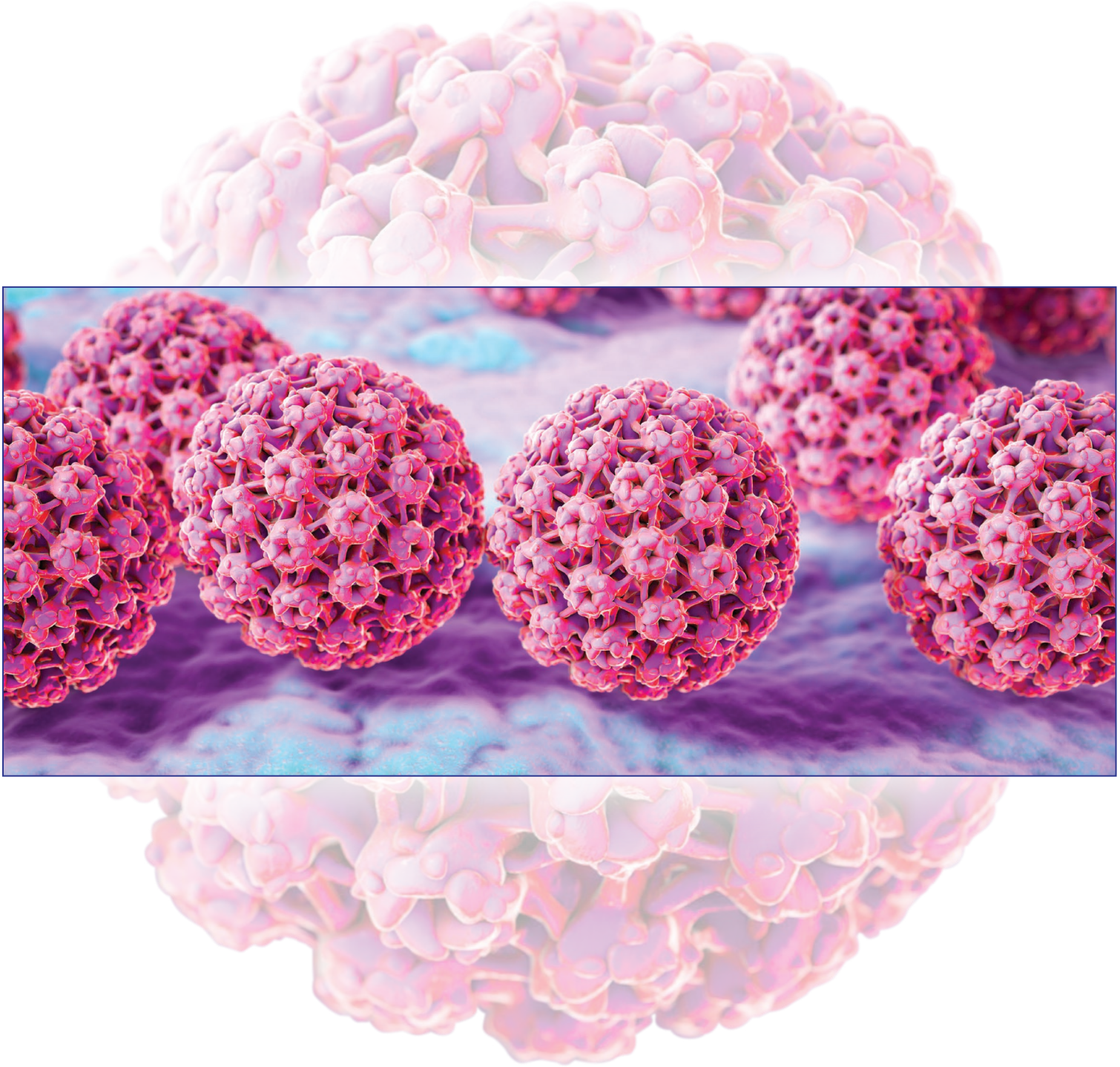
MICROBIX BIOSYSTEMS INC.



ANNUAL REPORT 2020

MICROBIX

Message to Shareholders

The balance of 2020 continued to present Microbix both opportunities and challenges. In our QAPs business, we've seized the opportunities to create multiple leading-edge products to help ensure the accuracy of testing for the virus causing COVID-19 disease, leading to greater recognition of Microbix by industry and accelerating QAPs sales growth. For our broad portfolio of antigens, COVID-related pressure on sales volumes has continued and led to a decline in sales versus fiscal 2019.

Specifically, for the fourth fiscal quarter of 2020 (fQ4) and the full fiscal year (f2020), sales results were mixed and, on balance, down year-over-year (Y/Y). QAPs sales rose by 24% Y/Y for fQ4, reflecting just the first distributor re-orders following initial stocking in June, and rose 41% across f2020. Encouragingly, QAPs sales comprised 19% of total revenues in fQ4, up from 11% the prior year Q4 and showing progress for the category. Lower antigen sales offset those gains, with Y/Y declines of 30% in fQ4 and 27% for f2020. Such pressure has been felt across our industry, and is believed due to the overwhelming focus on COVID-19 testing to the exclusion of the many other, more regular, infectious disease tests.

Going forward, we see a high level of COVID-19 related QAPs sales continuing through fiscal 2021 and into fiscal 2022, with a gradual return to a more diversified mix of sales within QAPs and a recovery of antigen sales. With its many antigen products and growing portfolio of QAPs, Microbix appears well positioned for such market evolutions.

Shortly after the fiscal year end (Sept 30), Microbix announced a $1.45 million grant agreement with the Province of Ontario. Earlier in f2020, we identified the likelihood of shortages of a product critical for molecular (RT-PCR) testing for the SARS-CoV-2 virus – the viral transport media (VTM) needed to stabilize patient samples for subsequent lab-based testing. As a result, Microbix was invited to work to become a backbone domestic supplier of VTM to Ontario, a project that should become a third-leg of revenues equal-or-greater in significance to Microbix's sales of antigens and QAPs. We are targeting to begin sales of this exciting new product in January, 2021.

As an overview of f2020, management believes we have created products that meaningfully help public health and industry respond to the pandemic, and that will result in sustainably-higher sales even after the pandemic finally begins to ebb.

Presently however, circumstances compel us to take two non-cash asset write-downs in fQ4. One relates to the deferred tax assets (DTAs) first recorded as an asset in f2014. Those DTAs recognized part of the benefit of past losses in reducing future corporate income taxes. With the heightened instability from the pandemic, a $1.5 million "intangible" DTA value could no longer be justified. Similarly, the pandemic has made partnering Kinlytic® urokinase both more challenging and less predictable in timing. As a result, the Company has recorded an impairment charge of $3.1 million to fully conform with "IFRS" accounting rules – even though efforts to partner Kinlytic are ongoing.

This year has also seen a change in our senior leadership, with the retirement of our founder and Executive Chairman, Bill Gastle. On behalf of all Microbix stakeholders, I thank Bill for his courage, skill, and persistence in creating Microbix and for assembling the best team I've had the privilege to lead. Please also join me in wishing Bill and his lovely wife Susan a happy retirement and thanking Martin Marino for becoming Independent Chairman.

In summary, f2020 did not achieve the financial goals we had set-out at the start of the year – due in large part due to the COVID-19 pandemic. However, what we have achieved is dramatic progress in transforming Microbix from a lower-profile maker of test ingredients into an internationally-recognized creator, manufacturer, and marketer of innovative, proprietary, registered, and branded medical devices. This transformation opens-up myriad new revenue opportunities for Microbix and, we believe, is the means to achieve growing sales, expanding margins, sustained and growing net earnings, and share price appreciation.

Personally and on behalf of our team, I thank you for your continuing support and wish you all the best.

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, 2020, 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 include, without limitation, discussion of financial results or the outlook for the business, risks associated with its financial results and stability, its antigens and quality assessment products business, development projects such as those referenced herein, sales to foreign jurisdictions, engineering and construction, production (including control over costs, quality, quantity and timeliness of delivery), foreign currency and exchange rates, maintaining adequate working capital and raising further capital on acceptable terms or at all, and other similar statements concerning anticipated future events, conditions or results that are not historical facts. These statements reflect management's current estimates, beliefs, intentions and expectations; they are not guarantees of future performance. The Company cautions that all forward looking information is inherently uncertain and that actual performance may be affected by a number of material factors, many of which are beyond the Company's control. Accordingly, actual future events, conditions and results may differ materially from the estimates, beliefs, intentions and expectations expressed or implied in the forward looking information. All statements are made as of the date of this disclosure and represent the Company's judgment as of that date and the Company disclaims any intent or obligation to update such forward-looking statements.

The Management Discussion and Analysis is dated December 17, 2020.

COMPANY OVERVIEW

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX) is an award-winning life sciences innovator and exporter making critical ingredients that enable the production of clinical diagnostics (antigens) and creating medical devices that help ensure test accuracy (quality assessment products, also known as QAPs™). In the context of Microbix's business, antigens are purified and inactivated bacteria and viruses, which are used in the immunoassay format of medical tests to assess exposure to, or immunity from, those pathogens. QAPs are inactivated and stabilized samples of a pathogen or an analogue to a pathogen, that are created to resemble patient samples in order to support one or more of (i) the proficiency testing of clinical labs, (ii) test development, instrument validation and technician training, or (iii) the quality management of patient tests by clinical laboratories. Microbix's antigens and QAPs are sold to more than 100 customers worldwide, primarily to multinational diagnostics companies and laboratory accreditation organizations.

Microbix also applies its biological expertise and infrastructure to develop other proprietary products and technologies, most notably its emerging project to manufacture viral transport media (VTM) for stabilizing patient samples to enable lab-based molecular (PCR) testing, and Kinlytic® urokinase, a biologic thrombolytic drug used to treat blood clots.

