Message to Shareholders

Microbix experienced solid financial performance in the third quarter ending June 30, 2015 as revenue increased 9% compared to last year, and revenue for the first nine months of the fiscal year increased 12% year-over-year. Our growth continues to come largely from increased antigen shipments to our existing customers, and we are beginning to get traction with some of our new product offerings. We continue to benefit from a currency tailwind with the net positive impact of a stronger US dollar offset by a somewhat weaker Euro compared to a year ago.

We incurred higher operating costs during the third quarter and first nine months of the fiscal year compared to last year, which were largely attributable to the VIRUSMAX litigation proceedings. However, we still earned an operating profit in both the third quarter and the first nine months of the year. In fact, we have earned a cumulative operating profit of $1.4 million for the past eight consecutive quarters.

In May, the U.S. Court in the Eastern District of Texas announced its decision in our litigation action against Novartis, and specifically, whether Novartis infringed the patent claims asserted by Microbix on our United States VIRUSMAX patent. After nearly eighteen months the Court ruled in favour of Novartis. Despite this outcome, we will continue to defend and enforce our patents to ensure our intellectual property rights are being respected.

In June, we launched two new toxoplasma antigens used to test for a common parasitic infection spread primarily by cats. Toxoplasma infection can cause serious complications to a developing fetus. The toxoplasma test is part of the industry's "TORCH" diagnostic panel (Toxoplasma, Rubella, CMV, Herpes) and is routinely administered to expectant mothers in their first trimester of pregnancy. With the launch of toxoplasma we now offer the entire TORCH panel to the industry, and we can leverage our market position as the world's leading supplier of Rubella and CMV diagnostic antigens.

We have made significant progress in the past month with one of the Kinlytic partner candidates. This group has been evaluating Kinlytic for several months and is exploring re-launching the drug in the U.S. and Canadian markets, where the drug is already approved, as well as in other select markets. This group has extensive U.S. commercial experience in the thrombolytic market. They also have the support of potential investors as well as State and Municipal levels of government. We are now finalizing specific partnering terms that will be summarized in a letter of intent, which both parties want to conclude as soon as possible.

Finally, we have received several proposals from different organizations that are interested in collaborating with Microbix to commercialize the LumiSort instrument, including completing the remaining technical development, conducting the required field trials and ultimately marketing this transformative technology to the livestock industry. We continue to work with each of the parties to fully evaluate their proposals, with the objective of completing a transaction that offers the most beneficial terms for Microbix shareholders.

Vaughn C. Embro-Pantalony
President and Chief Executive Officer

The Company's Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited Consolidated Interim Financial Statements and notes and should also be read in conjunction with the audited Consolidated Financial Statements, notes and MD&A for the year ended September 30, 2014, prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on Sedar. Additional information relating to the Company, including its Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com. Reference to "we", "us", "our", or the "Company" means Microbix Biosystems Inc. unless otherwise stated. All amounts are presented in Canadian dollars unless otherwise stated. Statements contained herein, which are not historical facts, are forward looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth or implied. These forward-looking statements involve risks and uncertainties, including the difficulty in predicting product approvals, acceptance of and demand for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, regulatory enforcement, changes in operating results and other risks, some or any of which could make the results differ materially from those discussed or implied in the forward-looking statements. The Company disclaims any intent or obligation to update these forward looking statements.

The Management Discussion and Analysis is dated August 11, 2015.

COMPANY OVERVIEW

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

Revenue from the Virology business which is expected to continue growing for the foreseeable future, is used for operating and debt service costs, and to fund the Company's development programmes. Additional equity and/or debt may be raised to finance development of new products and technologies. Management has discretion to reduce development investment to manage the liquidity needs of the Company.

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

FINANCIAL OVERVIEW
THIRD QUARTER ENDING JUNE 30, 2015

Virology product revenue was $2,157,774 or 6% higher than the same period last year (2014 - $2,039,935). Approximately 80% of the improvement in revenue was attributable to continued growth in antigen shipments, with the balance attributable to the net positive currency effect of a stronger U.S. dollar and weaker Euro. R & D Contract revenue of $61,245 (2014 – nil) was due to royalty revenue earned on the Company's rabies technology.

Although gross margins were higher this quarter versus last year, operating expenses were also higher by $252,072, due to the VIRUSMAX litigation costs and higher administration costs for stock options granted to employees in 2015. The latter is part of the Company's retention strategy for highly skilled staff in the competitive labour market for scientific and technical positions. Operating income for the quarter was $147,769 (2014 - $294,561).

