MICROBIX BIOSYSTEMS INC.

ANNUAL REPORT 2023

MICROBIX

Message to Shareholders

Results for the fourth quarter and full year of fiscal 2023 ended September 30, 2023 ("Q4" and "F2023") complete a challenging and fulfilling year during which Microbix successfully reefed its sails for post-pandemic conditions – adding important new customers and products, signing a fully-funded redevelopment deal for our biological drug, Kinlytic® urokinase, and maintaining our financial strength.

However, sales did not grow in F2023 due to a lack of orders for our DxTM™ viral transport medium, which were $5.0M the prior year. That headwind was partly offset by a $1.3M recovery in sales of test-ingredients (antigens), and a $1.4M Kinlytic-related partnering fee. The net result of such cross-breezes was F2023 revenues of $16.5M versus prior year sales of $19.1M. Happily, we expect strong revenue growth across fiscal 2024, with our budget calling for a new record.

Margins and expenses also changed across F2023. Gross margin fell due to a greater proportion of test ingredient sales, which are less profitable than our DxTM and QAPs™ medical devices, plus a write-down of stale-dated DxTM inventory. Additionally, G&A increased due to our spending on software logistics upgrades and a Kinlytic advisory fee. Offsetting the total of $2.4M from such expenses was the reversal of a prior $3.1M impairment charge on Kinlytic. The net result of all such currents was a F2023 net loss of $0.2M, versus a prior year net profit of $1.8M.

Although F2023 realized a small net loss, we remain committed to profitable growth and have charted a course back to positive net earnings for F2024. To achieve ongoing profitability, Microbix has skilled and dedicated staff, fully-resourced facilities, state-of-the-art software control systems, and a strong financial position – with over $10.0 million in cash, solid cashflow, and a record order book. So let us now discuss F2023 achievements and how we'll tack into an even more winning position through F2024.

It is five years since Microbix attained the ISO 13485 accreditation that enabled sales of QAPs to labs and test-makers. Despite the long pandemic upending charted plans, we have created many important new products and relationships in that time. Our count of fully-regulated "IVD" REDx® brand QAPs now stands at 85 products, quadrupling their sales. Still more importantly, we're just getting real wind in our sails: Specifically, we now dominate emerging infectious disease areas such as HPV screening, where industry giants recommend Microbix QAPs to their customers (e.g., Abbott & BD). Likewise in the field of point-of-care, where leaders like QuidelOrtho are buying QAPs to incorporate them directly into their test kits. As new assays or instruments of our clients succeed, we have the reasoned expectation of QAPs sales also growing strongly. We likewise thank other strategic partners for their support, including but not limited to BioGX, Copan Italia, Seegene, SpeeDx, and Ulisse Biomed. In summary, Microbix is emerging as an expert "Go-To" partner in the diagnostics industry.

In reviewing F2023, our fully-funded alliance to re-launch Kinlytic urokinase must also be highlighted, as it enables our voyage to return this important drug to clinical use – first into the U.S. to clear blood clot blockages from long-term venous catheters used to administer dialysis or cancer therapies. This market now nears US$400M in annual sales and is a monopoly for an incumbent that is having serious and long-lasting production problems. Our partner Sequel Pharma, LLC and its financial backers have joined us in concluding that Kinlytic provides a large commercial opportunity that more than justifies their $50M funding commitment prior to first sales.

Our diagnostics and therapeutics successes lead me to again acknowledge the vision, courage, and energy of Microbix's founder, Bill Gastle. While we remain saddened at his passing this fall, we know that Bill would be delighted to see Microbix prospering and Kinlytic on its way back to patients. We cherish the culture of scientific excellence and interpersonal respect that Bill founded and believe it is key to all our successes. In his memory and that of others we lost this year, please be sure to cherish your families, friends, and colleagues – while we cannot direct the wind, we can adjust our sails.

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, 2023, prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board 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, quality assessment products, and viral transport medium businesses, 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 19, 2023.

COMPANY OVERVIEW

Microbix Biosystems Inc. (Microbix or the Company) (TSX: MBX, OTCQX: MBXBF) is an award-winning life sciences innovator, manufacturer, and exporter making critical biological ingredients that enable the production of clinical diagnostics (referred to as antigens), creating and manufacturing medical devices, including quality assessment products that help ensure test accuracy (also known as QAPs™), and viral transport medium for enabling the collection of patient samples to test for pathogens such as the virus causing COVID-19 disease (branded as DxTM™). In the context of Microbix's business, antigens are purified and inactivated bacteria, viruses, or their components 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 (usually unbranded "white label"), (ii) incorporated into kits of test consumables by multinational diagnostics companies (usually unbranded "white label"), (iii) test development, instrument validation and technician training (often individually branded as PROCEEDx® within ONBOARDx™ kits), or (iv) the quality management of patient test-workflows by clinical laboratories (branded as REDx®). Microbix' antigens and QAPs are sold to more than 100 customers worldwide, primarily to multinational diagnostics companies and laboratory accreditation organizations. Sales of antigens and QAPs are ongoing to the respective customer categories described. The first sales of fully-regulated "IVD" QAPs occurred in early January, 2019, and first sales of DxTM™ were recorded in February, 2021. Sales of all varieties of QAPs are ongoing

COMPANY OVERVIEW

and growing, while sales of DxTM have stopped as Microbix's principal customers, agents of the Province of Ontario, have resumed 100% importation to satisfy domestic needs for this critical product.

Microbix also applies its biological expertise and infrastructure to develop other proprietary products and technologies, most notably Kinlytic® urokinase (Kinlytic), a biologic thrombolytic drug used to treat blood clots. An agreement to provide funding for the return of Kinlytic to the United States market was signed in May, 2023. The provision of the estimated C$ 50 million of funding needed to relaunch Kinlytic was dependent on reconfirming prior United States FDA guidance received in 2017. Positive new guidance was received from the FDA this fall and Microbix's agreement partner, Sequel Pharma, LLC and its financial backers have in turn confirmed their satisfaction by providing their go-ahead notice and a tied milestone payment of US$ 2.0 million received by Microbix on 15 November, 2023. With that payment, Microbix has thus far received a total of US$ 4.0 million from Sequel, and expects to receive further milestone and royalty payments following the parties' submission of a supplemental Biologics Licensing Application (sBLA) and re-approval by FDA in approximately three years' time.

The COVID-19 pandemic and its health, economic, and societal impacts have affected all industries, including medical diagnostics. Government and public use of, funding for, and views about, infectious disease diagnostic testing changed as a result of the pandemic and such changes continue to impact Microbix's business and those of its customers. It remains challenging to foresee and adapt to such changes. For example, from early fiscal 2020 sales of antigens were reduced due to fewer patients seeking or receiving care in relation to diseases other than COVID-19. As of the end of calendar 2022 however, Microbix began to see evidence of antigen demand recovering toward pre-COVID levels and such demand has since become intense. Microbix is now needing to expand production capacity for multiple antigen products and is working to determine whether these higher levels of demand will be transient or persistent. Investment in expanding antigen capacity will be geared to satisfying immediate customer needs, while also improving process efficiency and gross margins. QAPs and DxTM likewise continue to be affected, with both positive and negative impacts.

On the whole, Management believes COVID has transitioned from pandemic to endemic, leading revenue from the antigens and QAPs business (Antigens & QAPs) to resume growth 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 multiple respiratory pathogens. QAPs sales growth are expected to be driven by several factors, namely (i) Microbix's creation of new value-added and proprietary products for test-makers and clinical laboratories, (ii) by increasing American, European and international quality-management regulation of clinical laboratories, and by increasing adoption of molecular testing (e.g., "PCR") by laboratories and at the point-of-care. For DxTM, production remains paused, due in large part to ongoing issues with the overall procurement processes of the Province of Ontario, which had been Microbix major client for that product. Currently, Microbix has no expectation that sales of DxTM for Ontario will resume and intends to retask this capacity to providing custom reagents to its test-maker customers, a transition that is ongoing.

The sales resulting from antigens, QAPs, and DxTM or reagent activities are targeted to provide free cash flow to cover operating and debt service costs, and funding for business initiatives that leverage Microbix's expertise.

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 company-created production and lab spaces, are in a leased building located at 235 Watline Avenue, Mississauga, Ontario. A third adjacent site at 275 Watline Avenue was leased as of July, 2021 and renovations have since been ongoing to support DxTM or reagent production, quality-control laboratory space, workstations, and warehousing. Microbix is ISO 9001 & 13485 accredited, FDA & Health Canada establishment licensed, Australian TGA registered, and provides CE marked products.

FINANCIAL OVERVIEW (Continued)

Year ending September 30, 2023 ("2023")

2023 revenue was $16,514,776, a 13% decrease from 2022 revenues of $19,076,241. Antigen sales grew by 16% to $9,592,219 (2022 - $8,287,908), while QAPs declined by 5% to $5,087,321 (2022 - $5,375,329). Revenue from DxTM was nil in 2023, down from $5,004,359 the prior year, while royalties increased to $484,718 (2022 - $408,694). 2023 revenues were most influenced by the lack of DxTM sales, which was only partially offset by growth in Antigens and receipt of Kinlytic licensing revenues of $1,348,500 (2022 – nil).

2023 gross margin was 45%, down from 2022 gross margins of 58%. Gross margins were impacted by increased labour, manufacturing, and supply chain costs; all due to inflationary pressures. In addition, the lack of DxTM sales negatively impacted gross margin due to product mix and an inventory write-off.

Operating and finance expenses in 2023 increased by 14% relative to 2022 principally due to increased investment in R&D projects for our QAPs business and incremental spending on implementation of ERP and eQMS systems. This was somewhat offset by reduced interest costs due to the repayment of debentures and BDC loans, plus greater interest income from short-term investments.

