



The following information should be read in conjunction with the Company's April 30, 2005 audited consolidated financial statements and related notes included therein and management's discussion & analysis of financial condition and results of operations for the year ended April 30, 2005; and the interim unaudited consolidated financial statements for the three months ended July 31, 2005, including the related notes therein. All amounts unless indicated otherwise are expressed in Canadian dollars. The discussion and analysis contained in this Management Discussion & Analysis is as of September 7, 2005. Additional information on the Company including the Company's Annual Information Form is available on SEDAR at www.sedar.com.

DEVELOPMENT PROGRAMS

CPI-226 (formerly known as MX-226): Prevention of Catheter-Related Infections

Our partner for the North American and European development and commercialization of CPI-226, Cadence Pharmaceuticals, Inc. (Cadence) and the US Food and Drug Administration (FDA) in June 2005 reached a written agreement on a protocol for a Phase III clinical trial of CPI-226 which, if successful, would support the approval of CPI-226. This agreement was reached under the FDA's special protocol assessment (SPA) process, which establishes a written agreement between the FDA and the sponsoring company regarding clinical trial design, endpoints, study conduct, data analysis, and other elements of the study protocol. It is intended to provide agreement that, if pre-specified trial results are achieved, they may serve as the primary basis for an efficacy claim in support of a new drug application (NDA). In general, the SPA is considered binding on both the FDA and the study sponsor.

Cadence initiated United States enrollment in a pivotal Phase III study of CPI-226 in August 2005 pursuant to the SPA. The confirmatory Phase III trial will be a multi-national, randomized, Evaluation Committee-blinded study to evaluate the effectiveness of CPI-226 vs. 10% povidone-iodine for the prevention of catheter-related infections in approximately 1,250 hospitalized patients with central venous catheters. The primary efficacy endpoint of the study will be the incidence of local catheter site infections. Other secondary objectives of this study include gathering additional safety data on CPI-226 and assessing the effectiveness of CPI-226 on the prevention of catheter colonization, as well as, the prevention of catheter-related bloodstream infections. In the first Phase III study with over 1,400 patients, CPI-226 demonstrated a 49% reduction in local catheter site infections ($p = 0.004$) and a 21% reduction in catheter colonization ($p = 0.002$).

MX-594AN: Treatment of Acne

To meet the objective of advancing the MX-594AN program while managing the Company's cash resources Migenix is seeking a development and commercialization partner for MX-594AN. The Company is delaying certain MX-594AN development work until a partner is secured, because we believe a partner will wish to participate in decisions about the program. Discussions and due diligence activities with potential partners are continuing. There is no assurance that a license agreement can be completed under terms acceptable to the Company. Failure to partner MX-594AN could result in the sale or termination of the program, which is not expected to have a significant impact on our operating results (see "RISKS and UNCERTAINTIES").

MX-3253: Treatment of Chronic Hepatitis C virus ("HCV") Infections

Migenix's development plan for MX-3253 (celgosivir) includes two initial Phase II clinical studies in patients with genotype 1 HCV infections (the most common type in North America): a Phase IIa monotherapy study and a Phase IIb combination therapy study. The current "gold standard" treatment regime for genotype 1 HCV infections is a combination therapy approach (combination of pegylated interferon and ribavirin) which is effective in only about 40% to 50% of patients.

The Phase IIa monotherapy study is an open-label, randomized, dose-response (three dosage groups), 12-week monotherapy study in treatment naïve or interferon-intolerant genotype 1 HCV patients. Enrollment of patients in the study started in October 2004 and a total of 43 patients were enrolled at the completion of enrollment with results from the trial expected prior to the end of September 2005. The study will provide the first safety, tolerability, and dosage information in HCV patients, as well as evaluate viral load reductions as an assessment of the early anti-viral activity of MX-3253 on its own. Regarding viral load reductions in this monotherapy study there is a broad range of potential outcomes. These include results ranging from little or no reduction to large decreases in viral load. Assuming MX-3253 is well tolerated in the study with no serious adverse reactions, all results within this



range would allow us to advance MX-3253 as a combination therapy since preclinical studies have demonstrated synergistic activity between MX-3253, interferon and ribavirin in the BVDV surrogate model for HCV infections.