It must be recognized that the COVID-19 pandemic is impacting all industries, including medical diagnostics. As a result trend discussions here may be disrupted. For example, in fiscal 2020 sales of antigens were depressed due to fewer patients seeking or receiving care for diseases other than COVID-19. However, more broadly speaking, revenue from the antigens and QAPs business (Antigens & QAPs) is expected to continue growing for the foreseeable future. Antigen sales growth may be largely driven by certain public health tests becoming more widely used in the Asia Pacific region and, more recently, increased global testing for respiratory pathogens. QAPs sales growth may be driven by Microbix's creation of new value-added, branded and proprietary products and by increasing European and American quality-management regulation of clinical laboratories. Resulting sales are expected to provide free cash flow to cover operating and debt service costs, and funding for business initiatives that leverage Microbix's expertise.

COMPANY OVERVIEW (Continued)

Microbix owns and operates a biologicals manufacturing facility at 265 Watline Avenue in Mississauga, Ontario. For that facility, Microbix has a Pathogen and Toxin license issued by the Public Health Agency of Canada. The Company's administrative offices, along with further production and lab spaces, are in a leased building located at 235 Watline Avenue, Mississauga, Ontario. Microbix is ISO 9001 & 13485 accredited, FDA & Health Canada establishment licensed, and provides CE marked products.

FINANCIAL OVERVIEW

Year ending September 30, 2020 ("2020")

2020 revenue was $10,524,904, a 22% decrease from 2019 revenues of $13,412,341. Included were antigen product revenues of $8,688,239 (2019 - $11,980,527), QAPs revenues were $1,527,998 (2019 - $1,087,200) and royalties were $308,667 (2019 - $344,614). Antigen sales declined 27% versus the prior year, due to global focus upon testing for COVID-19 disease at the expense of more routine diagnoses. In contrast, Microbix's sales of QAPs grew by 41% versus 2019, reflective of continuing sales of white-labelled products to lab accreditation organizations, initial stocking orders of branded QAPs to the five distribution partners engaged in the spring, and revenues from the custom QAPs development agreement announced in June.

Gross margin for this year was 44%, down from 49% last year. Margins were impacted by changes in product mix year over year, and most specifically due to problems with bioreactor equipment and supplier materials reliability that resulted in multiple lost batches. This occurred principally in the first-ever quarter of constant usage of all bioreactor units (fiscal Q3) and had a large negative impact on margin and bottom-line results. Those problems are being addressed with heightened scrutiny of suppliers, process monitoring, and preventative maintenance, and are thereby targeted to be non-recurring.

Operating expenses decreased by 4% from 2019, primarily a result of slightly higher foreign exchange gains, wage subsidies and lower travel and trade show costs in the last half of the year, due to COVID-19 travel restrictions. The company also determined that the deferred tax asset balance of $1,568,237 was to be written down during the fourth quarter due to the heightened business uncertainties related to the COVID-19 pandemic. Additionally, the asset value of Kinlytic® urokinase of $3,078,585 has been written down during the fourth quarter, likewise as a result of the increased difficulty in securing partner funding for this project during the pandemic and a consequent inability to reliably project the timing to conclude such an alliance. These two asset write downs have not affected the company's cash balances.

Lower sales, fewer gross margin dollars, the write down of the deferred tax assets and the impairment of assets for the year led to an operating loss of $1,580,703 and net loss of $6,227,525 versus an operating income of $43,681 and net income of $31,918 in 2019. Cash from operations was $8,566, compared to cash from operations of $44,368 in 2019.

At the end of 2020, Microbix's current ratio (current assets divided by current liabilities) was 1.59 and its debt to equity ratio (total debt over shareholders' equity) was 1.36.

Quarter Ending September 30, 2020 ("Q4")

Q4 revenue was $2,705,732, a 25% decrease from Q4 2019 revenue of $3,587,285. Included were antigen product revenues of $2,151,767 (2019 - $3,092,285), QAPs revenues were $505,898 (2019 - $406,831) and royalties were $48,067 (2019 - $84,016). Q4 sales were impacted by lower antigen sales as outlined above and changes in product mix. This was offset by QAPs Q4 sales which increased by 24% vs. prior year.

Q4 gross margin was 35%, down from 44% in 2019, due to lower margin product mix in Q4 2020, along with the aforementioned bioreactor issues.

COMPANY OVERVIEW (Continued)

Quarter Ending September 30, 2020 ("Q4") (Continued)

Operating expenses in Q4 decreased by 25% from 2019, primarily due to receipt of government wage subsidies and lower travel and trade show costs. As outlined above, the deferred tax asset and an intangible asset (Kinlytic® urokinase) were written down during the quarter. Lower sales and fewer gross margin dollars during the quarter led to an operating loss of $336,175 and net loss of $4,982,997 versus an operating loss of $127,738 and net loss of $48,816 in Q4 2019. Cash used in operations was $216,083, compared to cash from operations of $574,570 in 2019.

Financial Highlights

As at and for the quarter ended

	2020	2019
Total Revenue	$ 10,524,904	$ 13,412,341
Gross Margin	4,660,897	6,547,447
SG&A Expenses	4,172,372	4,395,496
R&D Expense	1,013,126	1,042,192
Financial Expenses	1,056,102	1,066,078
Operating Loss for the year, before Impairment of Assets and Income Taxes	(1,580,703)	43,681
Net Income (Loss) and Comprehensive Income (Loss) for the year	(6,227,525)	31,918
Cash Provided (Used) by Operating Activities	8,566	44,368
Cash	92,661	95,571
Accounts receivable	1,877,009	1,709,470
Total current assets	6,492,832	6,452,308
Total assets	15,598,011	19,629,573
Total current liabilities	4,090,038	4,765,895
Total liabilities	8,978,534	9,092,165
Total shareholders' equity	6,619,477	10,537,408
Current ratio	1.59	1.35
Debt to equity ratio	1.36	0.86

SELECTED QUARTERLY FINANCIAL INFORMATION

	Dec-31-18 $	Mar-31-19 $	Jun-30-19 $	Sep-30-19 $	Dec-31-19 $	Mar-31-20 $	Jun-30-20 $	Sep-30-20 $
Sales	2,460,812	4,253,629	3,110,615	3,587,285	2,046,348	2,874,496	2,898,328	2,705,732
Net Income (Loss) and Comprehensive Income (Loss)	(119,296)	391,352	(191,322)	(48,816)	(585,265)	(219,030)	(440,233)	(4,982,997)
Operating Loss before Impairment of assets	(119,296)	482,037	(191,322)	(127,738)	(585,265)	(219,030)	(440,233)	(336,175)

OUTLOOK

Microbix's primary business is the result of three decades of experience manufacturing high quality viral and bacterial antigens – for use in the medical diagnostic testing industry. Its many antigen products have received widespread and longstanding acceptance by "immunoassay" diagnostic test makers, with continuing growth in demand being the general trend. Microbix antigens are now used by over 100 diagnostics manufacturers and are the critical biology inside tens of millions of medical tests for bacterial and viral diseases.

From 2017 until the emergence of the COVID-19 pandemic, growth in demand for Microbix's antigens had been stronger to end-customers in both established and emerging markets. Much of that growth was believed to be due to a number of diagnostics for infectious diseases important to public health beginning to be adopted in the Asia-Pacific region. In fiscal 2018, we saw the emergence of this Asian demand materialize in orders from our distribution partner for such markets, as well as from customers based in North America and Europe that were achieving growing sales into Asia. While we believe Asia-Pacific demand for antigens should continue to grow over time, sales to this newer market were also adding to the quarter-to-quarter volatility of Microbix's revenues. In 2020, antigen demand has demonstrated further volatility as a result of the COVID-19 pandemic and its impacts on patient behaviours and global allocation of testing resources.

Beyond COVID-19, the long-term effect of increasing Asia-Pacific test usage may be to take Microbix's potential market from being the population of North America and Western Europe to closer to the much larger overall global population. As a leading global supplier of such vital native antigens that has created and validated leading-edge production techniques, Microbix believes it is now well-prepared to fulfill such demand growth.

In 2020, a further potential antigens market driver emerged in the form of the COVID-19 pandemic. While Microbix does not currently supply native or recombinant antigens for immunoassay tests for the Coronavirus that causes COVID-19 disease (properly called the SARS-CoV-2 virus), it does expect to see lasting long-term benefits within its antigens business. Such benefits would initially come from increased testing capacity in general, and specifically from increased testing for respiratory pathogens other than the SARS-CoV-2 virus. Notably, healthcare practitioners are likely to want a definitive diagnosis of the reason for illness if a patient tests negative for SARS-CoV-2 (i.e., if not that, then what?) and will need to know if a patient is co-infected with another respiratory pathogen if they test positive for SARS-CoV-2 (e.g., at greater risk because co-infected with an influenza virus or a resulting bacterial infection). Microbix has begun to see its flow of orders for some of its respiratory antigens increase, as its products form an integral part of some approved tests. However, in the short term, patient testing for diseases other than COVID-19 are being disrupted as a result of several factors, including testing resources limitations, patient reluctance to see medical professionals for non-emergency issues, and recurring societal lockdowns. It is important to note that these factors are not unique to Microbix, but are affecting the entire diagnostics industry on a worldwide basis.

Microbix's QAPs business involves the use of antigens and nucleic acids for purposes beyond the large-scale manufacturing of medical test kits. This newer usage packages a very small amount of stabilized and inactivated bacteria, virus, or representative analogue, into individual small vials (e.g., 1.0 ml) or dried onto sample collection swabs (i.e., Copan® "FLOQSwabs®"). Such samples are used as tools to establish whether the quality objectives of clinical laboratories are being met – for example to assess whether testing equipment is functioning properly, if staff has been adequately trained and is performing properly, or if reagents have spoiled. Such innovative, proprietary, and branded quality assessment products (QAPs™, pronounced as "caps") are a high value end-use of Microbix's biologicals expertise and there is a growing need for such products as regulators progressively tighten their surveillance of the competence of medical testing labs. Notable drivers for such demand are the U.S. "CLIA" regulations, European Union IVD-D and IVD-R regulations, and ISO 15189 standards, that are all encouraging labs to increase use of quality products from qualified third parties across their ever-broadening portfolio of tests. Microbix now derives close to 20% of its sales from providing QAPs – to laboratory accreditation organizations, diagnostic test and instrument-makers and to clinical laboratories (directly and via distributors).