Lower sales, reduced gross margins, and increased operating expenses (due to increased investment into business growth and infrastructure) led to an operating loss (before finance expenses and reversal of impairment of intangible assets) of $2,736,432, and a net loss of $39,483 versus a 2022 operating income of $2,610,213 and net income of $1,788,689. Cash used in operating activities was $1,094,561, compared to cash provided by of $3,465,199 in 2022.

At the end of 2023, Microbix's current ratio (current assets divided by current liabilities) was 5.13 and its debt to equity ratio (total debt over shareholders' equity) was 0.45.

Quarter Ending September 30, 2023 ("Q4")

Q4 revenue was $4,264,229, relatively flat from Q4 2022 revenues of $4,329,052. Included were antigen sales of $2,977,179 (2022 - $2,629,783), up 13% due to continued demand recovery. QAPs sales were down 25% to $1,195,231 due to timing of deliveries (2022 - $1,601,950). DxTM sales were $nil in Q4 (2022 - nil), and royalties were $91,820 (2022 - $97,319). Year-over-year, Q4 sales were most influenced by growth in antigens, offset by weaker QAPs sales due to timing of shipment to customers and revenue recognition.

Q4 gross margin was 33%, down from 47% during Q4 2022 and due to a higher proportion antigen sales, the antigen product sales mix, increased antigen batch failures, and weaker QAPs sales in the quarter.

Operating expenses (including financial expenses) were up 4% in Q4 2023 when compared to Q4 2022. The quarter reflected both increased investment in R&D projects for our QAPs customers and increased IT infrastructure costs related to systems upgrades. This was offset by a reduction in interest costs due to the repayment of debentures and BDC loans and increased short-term investment income in fiscal 2023.

Overall, flat sales and less available gross margin dollars led to a Q4 2023 operating loss (before finance expenses and reversal of impairment of intangible asset) of $990,563 and net income of $1,997,273 versus Q4 2022 operating loss (before finance expenses and reversal of impairment of intangible asset) of $256,885 and net loss of $464,080. Cash used in operating activities was $1,456,196 for Q4 2023, compared to cash provided by of $146,437 for Q4 2022, reflecting increasing systems investments.

Canadian Funds

FINANCIAL OVERVIEW (Continued)

Financial Highlights

	For the years ended September 30		For the quarter ended September 30	
	2023	2022	2023	2022
Total Revenue	$ 16,514,776	$ 19,076,241	$ 4,264,229	$ 4,329,052
Gross Margin	7,481,334	11,124,842	1,425,194	2,020,539
S,G&A Expenses	8,171,026	6,715,354	1,851,021	1,832,907
R&D Expense	2,046,740	1,799,275	564,736	444,517
Operating Income (Loss) before Reversal of Impairment of Long Term Asset and Finance Expenses	(2,736,432)	2,610,213	(990,563)	(256,885)
Reversal of Impairment of Long Term Asset	(3,078,585)	-	(3,078,585)	-
Finance Expenses	381,636	744,290	90,749	129,961
Income Tax Expense	-	77,234	-	77,234
Net Income (Loss) and Comprehensive Income (Loss) for the period	(39,483)	1,788,689	1,997,273	(464,080)
Net Comprehensive Income (Loss) per share	(0.000)	0.013	0.014	(0.009)
Cash Provided (Used) by Operating Activities	(1,094,561)	3,465,199	(1,456,196)	146,436
Cash	11,606,487	13,488,075		
Accounts receivable	4,119,771	3,057,797		
Total current assets	22,302,006	22,408,372		
Total assets	35,653,024	33,145,196		
Total current liabilities	4,349,942	2,650,521		
Total liabilities	11,028,537	8,206,541		
Total shareholders' equity	24,624,487	24,938,655		
Current ratio	5.13	8.45		
Debt to equity ratio	0.45	0.33		

SELECTED QUARTERLY FINANCIAL INFORMATION

	Dec-31-21 $	Mar-31-22 $	Jun-30-22 $	Sep-30-22 $	Dec-31-22 $	Mar-31-23 $	Jun-30-23 $	Sep-30-23 $
Total Revenue	4,855,600	4,880,564	5,011,025	4,329,052	2,502,072	4,218,323	5,530,152	4,264,229
Net Income (Loss) and Comprehensive Income (Loss)	880,778	733,489	638,502	(464,080)	(1,299,262)	31,616	(769,108)	1,997,273
Operating Income (Loss) before reversal of impairment of intangible assets and Finance Expenses	1,121,528	936,614	808,956	(256,885)	(1,202,184)	122,935	(666,618)	(990,563)

OUTLOOK

Microbix's business was started nearly 35 years ago by our founder, Bill Gastle, a skilled virologist, who retired in September, 2020 and passed away in September, 2023 (we miss you Bill). The first products were types of the growth media used in cell-culturing, which were sold to public health laboratories and research-oriented customers across Ontario. This was followed by such regional lab customers asking Microbix to do some of their bacteriological, cellular, and viral culturing work. In due course, international manufacturers of diagnostic tests learned of Microbix's abilities and approached the company to grow such organisms on an industrial scale, then purify and inactivate them to become "antigens" – the biological ingredients at the heart of "immunoassay" tests used to diagnose infection with, exposure to, or immunity from, bacteria and viruses.

That test-ingredients business remained Microbix's only major source of revenues for many years, and underpins its deep expertise in matters relating to infectious disease diagnostics. During those years, Microbix sought to branch out into other areas of healthcare, such as into the production of biological therapeutics and vaccines. Although it had much of the expertise required for such initiatives, it could not gain access to the capital required to bring those projects to fruition. That being recounted, one asset from that era remains in the Microbix portfolio, a well-validated biological "clot-buster" drug called Kinlytic® urokinase. Kinlytic had been written-off as an asset in September, 2020, as the pandemic made it impossible to predict whether or when an alliance to fund its return to market could be completed. As the pandemic subsequently ebbed, Kinlytic took a big step toward generating meaningful revenues by way of the partnering Agreement with a better-funded entity Sequel Pharma, LLC that was signed in May, 2023. Since that time, Microbix has received a total of US$ 4.0 million in milestone payments from Sequel, which will now be fully-funding Kinlytic's return to clinical usage – initially into the United States for the US$ 400 million sub-indication of catheter clearance. Microbix recognized a US$1.0 million payment as revenue in Q3 of fiscal 2023, will recognize a further US$ 3.0 million of revenues in Q1 of fiscal 2024, and will be eligible for further milestone payments and eventual royalties upon re-approval of Kinlytic for clinical use in the United States. In consequence, Microbix reversed the prior impairment of Kinlytic, restoring its prior cost-based intangible value of C$ 3.1 million in Q4 of fiscal 2023.

Microbix's antigen test-ingredients business were 90% or more of sales for many years. Over the past five years however, Microbix has sought to more broadly employ its deep diagnostics industry expertise and thereby incrementally build its revenues. This effort has succeeded, with test-ingredients comprising only 43% of Microbix's sales in fiscal 2022, and 58% in fiscal 2023 – due to its creating and growing other revenue streams. While test ingredients sales are now resuming a growth trajectory, their proportion of overall company sales is expected to continue to decline – as a result of faster-growing sales of other product categories, such as QAPs.

Most notably, Microbix has been successfully transformed from being a manufacturer of less-regulated test-ingredients, into the producer of a catalogue of fully-regulated medical devices relating to infectious-disease diagnostic tests. The Company has thereby created new opportunities for both increasing sales and expanding gross margins. Specifically, Microbix medical devices products are innovative, proprietary, and branded – permitting access to new markets and customers at better margins than are usual for test-ingredients. Upgrading to the ISO 13485 medical devices quality standard, obtaining a Health Canada Medical Devices Establishment License, and taking the necessary steps to be able to sell into the EU, US, and other markets remain integral to those goals.

In medical devices, the first category of Microbix products are its diagnostic-test quality assessment products, which are branded as "QAPs™" and colloquially known as test-controls. The QAPs business started with providing mimics of positive patient-samples to enable assessment of the proficiency of clinical laboratories by industry accreditation agencies. Sales of Microbix QAPs were largely limited to that customer base and had come to exceed C$ 1.0 million per year (i.e., about 10% of sales) when the COVID-19 pandemic began in early 2020 (the "Pandemic").

OUTLOOK (Continued)

While respiratory virus tests were not the principal focus of QAPs at that time, Microbix suspected the Pandemic in January of that year and validated its first COVID-related product by the end of March, 2020. Microbix has since supported governments and industry with many QAPs products related to testing for respiratory pathogens – to lab accreditation agencies, international test-makers, governments and hospitals, clinical labs, and many workplaces and schools. Respiratory disease has become an important portion of QAPs sales, but the Microbix portfolio has been expanded to include QAPs for many bacteria, viruses, and parasites that can cause acute sickness, chronic disease, and even cancers. Collectively, QAPs comprised 28% of sales across fiscal 2022, and over 30% in fiscal 2023, with Microbix expecting this segment to be its fastest-growing revenue source for the foreseeable future.