The Phase IIb combination study of MX-3253 will be a randomized, multi-center, active-controlled, 12 week evaluation of MX-3253 in three treatment arms of up to 20 chronic HCV patients each: celgosivir plus peginterferon alfa-2b plus ribavirin (3-way combination); celgosivir plus peginterferon alfa-2b (2-way combination); and placebo plus peginterferon alfa-2b plus ribavirin (control). The scope of this study has been reduced from what was previously planned to decrease the duration and expense of the trial. Patients will be selected based on having genotype 1 chronic HCV and having failed to respond to pegylated alpha interferon plus ribavirin therapy (non-responders). Patients who respond to therapy during the trial will also have the option to continue on treatment for up to 48 weeks. The study will measure viral load at various time points as well as a number of safety parameters. The study is currently expected to commence shortly and we are expecting to have completed efficacy data in the second quarter calendar 2006. Preparations for initiating the Phase IIb combination study have been advanced including having received a Notice of Authorization from Health Canada for the trial and the completion of an Material Transfer and License Option agreement with Schering-Plough for (a) the supply of PEGETRON™ (peginterferon alfa-2b powder for solution plus ribavirin 200 mg capsules), (b) certain technical and laboratory support and other services for the study, and (c) limited periods of exclusivity for data review of clinical trial results and for the negotiation of a license agreement. Prior to commencing the combination study, we will need to complete various activities, including but not limited to obtaining ethical review board approvals.

MX-4509: Treatment of Neurodegenerative Diseases

MX-4509 (17 α -estradiol sodium sulfate) is an orally-administered drug candidate which has completed a Phase I clinical study and is being evaluated for its potential in certain orphan indications. This evaluation includes ongoing non-clinical activities to support those potential orphan indications, with further clinical studies to follow as deemed appropriate based on the non-clinical results. MX-4509 was well tolerated in the initial Phase I clinical trial and has demonstrated activity in multiple non-clinical models used for assessing drugs for neuroprotection, including Alzheimer's disease.

A Phase I/II study of MX-4509 in Alzheimer's disease patients (as a model of neurodegenerative disease) looking at various biomarkers as an indication of the activity of MX-4509 was planned to start by mid-year calendar 2005. In April 2005, we received a Notice of Authorization from Health Canada for this Phase I/II trial. As part of a plan to reduce the cash used in our operations (see "LIQUIDITY AND CAPITAL RESOURCES"), we elected to postpone this Phase I/II study.

MX-2401: Treatment of Serious Gram-positive Bacterial Infections

In December 2003, MX-2401 was identified as the lead development candidate in our systemic antibacterial lipopeptide program. MX-2401 is intended to be an intravenous product for the treatment of serious Gram-positive bacterial infections. On March 31, 2005 we entered into an agreement with the Government of Canada under the Technology Partnership's Canada (TPC) program which will provide up to \$9.3 million in funding for the development of MX-2401 through the completion of the first phase III clinical trial. The Company is currently advancing manufacturing process development for MX-2401 in preparation for the manufacture of sufficient quantities of MX-2401 for the non-clinical studies required to support a clinical trial application.

Other Research and Development Programs

Work in the Company's other preclinical programs is focused on advancing existing compounds into in vivo models of efficacy and pharmacology. Some of the programs are being advanced solely with the Company's resources, whereas other programs have limited assistance from third parties such as NIH (HBV program) and the Foundation Fighting Blindness (retinitis pigmentosa).

As funding and personnel resources for our earlier stage programs are limited (see "LIQUIDITY and CAPITAL RESOURCES") work on these programs is not being fully advanced at this time (see "RISKS AND UNCERTAINTIES").