OUTLOOK (Continued)

The COVID-19 pandemic has presented a pertinent illustration of the need for QAPs and Microbix's capabilities to create, license/register, and manufacture such products. As Microbix concluded this emerging pathogen had potential to create a pandemic, it began the development of QAPs products directed at supporting the accuracy of emerging molecular (RT-PCR) tests for the virus. Discussions around the development of this product began in February and culminated in the announcement of an internally and externally validated prototype on March 30, Health Canada (MDEL) licensing of commercial products on April 21, U.S. FDA registration on May 7, and the European Union "CE Mark" on June 5. Microbix announced the first shipment of QAPs as licensed medical devices to support accuracy of the testing programs of Canadian clinical labs on May 6, to European distributors on June 15, and to Microbix's U.S. distributor on June 30. Subsequent to the September 30 fiscal year-end, Microbix announced two further projects to support the fight against the pandemic – A project to produce viral transport media (VTM) in support of Ontario's RT-PCR testing for COVID-19 disease (October 13), and the creation of QAPs to support antigen-based testing for COVID-19 disease (October 20). Throughout this very challenging year, everyone at Microbix has been working hard to help conquer the new challenges to human health and well-being.

Due to the positive prospects of each of the above lines of its business and products, Microbix continues to reinvest to better ensure that it can meet expected growth in demand. Such work includes upgrading its manufacturing technologies, quality systems, processes and training, capacity and allocation of resources, along with developing and launching new products. This has involved many steps to both de-bottleneck and de-risk our production processes, work that will be ongoing as Microbix continues to grow sales across our product lines. Starting in fiscal 2018, multiple upgrades to facilities have been completed and further investments will be made in infrastructure going forward, such as those announced on May 27 and October 13. Additionally, Microbix will be investing in our people – with efforts to enhance training, career progression, and retention.

Initial benefits of the manufacturing upgrades were seen in the sales of fiscal 2018 and 2019, which demonstrated an annual compound growth rate of 15%, over the two year period. In fiscal 2020, Microbix has been positioning for continuing sales growth, particularly of its QAPs product lines, alongside material improvement to its percentage gross margins, with margin gains being driven by the use of new production technologies and a growing proportion of higher margin products.

Fiscal 2020 proved to be challenging for many companies, including Microbix. The COVID-19 pandemic is disrupting normal antigen ordering patterns and has delayed the widespread uptake of Microbix's novel and innovative QAPs for high-risk Human Papilloma Virus (HPV) molecular testing. The development and registration of leading-edge QAPs to support COVID-19 test accuracy have partially, but not fully, offset these disruptions and delays.

Also notable has been the departure from our fiscal 2020 yield/margin objectives for bioreactor production – principally in Q3. Specifically, equipment and materials failures, as we moved to a more intensive level of production, led to an unacceptably high rate of batch failures over the period. Steps have been undertaken to correct that situation, including heightened preventative maintenance and part-change programs, tighter scrutiny on materials, along with process-related steps to increase the yield of successful batches. Management at all levels took responsibility for the resulting margin losses, which were largely responsible for the net loss reported in Q3. Progress upon Corrective and Preventative Actions (CAPAs) has been material, with a near cessation of batch losses and significant improvements to average net yields.

Going forward, Microbix is continuously working to improve its percentage gross margin while also growing its sales of antigens and QAPs, and commencing sales of VTM. Percentage gross margin improvements should be achievable by way of an increasing proportion of bioreactor-driven antigen sales, improving antigen yields on a broader basis, larger sales of a broader suite of quality assessment products, and making VTM a meaningful third source of sales. Achievement of Microbix's sales and gross margin goals is expected to lead to meaningful quarterly net earnings.

OUTLOOK (Continued)

Quarterly reporting will update shareholders on progress with such operational goals.

With regards to Kinlytic urokinase, Microbix's biologic clot-buster therapeutic, it is management's opinion that the COVID-19 pandemic has increased the difficulty of securing a partnering agreement to obtain the required re-development funding. This is for two reasons: (i) the pandemic has disrupted the business of the hospital-oriented product companies that are the logical partners for this asset (due to fewer normal-course procedures being done) and thereby constrained the new product budgets of such companies, and (ii) ongoing restrictions on physical travel (i.e., closed borders, quarantines, etc.) are making it more difficult to advance negotiations, conclude partnerships, and manage off-site manufacturing or clinical trial work.

Accordingly, Microbix cannot represent a precise timeline for securing a funding partner to advance the re-development of Kinlytic to sBLA filing and renewed commercial sales. As a consequence, management is required to follow International Financial Reporting Standards (IFRS) and fully impair the book value of this asset, incurring a non-cash charge to earnings and reducing the carried value of Kinlytic to zero on Microbix's financial statements. Even though this asset has been written down, management intends to continue efforts to partner this asset and return the drug to the United States market for its catheter-clearance sub-indication.

To summarize, the company continues to target double-digit annual percentage growth in sales, while concurrently expanding gross margins and net earnings. Sustainable growth and consistent profitability are core goals for Microbix. Those objectives should be attainable based on increasing long-term demand for antigens, implementation of innovative antigen production methods, the launch of new QAPs product lines, the commercialization of VTM, and successful partnering of Kinlytic. It is intended for success with such initiatives to drive share price appreciation.

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 $41,894,010 as at September 30, 2020. Management continuously monitors the financial position of the Company with respect to working capital needs, as well as long-term capital requirements compared to the annual operating budget. Variances are highlighted and actions are taken to ensure the Company is appropriately capitalized.

Future Liquidity and Capital Needs

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

Over the course of fiscal 2021, cash flow is expected to improve due to: 1) continued growth in antigen and quality product sales, 2) improvements in product pricing or other sales terms, 3) commencement of sales of higher percentage gross 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 overall liquidity position, as the Company's plans come to fruition.

To support the continued growth of the business, on January 30, 2020, the Company completed a non-brokered private placement offering of an aggregate of 11,800,000 units for total gross proceeds of $2,360,000. Each unit consisted of one common share of Microbix and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $0.36 for five years. The financing was non-brokered. Cash commissions of $104,300 were paid and an aggregate of 521,500 Broker's Warrants were issued in the private placement offering. Each Broker's Warrant entitles the holder to purchase one common share at a price of $0.36 for a period of five 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.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES (Continued)

***Future Liquidity and Capital Needs* (Continued)**

Microbix will continue to monitor and manage its cash position, with the objective of anticipating and meeting all future liquidity and capital needs.

Outstanding Share Capital

Share capital issued and outstanding as at September 30, 2020 was $35,357,144 for 108,772,705 common shares and September 30, 2019 was $33,912,460 for 96,972,705 common shares.

Global Pandemic

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

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

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

Any of these developments, and others, could have a material adverse effect on the Company's business, financial condition, operations and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in the Company's financial statements will change in the near term and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets or a change in the estimated credit losses on accounts receivable. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business.

See the "Risks and uncertainties" section of this MD&A for a further discussion of the COVID-19 pandemic.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

TREND INFORMATION

Historical spending patterns are no indication of future expenditures. Investment in the new products and technologies is at the discretion of management and the board of directors. 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 17, 2020.

RISKS AND UNCERTAINTIES

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed, including through the use of financial instruments where appropriate. Further discussion of the management of such risks is included in note 20 to the audited consolidated financial statements for the year ended September 30, 2020.

RISKS AND UNCERTAINTIES (Continued)

COVID-19 Pandemic

As previously discussed, the Company's business may be negatively impacted by the COVID-19 pandemic, which has created, and continues to create, significant societal and economic disruptions. The changing and rapidly-evolving effects of the COVID-19 pandemic – the duration, extent and severity of which are currently unknown – on investors, businesses, the economy, government bodies, society and the financial markets could, among other things, add volatility to the global stock markets and change interest rate environments. The COVID-19 pandemic and measures to prevent its spread may negatively impact the Company, its customers, counterparties, employees, third-party service providers and other stakeholders, as applicable, in a number of ways, including, but not limited to, by: (i) adversely affecting the business operations of the Company, including the Company's planned sales and marketing processes for its approved products; (ii) disrupting the Company's supply chain, including the manufacture and/or delivery of its products to its customers and distributors on which the Company relies; (iii) adversely affecting local, national or international economies and employment levels; (iv) causing business interruptions, including as a result of steps taken by the Company in compliance with government recommendations and orders, such as requiring employee to work remotely, which may cause strain on such existing resources as information technology systems, and suspension of all non-essential travel; (v) disrupting public and private infrastructure, including communications and financial services, which could disrupt the Company's normal business operations; (vi) disrupting health care delivery; disrupting or prolonging business development initiatives such as the partnering of Kinlytic® urokinase. At this point, the extent to which the COVID-19 pandemic will or may impact the Company is uncertain and these factors are beyond the Company's control; however, any of these events, in isolation or in combination, could have a material adverse effect on the Company's business, results of operations and financial condition and the market price of the Company's securities. 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 Antigens Product sales are dependent on key clients, open borders, international transportation systems, and access to raw materials.

A significant share of the Company's antigens products sales are sold to a few key customers globally. These products contributed a significant share of the revenues. 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's 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's antigen products are considered a production ingredient and not directly regulated by governments in Canada or other jurisdictions. Commercialization of certain quality assessment products require approval of regulatory agencies such as the FDA, in which case Microbix will not receive revenue until regulatory approval is obtained.

Quality Assessment Products in development

The Company has multiple quality assessment products under development, with the goal of building its sales of this category of product. There is no assurance 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 its related product development investments.