As the Pandemic emerged, Microbix was also quick to recognize the fragility of supply-chains for testing-related medical supplies. This alertness extended to noting pending shortages of viral transport medium ("VTM"), a medical device that is essential for stabilizing collected patient-samples in order that they remain intact while transported to, and when processed at, the central laboratories conducting most PCR-based tests. Having decades of expertise in producing complex cell-culturing media, Microbix volunteered to begin domestic production of VTM for the province of Ontario. With the assistance of a grant from the Ontario Together Fund of the Ministry of Economic Development, Job Creation, and Trade, Microbix created a VTM formulation to meet the exacting requirements of Public Health Ontario, perfected its methods, scaled its production, and became the only fully-regulated and validated local supplier to the Province. Sales of Microbix's "DxTM™" brand VTM began in fiscal 2021 and comprised 26% of Microbix's revenues in fiscal 2022. However, production and sales of DxTM are currently paused – due in large part to an ongoing reorganization of the procurement systems of the Province of Ontario. At present, the procurement authorities of the Province of Ontario have returned to purchasing imported VTM to satisfy 100% of domestic testing needs, a practice that seems at odds with political leaders' stated objectives of security of supply and domestic manufacturing. As a result it is unclear if or when sales of DxTM will resume or the extent to which Microbix may be called to supply the needs of the Province of Ontario. Equipment purchased for DxTM production, much of which was acquired with direct encouragement and funding from government, will be redeployed for production of products for other, non-governmental, customers such as test-kit reagents and diluents.

Looking ahead, Microbix believes that it has considerable opportunities to continue growing its sales to the global diagnostics and clinical laboratory industries. Most notable among its business segments is QAPs, for which it has identified the Point-of-Care-Test ("PoCT") companies as its most promising customers. While PoCT has been a promised innovation for many years, the Pandemic resulted in major investments to roll-out sophisticated and high-quality testing beyond central-lab settings. Today, table-top sized and portable PCR-based or antigen-based PoCT instruments are coming into widespread usage in settings such as local clinics, long-term care homes, pharmacies, schools, and workplaces. However, such PoCTs require accompanying test-controls to satisfy health regulators that errors relating to operators, consumables, or instruments will be quickly and reliably identified. Microbix QAPs are ideally-suited for that purpose, most notably when formatted onto the FLOQSwab™ flocked-swabs of Copan Italia S.p.A., made using Microbix's innovative techniques, and protected by the intellectual property of each firm.

The largest of such opportunities involves FLOQswab-based QAPs being incorporated into kits of PoCT cartridges at fixed ratios (e.g., 1 QAP per 20 PoCT tests) for use to help ensure test or test-workflow accuracy. With major international test-makers intending to sell millions of cartridges per month across multiple pathogen categories, it is not difficult to see how revenues may build for Microbix in this industry area. A first such alliance was announced by Microbix in August, 2022 with QuidelOrtho Corporation (QDEL on NASDAQ). Meaningful revenues are expected as that multinational test-maker, and others, wend their way through the needed design optimizations, regulatory approvals, and marketing launches for instruments and test kits. Further alliances of this nature continue to be developed by Microbix and are formalized and disclosed in due course, such as those with SpeeDx (Apr., 2021), Ulisse Biomed (Nov., 2023), BioGx (Dec., 2023), and Seegene USA (Dec. 2023).

OUTLOOK (Continued)

Microbix is also enhancing infrastructure to support its growth objectives and expectations. Such enhancements include investments into people, equipment, and systems. Concerning people, the Company continues to work to retain our current great team, while adding new members with further skills and capabilities. For equipment, Microbix is investing to improve reliability, enhance capacity, and remove drudgery. With systems, the Company has made and continues to make material investments into modernized and scalable Enterprise Resource Planning (ERP) software, alongside moving to a paperless Quality Management System (eQMS) – both of which are essential for Microbix continuing to grow the business. In the immediate term such investments tend to compress margins, but Management is convinced of their mid- and long-term benefits.

We thereby come to Microbix today and tomorrow. Already, a Company targeting annual sales of C$ 25 million, with the goal of exceeding C$100 million over the next several years. To do so, we have deep and broad life sciences capabilities and a a strong financial position. We are likewise a fully-fledged medical devices firm poised to benefit from medical diagnostics being used more effectively and frequently than ever, via over 100 established international customer relationships. In summary, Management's financial goals are to achieve higher and more consistent sales volumes while expanding gross margins, thereby driving growth in net earnings, free cash flow, and the value of Microbix's common stock for all shareholders.

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 $36,911,414 as at September 30, 2023. 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 2023, a portion of working capital was judiciously employed on systems modernizations, capacity expansions, and process optimizations – approximately $1.0 million of which was expensed and $1.0 million capitalized. A further $1.1 million was employed to repurchase and cancel common shares, to offset options dilution and somewhat stabilize trading in Microbix shares. Such investments were readily supported by our operations and Microbix continues to be in an enviable liquidity position as at September 30, 2023. Moving into fiscal 2024, Management expects cashflow to be positive due to: 1) continued growth in overall product sales, 2) improvements in product pricing or other sales terms, 3) greater sales of higher percentage gross margin products, and 4) manufacturing process optimization efforts, and 5) other business development and financial initiatives. Management expects these factors will continue to significantly improve the overall liquidity position, as the Company's plans come to fruition.

On July 29, 2019, the Company signed an agreement with Federal Economic Development Agency for Southern Ontario to provide a repayable government contribution where the Federal Development Agency has agreed to contribute funding for 30% of the Business Scale-up and Productivity Project expenditures made by the Company, up to $2,752,500 over the following four years. The Company is required to submit eligible expenses on a quarterly basis to receive the interest-free contributions. On February 14, 2023 the Company agreed to an amendment to the original agreement providing an additional $840,000 of repayable contributions, increasing the total funding up to $3,592,500. Repayment of all contributions does not begin until December 15, 2024.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES (Continued)

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

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 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 unit at a price of $0.36 for a period of five years. All securities issued under the private placement were subject to a hold period which expired four months and one day from the date of closing.

In addition, on May 19, 2021, the Company completed a public offering and concurrent private placement offering of an aggregate of 11,500,000 units for total gross proceeds of $6,900,000, and net proceeds of $6,131,568 after share issuance costs of $768,432. Each unit consisted of one common share of Microbix and one-half of one common share purchase warrant. Each whole warrant entitled the holder to purchase one additional common share at an exercise price of $0.80 for two years. These warrants were subsequently extended for a further year to May 2024. The financing was a "bought deal", with co-lead underwriters of the Offering (iA Private Wealth Inc. and Bloom Burton Securities Inc.). Cash commissions of $402,500 were paid and an aggregate of 670,833 Broker's Warrants were issued in the public offering. Each Broker's Warrant entitled the holder to purchase one unit at a price of $0.60 for a period of two years. All securities issued under the concurrent private placement were subject to a hold period which expired four months and one day from the date of closing.

On October 13, 2020, the Company announced a grant agreement with the Ontario Together Fund ("OTF") of the Ministry of Economic Development, Job Creation and Trade (the "Grant"). The Grant of $1,445,000 was to cover 50% of the cost to automate production of the Company's quality assessment products (QAPs™) that help ensure the accuracy of infectious disease diagnostic testing, and enable local, secure, and cost-effective automated production of the quantities of viral transport medium (generically "VTM" and branded "DxTM™") needed for Ontario's lab-based testing for COVID-19 disease or other tests of concern to public health or safety. An initial Grant disbursement, upon execution of the agreement, in the amount of $867,000, was received on October 13, 2020. The remaining $578,000 of the grant was paid upon project completion and a review of Eligible Project Expenditures incurred during the project, up to February 28, 2022. During the year ended September 30, 2021 the Company recognized $717,587 (2020 - nil) of grant income. The company also recorded a $680,202 reduction in capital asset costs.

During the year ending September 30, 2022, the Company received $2,637,330 from the exercise of 7,480,293 warrants and received $806,800 from the exercise of 2,960,000 options. In addition, a $500,000 debenture was converted to 2,173,913 shares during the fourth quarter of fiscal 2022.

During fiscal 2022, the Company made an early repayment of the remaining outstanding principal relating to a $2.0 million non-convertible 9% interest debenture. A payment of $1,331,758, including accrued interest, was made on October 1, 2021. In addition, in April 2022 the Company repaid a non-convertible $500,000 debenture when it came due.

On December 3, 2021 the Company prepaid in full the outstanding balance including accrued interest for a BDC loan, totaling $266,094. See the long-term debt note for further details.

On March 20, 2023, the Company announced an additional grant agreement with the Ontario Together Fund ("OTF") of the Ministry of Economic Development, Job Creation and Trade (the "Grant"). The Grant of $840,000 is to cover 50% of the cost to further expand our capabilities and capacity for manufacturing specialized products relating to diagnostic testing for infectious diseases. The Government of Ontario is supporting the expansions at Microbix's three adjacent sites in Mississauga. An initial Grant disbursement, upon execution of the agreement, in the amount of $504,000, was received on March 13, 2023. The remaining $336,000 of the grant will be paid upon project completion.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES (Continued)

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

On May 16, 2023 announced the execution of an agreement ("Agreement") to return Kinlytic® urokinase ("Kinlytic") to market. Its Agreement is with Sequel Pharma, LLC ("Sequel"), a specialty pharma company with expertise in developing and commercializing drugs for the U.S. market that is funded by a leading private equity firm.

The Agreement provides for Sequel to fund and undertake the necessary work to return Kinlytic® to the U.S. for the clinical indication of venous catheter clearance, currently a US$ 400 million per year market that is a monopoly. Long-term venous catheters are used to administer pharmaceuticals, nutrition, or dialysis, often needing to remain in place for extended periods. About 25% of such catheters become blocked with blood clots and, if not cleared, can require costly surgical replacement. On May 16, 2023, Microbix received an upfront payment of US$ 2.0 million under the Agreement. Subsequent to year end the Company received the next milestone payment of US$ 2.0 million in November 2023, alongside confirmation of full project funding for Kinlytic's return to the U.S. market.

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

Outstanding Share Capital

Share capital issued and outstanding as at September 30, 2023 was $49,044,488 for 136,853,373 common shares and September 30, 2022 was $49,918,916 for 138,991,373 common shares. The Company continues to repurchase shares through our NCIB, as outlined in the section below.

