

# Micrologix

Biotech Inc

**First Quarter Report**  
**July 31, 1999**

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## To Our Shareholders:

### **Micrologix receives FDA Fast Track Designation for MBI 226**

Following the positive Phase I clinical results announced in April 1999 for MBI 226, Micrologix's antimicrobial drug product for the prevention of central venous catheter-related bloodstream infections ("CVC BSI's"), we made a submission to the US Food and Drug Administration ("FDA") for obtaining fast track designation. On September 7, 1999 we announced that the FDA has granted MBI 226 the fast track designation we were seeking. This fast track designation will permit Micrologix to pursue the fastest possible approval path for MBI 226.

The fast track process was authorized by the FDA Modernization Act of 1997. It is designed to facilitate the development and expedite the review of new drugs or biologicals that are intended to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs.

Micrologix has been working with the FDA on the design of the MBI 226 Phase II clinical trial planned to commence this fall. As a result of being granted fast track designation for MBI 226, Micrologix has initiated concurrent discussions with the FDA on the design of a Phase III clinical trial.

### **Product Development Pipeline**

In addition to MBI 226 for the prevention of CVC BSI's Micrologix has been working towards advancing other drug products into the clinic. Preclinical studies to support filing Investigational New Drug applications for the Company's acne treatment and an undisclosed indication are progressing well and we are on track to commence clinical trials in the first quarter and first half of calendar 2000 respectively. Further drug candidates are being screened and developed for other clinical indications including the treatment of eye infections.

### **Micrologix closes \$15 Million Financing**

Micrologix closed the \$15 million "bought deal" financing announced on August 18, 1999. The net proceeds of this financing are being held in escrow until such time as the Company receives all necessary approvals, including shareholder approval and obtains receipts for a final prospectus.

These funds will allow Micrologix to commence its planned Phase II clinical trial of MBI 226 for the prevention of CVC BSI's and to continue to advance the Company's acne treatment and an undisclosed indication into Phase I clinical trials. Finally, the enhanced cash position will provide Micrologix with greater flexibility to advance its clinical programs and secure strategic alliances with major pharmaceutical companies under conditions of maximum benefit to Micrologix and its shareholders.

A total of 7,692,500 special units were issued at a price of \$1.95 per special unit. Each special unit entitles the holder to acquire, at no additional cost, one common share of

Micrologix and a one-half common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share of Micrologix at \$2.35 for a period of 12 months from closing, or in certain circumstances, up to 24 months from closing.

The underwriting syndicate for this financing was led by Yorkton Securities Inc. and included TD Securities Inc., RBC Dominion Securities Inc., CIBC World Markets Inc. and CT Securities Inc.. Micrologix has granted three of the underwriters special After-Market Support Options for the purchase of up to 769,250 common shares, exercisable in three equal six-month tranches, at exercise prices escalating from \$3.25 per common share in the first six-month tranche, to \$5.50 per common share in the third six-month tranche.

### **Financial Highlights**

Financial results for the three months ended July 31, 1999 showed a net loss of \$1,983,171 or \$0.09 per common share, compared to a net loss of \$1,429,814 or \$0.06 per common share for the three months ended July 31, 1998.

The increase in the net loss was due primarily to the commitment of resources to the Company's research and development programs, and in particular, the costs associated with preparations for a Phase II clinical trial for the prevention of CVC BSI's and preclinical studies for the Company's acne treatment and an undisclosed indication. Research and development expenses increased 31% to \$1,454,509 for the period, compared to \$1,112,397 in 1998.

At July 31, 1999 the Company's cash and marketable securities were \$9,139,430 a decrease of \$1,411,497 from April 30, 1999. This decrease is comprised of \$1,626,133 used to fund operating activities and \$85,364 to fund capital expenditures, net of \$300,000 received from the exercise of stock options. The net proceeds from the financing of approximately \$13.7 million (before proceeds, if any from exercise of the warrants and the After-Market Support Options) together with the Company's current funds and expected interest income should be sufficient to fund the Company's operating activities over approximately the next two years.

We look forward to reporting further progress in the months ahead.

Respectfully,

"Dany Hadary"

**Dany Hadary**  
President and CEO

## Corporate Profile

**Micrologix Biotech Inc. is a biopharmaceutical company developing novel drugs to treat severe and life-threatening diseases—particularly those caused by antibiotic-resistant microorganisms. The Company has a broad portfolio of drug candidates based on improved analogs of the anti-infective peptide compounds found in the host-defense systems of most life forms. Micrologix has completed Phase I and plans to initiate a Phase II clinical trial later this year for the prevention of catheter-related bloodstream infections. In addition, the Company has preclinical development programs for acne, eye infections and other serious diseases.**

## Consolidated Balance Sheets

July 31  
(Unaudited—Expressed in Canadian dollars) **1999** **1998**

### Assets

#### Current

Cash and cash equivalents	\$ 2,360,611	\$ 323,620
Marketable securities <sup>(1)</sup>	6,778,819	15,296,794
Accounts receivable and other	45,176	62,671
Prepaid expenses	129,135	138,270
	9,313,741	15,821,355
Capital assets	2,599,794	2,820,671
	\$ 11,913,535	\$ 18,642,026

(1) Investments in marketable securities are comprised of highly liquid financial instruments with an original maturity greater than three months.