RISKS AND UNCERTAINTIES (Continued)

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 seeks to earn a profit on the sale of its Antigens & QAPs, which is a major source of funding for its research and development activities. The Company believes that cash generated from operations is sufficient to meet normal operating and capital requirements. However, the Company may need to raise additional funds, from time to time for several reasons including, to expand production capacity, 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.

Future success may depend on successfully commercializing new products or technologies

In the nearer term, Microbix must maintain and grow its existing product sales. To survive and prosper over the longer term, Microbix may need to commercialize new products or technologies. Such work is inherently uncertain and there is no guarantee that Microbix will be successful with its efforts.

Failure to obtain and protect intellectual property could adversely affect business

Microbix's 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 know-how. To help protect its intellectual property, the Company requires employees, consultants, advisors and collaborators to enter into confidentiality agreements. However, these agreements may not adequately protect trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Protection of intellectual property may also entail prosecuting claims against others who the Company believes are infringing its rights or securing its freedom to operate relative to the rights of other parties. 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 may have greater 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's competitors may also be making significant investments in all of these areas, which could make it more difficult for Microbix to commercialize its products and technologies.

FINANCIAL RISK MANAGEMENT

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

Credit risk:
The Company's cash is held in accounts or short-term interest bearing accounts at one of the major Canadian chartered banks. Management perceives the credit risk to be low. Typically the outstanding trade receivable balance is relatively concentrated with a few large customers representing the majority of the value. As at September 30, 2020, five customers accounted for 83% (September 30, 2019 - five customers accounted for 78%) of the outstanding balance. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $10,000 (September 30, 2019 - $25,625).

Currency risk:
The Company is exposed to currency risk given its global customer base. Over 90% of its revenue is denominated in either U.S. dollars or Euros. The Company does not use financial instruments to hedge this currency risk. At September 30, 2020, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		**Euros**	
	2020	2019	2020	2019
Cash	**$ 15,397**	$ 88,820	**$ 1,551**	$ 5,223
Accounts receivable	**1,186,876**	797,352	**273,858**	591,454
Accounts payable and accrued liabilities	**150,600**	197,551	**-**	-

Based upon 2020 results, the impact of a 5% increase in the U.S. dollar against the Canadian dollar would result in an increase in annual U.S. dollar based revenue of approximately $327,900 Cdn. The impact of a 5% increase in the Euro against the Canadian dollar would result in an increase in annual Euro based revenue of approximately $180,200.

Correspondingly, the impact of a 5% decrease in the U.S. dollar against the Canadian dollar would result in a loss in annual U.S. dollar based revenue of approximately $327,900 Cdn. The impact of a 5% decrease in the Euro against the Canadian dollar would result in a loss in annual Euro-based revenue of approximately $180,200.

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. In addition, during fiscal 2017 the Company announced that it has arranged a secured revolving credit facility with The Toronto-Dominion Bank ("TD Bank") and Export Development Canada ("EDC"). The credit facility is being used to fund the Company's need for working capital to grow its existing business. This facility is helping to satisfy the Company's liquidity needs and to 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 is primarily on the BDC debt that has a variable rate pegged to the bank rate. The rate can be fixed, if the outlook indicates interest rates will move higher. The only other variable debt the Company has is the $2,000,000 line of credit that bears interest at the bank's prime lending rate plus 2.0%. As at September 30, 2020 the Company has not drawn on this line of credit. A 1% increase in the bank rate would cost the Company approximately $30,000 per year for BDC and about $20,000 on the line of credit usage if it were fully used throughout the fiscal year.

FINANCIAL RISK MANAGEMENT (Continued)

Market risk

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

Fair value

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

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

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of these interim condensed 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 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 or useful life of the asset. Amortization commences when the intangible asset is available for use. Intangibles with definite lives but not yet available for use are assessed at least annually for impairment or more frequently if there are indicators of impairment.

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 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.

CRITICAL ACCOUNTING ESTIMATES (Continued)

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, 2020, 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.

FINANCIAL INSTRUMENTS (Continued)

Internal Controls Over Financial Reporting

The design of internal controls over financial reporting ("ICFR") within the company is a management responsibility to provide reasonable assurance that the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with generally accepted accounting principles of IFRS. While the CEO and CFO believe that the internal controls are adequate to provide the above information, the process to evaluate and document all policies and procedures that could impact financial reporting is continuously reviewed with consultation with the Audit Committee. Shareholders should be aware that Microbix is a small company without the department resources associated with larger firms. Management is using the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). Framework and has concluded that the Internal Control over Financial Reporting ("ICFR") as defined in NI 52-109 is effective as at the period ended September 30, 2020.

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, 2020 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

IMPACT OF NEW ACCOUNTING STANDARDS

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

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2020

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

IFRS 16, Leases ("IFRS 16")

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

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

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

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

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2020 (Continued)

IFRS 16, Leases ("IFRS 16") (Continued)

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

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

Impact on the financial statements on transition

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

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

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

	Right-of-Use Assets		Lease
	Property	Equipment	Liabilities
Balance, October 1, 2019	$ 419,843	$ 343,698	$ 693,747
Additions	-	6,695	6,695
Depreciation Expense	(74,088)	(47,600)	-
Interest Accretion	-	-	15,146
Payments	-	-	(173,649)
Balance, September 30, 2020	**$ 345,755**	**$ 302,793**	**$ 541,939**

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **Microbix Biosystems Inc.**

We have audited the consolidated financial statements of Microbix Biosystems Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at September 30, 2020 and 2019, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at September 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis; and
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (Continued)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Laura Sluce.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
December 17, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT SEPTEMBER 30, 2020 AND 2019 **Canadian Funds**

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash	$ 92,661	$ 95,571
Accounts receivable (Note 20)	1,877,009	1,709,470
Inventories (Note 5)	4,292,664	4,480,192
Prepaid expenses and other assets	220,065	99,201
Investment tax credit receivable	10,433	67,874
TOTAL CURRENT ASSETS	6,492,832	6,452,308
LONG-TERM ASSETS		
Deferred tax asset (Note 15)	-	1,568,237
Property, plant and equipment (Note 4, 6)	7,363,155	6,650,380
Intangible assets (Note 7)	1,742,024	4,958,648
TOTAL LONG-TERM ASSETS	9,105,179	13,177,265
TOTAL ASSETS	$ 15,598,011	$ 19,629,573
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,488,312	$ 1,462,616
Bank indebtedness (Note 9)	-	1,400,000
Current portion of long-term debt (Note 9)	235,230	408,260
Current portion of debentures (Note 8)	892,125	774,178
Current portion of lease liability (Note 4)	158,633	80,378
Deferred revenue (Note 22)	1,315,738	640,463
TOTAL CURRENT LIABILITIES	4,090,038	4,765,895
Non-convertible debentures (Note 8)	713,853	750,350
Convertible debentures (Note 8)	1,419,834	1,353,905
Lease liability (Note 4)	383,306	169,149
Long-term debt (Note 9)	2,371,503	2,052,866
TOTAL LONG-TERM LIABILITIES	4,888,496	4,326,270
TOTAL LIABILITIES	$ 8,978,534	$ 9,092,165
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	$ 35,357,144	$ 33,912,460
Equity component of convertible debentures (Note 8)	2,903,789	2,903,789
Contributed surplus	10,252,554	9,387,644
Accumulated deficit	(41,894,010)	(35,666,485)
TOTAL SHAREHOLDERS' EQUITY	$ 6,619,477	$ 10,537,408
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 15,598,011	$ 19,629,573

Commitments and Contingencies (Note 24)

(Signed) "Martin Marino"
MARTIN MARINO
DIRECTOR

(Signed) "Cameron L. Groome"
CAMERON L. GROOME
DIRECTOR

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

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the years ended September 30, 2020 and 2019 **Canadian Funds**

	2020	2019
SALES		
Antigens and QAPs	$ 10,230,107	$13,067,727
Royalties	294,797	344,614
TOTAL SALES	10,524,904	13,412,341
COST OF GOODS SOLD		
Antigen and QAPs (Notes 5, 14)	5,808,978	6,796,735
Royalties	55,029	68,159
TOTAL COST OF GOODS SOLD	5,864,007	6,864,894
GROSS MARGIN	4,660,897	6,547,447
EXPENSES		
Selling and business development (Note 14)	632,554	651,460
General and administrative (Note 14)	3,539,818	3,744,036
Research and development (Note 14)	1,013,126	1,042,192
Financial expenses (Note 17)	1,056,102	1,066,078
OPERATING INCOME (LOSS) BEFORE IMPAIRMENT OF ASSETS	(1,580,703)	43,681
Impairment of long-lived assets (Note 7)	3,078,585	-
OPERATING INCOME (LOSS) FOR THE YEAR, BEFORE INCOME TAXES	(4,659,288)	43,681
INCOME TAXES		
Deferred income taxes	1,568,237	11,763
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ (6,227,525)	$ 31,918
NET LOSS PER SHARE		
Basic (Note 13)	$ (0.059)	$ 0.000
Diluted (Note 13)	$ (0.059)	$ 0.000

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30, 2020 and 2019 **Canadian Funds**

	2020	2019
OPERATING ACTIVITIES		
Net Income (Loss) for the Year	$(6,227,525)	$ 31,918
Items not affecting cash		
Amortization and depreciation (Note 21)	690,087	568,822
Accretion of debentures (Note 8)	255,883	208,592
Stock options and warrants expense (Note 12)	158,836	151,988
Accretion interest expense	23,027	-
Deferred tax asset (Note 3)	1,568,237	11,763
Impairment of long-term assets (Note 7)	3,078,585	-
Change in non-cash working capital balances (Note 16)	461,436	(928,715)
CASH PROVIDED BY OPERATING ACTIVITIES	8,566	44,368
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (Note 6)	(812,708)	(433,233)
Additions from internal development of intangible assets (Note 7)	(1,200)	(81,567)
CASH USED IN INVESTING ACTIVITIES	(813,908)	(514,800)
FINANCING ACTIVITIES		
Repayments of long-term debt (Note 9)	(408,260)	(438,120)
Proceeds from equipment Loan and government loan (Note 9)	742,085	-
Repayments of non-convertible debentures (Note 8)	(108,504)	(99,609)
Payment of lease liabilities	(173,648)	(80,626)
Issue of common share units, net of issue costs	2,150,759	-
Proceeds (repayments) of credit facility (Note 9)	(1,400,000)	1,140,000
CASH PROVIDED BY FINANCING ACTIVITIES	802,432	521,645
NET CHANGE IN CASH - DURING THE YEAR	(2,910)	51,213
CASH - BEGINNING OF YEAR	95,571	44,358
CASH - END OF YEAR	$ 92,661	$ 95,571