Normal Course Issuer Bid ("NCIB")

On October 3, 2022 the Company initiated a Normal Course Issuer Bid ("NCIB") program for the repurchase and cancellation of outstanding common shares. In accordance with the rules of the Toronto Stock Exchange and as detailed in the Company's news release of September 28, 2022, the NCIB enabled the Company to repurchase up to 5% of its common shares over a 12-month period. During fiscal 2023 the Company repurchased 2,892,000 shares at a cost of $1,114,156 and cancelled 2,589,000 shares.

On December 8, 2023 the Company initiated new Normal Course Issuer Bid ("NCIB") program for the repurchase and cancellation of outstanding common shares. In accordance with the rules of the Toronto Stock Exchange and as detailed in the Company's news release of December 6, 2023, the NCIB enables the Company to repurchase up to 5% of its common shares over a 12-month period.

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 September 30, 2023.

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 21 to the audited consolidated financial statements for the year ended September 30, 2023.

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 antigen product 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, as well as the value of inventories and other assets.

Environmental, safety and other regulatory

Microbix' research and manufacturing operations involve 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' 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.

Viral Transport Medium Products (DxTM)

Microbix's DxTM is principally reliant upon sales to designates of the Government of Ontario. There is no assurance that sales to such designates will resume or that other customers will be secured.

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.

RISKS AND UNCERTAINTIES (Continued)

Operating and capital requirements

Microbix seeks to earn a profit on the sale of its Antigens, QAPs and DxTM products, which is a major source of funding for its new product oriented 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' 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' 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 accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. With respect to the outstanding accounts receivable balance, as at September 30, 2023, five customers accounted for 81% (September 30, 2022 - five customers accounted for 56%). Concerning revenues, for the year ended September 30, 2023, five customers accounted for 64% (September 30, 2022 - five customers accounted for 58%). The Company has had minimal bad debts over the past several quarters and accordingly management has recorded an allowance of $35,000 (September 30, 2022 - $35,000).

Currency risk:
The Company is exposed to currency risk given its global customer base. 60-70% 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, 2023 and September 30, 2022, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	U.S. dollars		Euros	
	September 30 2023	September 30 2022	September 30 2023	September 30 2022
Cash and cash equivalents	**$ 2,168,075**	$ 302,698	**$ 25,225**	$ 87,613
Accounts receivable	**$ 2,700,930**	$ 1,645,040	**$ 1,043,883**	$ 1,221,837
Accounts payable and accrued liabilities	**$ 173,959**	$ 126,716	**$ 40,753**	$ 45,994

Based upon 2023 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 $621,000 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 $164,500. 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 $621,000 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 $164,500.

FINANCIAL RISK MANAGEMENT (Continued)

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. When employed, this facility has helped to satisfy the Company's liquidity needs and to manage the liquidity risk.

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, 2023 the Company has not drawn on this line of credit. A 1% increase in the bank rate would cost the Company approximately $17,000 per year for BDC and about $20,000 on the line of credit usage if it were fully used throughout the fiscal year. However, this would be somewhat offset by increase interest income on our short-term investments.

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 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.

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.

CRITICAL ACCOUNTING ESTIMATES (Continued)

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 unvested options pertaining to departing employees are reversed in the reporting period during which that employee leaves the Company.

Revenue Recognition Variable

Revenue Recognition Variable consideration included within a revenue arrangement requires significant judgement to determine the amount and timing of revenue recognition due to revenue being constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognition will not occur.

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, 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, 2023, management has concluded that the disclosure controls are effective in providing reasonable assurance that information required to be disclosed in the Company's reports is recorded, processed summarized and reported within the time periods specified in the Canadian Securities Administrator's rules and forms.

Internal Controls Over Financial Reporting

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

FINANCIAL INSTRUMENTS (Continued)

Internal Controls Over Financial Reporting (Continued)

at the period ended September 30, 2023. 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, 2023 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

CHANGES IN ACCOUNTING POLICIES

Amendments to IAS 37: Onerous Contracts ("IAS 37")

In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, to specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The new guidance will be effective for annual periods beginning on or after January 1, 2022 and will be applied to contracts that have unfulfilled obligations as at the beginning of that period. The Company has concluded that there is no impact of adopting these amendments on its consolidated financial statements.

Amendments to IFRS 9, Financial Instruments ("IFRS 9")

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company has concluded that there is no impact of adopting these amendments on its consolidated financial statements.

IMPACT OF NEW ACCOUNTING STANDARDS BUT NOT YET ADOPTED

Amendments to IAS 1

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

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

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on after January 1, 2023. The Company is still assessing the impact of adopting these amendments on its financial statements.

IMPACT OF NEW ACCOUNTING STANDARDS BUT NOT YET ADOPTED (Continued)

Amendments to IAS 1 and IFRS Practice Statement 2

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

Amendments to IAS 12 – Income Taxes ("IAS 12")

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2023 and 2022, 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, 2023 and 2022, 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matters

Inventories Costing – work in process and finished goods How our audit addressed the key audit matter

As at September 30, 2023, the inventories balance was $5.6 million, which was comprised of raw materials, work in process and finished goods. Inventory is recorded at the lower of cost and net realizable value. The cost for work in process and finished goods includes direct costs incurred in production including raw materials, direct labour, depreciation and directly attributable overhead costs and indirect overhead costs based on normal operating capacity. The Company uses the weighted average cost method to measure the cost of work in process and finished goods. Note 3 of the consolidated financial statements describes the accounting policy for inventories.

Auditing the Company's inventory costing requires significant audit effort in performing procedures to evaluate management's application of the standard cost and overhead absorption for work in process and finished goods inventories due to the inputting of various inventory cost elements. As a result, the nature of management's process gives rise to a risk that an error may occur in the costing process for work in process and finished goods inventories.

The procedures, amongst others, performed to test the inventory costing process for work in process and finished goods, included:

- We assessed the Company's accounting policy for inventories for compliance with IAS 2;
- Examined evidence of cost inputs used in the determination of standard cost rates for inventories on a product-by-product basis;
- For a sample of work in process and finished goods inventories, we recalculated the underlying inventories cost elements; including materials, labour and overheads;
- For a sample of work in process and finished goods inventories, we examined the actual costs of raw materials, direct labour and overhead by comparing the amounts to external and internal data sources such as invoices and payroll records;
- Obtained managements over/under absorption analysis and compared the allocation of labour and overhead cost to products in the standard cost calculation used by management to the actual costs incurred; and
- Recalculated the over/under absorption amounts to be capitalized to work in process and finished goods inventories.

Revenue recognition and reversal of impairment to Kinlytic urokinase ("Kinlytic")	How our audit addressed the key audit matter relating

The Company acquired the assets and rights pertaining to the development, production, and licensing of Kinlytic from ImaRX Therapeutics, Inc. in 2008, as described in notes 7 and 23. Subsequently, this intangible asset, which was not yet available for use and included in the Kinlytic cash generating unit ("CGU") was determined to be impaired and accordingly the Company had recognised an impairment charge of $3,078,585 during the year ended September 30, 2020. In the current year, the Company announced the execution of an agreement ("Agreement") with Sequel Pharma, LLC ("Sequel") to return Kinlytic to market and for the year ended September 30, 2023, recorded revenue of $1,348,500. Further, during the year ended September 30, 2023, the Company determined that there were indicators that the impairment charge recognised in prior periods may no longer exist and estimated the recoverable amount of the CGU based on its estimated future discounted cash flows resulting in a reversal of earlier impairment recognized in the amount of $3,078,585.

We determined that revenue recognition relating to the Agreement for the Company is a matter of significance to the audit due to the significant judgements made by management in determining the timing and recognition of variable consideration related to milestone payments. We further determined that the Company's determination of the recoverable amount of the CGU included judgement and subjectivity in evaluating the estimates and assumptions used. Significant assumptions included revenue projections based on estimated market share, growth rates and discount rates, which are affected by expectations about future market and economic conditions specific to the CGU.

The procedures, amongst others, performed to audit revenue recognition and the reversal of impairment relating to the Kinlytic intangible asset, included:

- Inspected the Agreement with Sequel and reviewed Management's IFRS 15 accounting assessment for the Agreement;
- Compared the stand-alone selling price of the identified performance obligations to other market-based comparables;
- Evaluated the Company's discounted cash flow model and valuation methodology for the recoverable amount of the CGU;
- Assessed the appropriateness of the revenue projections based on the estimated market share, growth rates and discount rates used in the impairment assessment; and
- Performed sensitivity analysis on discount rates and other key assumptions to evaluate changes in the recoverable amount of the CGU.

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.