Cash used in operations was $180,333 compared to $212,923 positive for the same period last year. Cash used in investing activities was $1,009,559 (2014 - $1,467,802), due to the LumiSort prototype and ongoing development of the new Bioreactor Platform for manufacturing Virology products. Cash generated from financing activities was $51,308 primarily from the proceeds of the Bioreactor equipment loan. In summary, the third quarter's net cash flow was $1,139,584 negative (2014 – negative $697,719).

NINE MONTHS ENDED JUNE 30, 2015

Year-to-date Virology product revenue was $6,579,105 or 12% higher than the same period last year (2014 - $5,852,548), which was mainly attributable to continued growth in antigen shipments and to a much lesser extent, the net currency effect of a stronger U.S. dollar and weaker Euro. Total revenue in the first nine months was $6,759,752, also an improvement of 12% compared to the same period last year (2014 - $6,040,917).

Year-to-date operating expenses were higher by $819,235 compared to the previous year, due to costs related to the VIRUSMAX litigation, and higher administration costs for stock options granted to employees in 2015. Operating Income for the first nine months was $324,657 (2014 - $778,587).

Cash generated from operations in the first nine months was $511,008 compared to $191,226 used in the same period last year. Cash used in investing activities was $4,342,510 (2014 - $2,167,444), due to completion of the LumiSort prototype and development of the Bioreactor Platform for manufacturing Virology products. Cash generated from financing activities in the first nine months was $3,261,820 (2014 - $2,550,569), due to the exercising of common share warrants ($1,738,433) and stock options ($901,830), as well as the net proceeds from equipment loans ($749,032). Net cash flow was $569,041 negative in the first nine months 2015 (2014 - $191,899 positive).

CHANGES IN FINANCIAL POSITION

	As at Jun 30, 2015 $	As at Jun 30, 2014 $
Cash	-	451,948
Accounts receivable	1,938,709	2,141,508
Total current assets	4,882,213	4,928,730
Total assets	22,239,009	17,998,928
Total current liabilities	2,946,039	2,639,718
Total liabilities	9,117,835	8,156,893
Total shareholders' equity	13,121,174	9,842,035
Current ratio	1.66	1.86
Debt to equity ratio	0.69	0.83

SELECTED QUARTERLY FINANCIAL INFORMATION

	Jun-30-13 $	Sep-30-13 $	Dec-31-13 $	Mar-31-14 $	Jun-30-14 $	Sep-30-14 $	Dec-31-14 $	Mar-31-15 $	Jun-30-15 $
Sales	**1,906,652**	**2,468,900**	**1,927,885**	**2,073,097**	**2,039,935**	**2,355,879**	**1,995,833**	**2,544,900**	**2,219,019**
Operating Income	**(22,687)**	**571,932**	**214,406**	**269,620**	**294,561**	**(302,963)**	**90,553**	**86,335**	**147,769**

LIQUIDITY, CASH FLOW AND CAPITAL RESOURCES

The consolidated interim 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 operating losses resulting in an accumulated deficit of $24,448,271 as at June 30, 2015. However, in the past eight fiscal quarters, the Company has an accumulated operating profit of $1.4 million.

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.

a) Sources and Uses of Cash

In the three months ended June 30, 2015, the Company's cash flow was negative at $1,138,584 (2014 – $697,719 negative). For fiscal 2015 year to date, cash flow was negative at $569,041 (2014 - $191,899 positive).

In the current quarter, cash used by operations was $180,333 versus cash provided by operations of $212,923 in 2014. The major use of cash in the quarter was the increase in inventories with higher than normal raw materials and work in process due to increased scheduled shipments in the fourth quarter of fiscal 2015 and materials for the bioreactor development project. Inventories are projected to decline in the first quarter of fiscal 2016. However, on a year to date basis, operations has provided cash of $511,008 and management expects cash flow from operations to continue overall, positive.

During the current quarter, the Company invested $1,216,901 in plant and equipment; approximately $700,000 was used to complete the Lumisort™ prototype instrument and the balance was invested in the new Bioreactor manufacturing process. For the remainder of calendar 2015, the cost to complete the Bioreactor project for the Virology manufacturing is estimated at about $500,000. The Bioreactor is expected to contribute significant productivity improvements. Future investment in the Lumisort™ technology will be shared with a development partner; this arrangement is presently under negotiation.

Overall, total investing activities were $207,342 lower at $1,009,560, reflecting completion of the Lumisort prototype development phase during the quarter.