CRITICAL ACCOUNTING POLICIES

The Company's unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). A reconciliation of amounts presented in accordance with United States generally accepted accounting principles ("US GAAP") is described in Note 18 to the audited consolidated financial statements for the year ended April 30, 2005. These accounting principles require the Company to make certain estimates and assumptions. The Company believes that the estimates and assumptions upon which it relies are reasonable based upon information available at the time that these estimates and assumptions are made. Actual results could differ from these estimates. Areas of significant estimates include recognition of revenue, amortization of intangible assets and the review of the carrying value of intangible assets, and stock-based compensation.

The significant accounting policies that the Company believes are the most critical in fully understanding and evaluating the reported financial results include the following:

Revenue recognition

Revenue to date has primarily been derived from initial license fees and research and development collaboration payments from licensing arrangements. Initial fees and milestone fees received which require the Company's ongoing involvement are deferred and amortized into income over the term of the underlying product development period. A change in the underlying product development period from the originally estimated period may result in a longer or shorter period that the initial fees are amortized into income, decreasing or increasing income respectively. Research and development collaboration revenues generally compensate the Company for non-clinical and clinical expenses related to development programs under collaborative/licensing agreements for certain product candidates of the Company, and are recognized as revenue when the research and development activities are performed under the terms of the agreements.

Research and development costs

Research and development costs consist of direct and indirect expenditures related to the Company's research and development programs. Research and development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. The Company assesses whether costs have met the relevant criteria for deferral and amortization at each reporting date. No development costs have been deferred to date.

Under US GAAP, costs to purchase rights to unproven technology which may not have alternate future uses are expensed as research and development. Under Canadian GAAP, the purchase cost of such rights is generally capitalized as an intangible asset. Any change in the future use or impairment of unproven technology may have a material impact on the Company's Canadian GAAP financial statements.

Intangible assets

Intangible assets are comprised of technology licenses and acquired technology and include those acquired in exchange for equity instruments issued by the Company. Intangible assets are amortized on a straight-line basis over the estimated useful life of the underlying technologies of ten years. The Company determines the estimated useful lives for intangible assets based on a number of factors such as legal, regulatory or contractual limitations; known technological advances; anticipated demand; and the existence or absence of competition. The Company reviews the carrying value of its intangible assets on a quarterly basis to determine if there has been a change in any of these factors. A significant change in these factors may warrant a revision of the expected remaining useful life of the intangible asset, resulting in accelerated amortization or an impairment charge, which would impact earnings.



Stock-based compensation

The Company grants stock options to executive officers and directors, employees, consultants and advisory board members pursuant to its stock option plans. The Company records all stock-based awards to the Company's executive officers, directors and employees granted, modified or settled since May 1, 2003, and all stock-based awards to non-employees granted, modified or settled since May 1, 2002, at fair value. The fair value of stock options is estimated at the date of grant using the Black-Scholes Option Pricing Model and is amortized over the vesting terms of the stock options. The Company discloses the proforma effects to the loss and loss per common share for the period as if the fair value method had been used for awards to executive officers, directors and employees granted, modified or settled during the period May 1, 2002 to April 30, 2003. The Black-Scholes option pricing model is based on several subjective assumptions including the expected life of the option and the expected volatility at the time the options are granted. Changes in these assumptions can materially affect the measure of the estimated fair value of the stock options and hence, the results of operations. Stock-based compensation is likely to change from period to period as further options are granted and adjustments made for stock options forfeited.

CHANGES IN ACCOUNTING POLICIES

Financial Instruments

Effective for fiscal years beginning on or after November 1, 2004, CICA 3860, Financial Instruments – Disclosure and Presentation was amended to require obligations of a fixed amount that may be settled, at the issuer's option, by issuing a variable number of the issuer's own equity instruments to be presented as liabilities rather than equity. Effective for the fiscal year beginning May 1, 2005, the Company adopted the amended standard retroactively with restatement of prior periods. As a result of adopting this standard, the Company has reclassified its preferred shares from equity to liabilities.