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.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Toronto, Canada
December 19, 2023

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at September 30, 2023 and September 30, 2022 **Canadian Funds**

	As at September 30, 2023	As at September 30, 2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,606,487	$ 13,488,075
Accounts receivable (Note 21)	4,119,771	3,057,797
Inventories (Note 5)	5,752,031	5,284,920
Prepaid expenses and other assets	767,451	546,318
Investment tax credit receivable	56,266	31,262
TOTAL CURRENT ASSETS	22,302,006	22,408,372
LONG-TERM ASSETS		
Long-term deposits	-	332,250
Property, plant and equipment (Note 6)	8,927,600	8,906,256
Intangible assets (Note 7)	4,423,418	1,498,318
TOTAL LONG-TERM ASSETS	13,351,018	10,736,824
TOTAL ASSETS	$ 35,653,024	$ 33,145,196
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 2,080,284	$ 1,828,539
Current portion of long-term debt (Note 9)	111,120	111,120
Current portion of lease liability (Note 6)	154,301	156,231
Deferred revenue (Note 23)	2,004,237	554,631
TOTAL CURRENT LIABILITIES	4,349,942	2,650,521
LONG-TERM LIABILITIES		
Debentures (Note 8)	1,789,394	1,628,262
Lease liability (Note 6)	699,733	846,114
Other long-term liabilities (Note 23)	298,691	-
Long-term debt (Note 9)	3,890,777	3,081,644
TOTAL LONG-TERM LIABILITIES	6,678,595	5,556,020
TOTAL LIABILITIES	$ 11,028,537	$ 8,206,541
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	$ 49,044,488	$ 49,918,916
Equity component of convertible debentures (Note 8)	2,272,566	2,272,566
Contributed surplus	10,218,847	9,619,104
Accumulated deficit	(36,911,414)	(36,871,931)
TOTAL SHAREHOLDERS' EQUITY	$ 24,624,487	$ 24,938,655
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 35,653,024	$ 33,145,196

Commitments and Contingencies (Note 25)

(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, 2023 and 2022 — **Canadian Funds**

	2023	2022
SALES		
Product sales (Notes 22, 23)	$ 14,679,541	$18,667,558
Royalties and other sales	1,835,235	408,683
TOTAL SALES	16,514,776	19,076,241
COST OF GOODS SOLD		
Product costs (Notes 5, 15)	8,965,536	7,889,140
Royalties	67,906	62,259
TOTAL COST OF GOODS SOLD	9,033,442	7,951,399
GROSS MARGIN	7,481,334	11,124,842
EXPENSES		
Selling and business development (Notes 15)	1,478,277	1,553,802
General and administrative (Notes 15)	6,692,749	5,161,552
Research and development (Notes 15)	2,046,740	1,799,275
OPERATING INCOME (LOSS) BEFORE, FINANCE EXPENSES AND REVERSAL OF IMPAIRMENT OF LONG-TERM ASSET	(2,736,432)	2,610,213
Reversal of impairment of intangible asset (Notes 7)	(3,078,585)	-
Finance expenses, net (Notes 18)	381,636	744,290
INCOME (LOSS) FOR THE YEAR, BEFORE INCOME TAXES	(39,483)	1,865,923
INCOME TAXES		
Current income taxes (Notes 16)	-	77,234
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ (39,483)	$ 1,788,689
NET INCOME (LOSS) PER SHARE		
Basic (Note 14)	$ (0.000)	$ 0.013
Diluted (Note 14)	$ (0.000)	$ 0.013

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, 2023 and 2022	Canadian Funds	
	2023	2022
OPERATING ACTIVITIES		
Net Income (Loss) for the Year	$ (39,483)	$ 1,788,689
Items not affecting cash		
Amortization and depreciation (Note 15)	1,157,169	1,036,400
Accretion of debentures (Note 8)	161,132	202,685
Share-based compensation (Note 13)	735,318	649,693
Accretion interest expense (Notes 6, 9, 18)	189,728	127,824
Reversal of impairment of intangible asset (Note 7)	(3,078,585)	-
Change in non-cash working capital balances (Note 17)	(219,840)	(340,092)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(1,094,561)	3,465,199
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (Note 6)	(1,016,232)	(2,025,638)
CASH USED IN INVESTING ACTIVITIES	(1,016,232)	(2,025,638)
FINANCING ACTIVITIES		
Repayments of long-term debt (Note 9)	(111,120)	(390,630)
Proceeds from Government Loan and Grants (Note 9)	1,540,530	1,072,102
Repayments of non-convertible debentures (Note 8)	-	(1,816,821)
Payment of lease liabilities	(190,202)	(246,579)
Repurchase of common share units, net of costs (Note 11)	(1,115,263)	-
Proceeds from exercise of warrants and options (Note 12, 13)	105,260	3,444,130
CASH PROVIDED BY FINANCING ACTIVITIES	229,205	2,062,202
NET CHANGE IN CASH - DURING THE YEAR	(1,881,588)	3,501,763
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	13,488,075	9,986,312
CASH AND CASH EQUIVALENTS - END OF YEAR	$11,606,487	$ 13,488,075

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

For the years ended September 30, 2023 and 2022 **Canadian Funds**

	Share Capital (Note 9)					
	Number of Shares	Stated Capital	Contributed Surplus	Deficit	Equity Component of Debentures	Total Shareholders' Equity
Balance, September 30, 2021	**126,377,167**	**$43,609,601**	**$10,703,374**	**$(38,660,620)**	**$2,903,789**	**$18,556,144**
Share-based compensation expense	-	-	649,693	-	-	649,693
Share Issuance pursuant to						
Exercise of Warrants	7,480,293	3,808,072	(1,170,743)	-	-	2,637,329
Exercise of Options	2,960,000	1,370,020	(563,220)	-	-	806,800
Conversion of Debenture	2,173,913	1,131,222	-	-	(631,222)	499,999
Net income and comprehensive income for the year	-	-	-	1,788,689	-	1,788,689
Balance, September 30, 2022	**138,991,373**	**$49,918,916**	**$9,619,104**	**$(36,871,931)**	**$2,272,566**	**$24,938,655**
Share-based compensation expense	-	-	735,318	-	-	735,318
Share Issuance pursuant to						
Exercise of Warrents	21,000	9,702	(2,142)	-	-	7,560
Exercise of Options	430,000	152,070	(54,370)	-	-	97,700
Repurchase of Shares	(2,589,000)	(1,036,200)	(79,063)	-	-	(1,115,263)
Net loss and comprehensive loss for the year	-	-	-	(39,483)	-	(39,483)
Balance, September 30, 2023 (1)	**136,853,373**	**$49,044,488**	**$10,218,847**	**$(36,911,414)**	**$2,272,566**	**$24,624,487**

(1) Includes 303,000 (book value $108,347) treasury shares as at September 30, 2023 (September 30, 2022 - nil); see Note 11.

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. and it's subsidiaries (the "Company" or "Microbix"), incorporated under the laws of the Province of Ontario, develops and commercializes proprietary biological and technology solutions for human health and well-being. Microbix manufactures a wide range of critical biological materials and medical devices for the global diagnostics industry, notably test ingredients (Antigen business) used in immunoassays, quality assessment and proficiency testing controls (QAPs™ business), and sample collection devices (DxTM™ 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 19, 2023.

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

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 subsidiary is included in equity. All significant intercompany transactions have been eliminated upon consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates and judgments

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

Key areas of managerial 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.

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 tax-related items such as deferred tax assets, 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 or "CGUs"). 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.

Revenue recognition

Variable consideration included within a revenue arrangement requires significant judgment to determine the amount and timing of revenue recognition due to revenue being constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur.

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. Licensing revenue is comprised of upfront payments and certain milestones, and royalties. Upfront payments and milestones, not representing a financing component are recognized to coincide with the timing of when control is transferred, which may either be a point in time or over time. Certain of the Company's licensing agreements include variable consideration due to uncertainty as to the amount of revenue earned. Revenue from variable consideration is recognized only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved (variable consideration constraint).

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.

The Company may also provide services to customers, such as for development of custom products. Such service revenues are recognized of a percentage of completion basis.

Cash and Cash Equivalents

Cash consists of cash on hand and deposits with banks and investments in highly liquid instruments with original maturities of three months or less.

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, and 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 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 Other Comprehensive Income ("OCI"), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses that are recognized in net income. When the financial instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income 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) are presented in other gains (losses) and impairment expenses in other expenses.
- Fair value through profit or 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 and presented net in comprehensive income within other gains (losses) in the period in which it arose.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

	Classification and Measurement Method	2023	2022
Financial assets:			
Cash and cash equivalents	FVTPL	$ 11,606,487	$ 13,488,075
Accounts receivable	Amortized cost	4,119,771	3,057,797
Financial liabilities:			
Accounts payable and accrued liabilities	Amortized cost	$ 2,080,284	$ 1,828,539
Debentures	Amortized cost	1,789,394	1,628,262
Long-term-debt	Amortized cost	4,001,897	3,192,764

Inventories

Inventories are comprised of raw materials, work in process and finished goods. Inventories are carried at the lower of cost and net realizable value. The cost of raw materials is determined on the weighted average cost method. Cost of work in process and finished goods consists of direct costs incurred in production including raw materials, direct labour, depreciation on property, plant and equipment and amortization of intangible assets and directly attributable overhead costs and indirect overhead costs based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. A previously recognized impairment loss on long-lived assets is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there is a subsequent increase in the recoverable amount. An impairment loss is reversed only to the extent that the asset's or CGU's carrying value does not exceed the carrying value that would have been determined, net of amortization expense, had no impairment loss been recognized. Such reversal is recognized in the statement of profit and loss.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income (Loss) per common share

The Company calculates basic income (loss) 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.

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.

Leases

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 (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 Leases ("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.

Changes in Accounting Policies

Amendments to IFRS 9, Financial Instruments ("IFRS 9")

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company has concluded that there is no impact of adopting these amendments on its consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amendments to IAS 37: Onerous Contracts ("IAS 37")

In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, to specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The new guidance is effective for annual periods beginning on or after January 1, 2022 and is applied to contracts that have unfulfilled obligations as at the beginning of that period. The Company has concluded that there is no impact of adopting these amendments on its consolidated financial statements.