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

As at September 30, 2020 and 2019 **Canadian Funds**

	Share Capital (Note 10)					
	Number of Shares	Stated Capital	Contributed Surplus	Deficit	Equity Component of Debenture	Total Shareholders' Equity
Balance, September 30, 2018	96,972,705	$33,912,460	$9,235,656	$(35,698,403)	$2,903,789	$10,353,502
Share-based compensation expense	-	-	151,988	-	-	151,988
Net income and comprehensive income for the year	-	-	-	31,918	-	31,918
Balance, September 30, 2019	**96,972,705**	**$33,912,460**	**$ 9,387,644**	**$(35,666,485)**	**$2,903,789**	**$10,537,408**
Share-based compensation expense	-	-	158,836	-	-	158,836
Issue of Warrants pursuant to Private Placement	-	-	748,550	-	-	748,550
Share Issuance pursuant to Private Placement	11,800,000	1,611,450	-	-	-	1,611,450
Share Issue Costs pursuant to Private Placement	-	(166,766)	(42,476)	-	-	(209,242)
Net loss and comprehensive loss for the year	-	-	-	(6,227,525)	-	(6,227,525)
Balance, September 30, 2020	**108,772,705**	**$35,357,144**	**$10,252,554**	**$(41,894,010)**	**$2,903,789**	**$6,619,477**

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

1. NATURE OF THE BUSINESS

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

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

2. BASIS OF PREPARATION

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"). The Board of Directors approved these consolidated financial statements on December 17, 2020.

Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Basis of consolidation

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

Global pandemic

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

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

Any of these developments, and others, has had a material adverse effect on the Company's business, financial condition, operations and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in the Company's financial statements will change in the near term and the effect of any such changes could be material, which could result in, among other things, an impairment of long-lived assets or a change in the estimated credit losses on accounts receivable. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business. The duration and impact of the COVID-19 outbreak are unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates and judgments

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

Key areas of managerial judgments and estimates are as follows:

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

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

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

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.

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.

Impairments:
Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Management evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenues from product sales are recognized when control of the promised good is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods.

Revenues from licensing of the Company's intangible assets are recognized when the service is rendered and control of the service is transferred to the Company's customers. Royalty income is recognized based on activity at the point in time each service instance is provided.

The Company may invoice certain customers in advance for contracted product sales. Amounts received in advance of control of the product transferring to the customer are deferred and recognized as revenue in the period control is transferred.

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, 2020 or 2019.

Financial assets and liabilities

The Company's financial assets and liabilities (financial instruments) include cash, accounts receivable, accounts payable and accrued liabilities, long-term debt, bank indebtedness, convertible and non-convertible debentures. All financial instruments are recorded at fair value at recognition. Financial instruments are measured by grouping them into classes upon initial recognition, based on the purpose of the individual instruments.

Subsequent to initial recognition, the classification and measurement of the Company's financial assets are included in one of the following categories:

- Amortized cost: Financial instruments that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income (expense) from these financial instruments is recorded in net income (loss) using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Debt instruments that are held for collection of contractual cash flows and for selling the financial instruments, where the financial instruments' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses that are recognized in net income (loss). When the financial instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income (loss) and recognized in other gains (losses). Interest income (expense) from these financial instruments is included in interest using the effective interest rate method. Foreign exchange gains (losses) is presented in other gains (losses) and impairment expenses in other expenses.
- Fair value through profit (loss) ("FVTPL"): Financial instruments that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a financial instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in net income (loss) and presented net in comprehensive income (loss) within other gains (losses) in the period in which it arise.

Subsequent to initial measurement financial liabilities are either classified as amortized cost or FVTPL when the Company revises its estimates of payments of a financial liability to reflect actual and revised estimated contractual cash flows. Gross carrying amount of the amortized cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted adjustment is recognized in income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	Classification and Measurement Method	2020	2019
Financial assets:			
Cash	FVTPL	$ 92,661	$ 95,571
Accounts receivable	Amortized cost	1,877,009	1,709,470
Financial liabilities:			
Accounts payable and accrued liabilities	Amortized cost	$ 1,488,312	$ 1,462,616
Bank Indebtedness	Amortized cost	-	1,400,000
Non-convertible debentures	Amortized cost	1,221,617	1,199,619
Convertible debentures	Amortized cost	1,804,195	1,678,814
Long-term-debt	Amortized cost	2,606,733	2,461,126

Inventories

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

Property, plant and equipment

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

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

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.

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 or useful life of the asset. Amortization commences when the intangible asset is available for use. Intangibles with definite lives but not yet available for use are assessed at least annually for impairment or more frequently if there are indicators of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets

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

Borrowing costs

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

Share-based compensation

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

Share options issued to consultants of the Company are based on the fair value of the services provided. The amount of the compensation cost recognized at any date at least equals the value of the portion of the options vested at that date. When stock options are exercised, the consideration paid by employees or directors, together with the related amount in contributed surplus, is credited to share capital. When an employee leaves the Company, vested options must be exercised within 90 days, or the options expire. Any options that are unvested are reversed in the period that the employee leaves. No forfeiture rate is incorporated into the assumptions on awarding options. To the extent actual forfeitures occur, share-based compensation related to these awards will be different from the Company's estimate and are revised.

Foreign currency translation

For each entity, the Company determines the functional currency and items included in the financial statements of each entity are measured using the functional currency, which represents the currency of the primary economic environment in which each entity operates.

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

Income (loss) per common share

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Leases – policy applicable from October 1, 2019

The Company as lessee

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Leases – policy applicable from October 1, 2019 (Continued)

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

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

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

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

Government Financing and Assistance

Government assistance that requires repayment and that is non-interest bearing is accounted for at its fair value, based on management's best estimate. The difference between the assistance amount and its fair value is accounted for as a government grant and recognized in income over the period in which the related costs they are intended to compensate are recognized.

In fiscal 2020, the Company determined that it was eligible for the Canada Emergency Wage Subsidy. Funding from this program provides a reimbursement for a portion of salaries paid out to employees during the COVID-19 pandemic and is recorded as a reduction of salary expense when eligible expenditures are made and there is reasonable assurance of realization.

4. IMPACT OF NEW ACCOUNTING STANDARDS

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL 2020

The Company has adopted new amendments to the following accounting standards effective October 1, 2019. The effect of these pronouncements on the Company's results and operations are described below.

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

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

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

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

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

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

Impact on the financial statements on transition

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

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

4. IMPACT OF NEW ACCOUNTING STANDARDS (Continued)

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

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

	Right-of-Use Assets		Lease
	Property	Equipment	Liabilities
Balance, October 1, 2019	$ 419,843	$ 343,698	$ 693,747
Additions	-	6,695	6,695
Depreciation Expense	(74,088)	(47,600)	-
Interest Accretion	-	-	15,146
Payments	-	-	(173,649)
Balance, September 30, 2020	**$ 345,755**	**$ 302,793**	**$ 541,939**

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

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

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

5. INVENTORIES

Inventories consist of the following:

	September 30, 2020	September 30, 2019
Raw materials	$ 710,587	$ 496,021
Work in process	1,122,584	1,387,824
Finished goods	2,459,493	2,596,347
	$ 4,292,664	$ 4,480,192

During the year ended September 30, 2020, inventories in the amount of $5,808,978 (2019 - $6,796,735) were recognized as an expense through cost of sales. The allowance for inventory impairment as at September 30, 2020 was $241,378 (September 30, 2019 - $55,747).

6. PROPERTY, PLANT AND EQUIPMENT

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

	Building	Research and Development Equipment	Other Equipment and Fixtures	Right of Use Assets	Land	Total
COST						
Balance, as at September 30, 2018	$ 4,923,033	$ 500,709	$ 5,349,475	$ -	$ 800,000	$ 11,573,217
Additions	64,074	16,422	352,737	-	-	433,233
Disposals	-	-	-	-	-	-
Balance, as at September 30, 2019	$ 4,987,107	$ 517,131	$ 5,702,212	$ -	$ 800,000	$ 12,006,450
IFRS 16 Adoption (Note 4)	-	-	(403,989)	848,209	-	444,220
Additions	179,818	40,177	592,713	6,695	-	819,403
Disposals	-	-	-	-	-	-
Balance, as at September 30, 2020	**5,166,925**	**557,308**	**5,890,936**	**854,904**	**800,000**	**13,270,073**
ACCUMULATED DEPRECIATION						
Balance, as at September 30, 2018	1,406,798	423,354	3,096,334	-	-	4,926,487
Depreciation	167,060	10,635	251,888	-	-	429,583
Disposals	-	-	-	-	-	-
Balance, as at September 30, 2019	1,573,858	433,989	3,348,222	-	-	5,356,070
IFRS 16 Adoption (Note 4)	-	-	(84,668)	84,668	-	-
Depreciation	170,986	12,518	245,656	121,688	-	550,848
Disposals	-	-	-	-	-	-
Balance, as at September 30, 2020	**1,744,844**	**446,507**	**3,509,210**	**206,356**	**-**	**5,906,917**
NET BOOK VALUE						
Balance, September 30, 2019	3,413,249	83,142	2,353,990	-	800,000	6,650,380
Balance, September 30, 2020	**$ 3,422,081**	**$ 110,801**	**$ 2,381,726**	**$ 648,548**	**$ 800,000**	**$ 7,363,155**

