



Micrologix Biotech Inc.

first quarter

July.31.00

To Our Shareholders:

Phase III Trials to be Initiated for MBI 226 in September 2000

During the quarter, MBI continued preparations for two pivotal phase III clinical trials of MBI 226—a novel antibiotic drug for the prevention of central venous catheter-related bloodstream infections. All preparations including discussions and submissions to the FDA on the design of the studies, drug manufacture and clinical trial site recruitment are either complete or near completion. These phase III studies, on schedule to start in September 2000, will form the basis for a New Drug Application to market MBI 226 in the US.

Phase I Trials for MBI 594AN Completed

A two-part phase I human clinical trial of MBI 594AN for the treatment of acne was completed in June. The studies showed that MBI 594AN is safe, well tolerated and has antimicrobial activity against the acne-causing bacterium, *Propionibacterium acnes*.

MBI is preparing to initiate further clinical studies of MBI 594AN in the fourth quarter of 2000. The purpose of these studies will be to assess the effectiveness of MBI 594AN in reducing lesions in acne patients.

Phase I Trial for MBI 853NL Completed

A phase I human clinical trial of MBI 853NL, an antibiotic drug being developed for the prevention of hospital-acquired infections caused by *Staphylococcus aureus* (*S. aureus*), was completed in July. The results from this trial demonstrated that MBI 853NL is safe and well tolerated with no absorption of the drug into the bloodstream.

MBI plans to initiate a dose-escalation study in the fourth quarter of this year to further establish safety and quantify the anti-*S. aureus* activity of MBI 853NL.

Micrologix and Harbor-UCLA Research and Education Institute to Co-Develop New Antibiotics Targeted at Drug Resistant Systemic Infections

MBI entered into a licensing and co-development agreement with the Harbor-UCLA Research and Education Institute (REI), an affiliate of the UCLA School of Medicine. The agreement grants MBI worldwide exclusive rights to the existing REI patent estate in the area of antimicrobial peptides designed from platelet proteins for use in pharmaceutical and certain other applications. Platelets are blood cells essential for the clotting process. They are unique in that they purposely release antimicrobial proteins into the bloodstream of mammals in response to bacterial or fungal infection. This agreement adds another important component to MBI's strategy of building a portfolio of diverse chemical structures and technologies to maximize the potential for success in bringing new treatments for serious diseases to the market.

\$8.6 Million Raised

In August, MBI received approximately \$8.6 million pursuant to the exercise of warrants and after-market support options for the purchase of 3,509,667 common shares. These funds increased the Company's cash position to approximately \$63 million at August 30, 2000. The exercised warrants and after-market support options were issued as part of the August 1999 special unit financing. A further 656,416 after-market support options remain

outstanding (expire between Dec. 15/00 and Sept. 11/01; exercise prices from \$5.50 to \$14.50 per common share), representing potential additional proceeds of approximately \$6.7 million.

Annual And Extraordinary General Meeting

On September 7, 2000 MBI held its Annual and Extraordinary General Meeting. Shareholders approved all resolutions including the adoption of the 2000 Incentive Stock Option Plan, an increase in the authorized capital and the adoption of the Shareholder Rights Plan announced August 9, 2000. It is worth mentioning that each of these 3 resolutions were supported by more than 75% of the votes cast at the meeting. Details of these resolutions are contained in the Information Circular mailed to shareholders.

At the meeting, shareholders also elected the seven directors proposed by management. Re-elected were William (Bud) Foran, Chairman of the Board; Dany Hadary, Keith Dorrington, Steven Gillis, Colin Mallet and Robert Rieder. Joining the board is newly elected member David Scott. Mr. Scott, Chairman of AnorMED Inc., brings to Micrologix's board over 30 years of investment analysis and management experience.

Financial Highlights

Financial results for the three months ended July 31, 2000 showed a loss of \$1,752,766 or \$0.05 per common share, compared to a loss of \$1,983,171 or \$0.09 per common share for the three months ended July 31, 1999. The decrease in loss is due to the increase in interest income resulting from the Company's enhanced cash position. Interest income was \$790,412 compared to \$97,601 in 1999.

Total expenses were \$2,543,178 for the period compared with \$2,080,772 in 1999, an increase of 22%. This increase is due primarily to the expansion and advancement of the Company's clinical development programs. Research and development expenses increased 29% to \$1,876,974. General and corporate expenses were \$666,204, an increase of 6%.

At July 31, 2000 the Company's cash and marketable securities were \$54,941,873 (before \$8.6 million raised in August) a decrease of \$1,667,959 from April 30, 2000. This decrease is comprised of \$1,779,124 used to fund operating activities, \$378,573 to fund capital expenditures and \$145,649 to fund expenses associated with the March 2000 special warrant financing, less \$635,387 received from the exercise of warrants and stock options.

