surplus. The Company recorded share-based compensation expense of $485,086 (2016 - $334,750) during 2017.

16. INCOME (LOSS) PER SHARE

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

	2017	2016
Numerator for basic income (loss) per share:		
Net income available to common shareholders	$ (3,780,088)	$ 748,407
Denominator for basic income per share:		
Weighted average common shares outstanding	84,704,257	84,656,531
Effect of dilutive securities:		
Warrants	294,624	20,687
Stock Options	21,792	28,571
Convertible debentures	-	-
Denominator for diluted income per share	85,020,673	84,705,789
Income per share		
Basic	($0.045)	$0.009
Diluted	($0.045)	$0.009

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

	2017	2016
Pursuant to warrants	8,036,689	6,831,313
Under stock options	6,448,208	3,607,000
Pursuant to convertible debentures	19,565,217	9,242,979
	34,050,115	19,681,292

17. EXPENSES BY NATURE

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

Depreciation and amortization

	2017	2016
Included in:		
Cost of goods sold	$ 308,521	$ 290,249
General and administrative expenses	991	1,032
Reasearch and development expenses	200,647	122,398
Total depreciation and amortization	$ 510,159	$ 413,679

Employee costs

	2017	2016
Short-term wages, bonuses and benefits	$ 4,748,874	$ 3,586,991
Share based payments	485,086	334,750
Total employee costs	5,233,960	3,921,741
Included in:		
Cost of goods sold	2,740,641	2,168,349
Research and development expenses	682,102	347,081
General and administrative expenses	1,468,312	1,033,739
Selling and business development expenses	342,905	372,572
Total employee costs	$ 5,233,960	$ 3,921,741

18. INCOME TAXES

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

	2017	2016
Provision based on combined federal and provincial statutory rates of 25.00% (2016 – 25.00%)	$ (945,022)	$ 37,102
Increase (decrease) resulting from:		
Non deductible expenses	552	88
Stock-based compensation	121,272	83,688
Effect of change in tax rate	-	205,745
Valuation allowance	(22,903)	(789,889)
Other	396,101	(136,734)
Current income tax expense	$ (450,000)	$ (600,000)

18. INCOME TAXES (Continued)

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 September 30:

2029	$ 155,000
2030	476,000
2031	1,145,000
2032	1,223,000
2037	122,000
	$ 3,121,000

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

	2017	2016
Deferred income tax assets:		
Non-capital loss carry-forwards	$ 780,350	$ 680,097
Difference in net book value compared to undepreciated capital cost	529,057	535,598
Deferred revenue	18,028	183,325
Unclaimed research and development expenditures	3,864,446	3,664,086
Deferred income tax liability related to debentures	(1,009,781)	(862,484)
Tax assets not recognized	(4,182,100)	(4,200,622)
Deferred tax assets	-	-

The unclaimed research and development investment tax credits before income tax effect may be carried forward and used to reduce federal income taxes. These must be claimed no later than September 30:

2022	$ 15,000
2023	160,000
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	123,000
2033	107,000
2034	67,000
2035	159,000
2036	126,000
2037	97,000
	$ 2,863,000

18. INCOME TAXES (Continued)

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

	2017	2016
Unclaimed research and development tax credits	$ 2,410,197	$ 2,120,578
Tax assets not recognized	(830,197)	(990,578)
Deferred tax assets related to investment tax credits	$ 1,580,000	$ 1,130,000

19. CHANGES IN NON-CASH WORKING CAPITAL

	2017	2016
Accounts receivable	$ 684,384	$ (329,798)
Inventories	(1,071,113)	229,275
Prepaid expenses and other assets	(97,448)	160,848
Investment tax credits receivable	32,604	(32,148)
Accounts payable and accrued liabilities	943,435	(589,498)
	$ 491,863	$ (561,321)

20. FINANCIAL EXPENSES

	2017	2016
Cash interest:		
Interest on long-term debt	$ 164,305	$ 132,799
Interest on debentures	490,292	463,955
Other Interest	71,453	10,650
Interest income	(22)	(615)
Non-cash interest:		
Accretion on debentures	198,560	83,849
Financial expenses	$ 924,589	$ 690,637

21. CAPITAL MANAGEMENT

The Company's capital management objective is to safeguard its ability to function as a going concern to maintain its virology operations and to fund its development activities. Microbix defines its capital to include the revolving line of credit, shareholders' equity, the Business Development Bank capital loans, and the debentures. The capital at September 30, 2017 was $22,153,078 (2016 - $22,328,085).