Patent costs

Effective February 1, 2005, the Company changed its policy of recording as intangible assets, costs associated with the preparation, filing and obtaining of patents. As a result, such patent costs are now accounted for as research and development expenses in the period in which they are incurred. As this change was implemented in the fourth quarter of Fiscal 2005, the previously reported figures for the three months ended July 31, 2004 have been restated resulting in an increase of \$129,000 in research and development expenses and a decrease of \$34,000 in amortization expense. This had no impact on the basic and diluted loss per common share for the three months ended July 31, 2004. Management believes that the expensing of patent costs accurately reflects the financial impact that the expenditures have during the period and is comparable policy that is applied by companies in the biopharmaceutical industry in both Canada and the US.



SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

The following table provides summary financial data for our last eight quarters:

(Expressed in thousands, except per share amounts)

	Three months ended,			
	July 31, 2005 ("Q1/06")	April 30, 2005 ⁽²⁾ ("Q4/05")	January 31, 2005 ^{(1) (2)} ("Q3/05")	October 31, 2004 ^{(1) (2)} ("Q2/05")
Revenue	\$ 269	\$ 11	\$58	\$2,089
Operating Loss	\$ (2,834)	\$ (3,211)	\$ (3,289)	\$ (947)
Loss	\$ (2,772)	\$ (3,137)	\$ (3,181)	\$ (992)
Basic and diluted loss per common share	\$ (0.04)	\$ (0.05)	\$ (0.05)	\$ (0.02)
Weighted average number of common shares outstanding	69,440	59,802	59,794	59,641

	Three months ended,			
	July 31, 2004 ⁽¹⁾ ("Q1/05")	April 30, 2004 ⁽¹⁾ ("Q4/04")	January 31, 2004 ⁽¹⁾ ("Q3/04")	October 31, 2003 ⁽¹⁾ ("Q2/04")
Revenue	\$-	\$ -	\$926	\$654
Operating Loss	\$ (3,351)	\$ (4,060)	\$ (1,910)	\$ (3,577)
Loss	\$ (3,233)	\$ (3,922)	\$ (1,776)	\$ (3,554)
Basic and diluted loss per common share	\$ (0.06)	\$ (0.08)	\$ (0.04)	\$ (0.08)
Weighted average number of common shares outstanding	53,635	51,384	46,691	46,691

(1) The Operating Loss and Loss figures for Q1, Q2 and Q3 of Fiscal 2005 and Q2, Q3 and Q4 of Fiscal 2004 and the Basic and diluted loss per common share figure for Q4 of Fiscal 2004 have been restated from those previously reported to reflect the Company's change in accounting policy for patent costs (see "CHANGES IN ACCOUNTING POLICIES – Patent Costs").

(2) The Revenue figures for Q2, Q3 and Q4 of Fiscal 2005 were reclassified in Q1 of Fiscal 2006 from those originally reported to reflect the Company's reclassification of certain cost recoveries from revenue to an offset to research and development expenses.

The primary factors affecting the magnitude of the Company's operating losses and losses have been research and development expenses (particularly clinical program development costs) not funded by a partner, licensing revenues and write-downs in intangible assets. The operating loss and loss in Q2/05 were significantly lower than previous quarters as a result of \$2.1 million in licensing revenue pursuant to the CPI-226 license agreement with Cadence Pharmaceuticals. The operating loss and loss in Q3/04 were significantly lower than previous quarters as a result of \$0.8 million in previously deferred revenue being recorded as licensing revenue following the termination of the CPI-226 license agreement with Fujisawa in January 2004, the completion of the MX-594AN Phase IIb trial in Q2/04 (not funded by a partner) and no active clinical trials during the period. The operating loss and loss in Q2/04 and Q4/04 include intangible asset write-downs of approximately, \$0.2 million and \$0.9 million respectively.

RESULTS OF OPERATIONS

MIGENIX commenced operations in January 1993 and has devoted its resources to the research and development of experimental new drug candidates. MIGENIX has been unprofitable since its formation and has incurred a cumulative deficit of \$100 million to July 31, 2005.