7. INTANGIBLE ASSETS

Intangible assets consist of:

	Capitalized Development Costs	Patents and Trademarks		
	Bioreactor	Kinlytic®	QAPs	Total
	(b)	(a)	(c)	
COST				
Balance, as at September 30, 2018	$ 2,088,575	$ 3,078,585	$ -	$ 5,167160
Additions	-	-	81,568	81,568
Balance, as at September 30, 2019	2,088,575	3,078,585	81,568	5,248,728
Additions	-	-	1,200	1,200
Impairment (a)	-	(3,078,585)	-	(3,078,585)
Balance, as at September 30, 2020	**2,088,575**	**-**	**82,768**	**2,171,343**
ACCUMULATED AMORTIZATION				
Balance, as at September 30, 2018	150,842	-	-	150,842
Amortization expense	139,238	-	-	139,238
Balance, as at September 30, 2019	290,080	-	-	290,080
Amortization expense	139,239	-	-	139,239
Balance, as at September 30, 2020	**429,319**	**-**	-	**429,319**
NET BOOK VALUE				
Balance, as at September 30, 2019	1,798,495	3,078,585	81,568	4,958,648
Balance, as at September 30, 2020	**$ 1,659,256**	**$** -	**$ 82,768**	**$ 1,742,024**

The Bioreactor intangible asset is depreciated on a straight line basis at a rate of 7%. At each reporting date, the Company is required to assess its long-lived assets for potential indicators of impairment. If any such indication exists, the Company estimates the recoverable amount of the asset or CGU and compares it to the carrying value. In addition, irrespective of whether there is any indication of impairment, the Company is required to test long-lived assets with definite lives which are not yet available for use at least annually.

7. INTANGIBLE ASSETS (Continued)

a) Kinlytic®

The Company acquired the assets and rights pertaining to development, production, and licensing of Kinlytic® from ImaRX Therapeutics, Inc. in 2008. The asset is not yet available for use as management has determined that it will require an investment of approximately US$20 million to validate the new manufacturing needed pursuant to filing a supplemental Biologics Licensing Application (sBLA) with the United States Food and Drug Administration in order to return the product to that market.

The COVID-19 pandemic has increased the difficulty of partnering Kinlytic to obtain the required re-development funding. This is for two reasons: (i) the pandemic has disrupted the business of the hospital-oriented product companies that are the logical partners for this asset (due to fewer normal-course procedures being done) and thereby constrained the new product budgets of such companies, and (ii) ongoing restrictions on physical travel (i.e., closed borders, quarantines, etc.) are making it more difficult to advance negotiations, conclude partnerships, and manage off-site manufacturing or clinical trial work.

Accordingly, Microbix cannot represent a precise timeline for securing a funding partner to advance the re-development of Kinlytic to sBLA filing and renewed commercial sales. In accordance with IAS 36, Impairment of Assets, the Company determined that the recoverable amount of the Kinlytic® asset does not support its continued value and wrote-down the asset, which is presented as an impairment of long-lived assets of $3,078,586 in the consolidated statement of income (loss) and comprehensive income (loss).

b) Bioreactor

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

c) Quality Assessment Products (“QAPs”)

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

8. DEBENTURES

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

	Non-convertible debentures		Total non-convertible debentures	Convertible debentures			Total convertible debentures
	(a)	(b)		(c)	(d)	(e)	
Date of issue	Jan, 2014	Apr, 2017		Oct, 2016	Oct, 2016	Oct, 2016	
Face value	$ 2,000,000	$ 500,000	$ 2,500,000	$ 1,500,000	$ 500,000	$ 2,500,000	$ 4,500,000
Liability component at the date of issue	928,373	268,955	-	461,550	223,050	780,750	-
Balance, September 30, 2018	879,140	304,875	1,184,015	483,330	280,475	821,630	1,585,435
Accretion	79,323	35,890	115,213	17,045	44,434	31,900	93,379
Repayments	(99,609)	-	(99,609)	-	-	-	-
Balance, September 30, 2019	858,854	340,765	1,199,619	500,375	324,909	853,530	1,678,814
Accretion	82,483	48,019	130,502	22,991	59,452	42,938	125,381
Repayments	(108,504)	-	(108,504)	-	-	-	-
Balance, September 30, 2020	832,833	388,784	1,221,617	523,366	384,361	896,468	1,804,195
Less: current portion	118,980	388,784	507,764	-	384,361	-	384,361
Non-current portion	713,853	-	713,853	523,366	-	896,468	1,419,834
Balance, September 30, 2020	**$ 832,883**	**$ 388,784**	**$ 1,221,617**	**$ 523,366**	**$ 384,361**	**$ 896,468**	**$ 1,804,195**
Equity component at September 30, 2020	-	-	-	574,435	631,222	1,698,132	2,903,789
Conversion price per common share	$ -	$ -		$ 0.23	$ 0.23	$ 0.23	
Effective interest rate charged	25.69%	30.20%		31.07%	30.20%	30.85%	
Payment frequency	Quarterly	Quarterly		Quarterly	Quarterly	Quarterly	
Maturity of financial instrument	Jan, 2029	Apr, 2022		Jan, 2029	Feb, 2022	Sep, 2028	
Stated interest rate	9%	12%		9%	9%	9%	
Terms of repayment	Principal and interest	Interest only		Interest only	Interest only	Interest only	
Blended quarterly repayment	$ 61,071	N/A		N/A	N/A	N/A	

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

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

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

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

a) The Company has term loans with the Business Development Bank ("BDC") for a variety of purposes. The following summarizes these loans as at September 30, 2020:

Term Loans with the Business Development Bank ("BDC")	(a)	(b)	(c)	(d)	(e)	(f)	Total
Effective date of loan	Jun, 2008	Oct, 2014	Oct, 2015	Oct, 2015	Nov, 2015	Jul, 2018	
Initial Loan Amount	$ 3,000,000	$ 615,000	$ 50,000	$ 200,000	$ 250,000	$ 323,906	$ 4,438,906
Balance, September 30, 2018	2,157,580	225,500	15,600	89,910	112,320	298,336	2,899,246
Proceeds from loan	-	-	-	-	-	-	-
Loan repayments during the period	(111,120)	(123,000)	(12,480)	(39,960)	(49,920)	(101,640)	(438,120)
Balance, September 30, 2019	2,046,460	102,500	3,120	49,950	62,400	196,696	2,461,126
Proceeds from loan	-	-	-	-	-	286,094	286,094
Loan repayments during the period	(111,120)	(102,500)	(3,120)	(39,960)	(49,920)	(101,640)	(408,260)
Balance, September 30, 2020	**$ 1,935,340**	**$ -**	**$ -**	**$ 9,990**	**$ 12,480**	**$ 381,150**	**$ 2,338,960**
Current Portion	111,120	-	-	9,990	12,480	101,640	$ 235,230
Non-current portion	1,824,000	-	-	-	-	279,510	2,103,730
Payment frequency	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	
Maturity of loan	Feb, 2038	Jul, 2020	Dec, 2019	Dec, 2020	Dec, 2020	Jun, 2024	
Terms of repayment	Principal and interest	Principal and interest	Principal and interest	Principal and interest	Principal and interest	Principal and interest	

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

All BDC loans have a floating interest rate based on BDC's floating base rate plus 0.5% - 1.8%. At September 30, 2020, the rate was 5.05% (2019 – 6.55%). The loans are secured with the building and equipment.

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

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

	Amount
2021	$ 235,230
2022	212,760
2023	212,760
2024	187,350
2025	111,120
2026 and thereafter	$ 1,379,740

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

b) On September 18, 2019, the Company received approval from its Chartered Bank to increase the borrowing limit on its line of credit to $2.0 million. This line of credit bears interest at prime plus 2% (4.45% on September 30, 2020).

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

c) On July 29, 2019, the Company signed an agreement with Federal Economic Development Agency for Southern Ontario to provide a repayable government contribution where the Federal Development Agency has agreed to contribute funding for 30% of the Business Scale-up and Productivity Project expenditures made by the Company, up to $2,752,500 over the next four years. The Company is required to submit eligible expenses on a quarterly basis to receive the interest-free contributions. Repayment of the contribution does not begin until December 15, 2024. As at September 30, 2020, the Company has received contributions totalling $455,991 (September 30, 2019 – nil). The Company determined that the "Loan" consists of two components: an obligation to repay; and a government grant in the form of exemption from interest. The Company fair valued the obligation to repay at $267,771, based on a discount rate of 8%, which represents management's best estimate of fair value. The residual amount of $188,491 is allocated to the associated government grant and recognized as income over the period in which the related costs they are intended to compensate are recognized. As at September 30, 2020, the carrying value of the Loan is $267,770 (September 30, 2019 – nil) and $111,210 is recognized as a deferred grant within deferred revenue on the statement of financial position (September 30, 2019 – nil).

The Company is in compliance with the covenants associated with this loan as at September 30, 2020.

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

Fiscal Years		Amount
2025	$	75,998
2026		91,198
2027		91,198
2028		91,198
2029		91,198
2030		15,200

10. SHARE CAPITAL

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

On January 30, 2020, the Company completed a private placement offering of an aggregate of 11,800,000 units for total gross proceeds of $2,360,000, net proceeds of $2,150,759 after share issuance costs of $209,242. Each unit consists of one common share of Microbix and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $0.36 for five years. Fair value of the common share purchase warrants was determined to be $ 1,205,892. Gross proceeds were allocated to common shares and common share purchase warrants in the amount of $ 1,611,450 and $748,550 respectively. The financing was non-brokered. Cash commissions of $104,300 were paid and an aggregate of 521,500 Broker's Warrants were issued in the private placement offering. Fair value of the broker warrants was determined to be $42,476 using the Black-Scholes option pricing model. The volatility of the stock for the Black-Scholes options pricing model was based on 5-year historic volatility of the Company's stock price (69%) and the risk free rate of interest of 1.38% is based upon the Government of Canada benchmark bond yields - 3 to 5 year at the date of the award of the Broker's warrants and a five year term. Management believes that the historic stock volatility provides a fair and appropriate basis of estimate for the expected future volatility of the stock. Each Broker's Warrant entitles the holder to purchase one common share at a price of $0.36 for a period of five years. All securities issued under the private placement will be subject to a holding period, expiring four months and one day from the date of closing.