### Liabilities

#### Current

Accounts payable and accrued liabilities	\$ 1,136,086	\$ 1,078,502
	1,136,086	1,078,502
Deferred rental inducement	21,219	47,221
	\$ 1,157,305	\$ 1,125,723

### Shareholders' Equity

#### Share capital

23,208,599 Common Shares	\$ 33,569,156	\$ 33,269,156
[1998—23,058,599]		
Shares to be issued	111,072	111,072
Deficit	(22,923,998)	(15,863,925)
	\$ 10,756,230	\$ 17,516,303
	\$ 11,913,535	\$ 18,642,026

On behalf of the Board:

“William J. (Bud) Foran”

“Dany Hadary”

William J. (Bud) Foran  
Director

Dany Hadary  
Director

## Consolidated Statements of Loss and Deficit

Three months ended July 31 (Unaudited—Expressed in Canadian dollars)	1999	1998
<b>Revenue</b>		
Interest and sundry	\$ 97,601	\$ 193,256
<b>Expenses</b>		
Research and development	1,454,509	1,112,397
General and corporate	626,263	510,673
	2,080,772	1,623,070
Net loss	(1,983,171)	(1,429,814)
Deficit, beginning of period	(20,940,827)	(14,434,118)
Deficit, end of period	\$ (22,923,998)	\$ (15,863,932)
Net loss per common share <sup>(1)</sup>	\$ (0.09)	\$ (0.06)

- (1) Loss per share is based on the weighted average number of common shares outstanding during the period. Since the company's stock options are anti-dilutive, they are not included in the calculation of the weighted average number of common shares outstanding.

## Stock Listing

The Company's common shares trade on the Toronto Stock Exchange and the Vancouver Stock Exchange under the trading symbol MBI, and over the counter in the United States under the trading symbol MGIXF.

This Quarterly Report, including the discussion "To Our Shareholders" contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements frequently, but not always use the words "expects", "anticipates", "suggests", "plans", "believes" or "intends", or similar words and/or include statements concerning the Company's strategies, goals and plans, or state that certain actions, events or results "will" be taken, occur or be achieved. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement of the company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such statements. Such factors include among others, the following: uncertainties related to early stage of development, technology and product development; dependence on and management of future corporate collaborations; dependence on proprietary technology and uncertainty of patent protection; management of growth; future capital needs and uncertainty of additional funding; dependence on key personnel; intense competition; manufacturing and market uncertainties; government regulation; product liability exposure and the Year 2000 issue.

## Consolidated Statements of Cash Flows

Three months ended July 31 (Unaudited—Expressed in Canadian dollars)	1999	1998
<b>Operating Activities</b>		
Net loss for the period	\$ (1,983,171)	\$ (1,429,814)
Items not affecting cash		
Amortization	204,810	177,359
Deferred rent inducement	(6,500)	(6,501)
	\$ (1,784,861)	\$ (1,258,956)
Changes in non-cash working capital items		
Accounts receivable and other	64,710	12,085
Prepaid expenses and deposits	918	(54,444)
Accounts payable and accrued liabilities	93,100	(51,897)
Net cash used in operating activities	(1,626,133)	(1,353,212)
<b>Financing Activities</b>		
Issue of share capital for cash	300,000	—
	300,000	—
<b>Investing Activities</b>		
Proceeds from marketable securities	2,221,906	970,937
Capital assets purchased	(98,501)	(336,011)
Changes in non-cash working capital relating to investing activities	13,137	40,998
	2,136,542	675,924
Net increase (decrease) in cash	810,409	(677,288)
Cash and cash equivalents, beginning of period	1,550,202	1,000,908
Cash and cash equivalents, end of period	\$ 2,360,611	\$ 323,620

## Micrologix Biotech Inc.

BC Research Building  
3650 Wesbrook Mall  
Vancouver, British Columbia  
Canada V6S 2L2

Website: [www.mbiotech.com](http://www.mbiotech.com)

E-mail: [info@mbiotech.com](mailto:info@mbiotech.com)

Toll Free: (800) 665-1968

Tel: (604) 221-9666

Fax: (604) 221-9688