4. IMPACT OF NEW ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

Amendments to IAS 1

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least 12 months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

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

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

Amendments to IAS 1 and IFRS Practice Statement 2

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

4. IMPACT OF NEW ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED (Continued)

Amendments to IAS 12 – Income Taxes ("IAS 12")

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

Amendments to IAS 1, "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-Current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods on or after January 1, 2024, with early adoption permitted. The amendments are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

5. INVENTORIES

Inventories consist of the following:

	September 30, 2023	September 30, 2022
Raw materials	$ 1,714,606	$ 1,106,113
Work in process	1,873,132	1,716,451
Finished goods	2,164,293	2,462,356
	$ 5,752,031	$ 5,284,920

During the year ended September 30, 2023, inventories in the amount of $8,965,536 (2022 - $7,889,140) were recognized as an expense through cost of goods sold. The allowance for inventory as at September 30, 2023 was $1,200,596 which is recognized in cost of goods sold (September 30, 2022 - $279,963). The allowance recognzied as at September 30, 2023, included an amount related to our DxTM products.

6. PROPERTY, PLANT, AND EQUIPMENT AND LEASES

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

	Building and Leasehold Improvements	Research and Development Equipment	Other Equipment and Fixtures	Right of Use Assets	Land	Total
COST						
Balance, as at September 30, 2021	$ 5,281,143	$ 588,438	$ 6,338,223	$ 1,683,980	$ 800,000	$ 14,661,784
Additions	917,168	41,819	734,401	13,034	-	1,706,422
Balance, as at September 30, 2022	6,198,311	600,258	7,072,624	1,697,014	800,000	16,368,206
Additions	67,368	123,289	825,576	8,796	-	1,025,028
Balance, as at September 30, 2023	**6,265,678**	**723,546**	**7,898,200**	**1,705,810**	**800,000**	**17,393,234**
ACCUMULATED DEPRECIATION						
Balance, as at September 30, 2021	1,948,682	459,293	3,832,037	339,023	-	6,579,035
Depreciation	273,125	13,444	417,167	179,180	-	882,915
Balance, as at September 30, 2022	2,221,807	472,737	4,249,204	518,203	-	7,461,950
Depreciation	398,967	20,351	406,744	177,621	-	1,003,684
Balance, as at September 30, 2023	**2,620,774**	**493,088**	**4,655,948**	**695,824**	**-**	**8,465,634**
NET BOOK VALUE						
Balance, September 30, 2022	3,976,504	127,521	2,823,420	1,178,811	800,000	8,906,256
Balance, as at September 30, 2023	**$ 3,644,904**	**$ 230,458**	**$ 3,242,252**	**$ 1,009,986**	**$ 800,000**	**$ 8,927,600**

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

	Right-of-Use Assets		
	Property	Equipment	Lease Liabilities
Balance, September 30, 2021	$ 1,081,900	$ 263,057	$ 1,198,112
Additions	13,034	-	13,034
Depreciation Expense	(152,067)	(27,113)	-
Interest Accretion	-	-	37,779
Payments	-	-	(246,580)
Balance, September 30, 2022	$ 942,867	$ 235,944	$ 1,002,346
Additions	8,796	-	-
Depreciation Expense	(153,097)	(24,525)	-
Interest Accretion	-	-	33,094
Payments	-	-	(181,406)
Balance, September 30, 2023	**$ 798,566**	**$ 211,419**	**$ 854,034**
Current portion			$ 154,301
Non-current portion			699,733

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

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

Lease obligations as at September 30, 2023 are:

	Amount
2024	$ 182,662
2025	153,410
2026	98,451
2027	95,606
2028	94,388
2029 and thereafter	350,693
Total	**$ 975,210**

7. INTANGIBLE ASSETS

Intangible assets consist of:

	Capitalized Development Costs Bioreactor (a)	Patents and Trademarks QAPs (b)	Kinlytic® License (c)	Total
COST				
Balance, as at September 30, 2021	$ 2,088,575	$ 142,470	$ -	$ 2,231,045
Balance, as at September 30, 2022	2,088,575	142,470	-	2,231,045
Reversal of impairment of intangible asset	-	-	3,078,585	3,078,585
Balance, as at September 30, 2023	**2,088,575**	**142,470**	**3,078,585**	**5,309,630**
ACCUMULATED AMORTIZATION				
Balance, as at September 30, 2021	568,557	10,685	-	579,242
Amortization expense	139,238	14,247	-	153,485
Balance, as at September 30, 2022	707,795	24,932	-	732,727
Amortization expense	139,238	14,247	-	153,485
Balance, as at September 30, 2023	**847,033**	**39,179**	**-**	**886,212**
NET BOOK VALUE				
Balance, as at September 30, 2022	1,380,780	117,538	-	1,498,318
Balance, as at September 30, 2023	**$ 1,241,542**	**$ 103,291**	**$ 3,078,585**	**$ 4,423,418**

7. INTANGIBLE ASSETS (Continued)

The Bioreactor intangible asset is amortized 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.

(a) Bioreactor

The Company has internally developed an improved bioreactor production process ("Bioreactor") to increase the efficiency and output of manufacturing certain Antigen products. This process is being successfully employed for ongoing production of a key Antigen product.

(b) Patents and Trademarks - 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 and continues to capitalize various patent application costs. The Company is amortizing these patent costs, in accordance with IFRS standards.

(c) Kinlytic®

The Company acquired the assets and rights pertaining to development, production, and licensing of Kinlytic® from ImaRX Therapeutics, Inc. in 2008. In Q4 2020, this intangible asset, which was not yet available for use and included in the Kinlytic cash generating unit ("CGU") was determined to be impaired and accordingly the Company had recognized an impairment charge of $3,078,585 during the year ended September 30, 2020. On May 16, 2023 announced the execution of an agreement ("Agreement") to return Kinlytic® urokinase ("Kinlytic") to market. Its Agreement is with Sequel Pharma, LLC ("Sequel"), a specialty pharma company with expertise in developing and commercializing drugs for the U.S. The Agreement provides for Sequel to fund and undertake the necessary work to return Kinlytic® to the U.S. for the clinical indication of venous catheter clearance.

During the year ended September 30, 2023, the Company determined that there were indicators that the impairment charge recognized in prior periods may no longer exist and the Company estimated the recoverable amount of the CGU based on its estimated future discounted cash flows resulting in a reversal of impairment recognized earlier in the amount of $3,078,585. The recoverable amount of the Kinlytic® intangible asset has been estimated based on the future estimated discounted cash flows. The significant assumptions applied in the impairment reversal tests are described below:

- The expected future cash flows calculated based on revenue projections, which included estimated market share, growth rates and contractual royalty rates.
- The pre-tax discount rate of 12% used to reflect the current market assessment of the risks specific to the CGU.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not be less than the carrying amount. The asset will be amortized over an estimated period of 10 years.

8. DEBENTURES

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

	Convertible debentures		Total convertible debentures
	(a)	(b)	
Date of issue	Oct, 2016	Oct, 2016	
Face value	$ 1,500,000	$ 2,500,000	$ 4,000,000
Liability component at the date of issue	461,550	780,750	1,242,300
Balance, September 30, 2021	554,378	954,262	1,508,640
Accretion	41,830	77,792	119,622
Repayments/Conversion	-	-	-
Balance, September 30, 2021	596,208	1,032,054	1,628,262
Accretion	56,423	104,709	161,132
Repayments	-	-	-
Balance, September 30, 2023	**652,631**	**1,136,763**	**1,789,394**
Current portion	-	-	-
Non-current portion	652,631	1,136,763	1,789,394
Balance, September 30, 2023	**$ 652,631**	**1,136,763**	**1,789,394**
Equity component at September 30, 2023	**574,435**	**1,698,131**	**2,272,566**
Conversion price per common share	$ 0.23	$ 0.23	
Effective interest rate charged	31.07%	30.85%	
Payment frequency	Quarterly	Quarterly	
Maturity of financial instrument	Jan, 2029	Sep, 2028	
Stated interest rate	9%	9%	
Terms of repayment	Interest only	Interest only	
Blended quarterly repayment	N/A	N/A	

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

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

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

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

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

Term Loans with the Business Development Bank ("BDC")	(a)	(b)	Total
Effective date of loan	Jun, 2008	Jul, 2018	
Initial Loan Amount	$ 3,000,000	$ 323,906	$ 3,323,906
Balance, September 30, 2021	1,824,220	279,510	2,103,730
Loan repayments during the year	(111,120)	(279,510)	(390,630)
Balance, September 30, 2022	$ 1,713,100	$ -	$ 1,713,100
Loan repayments during the year	(111,120)	-	(111,120)
Balance, September 30, 2023	**$ 1,601,980**	**-**	**$ 1,601,980**
Current Portion	$ 111,120	-	$ 111,120
Non-current portion	1,490,860	-	1,490,860
Payment frequency	Monthly	Monthly	
Maturity of loan	Feb, 2038	Jun, 2024	
Terms of repayment	Principal and interest	Principal and interest	

Notes: (a) Loan for the purchase of manufacturing facility and building improvements.
(b) Loan for the purchase of manufacturing equipment, prepaid in fiscal 2022.

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

The remaining BDC loan has a floating interest rate based on BDC's floating base rate less 1.0%. At September 30, 2023, the rate was 8.30% (2022 – 6.55%). The loan is secured with the building and equipment.