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

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

11. COMMON SHARE PURCHASE WARRANTS

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

	Units	Weighted average exercise price
Balance, September 30, 2018	15,168,579	$ 0.40
Issued	-	-
Expired	(3,449,763)	0.55
Balance, September 30, 2019	11,718,816	0.36
Issued (see note 10)	12,321,500	0.36
Expired	(755,764)	0.34
Balance, September 30, 2020	**23,284,552**	**$ 0.36**

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

	September 30, 2020			September 30, 2019		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life
			years			years
Range of exercise prices:						
$0.47 to $0.55	1,500,000	$ 0.55	0.03	1,500,000	$ 0.55	1.03
$0.23 to $0.46	21,784,552	0.35	2.66	10,218,816	0.33	1.37
	23,284,552	$ 0.36	2.49	11,718,816	$ 0.36	1.32

On September 28, 2020, the Company extended the term of an aggregate of 7,413,052 common share purchase warrants ("Warrants") by one year, which were issued in connection with Microbix's October, 2015 and October, 2017 private placement financings.

The Warrants now entitle holders to purchase common shares of Microbix at prices from $0.36 to $0.55 until October, 2021. All other Warrant terms remain unchanged.

12. STOCK OPTION PLAN

Under the Company's stock option plan, the Company may grant options to purchase common shares up to a maximum of 10% of the Company's issued and outstanding common shares. Under the plan as at September 30, 2020, the Company has a total of 10,040,000 options (September 30, 2019 – 7,738,000) issued and pending and is eligible to issue up to a total of 10,877,270 options.

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

The activity under the Company's stock option plan for year ended September 30, 2020 is as follows:

	Units	Weighted average exercise price
Balance, September 30, 2018	5,590,000	$ 0.39
Stock options forfeited	(22,000)	0.54
Stock options issued	2,170,000	0.23
Balance, September 30, 2019	7,738,000	$ 0.35
Stock options issued	2,350,000	0.22
Options Expired/Forfeited	(48,000)	0.54
Balance, September 30, 2020	**10,040,000**	**$ 0.32**
Exercisable, September 30, 2020	**5,600,000**	**$ 0.39**

The exercise price of each option equals the closing market price of the Company's capital stock on the day preceding the grant date. The following table reflects the number of options, their weighted average price and the weighted average remaining contract life for the options grouped by price range as of September 30, 2020 and 2019:

	September 30, 2020			September 30, 2019		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life
			years			years
Range of exercise prices:						
$0.54	2,400,000	$ 0.54	0.04	2,418,000	$ 0.54	1.08
$0.215 to $0.28	7,640,000	$ 0.25	3.09	5,320,000	$ 0.26	3.72
	10,040,000	**$ 0.32**	**2.36**	**7,738,000**	**$ 0.39**	**3.41**

12. STOCK OPTION PLAN (Continued)

The fair value of options granted during fiscal 2020 was estimated at the grant date using the Black-Scholes options pricing model, resulting in the following weighted-average assumptions:

	2020		2019	
Option Grant Dates	Feb.2020	Aug.2020	Feb.2019	Apr.2019
Share price on issue date	$0.215	$0.28	$0.23	$0.25
Dividend yield	0%	0%	0%	0%
Volatility	69%	71%	67%	67%
Risk-free interest rate	1.4%	0.3%	0.5%	0.5%
Expected option life (years)	5	5	5	5
Weighted average fair value of each option ($/option)	$0.12	$0.16	$0.13	$0.14

Stock options are assumed to be exercised at the end of the option's life, as management believes the probability of an early exercise is remote. During the year, the fair value of the options vested in the year were expensed and credited to contributed surplus. During the year, the Company recorded share-based compensation expense of $158,836 (2019 - $151,988).

13. INCOME (LOSS) PER SHARE

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

for the year ended September 30	2020	2019
Numerator for basic income (loss) per share:		
Net loss available to common shareholders	$ (6,227,525)	$ 31,918
Denominator for basic income (loss) per share:		
Weighted average common shares outstanding	104,839,372	96,972,705
Effect of dilutive securities:		
Warrants	-	105,325
Stock Options	-	7,022
Convertible debentures	-	-
Denominator for diluted net loss per share	104,839,372	97,085,052
Net income (loss) per share:		
Basic	($0.059)	$0.000
Diluted	($0.059)	$0.000

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

for the year ended September 30	2020	2019
Pursuant to warrants	23,284,552	11,613,491
Under stock options	10,040,000	7,730,978
Pursuant to convertible debentures	19,565,217	19,565,217
	52,889,769	38,909,686

14. EXPENSES BY NATURE

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

Depreciation and amortization

	2020	2019
Included in:		
Cost of goods sold	$ 598,003	$ 553,346
General and administrative expenses	79,566	4,841
Reasearch and development	12,518	10,635
Total depreciation and amortization	$ 690,087	$ 568,822

Employee costs

	2020	2019
Short-term wages, bonuses and benefits	$ 5,809,758	$ 6,074,929
Share based payments	114,980	151,987
Total employee costs	5,924,738	6,226,916
Included in:		
Cost of goods sold	$ 2,972,026	$ 3,135,253
Research and development	978,086	960,924
General and administrative expenses	1,489,355	1,656,456
Selling and business development	485,271	474,283
Total employee costs	$ 5,924,738	$ 6,226,916

During the year, the Company received $531,760 in assistance from the Canada Emergency Wage Subsidy program. This subsidy has been recorded against the related employee costs.

15. INCOME TAXES AND INVESTMENT TAX CREDITS

Income taxes consist of the following, for the years ended September 30:

	2020	2019
Provision based on combined federal and provincial statutory rates of 25.00 % (2019 – 25.00%)	$ (1,164,822)	$ 7,980
Increase (decrease) resulting from:		
Non deductible expenses	343	869
Stock-based compensation	39,709	37,997
Change in deferred tax assets not recognized	2,747,317	(274,083)
Adjustment in respect of income taxes of prior year and other	(54,310)	239,000
Income tax expense	$ 1,568,237	$ 11,763

The Company has unclaimed research and development expenses and accumulated losses for income tax purposes. Certain amounts 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 losses and expenses in the foreseeable future.

15. INCOME TAXES AND INVESTMENT TAX CREDITS (Continued)

The accumulated non-capital losses may be used to reduce taxable income in future years and must be claimed no later than September 30:

	$
2032	1,026,000
2037	279,000
2040	481,000
	1,786,000

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

	2020	2019
Deferred income tax assets:		
Non-capital loss carry-forwards	$ 446,404	$ 576,538
Difference in net book value compared to undepreciated capital cost	3,376,299	2,657,633
Deferred financing fees and other reserves	132,468	78,165
Unclaimed research and development expenses	3,806,280	3,785,914
Lease liabilities	137,143	62,381
Deferred income tax liability related to debentures	(848,936)	(913,213)
Right of use assets	(90,290)	-
Tax assets not recognized	(6,959,369)	(4,679,181)
Deferred tax assets recognized	$ -	$ 1,568,237

In fiscal 2020 the Company incurred $166,765 of share issuance costs which will be deducted from taxable income at $33,353 over five years. The deferred tax assets for these transactions have not been recognized.

The unrecognized balance of federal research and development investment tax credits carried forward is $3,156,533, reduced by a deferred tax liability of $789,133. The credits expire between 2026 and 2040. The unrecognized portion of Ontario research and development tax credits carried forward is $247,685 and these credits expire between 2030 and 2040. As a result of the uncertainty related to the impact of COVID-19 on the Company's business activities, the deferred tax asset of $1,568,237 was fully written down as of September 30, 2020.

16. CHANGES IN NON-CASH WORKING CAPITAL

	2020	2019
Accounts receivable	$ (167,539)	$ (395,990)
Inventory	187,528	(33,224)
Prepaid expenses and other assets	(120,864)	70,764
Investment tax credits receivable	57,441	24,373
Deferred Revenue	486,784	(290,662)
Accounts payable and accrued liabilities	18,086	(303,976)
	$ 461,436	$ (928,715)

17. FINANCIAL EXPENSES

	2020	2019
Cash interest:		
Interest on long-term debt	$ 144,899	$ 175,798
Interest on debentures	600,780	609,675
Interest other	31,513	72,013
Non-cash interest:		
Accretion on debentures	255,883	208,592
Accretion interest expense	23,027	-
Financial expenses	$ 1,056,102	$ 1,066,078

18. CAPITAL MANAGEMENT

The Company's capital management objective is to safeguard its ability to function as a going concern to maintain and grow its operations and to fund its development activities. Microbix defines its capital to include the drawn portion of the revolving line of credit, shareholders' equity, long-term debt, and the debentures. The capital at September 30, 2020 was $12,052,022 (September 30, 2019 - $17,276,967).

To date, the Company has used cash provided by operating activities, common equity issues, debentures, bank mortgage and other financing to fund its activities. The equity is through private placements, the debentures are all controlled by private individuals known to the Company and the mortgage and other financing are with the Business Development Bank, FedDev and TD Bank. If possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including cash provided by operating activities, investment tax credits, grants and interest income. The Company has a revolving line of credit of $2,000,000 with its Canadian chartered bank, Note 9.