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

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

22. FINANCIAL INSTRUMENTS

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

For the years ended September 30, 2017 and 2016, the Company has carried at fair value financial instruments in Level 1. At September 30, 2017, the Company's only financial instrument measured at fair value is cash, which is considered to be a Level 1 instrument. There were no transfers between levels during the year.

The three levels are defined as follows:

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.

	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-17	$ 54,460	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Sep-17	-	-	$ 1,170,117
Convertible debentures	30-Sep-17	-	-	1,515,888
Long-term-debt	30-Sep-17	-	$ 4,492,390	-

	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	-

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.

23. 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 the year ended September 30, 2017, five customers accounted for 63% (2016 - five customers accounted for 59%) of revenue. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $10,000 (2016 - $10,000).

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

	2017	2016
Current	$ 1,094,414	$ 1,659,260
0 - 30 days past due	176,002	96,390
31 - 60 days past due	73,268	276,222
61 days and over past due	3,804	-
Allowance for doubtful accounts	(10,000)	(10,000)
	$ 1,337,488	$ 2,021,872

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	
	2017	2016	2017	2016
Cash	$ 52,902	$ 5,259	$ 5	$ 29
Accounts receivable	458,941	1,065,198	413,117	674,433
Accounts payable and accrued liabilities	406,000	474,498	11,987	22,451

23. FINANCIAL RISK MANAGEMENT (Continued)

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

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

	2017	2016
Revenue		
Euros	40%	39%
U.S. dollars	56%	56%
Expenses		
U.S. dollars	9%	7%

The impact of a 5% increase in the U.S. dollar against the Canadian dollar would result in an increase in annual U.S. dollar based revenue of about $284,600 Cdn. The impact of a 5% increase in the Euro against the Canadian dollar would result in an increase in annual Euro based revenue of about $201,800. Correspondingly, the impact of a 5% decrease in the U.S. dollar against the Canadian dollar would result in a loss in annual U.S. dollar based revenue of about $284,600 Cdn. The impact of a 5% decrease in the Euro against the Canadian dollar would result in a loss in annual Euro-based revenue of about $201,800.

Liquidity risk

Liquidity risk measures the Company's ability to meet its financial obligations when they fall due. To manage this situation, the Company projects and monitors its cash requirements to accommodate changes in liquidity needs. During the first quarter the Company implemented a new secured revolving credit facility with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The new credit facility is being used to fund the Company's need for working capital to grow its existing business. Management expects this new facility will satisfy the Company's liquidity needs and help manage the liquidity risk going forward.

Interest rate risk

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

24. 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 (loss)	
	2017	2016	2017	2016
Virology products and technologies	$ 10,185,798	$ 9,517,137	$ (3,510,718)	$ 872,812
Lumisort ™	-	-	(269,370)	(124,405)
Kinlytic®	-	-	-	-
Total for continuing operations	$ 10,185,798	$ 9,517,137	$ (3,780,088)	$ 748,407

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

24. SEGMENTED INFORMATION (Continued)

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

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

	Segment assets		Segment liabilities	
	2017	2016	2017	2016
Virology Products and Technologies	$ 14,281,312	$ 12,733,029	$ 11,262,928	$ 9,955,722
Lumisort ™	7,497,713	8,613,906	-	-
Kinlytic®	3,078,586	2,770,528	-	-
	$ 24,857,611	$ 24,117,463	$ 11,262,928	$ 9,955,722

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 revenues earned by individual reportable segments. All liabilities are allocated to reportable segments other than borrowings and current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

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

	Depreciation and amortization		Additions to non-current assets	
	2017	2016	2017	2016
Virology Products and Technologies	$ 332,390	$ 319,103	$ 222,752	$ 1,073,825
Lumisort ™	177,769	94,576	218,880	567,301
Kinlytic®	-	-	308,057	-
	$ 510,159	$ 413,679	$ 749,689	$ 1,641,126