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

	Amount
2024	$ 111,120
2025	111,120
2026	111,120
2027	111,120
2028	111,120
2029 and thereafter	$ 1,046,380

b) The Company has a $2,000,000 line of credit with its Chartered Bank that is available for use. This line of credit bears interest at prime plus 2% (5.45% on September 30, 2023). As at September 30, 2023 the Company had no funds drawn on the facility (September 30, 2022- nil). The Company's availability and usage of this facility varies across its manufacturing, sales and Accounts Receivable collection cycles.

c) On July 29, 2019, the Company signed an agreement with the Federal Economic Development Agency for Southern Ontario "FedDev" to provide a repayable government contribution where FedDev has agreed to contribute funding for 30% of the Business Scale-up and Productivity Project expenditures made by the Company, up to $2,752,500 over the following four years. The Company is required to submit eligible expenses on a quarterly basis to receive the interest-free contributions. On February 14, 2023 the Company agreed to an amendment to the original agreement providing an additional $840,000 of repayable contributions, increasing the total funding up to $3,592,500. Repayment of all contributions does not begin until December 15, 2024. As at September 30, 2023, the Company has received contributions totalling $3,233,250 (September 30, 2022 – $2,158,603). The Company determined that the "Loan" consists of two components: an obligation to repay; and a government grant in the form of exemption from interest. The Company fair valued the obligation to repay at $2,117,358 (September 30, 2022 – $1,352,426), based on a discount rate of 8%, which represents management's best estimate of fair value. The residual amount of $1,115,892 (September 30, 2022 – $806,178) is allocated to the associated government grant and recognized as income over the period in which the related costs they are intended to compensate are recognized. During the year ended September 30, 2023, $250,995 has been recognized as grant income within general and administrative expenses (September 30 2022 - $250,385). As at September 30, 2023, the carrying value of the Loan is $2,399,917 (September 30, 2022 – $1,449,466) and $411,083 is recognized as a deferred grant within deferred revenue on the consolidated statements of financial position (September 30, 2022– $351,050).

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

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

Fiscal Years	Amount
2025	$ 538,875
2026	646,650
2027	646,650
2028	646,650
2029	646,650
2030	107,776

10. GOVERNMENT GRANT

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

An initial Grant disbursement, upon execution of the agreement, in the amount of $867,000, was received on October 13, 2020. The remaining $578,000 of the grant was paid upon project completion following a review of Eligible Project Expenditures incurred during the project, up to February 28, 2022. During the year ended September 30, 2022 the Company recognized $717,587 of grant income. The company also recorded a $680,202 reduction in capital asset costs.

On March 20, 2023, the Company announced an additional grant agreement with the Ontario Together Fund ("OTF") of the Ministry of Economic Development, Job Creation and Trade (the "Grant"). The Grant of $840,000 is to cover 50% of the cost to further expand our capabilities and capacity for manufacturing specialized products relating to diagnostic testing for infectious diseases. The Government of Ontario is supporting the expansions at Microbix's three adjacent sites in Mississauga. An initial Grant disbursement, upon execution of the agreement, in the amount of $504,000, was received on March 13, 2023. During the year $38,117 of grant income was recognized. The remaining $465,883 is in deferred revenues. The remaining $336,000 of the grant will be paid upon project completion following a review of Eligible Project Expenditures incurred during the project.

11. SHARE CAPITAL

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

On October 3, 2022 the Company initiated a Normal Course Issuer Bid ("NCIB") program for the repurchase and cancellation of outstanding common shares. In accordance with the rules of the Toronto Stock Exchange and as detailed in the Company's news release of September 28, 2022, the NCIB enables the Company to repurchase up to 5% of its common shares over a 12-month period. During fiscal 2023 the Company repurchased 2,892,000 shares at a cost of $1,114,156 and cancelled 2,589,000 shares. 303,000 shares representing shares repurchased ($108,347 book value) but not yet cancelled are considered as treasury shares as at September 30, 2023.

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, 2021	126,377,167	$ 43,609,601
Exercise of Warrants	7,480,293	3,808,072
Exercise of stock options	2,960,000	1,370,020
Conversion of Debenture (Note 8)	2,173,913	1,131,222
Balance, as at September 30, 2022	138,991,373	$ 49,918,916
Exercise of Warrants	21,000	9,702
Exercise of stock options	430,000	152,070
Stock repurchase and cancellation	(2,589,000)	(1,036,200)
Balance, as at September 30, 2023	**136,853,373**	**$ 49,044,488**

12. COMMON SHARE PURCHASE WARRANTS

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

	Units	Weighted average exercise price
Balance, September 30, 2021	23,519,373	$ 0.47
Exercised	(7,480,293)	0.35
Expired	(465,683)	0.48
Balance, September 30, 2022	15,573,397	$ 0.53
Exercised	(21,000)	0.36
Expired	(920,833)	0.52
Balance, September 30, 2023	**14,631,564**	**$ 0.53**

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

	September 30, 2023			September 30, 2022		
	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:						
$0.60 to $0.80	5,750,000	$ 0.80	0.64	6,420,833	$ 0.78	0.63
$0.30 to $0.36	8,881,564	0.36	1.34	9,152,564	0.36	2.29
	14,631,564	$ 0.53	1.06	15,573,397	$ 0.53	1.61

13. 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, 2023, the Company has a total of 11,959,000 options (September 30, 2022 – 9,724,000) issued and is eligible to issue up to a total of 13,685,337 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, 2023 is as follows:

	Units	Weighted average exercise price
Balance, September 30, 2021	10,154,000	$ 0.34
Options expired/forfeited	(400,000)	$ 0.28
Stock options exercised	(2,960,000)	$ 0.27
Stock options issued	2,930,000	$ 0.60
Balance, September 30, 2022	9,724,000	$ 0.44
Stock options exercised	(430,000)	$ 0.23
Stock options issued	(2,815,000)	$ 0.37
Stock options forfeited	(150,000)	$ 0.63
Balance, September 30, 2023	**11,959,000**	**$ 0.43**
Exercisable, September 30, 2023	**4,025,000**	**$ 0.24**

13. STOCK OPTION PLAN (Continued)

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, 2023 and 2022:

	September 30, 2023			September 30, 2022		
	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:						
$0.46 to $0.73	5,294,000	$ 0.60	2.93	5,444,000	$ 0.61	3.94
$0.215 to $0.37	6,665,000	$ 0.29	2.45	4,280,000	$ 0.22	1.98
	11,959,000	$ 0.43	2.77	9,724,000	$ 0.44	3.08

The fair value of options granted during fiscal 2023 was estimated at the grant date using the Black-Scholes options pricing model, resulting in the following weighted-average assumptions:

	2023	2022		
Option Grant Dates	Feb 2023	Nov 2021	Feb 2022	May 2022
Share price on issue date	$ 0.37	$ 0.73	$ 0.60	$ 0.57
Dividend yield	0%	0%	0%	0%
Volatility	66%	70%	68%	67%
Risk-free interest rate	3.5%	0.1%	1.4%	1.3%
Expected option life (years)	5	5	5	5
Weighted average fair value of each option ($ / option)	$ 0.21	$ 0.42	$ 0.34	$ 0.31

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 $735,318 (2022 - $649,693).

14. INCOME (LOSS) PER SHARE

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

for the year ended September 30	2023	2022
Numerator for basic income (loss) per share:		
Net income (loss) available to common shareholders	$ (39,483)	$ 1,788,689
Net income (loss) for dilutive earnings per share	$ (39,483)	$ 1,788,689
Denominator for basic income (loss) per share:		
Weighted average common shares outstanding	137,911,884	135,376,255
Dilutive Effect	-	6,311,994
Dilutive weighted average common shares outstanding	137,911,884	141,688,249
Net income (loss) per share:		
Basic	($0.000)	$ 0.013
Diluted	($0.000)	$ 0.013

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	2023	2022
Pursuant to warrants	5,750,000	6,420,833
Under stock options	5,294,000	5,169,000
Pursuant to convertible debentures	17,391,304	17,391,304
	28,435,304	28,981,138

15. 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 years ended September 30:

Depreciation and amortization

	2023	2022
Included in:		
Cost of goods sold	$ 961,029	$ 848,365
General and administrative expenses	161,244	160,344
Reasearch and development	34,896	27,691
Total depreciation and amortization	$ 1,157,169	$ 1,036,400

Employee costs

	2023	2022
Short-term wages, bonuses and benefits	$ 9,816,104	$ 9,305,688
Share based payments	552,347	442,319
Total employee costs	$ 10,368,451	$ 9,748,007
Included in:		
Cost of goods sold	$ 5,307,015	$ 4,836,461
Research and development	1,695,042	1,786,802
General and administrative expenses	2,296,546	2,187,466
Selling and business development	1,069,848	937,278
Total employee costs	$ 10,368,451	$ 9,748,007

16. INCOME TAXES AND INVESTMENT TAX CREDITS

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

	2023	2022
Provision based on combined federal and provincial statutory rates of 25.43% (2022 – 25.00%)	$ (10,041)	$ 466,480
Increase (decrease) resulting from:		
Non deductible expenses	329	1,209
Stock-based compensation	186,991	162,423
Change in deferred tax assets not recognized	135,870	(468,768)
Effect of change in tax rate	(94,603)	-
Adjustment in respect of income taxes of prior year and other	(218,546)	(84,110)
Income tax expense	$ -	$ 77,234

The Company has unclaimed research and development expenses, research and development investment tax credits and accumulated losses for income tax purposes. The associated tax benefits have not been recognized in the consolidated financial statements.

16. 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:

2043	$ 110,598

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

	2023	2022
Deferred income tax assets:		
Non-capital loss carry-forwards	$ 28,125	$ -
Difference in net book value compared to undepreciated capital cost	2,588,410	2,868,468
Deferred financing fees and other reserves	387,429	190,879
Unclaimed research and development expenses	4,032,381	3,914,095
Lease liabilities	217,181	250,841
Deferred income tax liabilities related to debentures	(562,157)	(592,934)
Difference between government assistance amount and fair market value	(107,124)	(81,973)
Right of use assets	(256,839)	(294,703)
Tax assets not recognized	(6,327,405)	(6,254,673)
Deferred tax assets recognized	$ -	$ -

The unrecognized balance of federal research and development investment tax credits carried forward is $2,977,684, reduced by a deferred tax liability of $757,225. The credits expire between 2023 and 2043. The unrecognized balance of Ontario research and development tax credits carried forward is $14,314.