The loss for the three months ended July 31, 2005 ("Q1/06") was \$2.8 million (\$0.04 per common share) compared with a loss of \$3.2 million (\$0.06 per common share) for the same period last year ("Q1/05") and a loss of \$3.1 million (\$0.05 per common share) for the three months ended April 30, 2005 ("Q4/05"). The decrease in the Q1/06 loss compared to Q1/05 and Q4/05 is principally attributable to increased revenues during the quarter (see "Revenues") and lower research and development expenses (see "Operating Expenses – Research and



Development"). The Q1/06 loss attributable to the MitoKor operations and programs acquired on August 31, 2004 is \$0.8 million (\$nil in Q1/05; \$0.8 million in Q4/05).

Revenues

Research and development collaboration revenues for Q1/06 were \$0.3 million (\$nil for Q1/05 and Q4/05). Research and development collaboration revenues for Q1/06 were pursuant to the sale of CPI-226 drug substance to Cadence Pharmaceuticals.

Operating Expenses

Research and Development

Research and development expenses decreased in Q1/06 to \$2.0 million (\$2.3 million in Q1/05; \$2.1 million in Q4/05). Research and development expenses include: (1) clinical development program costs; (2) personnel costs; (3) patent-related costs; and (4) other costs.

Clinical program development costs represent \$0.6 million (\$0.2 million in Q1/05; \$1.0 million in Q4/05) of Q1/06 research and development expenses. The increase in the Q1/06 clinical program development costs compared with Q1/05 and the decrease compared to Q4/05 is due to costs for the MX-3253 program. Clinical program development costs for the MX-3253 program were \$0.4 million (\$0.1 million in Q1/05; \$0.7 million in Q4/05) (Phase IIa monotherapy trial was initiated in October 2004 with enrollment completed in July 2005, and preparations for Phase IIb combination study advanced; see "DEVELOPMENT PROGRAMS - MX-3253: Treatment of Chronic HCV Infections"). CPI-226 clinical development costs were \$nil in Q1/06 as Cadence is responsible for North American and European development (\$nil in Q1/05 and Q4/05). Clinical program development costs for the MX-4509 program were \$0.1 million (\$nil in Q1/05; \$0.2 million in Q4/05) (preparations for the Phase I/II trial advanced prior to its postponement; see "DEVELOPMENT PROGRAMS - MX-4509: Treatment of Neurodegenerative Diseases") and were \$nil (\$nil in Q1/05; \$0.1 million in Q4/05) for the MX-594AN program (Phase IIb trial completed in October 2003; Company is delaying certain development work until a partner is secured; see "DEVELOPMENT PROGRAMS - MX-594AN: Treatment of Acne").

Personnel costs were \$0.8 million (\$0.8 million in Q1/05; \$0.8 million in Q4/05) of Q1/06 research and development expenses.

Patent-related costs (net of patent cost recoveries) were \$0.2 million (\$0.2 million in Q1/05; \$0.2 million in Q4/05) of Q1/06 research and development expenses.

Other costs including non-clinical programs were \$0.4 million (\$1.1 million in Q1/05; \$0.1 million in Q4/05) of Q1/06 research and development expenses and are net of a \$nil (\$nil in Q1/05; \$0.5 million in Q4/05) reduction in MX-2401 costs resulting from the TPC government assistance (see "DEVELOPMENT PROGRAMS - MX-2401: Treatment of Serious Gram-positive Bacterial Infections"). These costs reflect product development costs for programs that are not at the clinical stage of development and costs that are not allocated to specific programs.

General and Corporate

General and corporate expenses decreased slightly in Q1/06 to \$0.8 million (\$0.9 million in Q1/05; \$0.9 million in Q4/05). Personnel costs were \$0.6 million in Q1/06 (\$0.6 million in Q1/05; \$0.5 million in Q4/05).

Capital and Intangible Asset Expenditures and Amortization

Capital asset expenditures in Q1/06 were \$nil (\$0.1 million in Q1/05; \$nil in Q4/05). Amortization expense on capital assets was \$0.1 million for each of Q1/06, Q1/05 and Q4/05.