In the current quarter, cash of $51,308 was provided by financing activities through equipment loans and capital leases totaling $98,893 offset partially by debt repayments of $47,585.

b) Future Liquidity and Capital Needs

Microbix primarily funds new product development activities and capital expenditures from the profits earned by its Virology business and, periodically, from additional equity and/or debt. The Virology business is expected to continue growing resulting in higher profit contributions. And, as previously noted, future development of the LumiSort technology will be financed through a partnership arrangement. Finally, Kinlytic will be independently funded through a partnership arrangement. It is the opinion of management that these developments will reduce the cash consumption and capital needs of the Company and improve its overall liquidity position.

c) Commitments and Contingencies

Over the next five years the Company has long-term commitments as at June 30, 2015 as described in the following tables:

i) Lease commitments

	$
2016	54,882
2017	10,047
2018	7,842
2019	5,606
2020	-
	78,377

ii) Payments on convertible and non-convertible debentures

	$
2016	694,242
2017	1,649,242
2018	604,242
2019	604,242
2020	604,242
	4,156,210

d) Outstanding Share Capital

Share capital issued and outstanding as at August 11, 2015 was $30,990,459 for 83,204,257 common shares, representing no change in the third quarter of fiscal 2015.

RELATED PARTIES

During the third quarter of fiscal 2015, the Company paid interest of $156,707, ($159,501 – 2014) on the convertible debentures issued to related party shareholders.

LONG-TERM ASSETS

a) Tangible Assets

During third quarter of fiscal 2015 the Company spent $1,060,092 on Lumisort engineering and equipment and Virology production equipment and development.

b) Intangible Assets

Capital Spending

During third quarter of fiscal 2015 the Company spent $ 156,809 on its patent estate.

Technology Investment - Lumisort™

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

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

Technology Investment – Urokinase/Kinlytic®

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

The recoverable amount of the Urokinase intangible asset has been determined based on a 'fair value less cost to sell' calculation. That calculation uses risk adjusted cash flow projections based on probability weighted financial budgets approved by management covering an 11-year period, and a discount rate of 10% per cent. Management made assumptions based on probabilities of technical, regulatory and clinical acceptances and financial support. Management also believes that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

LONG-TERM DEBT

Business Development Corporation Debt

In fiscal 2009 the Company negotiated a series of loans totalling $3,410,000 with the Business Development Bank (BDC) for the original purchase and build-out of its manufacturing facility.

	$
Purchase of the building	1,500,000
Construction of manufacturing facility	1,500,000
Purchase of equipment for facility	410,000
	3,410,000

The loans are secured with the building and equipment.

For loans totalling $3,350,000, consecutive monthly principal payments of $9,260 are due to February 2037 on the outstanding balance of $2,518,720 (Sept 30, 2014 – $2,602,060).

For loans totalling $60,000, consecutive monthly principal payments of $725 are due to February 2017 on the outstanding balance of $14,500 (Sept 30, 2014 – $21,025).

During the first quarter of fiscal 2015, the Company received an additional $615,000 loan from BDC with a maturity of July, 2020 with monthly repayments of principal and interest of $10,250 starting in August, 2015. The funds from this loan are being used to upgrade the Company's production process.

All of the above loans have a floating interest rate based on BDC's Floating Base Rate plus 0.5%. At March 31, 2015 the Floating Base Rate was 5.0%.

During the second quarter of fiscal 2015, the Company received an additional $50,000 loan from BDC with a maturity of January 2020 with monthly repayments of principal and interest starting February 2016 with a floating interest rate plus 1%. The funds are being used to upgrade the Company's IT system.

During the third quarter of fiscal 2015, the Company was approved for an equipment line facility which must be utilized by December 15, 2015. As at June 30, 2015 the Company had utilized $84,032 of the line. The loan has a maturity of December 12, 2019 with monthly repayments of principal and interest starting December 12, 2015 with a floating interest rate plus 1%. The funds are being used to upgrade general antigen processing equipment.

Following is the commitment for the next five years for the Business Development Corporation loans as at June 30:

	$
2016	237,778
2017	252,420
2018	246,620
2019	246,620
2020	246,620

TREND INFORMATION

Historical spending patterns are no indication of future expenditures. Investment in the new products and technologies is at the discretion of management. The Company is not aware of any material trends related to its business that have not been discussed in this Management Discussion and Analysis dated August 11, 2015.

