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, 2015, prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on Sedar. Additional information relating to the Company, including its Annual Information Form ("AIF"), can be found on SEDAR at www.sedar.com. Reference to "we", "us", "our", or the "Company" means Microbix Biosystems Inc. unless otherwise stated. All amounts are presented in Canadian dollars unless otherwise stated. Statements contained herein, which are not historical facts, are forward looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth or implied. These forward-looking statements involve risks and uncertainties, including the difficulty in predicting product approvals, acceptance of and demand for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, regulatory enforcement, changes in operating results and other risks, some or any of which could make the results differ materially from those discussed or implied in the forward-looking statements. The Company disclaims any intent or obligation to update these forward-looking statements.

The Management Discussion and Analysis is dated December 31, 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 programs. 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

Year Ending September 30, 2015

Total revenue was $8,873,912, a 6% increase over 2014's $8,396,796. Included was Virology product revenue at $8,191,720, slightly lower than 2014, due to rescheduling of orders by the Company's largest customer from the fourth quarter of fiscal 2015 to first quarter of fiscal 2016, offset partially by the beneficial impact of the higher U.S. dollar.

Revenue from licensing fees was $413,895 (2014 - $nil) following the recognition of non-refundable deferred revenue received from a prospective distributor of the Company's LumiSort™ technology. Upon completion of the LumiSort™ prototype in 2015, the distributor advised the Company that it was not interested in representing the Lumisort™ prototype technology.

Revenue from royalties was $268,297 (2014 - $108,369) recognizing two years' royalties in fiscal 2015 from the Company's rabies virus technology.

Gross margin increased by $1,328,072, due to higher licensing and royalty revenues and the beneficial impact of the higher U.S. dollar. Operating expenses increased by $1,454,712 compared to 2014. This increase resulted primarily from higher legal costs related to the Virusmax litigation in the U.S. and Europe, as well as expenses related to the granting of stock options to directors and employees. Operating income was $348,984 (2014 - $475,624).

Cash generated from operations in fiscal 2015 was $595,402 compared to a $1,170,842 of cash used in operations in fiscal 2014. Cash used in investing activities was $4,842,022 (2014 - $3,130,190), as a result of completion of the LumiSort™ prototype and development of the new automation process for the manufacturing of Virology products. Cash generated from financing activities in fiscal 2015 was $3,803,444 (2014 - $4,588,340), 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 ($865,000) and a credit facility ($475,000) offset partially by payments on debt of $176,820. Net cash flow was $443,176 negative in fiscal 2015 (2014 - $287,308 positive).

Quarter Ending September 30, 2015

Virology product revenue of $1,612,615 was significantly lower than 2014's $2,355,879, as the Company's largest customer rescheduled sales from the fourth quarter of fiscal 2015 to the first and second quarters of fiscal 2016.

Licensing revenue was $413,895 (2014 - $nil) due to the above mentioned recognition of deferred revenue, received on a non-refundable basis from a prospective distributor for the Company's LumiSort technology. Revenue from royalties was $87,650 (2014 - nil).

Quarter Ending September 30, 2015 (Continued)

Although gross margins were higher this quarter versus last year as a result of higher licensing and royalty revenues, operating expenses were up almost as much, due to higher 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 $24,327 (2014 - $302,963 loss).

Cash provided by operations was $84,394 compared to $387,587 used in operations for the same period last year. Cash used in investing activities was $499,512 (2014 - $962,746), reflecting completion of the Lumisort™ prototype in the previous quarter, leaving only the ongoing development of the new automation process for manufacturing Virology products. Cash provided by financing activities was $541,624 primarily from equipment loans and credit facilities offset partially by $54,057 of debt repayment. In summary, the fourth quarter's net cash flow was $125,865 positive (2014 – $ 95,409).

Changes in Financial Position

	2015 $	2014 $
Total Revenue	8,873,912	8,396,796
Operating income	348,984	475,624
Cash	104,180	547,356
Accounts receivable	1,692,074	2,141,508
Total current assets	5,788,161	4,707,026
Total assets	23,546,958	17,998,928
Total current liabilities	4,135,457	2,639,718
Total liabilities	9,870,048	8,156,893
Total shareholders' equity	13,676,910	9,842,035
Current ratio	1.40	1. 78
Debt to equity ratio	0.72	0.83

Selected Quarterly Financial Information

	Sep 30 2013 $	Dec 31 2013 $	Mar 31 2014 $	Jun 30 2014 $	Sep 30 2014 $	Dec 31 2014 $	Mar 31 2015 $	Jun 30 2015 $	Sep 30 2015 $
Sales	**2,468,900**	**1,927,885**	**2,073,097**	**2,039,935**	**2,355,879**	**1,995,833**	**2,544,900**	**2,219,019**	**2,114,160**
Operating Income	**571,932**	**214,406**	**269,620**	**294,561**	**-302,963**	**90,553**	**86,335**	**147,769**	**24,327**

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. 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). 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 during fiscal 2016,

Following the recent completion of the Lumisort™ prototype, partnering discussions with global animal genetics companies continue to advance.