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

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

19. FINANCIAL INSTRUMENTS (Continued)

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:				
Cash	30-Sep-20	$ 92,661	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Sep-20	-	-	$ 1,221,617
Convertible debentures	30-Sep-20	-	-	1,804,195
Long-term-debt and other debt	30-Sep-20	-	$ 2,606,733	-

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:				
Cash	30-Sep-19	$ 95,571	-	-
Liabilities for which fair values are disclosed:				
Non-convertible debentures	30-Sep-19	-	-	$ 1,199,619
Convertible debentures	30-Sep-19	-	-	1,678,814
Long-term-debt and other debt	30-Sep-19	-	$ 3,861,126	-

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

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

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

20. FINANCIAL RISK MANAGEMENT

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

Risks arising from financial instruments and risk management

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

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

Credit risk

The Company's cash is held in accounts or short-term interest bearing accounts at one of the major Canadian chartered banks. Management perceives the credit risk to be low. Typically the outstanding accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. As at September 30, 2020, five customers accounted for 74% (September 30, 2019 - five customers accounted for 78%) of the outstanding balance. In addition, for the year ended September 30, 2020, five customers accounted for 61% (September 30, 2019 - five customers accounted for 64%) of revenues. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $10,000 (September 30, 2019 - $25,625).

Trade accounts receivable are aged as follows:

	September 30, 2020	September 30, 2019
Current	$ 1,872,928	$ 1,602,262
0 - 30 days past due	1,431	102,962
31 - 60 days past due	732	4,246
61 days and over past due	1,918	-
	$ 1,877,009	$ 1,709,470

20. FINANCIAL RISK MANAGEMENT (Continued)

Market risk and foreign currency risk

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

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

	U.S. dollars		Euros	
	2020	2019	2020	2019
Cash	$ 15,397	$ 88,820	$ 1,551	$ 5,223
Accounts receivable	1,186,876	797,352	273,858	591,454
Accounts payable and accrued liabilities	150,600	197,551	-	-

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

	2020	2019
Revenue		
Euros	34%	45%
U.S. dollars	62%	53%
Expenses		
U.S. dollars	5%	7%

Based upon 2020 results, the impact of a 5% increase in the U.S. dollar against the Canadian dollar would result in an increase in annual U.S. dollar based revenue of approximately $327,900 Cdn. The impact of a 5% increase in the Euro against the Canadian dollar would result in an increase in annual Euro based revenue of approximately $180,200. Correspondingly, the impact of a 5% decrease in the U.S. dollar against the Canadian dollar would result in a loss in annual U.S. dollar based revenue of approximately $327,900 Cdn. The impact of a 5% decrease in the Euro against the Canadian dollar would result in a loss in annual Euro-based revenue of approximately $180,200.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to help determine the funds required to support the normal operating requirements on an ongoing basis. The Company has financed its cash requirements primarily through issuance of securities, short-term borrowings, long-term debt and debentures. The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing. Based on current funds available and expected cash flow from operating activities, management believes that the Company has sufficient funds available to meet its liquidity requirements for the foreseeable future. However, if cash from operating activities is significantly lower than expected, if the Company incurs major unanticipated expenses or the Company's borrowings are called, it may be required to seek additional capital in the form of debt or equity or a combination of both. Management's current expectations with respect to future events are based on currently available information and the actual outcomes may differ materially from those current expectations.

20. FINANCIAL RISK MANAGEMENT (Continued)

Interest rate risk

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

21. SEGMENTED INFORMATION

The Company operates in two ways: (i) the development, manufacturing and sales of antigens as materials for the medical diagnostic industry or as quality assessment products and, (ii) the development and commercialization of novel and proprietary products or technologies such as Lumisort and Kinlytic. The following is an analysis of the Company's revenues and profits from continuing operations for the year ended September 30, segmented between antigens and Other (including Lumisort and Kinlytic):

	Segment revenue		Segment profit (loss)	
	2020	2019	2020	2019
Antigen and QAPs	$ 10,514,847	$ 13,412,341	$ (1,433,098)	$ 315,698
Other (Includes Kinlytic ® and Lumisort ™)	10,057	-	(3,226,191)	(272,017)
Total for continuing operations	$ 10,524,904	$ 13,412,341	$ (4,659,288)	$ 43,681

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

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

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

	Segment assets		Segment liabilities	
	2020	2019	2020	2019
Antigen and QAPs	$ 15,598,010	$ 14,982,751	$ 8,978,534	$ 7,692,165
Other (Includes Kinlytic ® and Lumisort ™)	-	3,078,585	-	-
Total for continuing operations	$ 15,598,010	$ 18,061,336	$ 8,978,534	$ 7,692,165

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

21. SEGMENTED INFORMATION (Continued)

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

	Depreciation and amortization		Additions to non-current assets		Impairment of long-lived assets	
	2020	2019	2020	2019	2020	2019
Antigens and QAPs	$ 690,087	$ 568,822	$ 813,908	$ 514,800	-	-
Other (Includes Kinlytic ® and Lumisort ™)	-	-	-	-	3,078,585	-
	$ 690,087	$ 568,822	$ 813,908	$ 514,800	$3,078,585	-

22. REVENUES AND GEOGRAPHIC INFORMATION

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

	Revenue from external customers		Non-current assets	
For the quarter ended September 30,	2020	2019	2020	2019
North America	$ 5,590,760	$ 4,958,987	$ 9,105,179	$ 13,177,265
Europe	4,854,353	8,129,031	-	-
Other foreign countries (directly)	79,791	324,323	-	-
	$10,524,904	$ 13,412,341	$ 9,105,179	$ 13,177,265

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

For the period ended September 30,	2020	2019
Balance, beginning of the year	$ 640,463	$ 931,125
Cash payments or advance payments on performance obligations	2,382,730	2,777,273
Revenue recognized during the year	(1,818,665)	(3,067,935)
Deferred government grants (see note 9)	111,210	-
Balance, September 30	$ 1,315,738	$ 640,463

23. RELATED PARTY TRANSACTIONS

Key management compensation

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

For the year ended September 30,	2020	2019
Short-term wages, bonuses and benefits	$ 998,674	$ 927,603
Share-based payments	77,392	99,945
Total key management compensation	$ 1,076,066	$ 1,027,548

24. COMMITMENTS AND CONTINGENCIES

Payments on convertible and non-convertible debentures (Note 8)

	Amount
2021	$ 709,242
2022	1,657,992
2023	604,242
2024	604,242
2025	604,242
2026 and thereafter	5,923,681
	$ 10,103,641

Contingencies

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

25. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2020 consolidated financial statements.

26. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

On October 5, 2020, the Company signed a grant agreement with the Ontario Together Fund ("OTF") of the Ministry of Economic Development, Job Creation and Trade. The grant of $1.45 million will cover 50% of the cost to automate production of the Company's quality assessment products (QAPs™) that help ensure the accuracy of infectious disease diagnostic testing, and enable local, secure, and cost-effective automated production of the quantities of viral transport media ("Media") needed for Ontario's nucleic-acid testing for COVID-19.

At the request of the Province of Ontario, the Company will now create a secure and locally-based supply of Media, any lack of which limits capacity for COVID-19 testing. It is the Company's intention to begin production on a semi-automated basis before calendar year-end, and move to fully-automated production as soon as possible in 2021. OTF's grant contribution will help fund automation at the Company's 10,500 square foot production, packaging, and administrative site – to provide secure and cost-effective domestic supply of high quality Media. The grant will also be used toward funding automation of QAPs manufacturing, as needed to support growing unit volume requirements – as projected by lab accreditation agencies, diagnostic test-makers, clinical labs, and distributors. Lastly, the grant will assist Microbix in creating more highly-skilled jobs in science and manufacturing in Mississauga.

DIRECTORS

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Medical Director
CPM - Centres for Pain Management

Mark A. Cochran
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Johns Hopkins Healthcare

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Microbix Biosystems Inc.

Cameron Groome [(2)]
Ontario, Canada
Chief Executive Officer and President
Microbix Biosystems Inc.

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

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

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

CORPORATE INFORMATION

Corporate Counsel	*Boyle & Co. LLP*
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Bankers	*The Toronto Dominion Bank*
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SENIOR MANAGEMENT

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Executive Chairman

Cameron L. Groome
Chief Executive Officer and President

James S. Currie
Chief Financial Officer

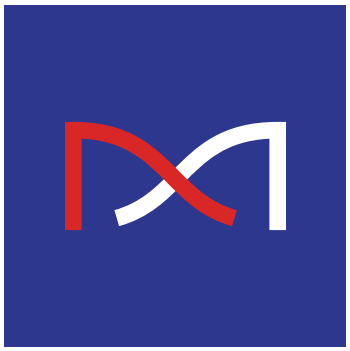
Kenneth Hughes
Chief Operating Officer

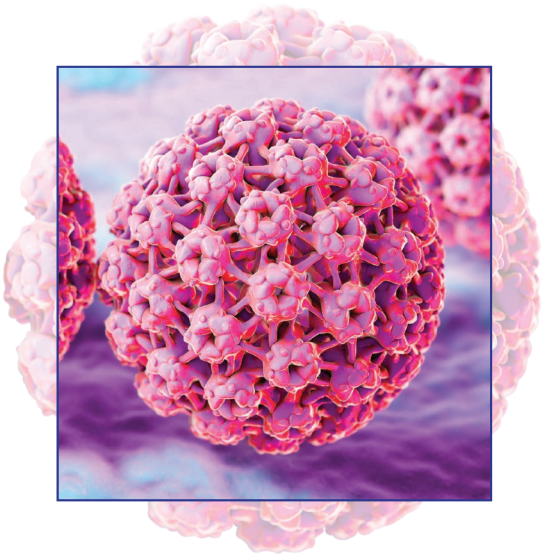
Dr. Mark Luscher
Senior Vice-President, Scientific Affairs

Phillip Casselli
Senior Vice-President, Sales & Business Development

Kevin J. Cassidy
Vice-President, Biopharmaceuticals

Christopher B. Lobb
General Counsel & Secretary





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