OUTLOOK

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

Virology product revenues are expected to continue growing in the coming years building on the 25% improvement in fiscal 2014. The Company continues to expand its conventional antigen product line and recently it announced the launch of its molecular diagnostic products. In addition, the Company is experiencing a net favourable currency effect, due to the weakening Canadian dollar versus the U.S. dollar (55% of sales), which is partially offset by a weaker Euro (45% of sales). The Company also continues to invest in new process technologies that will improve its manufacturing cost base and expand its production capacity to accommodate the sale of new products. In light of all of these developments, management expects to realize improved profitability from the Virology products business.

Advanced discussions continue with potential partners interested in returning Kinlytic to the U.S. and Canadian markets, as well as other countries. These partner candidates would be expected to contribute to the overall investment needed to develop and commercialize the product over an approximate 36 month timeframe. Management is optimistic about the likelihood of closing a partnership by the end of calendar 2015.

Following the recent completion of the Lumisort prototype, partnering discussions with global animal genetics companies continue to advance. The objective is to raise funds for the next phase of the Lumisort development program, namely completion of the commercial instrument, which is estimated to cost $10 million.

Finally, for the past year the Company has been involved in a patent infringement action against Novartis Vaccines and Diagnostics relating to its VIRUSMAX vaccine yield enhancement technology. There have been two actions in the U.S. and Europe. During the current quarter a decision was rendered in favour of the defendant and as a result these legal actions are being wound down and spending related to this litigation will cease in the fourth quarter of fiscal 2015.

RISKS AND UNCERTAINTIES

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

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

A significant share of the Company's Virology products sales are sold to a few key customers globally. These products contributed a significant share of the revenue in the third quarter of fiscal 2015. The loss of a key customer, or restrictions on export, import, or international transportation of its products, raw materials or insufficient marketing resources, could materially impact revenue and profitability.

Environmental, safety and other regulatory

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

Manufacturing of Kinlytic®

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

Vaccine technology

The Company owns a proprietary vaccine technology (VIRUSMAX) that has a global patent estate. In January 2014 the Company successfully defended its European patents at the European Patent Office hearing, following the filing of an Opposition by Novartis Vaccines & Diagnostics. In 2014 the Company filed patent infringement actions against Novartis in the U.S. And Europe. During the quarter a decision was rendered by the U.S. Court in favour of the defendant. The Company is completing its assessment of the next steps relative to these actions.

LumiSort Technology

The Company has developed a proprietary semen sexing technology that has a global patent estate. Over the last two fiscal years the Company has built and successfully tested a prototype instrument that confirms the key patent claims. The Company is currently working to secure a partner from within the animal genetics industry to help fund the next stage of development, namely to build a commercial instrument and conduct field trials. There is one commercial global competitor today who services major dairy and beef markets worldwide. This competitor continues to invest in upgrading their instrument and they own an expansive patent portfolio. They also have extensive commercial resources and contractual arrangements with their customers. There are also other competing technologies being developed by other organizations. While Microbix continues to invest heavily in order to continue strengthening its LumiSort technology and remain competitive, the competitors are also investing in R&D activities and in intellectual property. This could make it more challenging for Microbix to commercialize LumiSort.

RISKS AND UNCERTAINTIES (continued)

Products in development

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

Product commercialization requires strategic relationships

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

Operating and capital requirements

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

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

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

Failure to obtain and protect intellectual property could adversely affect business

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

Microbix faces and will continue to face significant competition

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

FINANCIAL RISK MANAGEMENT

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

Credit risk

The Company's customers are primarily large multi-national companies with very high quality credit ratings. Given this track record, management perceives the credit risk to be low. Typically the outstanding accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. At June 30, 2015, four customers accounted for 65% (2014 – four for 82%) of the outstanding balance. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $1,018 (2014 - $51,433).

Currency risk

The Company is exposed to currency risk given its global customer base. Over 90% of its revenue is denominated in either U.S. dollars or Euros. The Company does not use financial instruments to hedge this currency risk. At June 30, 2015, the significant balances, quoted in Canadian dollars, held in foreign currencies are:

	US dollars		Euros	
	2015	2014	2015	2014
Cash and cash equivalents	158,815	251,648	-	-
Accounts receivable	506,956	498,078	1,092,114	1,094,687
Accounts payable and and accrued liabilities	509,956	158,222	128,891	29,578

The impact of a 1 cent increase in the Canadian dollar against the US dollar would result in a revenue loss of about 1.25%. The impact of a 1 cent increase in the Canadian dollar against the Euro would result in a revenue loss of about 0.9%.