Finally, the Company has been involved in patent infringement actions in the U.S. and Europe against Novartis Vaccines and Diagnostics relating to its VIRUSMAX vaccine yield enhancement technology. In fiscal 2015 a decision was rendered in favour of the defendant and spending related to this litigation has ceased.

LIQUIDITY, CASH FLOWS 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 $24,045,156 as at September 30, 2015. However, in the past nine 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.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES (Continued)

Sources and Uses of Cash

Overall, the Company has realized a negative cash flow of $443,176 (2014 – $287,308 positive).

Cash provided by operations in 2015 was $595,402 versus cash used by operations of $1,170,842 in 2014, a swing mostly due to improved profitability offset partially by increased inventories and work in process from increased scheduled shipments in fiscal 2016 and materials for the automation process development. Inventories increased as a result of rescheduling of orders by the Company's largest customer from the fourth quarter of fiscal 2015 to first quarter of fiscal 2016. Inventories are projected to normalize in fiscal 2016 and the automation process development is scheduled to complete in the second quarter of fiscal 2016. Additionally, with the settlement of the Virusmax litigation, this one time expenditure will not repeat in fiscal 2016.

During the year, the Company invested $4,842,022, with spending mainly on three larger projects: $3 million on the Lumisort™ new intellectual property development and prototype, $1.1 million on the Company's new automation process and $0.6 million on equipment for the new automation process. Completion of the automation process to commercialization is projected at about $200,000 in fiscal 2016 after which it is expected to contribute to productivity improvements. Future investment in the Lumisort™ technology will be provided by a development partner for which an arrangement is presently under negotiation.

Cash of $3,803,444 provided by financing activities arose mainly from three sources: Issuance of debt of $1,340,000 for equipment loans and operating lines, conversion of warrants of $1,738,433 and exercise of stock options of $901,830.

Future Liquidity and Capital Needs

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

In fiscal 2016 cash flow is expected to improve considerably as the year progress due to: 1) Continuation of strong profits from the Virology business, 2) Significant decrease in legal costs with the settlement of the Virusmax litigation, 3) Financing of the next stage of the Lumisort™ development through a partnership arrangement and, 4) Independent funding of Kinlytic® also through a partnership arrangement. It is the opinion of management that these developments will significantly reduce the cash burn and capital needs of the Company in fiscal 2016 and improve its overall liquidity position.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES (Continued)

Contractual Obligations

a) Commitments and Contingencies

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

i) Lease commitments

	$
2016	42,622
2017	7,552
2018	6,082
2019	4,153
2020	463
	60,872

ii) Payments on convertible and non-convertible debentures

	$
2016	694,284
2017	1,649,242
2018	604,242
2019	604,284
2020	604,284
	4,156,336

b) Outstanding Share Capital

Share capital issued and outstanding as at December 31, 2015 was $31,590,459 for 84,704,257 common shares versus 83,204,257 common shares at September 30, 2015.

LONG-TERM ASSETS

a) Tangible Assets

During fiscal 2015 the Company spent $3,438,607 on Lumisort™ engineering and equipment and Virology production equipment.

a) Intangible Assets

During fiscal 2015 the Company spent $340,989 on development of its patent estate and development of the Lumisort™ prototype and $1,062,427 on the development of the new automation process.

LONG-TERM ASSETS (Continued)

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 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.

Technology Investment – Bioreactor

The Company has internally developed an improved automation process with bioreactors to increase the efficiency and output of the manufacturing of its virology products. As at September 30, 2015, the process is still being developed.

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 $2,490,940 (Sept 30, 2014 –$2,518,720).

LONG-TERM DEBT (Continued)

Business Development Corporation Debt (Continued)

For loans totalling $60,000, consecutive monthly principal payments of $725 are due to February 2017 on the outstanding balance of $12,325 (Sept 30, 2014 – $14,500).

In fiscal 2015, the Company negotiated a series of loans totalling $865,000 with BDC for process equipment upgrades in its manufacturing facility.

		Amount
Equipment for Bioreactor Project	**$**	**615,000**
Construction of Manufacturing Facility		**50,000**
Purchase of Equipment for Facility		**200,000**
		865,000

For a loan totalling $615,000, consecutive monthly principal payments of $10,250 are due to July 2020 on the outstanding balance of $594,500 (September 30, 2014 - $Nil). The loan has a floating interest rate based on BDC's Floating Base Rate plus 0.5%.