At July 31, 2000 there were 35,802,142 (September 8, 2000—39,311,809) common shares issued and outstanding including 4,000,000 shares issued in May in conjunction with the \$40 million special warrant financing closed on March 20, 2000.

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

Respectfully,

“Dany Hadary”

Dany Hadary
President & CEO

September 11, 2000

Corporate Profile Micrologix Biotech Inc.

develops novel drugs targeted at severe and life-threatening diseases—particularly those caused by antibiotic-resistant bacteria. We have three products in clinical development: MBI 226 for the prevention of bloodstream infections associated with central venous catheters, MBI 594AN for the treatment of acne and MBI 853NL for the prevention of hospital-acquired *S. aureus* infections. Micrologix's portfolio of antibiotic drug candidates is based on improved analogs of naturally occurring cationic peptides found in the host defense systems of most life forms. These peptides overcome conventional antibiotic resistance and research indicates that it will be extremely difficult for bacteria to develop resistance to them.

Consolidated Statements of Loss and Deficit

Three months ended July 31
(Unaudited—Expressed in Canadian dollars)

	2000	1999
REVENUE		
Interest and sundry	\$ 790,412	\$ 97,601
EXPENSES		
Research and development	1,876,974	1,454,509
General and corporate	666,204	626,263
	<u>2,543,178</u>	<u>2,080,772</u>
Loss	(1,752,766)	(1,983,171)
Deficit, beginning of period	(29,600,700)	(20,940,827)
Deficit, end of period	<u>\$(31,353,466)</u>	<u>\$(22,923,998)</u>
Loss per common share ⁽¹⁾	\$ (0.05)	\$ (0.09)
Weighted average number of common shares outstanding ⁽²⁾	<u>35,710,809</u>	<u>23,208,599</u>

- (1) Loss per common share is based on the weighted average number of common shares outstanding during the period. Since the company's stock options, after-market support options and warrants are anti-dilutive, they are not included in the calculation of the weighted average number of common shares outstanding.
- (2) As at September 8, 2000 there are 39,311,809 (July 31, 2000—35,802,142) common shares outstanding, after-market support options to acquire 656,416 common shares, options to acquire 2,337,801 common shares and other commitments to issue approximately 172,000 common shares outstanding.

Stock Listing

The Company's common shares trade on the Toronto Stock Exchange and the Canadian Venture 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 those described in the Company's annual information form on Form 20-F, including among others, the following: uncertainties related to early stage of development, technology and product development; dependence on future corporate collaborations; dependence on proprietary technology and uncertainty of patent protection; management of growth; future capital needs and uncertainty of additional funding; intense competition; manufacturing and market uncertainties; government regulation; product liability exposure and insurability.

Consolidated Statements of Cash Flows

Three months ended July 31 (Unaudited—Expressed in Canadian dollars)	2000	1999
OPERATING ACTIVITIES		
Loss for the period	\$ (1,752,766)	\$ (1,983,171)
Items not affecting cash		
Amortization	117,950	204,810
Deferred rental inducement	—	(6,500)
	<u>\$ (1,634,816)</u>	<u>\$ (1,784,861)</u>
Changes in non-cash		
working capital items relating to		
operating activities		
Accounts receivable and other	(3,799)	64,710
Prepaid expenses and deposits	(5,010)	918
Accounts payable and accrued		
liabilities	(135,499)	93,100
Cash flows used in operating		
activities	<u>(1,779,124)</u>	<u>(1,626,133)</u>
FINANCING ACTIVITIES		
Issue of common shares for cash	635,387	300,000
Issue of special warrants for cash	(28,329)	—
Changes in non-cash working		
capital items relating to financing		
activities	<u>(117,320)</u>	<u>—</u>
Cash flows provided by financing		
activities	<u>489,738</u>	<u>300,000</u>
INVESTING ACTIVITIES		
Funds from (purchase of)		
marketable securities	(248,723)	2,221,906
Capital assets expenditures	(1,065,322)	(98,501)
Shares to be issued	502,500	—
Changes in non-cash working		
capital items relating to investing		
activities	<u>184,249</u>	<u>13,137</u>
Cash flows provided by (used in)		
investing activities	<u>(627,296)</u>	<u>2,136,542</u>
Increase in cash and cash		
equivalents	(1,916,682)	810,409
Cash and cash equivalents,		
beginning of period	<u>45,014,873</u>	<u>1,550,202</u>
Cash and cash equivalents,		
end of period	<u>\$ 43,098,191</u>	<u>\$ 2,360,611</u>

The background of the page is a vertical gradient of green on the left and blue on the right, separated by a curved, glowing blue line that suggests a globe or a molecular structure.

Micrologix Biotech Inc.

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

Website: www.mbiotech.com

E-mail: info@mbiotech.com

Toll Free: (800) 665-1968

Tel: (604) 221-9666

Fax: (604) 221-9688