Intangible asset expenditures in Q1/06 were \$nil (\$nil in Q1/05; \$0.1 million in Q4/05). Intangible assets at July 31, 2005 include acquired technology and capitalized technology license costs for the Company's neurodegenerative, lipopeptide, celgosivir, HCV, HBV and cationic peptide programs. The \$6.2 million carrying value of these intangible assets does not necessarily reflect present or future values of the underlying programs/technologies and the ultimate amount recoverable by the Company in respect of these assets will be dependent upon the successful development and commercialization of products based on these assets and/or out-licensing of the programs/technologies to third parties (see "RISKS and UNCERTAINTIES"). Amortization expense for intangible assets in Q1/06 was \$0.2 million (\$nil in Q1/05; \$0.2 million in Q4/05), the increase in Q1/06 and Q4/05 over Q1/05 being due to the amortization of the MitoKor programs acquired in August 2004.



Other Income and Expenses

Other income and expenses includes two principal items: (1) interest income generated from investments of the Company's cash balances; and (2) foreign exchange losses on the Company's United States ("US") denominated cash and cash equivalents, amounts receivable and accounts payable balances. See "FINANCIAL INSTRUMENTS AND RISKS".

Interest income was \$0.1 million for each of Q1/06, Q1/05 and Q4/05. The foreign exchange losses and gains were nominal for each of Q1/06, Q1/05 and Q4/05.

LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 2005, the Company had cash, cash equivalents and short term investments of \$16.0 million (April 30, 2005: \$12.0 million) and the Company's net working capital was \$14.1 million (April 30, 2005: \$10.8 million). The \$3.3 million increase in working capital from April 30, 2005 to July 31, 2005 is primarily attributable to the \$5.7 million in net proceeds from public offering completed May 31, 2005 (see below) less the Q1/06 loss of \$2.4 million (excluding non-cash amortization and stock-based compensation). The Company's cash equivalents and short term investments are invested in high-grade liquid financial instruments with maturity dates (to April 2006), selected with respect to the expected timing of expenditures to fund operations and prevailing and expected interest rates (see "FINANCIAL INSTRUMENTS AND RISKS").

MIGENIX has financed its operations to date primarily through the sale of equity securities. On May 31, 2005, the Company completed a public offering of 14,457,000 units at a price of \$0.45 per unit for gross proceeds of \$6.5 million with each unit consisting of one common share and one-half of one common share purchase warrant. Each whole warrant is for the purchase of one common share at a price of \$0.55 per common share on or before May 31, 2008. In connection with the offering the Company issued agents warrants expiring May 31, 2008 for the purchase of 1,084,275 common shares at a price of \$0.45 per common share (see "OUTSTANDING SHARE DATA").

In March 2005 the Company obtained a \$9.3 million funding commitment for the MX-2401 program from the TPC program (see "DEVELOPMENT PROGRAMS – MX-2401: Treatment of Serious Gram-positive Bacterial Infections"). The \$0.5 million included in government assistance receivable at April 30, 2005 relating to this funding commitment was received during Q1/06. The TPC funding covers 26% of eligible costs and a royalty is payable to TPC if the MX-2401 program is successful (determination of success includes the obtaining of marketing approval).

Based on the Company's financial resources, the Company took steps in May and June 2005 to reduce the cash used in its operations by various means including: postponing the initiation of the planned Phase I/II clinical study of MX-4509; modifying the design of the MX-3253 Phase IIb combination study; reducing personnel costs by an estimated 15% (includes approximately 20% reduction in personnel; the President & CEO taking a voluntary 20% reduction in his base salary effective August 1st, 2005; and the Chairman also taking a similar reduction in his compensation); and reducing certain other operating expenses. Additionally, the 10% base compensation deferral implemented in September 2003 for senior management and the Chairman remains in effect, and as of July 31, 2005 \$0.4 million in deferred compensation is included in accounts payable and accrued liabilities. With these steps the Company will continue advancing its highest priority programs while operating within an annual burn rate of \$11 million to \$13 million, compared to the Company's previous guidance of \$13 to \$15 million per year. The Company's current financial resources are expected to provide for operations to the end of the third quarter of calendar 2006. MIGENIX will need to raise additional funds in support of its operations and there is no assurance that such funds can be obtained (see "RISKS AND UNCERTAINTIES").