For a loan totalling $50,000, consecutive monthly principal payments of $1,040 are due to December 2019 on the outstanding balance of $50,000 (September 30, 2014 - $Nil). For a loan totalling $200,000, consecutive monthly principal payments of $3,330 are due to December 2020 on the outstanding balance of $200,000 (September 30, 2014 - $Nil). These loans have a floating interest rate based on BDC's Floating Base Rate plus 0.5%. At September 30, 2015, the Floating Base Rate was 5.0%.

On April 16, 2015, the Company entered into a revolving line of credit agreement with its Canadian chartered bank. The agreement allows the Company to draw on to a limit of $500,000 bearing interest at the bank's prime lending rate plus 2.25%. Accounts receivable and property, plant and equipment are pledged as collateral for the bank credit facility. As at September 30, 2015, the Company had drawn $475,000 on the facility.

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

	$
2016	282,430
2017	290,185
2018	286,560
2019	286,560
2020	256,700

DEFERRED REVENUE

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

In fiscal 2015, the Company advised the partner of the recent completion of its Lumisort™ prototype technology, and offered the partner the opportunity as a distributor of this technology, which the partner declined. As a result the non-refundable deposit was reclassified as revenue in fiscal 2015.

TREND INFORMATION

Historical spending patterns are no indication of future expenditures. Investment in the new products and technologies is at the discretion of management. The Company is not aware of any material trends related to its business that have not been discussed in this Management Discussion and Analysis dated December 29, 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 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

RISKS AND UNCERTAINTIES (Continued)

Environmental, safety and other regulatory (Continued)

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 fiscal 2015 a decision was rendered by the U.S. Court in favour of the defendant. The Company has decided to not appeal this decision and the action against Novartis has ceased.

LumiSort™ Technology

The Company has developed a proprietary semen sexing technology that has a global patent estate. In 2014 and 2015 the Company built and successfully tested a prototype instrument that confirms the key patent claims. The Company is currently working to secure a partner within the animal genetics industry to fund the next stage of development, to build a commercial instrument and conduct field trials. There is no assurance the Company will be successful in this endeavour.

Products in development

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

Product commercialization requires strategic relationships

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

RISKS AND UNCERTAINTIES (Continued)

Operating and capital requirements

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

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

The successful commercialization of products under development is key to Microbix' success. Product development in the pharmaceutical and biotechnology industry is 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 will continue to face significant competition

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

FINANCIAL RISK MANAGEMENT

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

Credit risk

The Company's customers are primarily large multi-national companies with very high quality credit ratings. Given this track record, management perceives the credit risk to be low. Typically the outstanding accounts receivable balance is relatively concentrated with a few large customers representing the majority of the value. At September 30, 2015, six customers accounted for 64% (2014 – six for 67%) of the outstanding balance. The Company has had minimal bad debts over the past several years and accordingly management has recorded an allowance of $18,295 (2014 - $1,018).

Currency risk

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

	US dollars		Euros	
	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
Cash and cash equivalents	59,419	99,491	-	-
Accounts receivable	944,667	1,259,391	934,864	738,372
Accounts payable and and accrued liabilities	554,642	650,440	76,552	32,621

The impact of a 15 cent increase in the Canadian dollar against the US dollar would result in a revenue loss of about 4%. The impact of a 15 cent increase in the Canadian dollar against the Euro would result in a revenue loss of about 14%.

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.

FINANCIAL RISK MANAGEMENT (Continued)

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

Intangible Assets

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

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

CRITICAL ACCOUNTING ESTIMATES (Continued)

Impairment of Long-lived Assets

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

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

CRITICAL ACCOUNTING ESTIMATES (Continued)

Share-based payments (Continued)

vested options must be exercised within 90 days, or the options expire. Any options that are unvested are reversed in the period that the employee leaves.

FINANCIAL INSTRUMENTS

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

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

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

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in the National Instrument 52-109 Certification of Disclosure in Issuer's Annual Filings (NI 52-109F1). As at September 30, 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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING (Continued)

Internal Controls Over Financial Reporting (Continued)

without the department resources associated with larger firms. Management is using the Committee of Sponsoring Organization of the Treadway Commission ("COSO")

Framework and has concluded that the Internal Control over Financial Reporting ("ICFR") as defined in NI 52-109 is effective as at the period ended September 30, 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 September 30, 2015 that have materially affected, or are reasonably thought to materially affect, the internal control over financial reporting.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED

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

IAS 1 - Presentation of Financial Statements

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

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

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

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

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED (Continued)

IAS 16 and IAS 38 – Property, Plant and Equipment and Intangible Assets (Continued)

the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

IFRS 9 - Financial Instruments

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

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

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

IFRS 15 - Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers was issued by ISAB in May 2014. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application if permitted.