17. CHANGES IN NON-CASH WORKING CAPITAL

	2023	2022
Accounts receivable	$ (1,061,974)	$ 1,117,319
Inventories	(467,111)	(877,411)
Prepaid expenses and other assets	(139,266)	(51,273)
Investment tax credits receivable	(25,004)	(762)
Deferred revenue	1,222,380	(311,196)
Accounts payable and accrued liabilities	251,135	(216,769)
	$ (219,840)	$ (340,092)

18. FINANCIAL EXPENSES, NET

	2023	2022
Cash interest:		
Interest on long-term debt	$ 127,598	$ 93,257
Interest on debentures	360,000	396,269
Interest other	921	6,525
Interest income	(457,742)	(82,270)
Non-cash interest:		
Accretion on debentures (Note 8)	161,131	202,685
Accretion interest expense (Note 6, 9)	189,728	127,824
Financial expenses, net	$ 381,636	$ 744,290

19. CAPITAL MANAGEMENT

The Company's capital management objective is to safeguard its ability to function as a going concern while also maintaining and growing its operations and funding its development activities. Microbix defines its capital to include any drawn portion of the revolving line of credit, shareholders' equity, long-term debt, and debentures. The capital at September 30, 2023 was $30,415,778 (September 30, 2022 - $29,759,681).

To date, the Company has used cash provided by operating activities, common equity issues, debentures, bank mortgage and other financing to fund its activities. The equity is provided through public offerings or private placements, the debentures are all controlled by private individuals known to the Company and the mortgage and other financing are with the Business Development Bank (BDC), FedDev and TD Bank. If possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including cash provided by operating activities, investment tax credits, grants and interest income. The Company has a revolving line of credit of $2,000,000 with its Canadian chartered bank, 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. Similarly, the Board of Directors may, from time to time, choose to declare a dividend in assets if warranted by circumstances. Also, the Board of Directors may, from time to time, choose to initiate a buy-back of issued common shares. There was no change during the year in how the Company defines its capital or how it manages its capital.

20. FINANCIAL INSTRUMENTS

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

For the years ended September 30, 2023 and 2022, the Company has carried at fair value financial instruments in Level 1. At September 30, 2023, 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.

20. 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 and Cash Equivalents	30-Sep-23	$ 11,606,487	-	-
Liabilities for which fair values are disclosed:				
Debentures	30-Sep-23	-	1,789,394	-
Long-term-debt and other debt	30-Sep-23	-	4,001,897	-

	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 and Cash Equivalents	30-Sep-22	$ 13,488,075	-	-
Liabilities for which fair values are disclosed:				
Debentures	30-Sep-22	-	1,628,262	-
Long-term-debt and other debt	30-Sep-22	-	3,192,764	-

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

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

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 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.

21. FINANCIAL RISK MANAGEMENT

The primary risks that affect the Company are set out below and the risks have not changed materially 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 at one of the major Canadian chartered banks or in short-term interest bearing securities. 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, 2023, five customers accounted for 81% (September 30, 2022 - five customers accounted for 56%) of the outstanding accounts receivable balance. In addition, for the year ended September 30, 2023, five customers accounted for 64% (September 30, 2022 - five customers accounted for 58%) of revenues. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $35,000 (September 30, 2022 - $35,000).

Trade accounts receivable are aged as follows:

	September 30, 2023	September 30, 2022
Current	$ 2,183,648	$ 1,797,275
0 - 30 days past due	1,136,461	576,388
31 - 60 days past due	263,365	11,769
61 days and over past due	215,844	193,767
	$ 3,799,318	$ 2,579,199

In addition to trade receivables, the Company had other receivables relating primarily to accrued royalties receivable and HST receivable of $320,453 (2022 - $478,598).

21. 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	
	2023	2022	2023	2022
Cash and cash equivalents	$ 2,168,075	$ 302,698	$ 25,225	$ 87,613
Accounts receivable	2,700,930	1,645,040	1,043,883	1,221,837
Accounts payable and accrued liabilities	173,959	126,716	40,753	45,994

The Company's revenue and expenses by foreign currency for the years ended September 30, 2023 and 2022 are as follows:

	2023	2022
Revenue		
Euros	20%	17%
U.S. dollars	75%	50%
Expenses		
U.S. dollars	9%	10%

Based upon 2023 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 $621,000 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 $164,500. 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 $621,000 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 $164,500.

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.

21. 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 $20,000 per year for BDC and about $20,000 on the line of credit usage if it were fully used throughout the fiscal year. However, this would be somewhat offset by increase interest income on our short-term investments.

22. SEGMENTED INFORMATION

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

	Segment revenue		Income (loss)	
	2023	2022	2023	2022
Antigens, QAPs and DxTM	$ 15,164,258	$ 19,071,819	$ (4,067,015)	$ 1,833,783
Other (Includes Kinlytic®)	1,350,518	4,422	4,027,532	(45,094)
Total for continuing operations	$ 16,514,776	$ 19,076,241	$ (39,483)	$ 1,788,689

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

Segment income (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 category (i) and (ii) segments. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

	Segment assets		Segment liabilities	
	2023	2022	2023	2022
Antigens, QAPs and DxTM	$ 32,574,439	$ 33,145,196	$ 9,680,037	$ 8,978,534
Other (Includes Kinlytic®)	3,078,585	-	1,348,500	-
Total for continuing operations	$ 35,653,024	$ 33,145,196	$ 11,028,537	$ 8,978,534

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.

22. SEGMENTED INFORMATION (Continued)

Segmented depreciation and amortization, impairment of long-lived assets or reversal of 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	
	2023	2022	2023	2022
Antigens, QAPs and DxTM	$ 1,157,169	$ 1,036,400	$ 1,016,232	$ 1,302,539
Other (Includes Kinlytic®)	-	-	3,078,585	-
	$ 1,157,169	$ 1,036,400	$ 4,094,817	$ 1,302,539

23. 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 year ended September 30,	2023	2022	2023	2022
North America	$ 10,832,067	$ 13,142,485	$ 13,351,018	$ 10,736,824
Europe	5,678,744	5,918,554	-	-
Other foreign countries (directly)	3,965	15,202	-	-
Total for continuing operations	$ 16,514,776	$ 19,076,241	$ 13,351,018	$ 10,736,824

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

For the years ended September 30,	2023	2022
Balance, beginning of the year	$ 554,631	$ 742,932
Cash payments or advance payments on performance obligations	2,828,253	1,797,026
Revenue recognized during the year	(1,617,097)	(2,108,220)
Deferred government grants (Note 9)	537,141	122,893
	$ 2,302,928	$ 554,631

The Company recognizes revenue from the sale of products at a point in time, 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.

23. REVENUES AND GEOGRAPHIC INFORMATION (Continued)

Revenue 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. As part of the Agreement signed with Sequel on May 16, 2023, Microbix received an upfront payment of $ 2.0 million U.S. under the Agreement, recognized $1,348,500 ($1 million U.S.) within royalties and other sales in the consolidated statement of income (loss) and $1,348,500 ($1 million U.S.) within deferred revenue as a contract liability on the consolidated statement of financial position. The Company has determined that royalty milestone payments received under the Agreement represent one performance obligation and are recognized at a point in time. The royalty milestones in the Agreement are considered variable consideration and are estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The process of successfully achieving the criteria for the milestone payments is highly uncertain. Consequently, there is significant risk that the Company may not earn all of the milestone payments for each of its contracts.

24. RELATED PARTY TRANSACTIONS

Key Management Compensation

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

For the year ended September 30,	2023	2022
Short-term wages, bonuses and benefits	$ 1,274,518	$ 1,309,760
Share based payments	436,764	307,187
Total key management compensation	$ 1,711,282	$ 1,616,947

25. COMMITMENTS AND CONTINGENCIES

Payments on convertible debentures (Note 8)

	Amount
2024	$ 360,000
2025	360,000
2026	360,000
2027	360,000
2028	2,860,000
2029 and thereafter	1,539,497
	$ 5,839,497

Contingencies

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

26. SUBSEQUENT EVENTS

As part of the Sequel Agreement signed in May 2023, upon a satisfactory FDA consultation and within 180 days of signing the Agreement Sequel was to confirm that they were moving forward with the remainder of the Agreement and make a further $ 2.0 million U.S. milestone payment to Microbix. The letter of confirmation was received in November 2023, followed by the payment which was received on November 15, 2023.

The Agreement provides for Sequel to fund and undertake the necessary work to return Kinlytic® to the U.S. for the clinical indication of venous catheter clearance.

On December 8, 2023 the Company initiated Normal Course Issuer Bid ("NCIB") program for the repurchase and cancellation of outstanding common shares. In accordance with the rules of the Toronto Stock Exchange and as detailed in the Company's news release of December 6, 2023, the NCIB enables the Company to repurchase up to 5% of its common shares over a 12-month period.

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Syntax Strategic

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

CORPORATE INFORMATION

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Transfer Agent	*TSX Trust Company*
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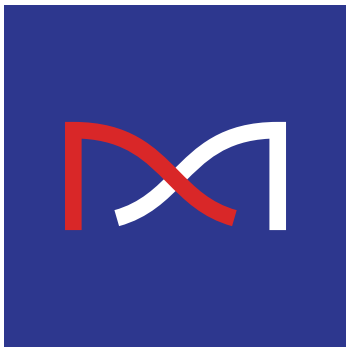
Phillip Casselli
Senior Vice-President, Sales & Business Development

Christopher B. Lobb
General Counsel & Secretary



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