Liquidity risk

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

Interest rate risk

Financial instruments that potentially subject the Company to interest rate risk include those assets and liabilities with a variable interest rate. Exposure to interest rate risk is primarily on the BDC debt that has a variable rate pegged to the bank rate. The rate can be fixed, if the outlook indicates interest rates will move higher. The only other variable debt the Company has is the $500,000 line of credit that bears interest at the bank's prime lending rate plus 2.25%. A 1% increase in the bank rate would cost the Company approximately $32,000 per year for BDC and about $5,000 on the line of credit usage.

Market risk

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

Fair value

The Company records all financial assets and liabilities at their fair value.

CRITICAL ACCOUNTING ESTIMATES

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

Intangible Assets

Intangible assets include technology costs, patents, trademarks and licenses. Each is recorded at cost and amortized on a straight-line basis over the term of the agreements. Intangible assets with indefinite lives are not amortized but are assessed for impairment on an annual basis.

Impairment of Long-lived Assets

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

The impairment loss is calculated as the difference between the fair value of the asset and its carrying value. Management has determined that no long-lived assets of the Company as at June 30, 2015 have met the criteria for impairment.

Non-Convertible and Convertible Debentures

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

Deferred Income Taxes

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

Share-Based Payments

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

FINANCIAL INSTRUMENTS

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

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

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

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in the National Instrument 52-109 Certification of Disclosure in Issuer's Annual Filings (NI 52-109F1). As at June 30, 2015, management has concluded that the disclosure controls are effective in providing reasonable assurance that information required to be disclosed in the Company's reports is recorded, processed summarized and reported within the time periods specified in the Canadian Securities Administrator's rules and forms.

Internal Controls Over Financial Reporting

The design of internal controls over financial reporting ("ICFR") within the company is a management responsibility to provide reasonable assurance that the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with generally accepted accounting principles of IFRS. While the CEO and CFO believe that the internal controls are adequate to provide the above information, the process to evaluate and document all policies and procedures that could impact financial reporting is continuously reviewed with consultation with the Audit Committee. Shareholders should be aware that Microbix is a small company without the department resources associated with larger firms. Management is using the Committee of Sponsoring Organization of the Treadway Commission ("COSO") Framework and has concluded that the Internal Control over Financial Reporting ("ICFR") as defined in NI 52-109 is effective as at the period ended June 30, 2015.

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 June 30, 2015 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

RECENT ACCOUNTING PRONOUNCEMENTS

Periodically new standards, interpretations, amendments and improvements to existing standards are issued by the International Accounting Standards Board (IASB) or IFRS Interpretation Committee (IFRIC) that become mandatory at certain dates. Management routinely assesses the impact of these pronouncements on the Company. There are no pending standards that may be applicable to the Company.

IFRS 7 – Financial Instruments: Disclosures

In December 2011, the IASB amended IFRS 7 to provide additional information about offsetting of financial assets and financial liabilities. Additional disclosures will be required to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013. There was no impact to the financial statements as a result of the adoption of this update.

IFRS 9 – Financial Instruments

IFRS 9, issued in November 2009 and amended in October 2010, introduced new requirements for the classification and measurement of financial assets and the classification and measurement of financial liabilities and for their de-recognition.

All recognized financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are to be subsequently measured at amortized cost or fair value. Specifically, debt investments that have contractual cash flows that are solely payments of principal and interest are generally measured at amortized cost at the end of subsequent periods. All other debt and equity investments are measured at their fair value at the end of subsequent periods.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

The directors anticipate that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 10 - Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes International Accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements and Standing Interpretations Committee ("SIC") 12, Consolidation – Special Purpose Entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. There was no impact to the Company's interim financial statements as a result of adopting this standard.

IFRS 11 - Joint Arrangements

In May 2011, the IASB issued IFRS 11, Joint Arrangements. This standard separates joint arrangements into joint ventures and joint operations and provides guidance on accounting for these types of arrangements. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. There was no impact to the Company's interim financial statements as a result of adopting this standard.

IFRS 12 - Disclosures of interests in other entities

In May 2011, the IASB issued IFRS 12, which outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flows. IFRS 12 supersedes IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special Purpose Entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. There was no impact to the Company's interim financial statements as a result of adopting this standard.

IFRS 13 - Fair value measurement

In May 2011, the IASB issued IFRS 13, Fair Value Measurement. This standard defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. This IFRS is to be applied prospectively as of the beginning of the annual period in which it is initially applied. Disclosure requirements do not need to be applied to the comparative periods prior to initial application. There were no impacts to the consolidated interim financial statements as a result of the adoption of this standard.