25. GEOGRAPHIC INFORMATION

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

	Revenue from external customers		Non-current assets	
	2017	2016	2017	2016
North America	$ 4,082,094	$ 3,496,147	$ 20,275,774	$ 19,586,244
Europe	5,470,037	5,283,841	-	-
Other foreign countries	633,667	737,149	-	-
	$ 10,185,798	$ 9,517,137	$ 20,275,774	$ 19,586,244

26. RELATED PARTY TRANSACTIONS

Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management includes directors and key management executive officers. The total number of key management personnel was six during 2017 (2016 – four). Compensation for the Company's key management personnel was as follows:

	2017	2016
Short-term wages, bonuses and benefits	$ 815,443	$ 796,880
Share-based payments	423,599	236,329
Total key management compensation	$ 1,239,042	$ 1,033,209

The Company has issued and outstanding debentures with two shareholders of the Company (see Note 9). On December 31, 2015, the Company had issued two shareholder loans for total proceeds of $200,000. On December 31, 2016, the two outstanding shareholder loans were repaid. On September 12, 2017, the Company had issued two interest bearing shareholder loans for total proceeds of $200,000. These loans were repaid on October 23, 2017.

27. COMMITMENTS AND CONTINGENCIES

Lease commitments

	Amount
2018	$ 31,858
2019	27,661
2020	21,703
2021	21,240
2022 and thereafter	12,390
	$ 114,852

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

	Amount
2018	$ 709,242
2019	709,242
2020	709,242
2021	709,242
2022 and thereafter	9,394,399
	$ 12,231,367

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.

28. SETTLEMENT OF DISPUTES AND LAWSUITS

Sale of Microbix' WFI business to Irvine Scientific

On December 30, 2016, Microbix reached a final settlement with Irvine Scientific Inc. over an ongoing dispute related to the sale of the Company's Water-for-Injection business to Irvine Scientific that occurred in December 2012. Irvine Scientific had filed a Notice of Arbitration with the American Arbitration Association in New York as stipulated in its original agreement with Microbix. Prior to initiation of the arbitration proceeding, the companies agreed on final settlement terms, namely that Microbix will pay Irvine a total amount of (U.S.) $192,500 ($273,540 Cdn.) in the following instalments:

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

All obligations under this settlement were completed at June 30, 2017.

Settlement of Zeptometrix Lawsuit

On October 5, 2016, Zeptometrix Corporation filed a statement of claim against Microbix in Canadian Federal Court, alleging infringement of its Canadian patent. During fiscal 2017 Microbix defended itself against these allegations, maintaining it did not infringe this patent. On October 11, 2017 Microbix announced the court approval of a legal dispute settlement with Zeptometrix Corporation, with the latter party's claims of patent infringement being withdrawn. The withdrawal of the lawsuit was "with prejudice", following a settlement agreement between the parties that was to Microbix' satisfaction.

29. SUBSEQUENT EVENTS

On October 18, 2017 and October 26, 2017 (the "Closing Date"), the Company completed a private placement offering of an aggregate of 11,666,633 units for total gross proceeds of $3,499,990, net proceeds of $3,201,997 after share issuance costs of $297,993. Each unit consists of one common share of Microbix and one half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $0.36 for three years. The financing was brokered. Cash commissions of $299,784 were paid and an aggregate of 755,764 Broker's Warrants were issued in the private placement offering. Each Broker's Warrant entitles the holder to purchase one unit at a price of $0.335 for a period of two years. All securities issued under the private placement will be subject to a hold period expiring four months and one day from the date of closing.

DIRECTORS

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Lakeridge Health Hospital

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

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Microbix Biosystems Inc.

Cameron Groome [(1)]
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Chief Executive Officer and President
Microbix Biosystems Inc.

Martin A. Marino [(1) (2)]
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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	*AST Trust 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 28, 2018 at 1:00 PM.

ANNUAL REPORT

Additional copies of the Company's 2017 Annual Report are available by contacting Microbix' head office.

SENIOR MANAGEMENT

William J. Gastle
Executive Chairman

Cameron L. Groome
President and Chief Executive Officer

James S. Currie
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

Kathryn Froh
Vice-President, Diagnostics

Christopher B. Lobb
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