The Company uses redeemable/convertible preferred shares to facilitate the acquisition and in-licensing of new technologies and drug candidates. The preferred shares provide us with a vehicle to structure acquisitions and in-licensing transactions so as to lower the immediate cash cost to us, to pay milestones in the future in cash and/or common shares (at our option) based on the achievement of pre-determined product development milestones. The outstanding preferred shares (see "OUTSTANDING SHARE DATA") represent US\$14.6 million in potential future milestone payments in the lipopeptide/MX-2401 (US\$675,000), polyene (US\$675,000), oligonucleotide/MX-1121 (US\$5,250,000), celgosivir/MX-3253 (US\$4,000,000) and the MitoKor (US\$4,000,000) programs. During the next 12 months we estimate that 100,000 preferred shares (US\$100,000) could become convertible or redeemable pursuant to the achievement of certain of these milestones which would result in a charge of US\$100,000 to research and development expenses. Each series of preferred shares includes provision for the Company to



redeem the entire series for US\$1, in which event any development milestones achieved subsequent to such redemption would be payable in cash. We anticipate that we will continue to use preferred shares for acquisitions and in-licensing in the future.

As at July 31, 2005, we had the following contractual obligations and commitments ⁽¹⁾ ⁽²⁾:

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Payments due by period <i>(Expressed in thousands of dollars)</i>					
Capital Lease Obligations	53	53	-	-	-
Operating Leases	326	296	30	-	-
Purchase Obligations ⁽³⁾	2,028	2,028	-	-	-
Total Contractual Obligations	2,407	2,377	30	-	-

(1) Excludes US\$14.6 million in contingent milestone obligations pursuant to the Company's preferred shares discussed above.

(2) Excludes the following in respect of technology license and acquisition agreements: (i) up to an additional US\$3.7 million of contingent milestone payments (payable in cash) if certain drug development milestones are achieved; and (ii) royalties on product sales and/or sub-licensing revenues.

(3) Represents obligations under research, manufacturing, and service agreements

FINANCIAL INSTRUMENTS AND RISKS

We are exposed to market risks related to changes in interest rates and foreign currency exchange rates. The Company's investments in interest bearing financial instruments provide a fixed rate of return if held to maturity, therefore an increase or decrease in market interest rates can result in a decrease or increase in the market value of such investments respectively. The Company and its US subsidiaries purchase goods and services in US dollars and also earn revenues in US dollars. The Company does not use derivative instruments to hedge against interest rate or foreign exchange rate fluctuations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During Q1/06, the Company incurred legal fees of \$0.1 million (\$0.2 million for Q1/05) inclusive of sales taxes, payable to a law firm where the Secretary of the Company is a partner. This amount is payable under normal trade terms.



OUTSTANDING SHARE DATA

As at September 7, 2005, there are:

- 75,445,428 (July 31, 2005: 75,445,428; April 30, 2005: 60,988,428) common shares outstanding;
- 14,600,000 (July 31, 2005: 14,600,000; April 30, 2005: 14,600,000) convertible redeemable preferred shares outstanding consisting of 350,000 Series A, 1,000,000 Series B, 5,250,000 Series C, 4,000,000 Series D and 4,000,000 Series E preferred shares (see "LIQUIDITY AND CAPITAL RESOURCES" for discussion of the Company's preferred shares);
- stock options outstanding for the purchase of 4,550,213 (July 31, 2005: 4,516,775; April 30, 2005: 3,996,575) common shares at an average exercise price per common share of \$1.20 (July 31, 2005: \$1.25; April 30, 2005: \$1.43); and
- warrants outstanding for the purchase of 14,293,301 (July 31, 2005: 14,293,301; April 30, 2005: 5,980,526) common shares at a weighted average exercise price per common share of \$1.10 (July 31, 2005: \$1.10; April 30, 2005: \$1.90), as follows:

Number of Common Shares Issuable upon Exercise	Exercise Price(s) per Common Share	Expiry Date(s)
1,084,275 ⁽¹⁾	\$0.45	May 31, 2008
7,228,500 ⁽¹⁾	\$0.55	May 31, 2008
506,250	\$1.00	March 8, 2006
3,375,000	\$1.25	March 8, 2006
987,500 ⁽²⁾	\$1.50	December 5, 2005
982,914 ⁽²⁾	\$3.00	December 3, 2007
128,862 ⁽³⁾	US\$13.21 to US\$17.75	June 21, 2006 to June 22, 2011
Total = 14,293,301	Average = \$1.10⁽⁴⁾	

(1) Issued as part of the May 2005 public offering

(2) Warrants have an exercise feature allowing the warrant holders to elect to satisfy their obligation to pay the exercise price to the Company by accepting a lesser number of common shares

(3) These warrants were assumed by the Company as part of the MitoKor acquisition. If these warrants are exercised the warrant holders would be entitled to receive up to US\$88,659 in milestone payments (milestones are the same as those for the Series E preferred shares), payable at the Company's option, in cash and/or common shares.

(4) Weighted average exercise price using exchange rate of US\$1.00 equals \$1.2241



RISKS AND UNCERTAINTIES

No product candidates being developed by MGENIX have been approved to be marketed commercially and the Company has incurred significant operating losses in each year since inception. The Company's business entails significant risks, including the costs, time and uncertainties involved to obtain the required regulatory approvals to market new drugs, the uncertainties involved in preclinical and clinical testing to obtain the information required for regulatory approvals and for marketing of new drugs, the availability of capital and corporate alliances, managing and maintaining corporate collaborations, the degree of patent and other intellectual protection, intense competition and technological change. There can be no assurance that MGENIX's research and development activities will result in any commercially viable products or profitability, and we expect to incur substantial losses over at least the next several years.

MIGENIX believes that its funds on hand at July 31, 2005, together with program prioritization and cost reduction efforts and expected interest income, are sufficient to provide for operations to the end of the third quarter of calendar 2006 before funds received, if any, from financing activities, the exercise of warrants and options, and existing or new license agreements. MGENIX will need to raise additional funds in support of its operations and there is no assurance that such funds can be obtained. To maintain a sufficient cash position to fund its operations MGENIX may need to delay or alter planned development work, sell or out-license certain development programs, and/or reduce other expenditures. Our future cash flows and capital requirements will depend on many factors, including, but not limited to, the following: the progress of our research and development programs including: clinical trials and the magnitude and scope of these activities; our ability to establish and maintain corporate collaborations and licensing arrangements including for our MX-594AN acne drug candidate; the receipt and/or payment of milestone based payments pursuant to licensing agreements; the time and costs involved in obtaining regulatory approvals; the time and costs involved in scaling up the commercial manufacturing of our products; the amount of government and/or grant funding obtained; the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims; our strategy to develop, acquire or in-license new technologies and products and other factors not within our control.

At July 31, 2005 the carrying value of the Company's intangible assets in respect of its development programs is \$6.2 million. The Company may in the future determine that the carrying value of one or more programs should be written down based on:

- Termination of the program following pre-clinical and/or clinical testing results;
- Inability to secure development partner and/or funding to support the program; and/or
- Carrying value of program exceeds estimated net recoverable value based on factors including projected cash flows

The Company is currently delaying certain development work in several programs pending additional funding and/or out-licensing the program to a development partner. These programs include the MX-594AN and the MX-4509 programs. Additionally, the Company has limited personnel and financial resources with which to advance several of its earlier stage programs. A write-down in the carrying value of one or more intangible assets in respect of the Company's development programs could have a significant non-cash impact on our operating results.

FORWARD-LOOKING STATEMENTS

This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") 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 "intends", "plans", "believes", "anticipates" or "expects" or similar words; that events "will", "may", "could" or "should" occur; and/or include statements concerning our strategies, goals, plans and expectations. Forward-looking statements in this MD&A include, but are not limited to statements concerning: having results from the Phase IIa MX-3253 monotherapy study prior to the end of September 2005; commencing the MX-3253 Phase IIb combination therapy study shortly and having completed efficacy data in the second quarter calendar 2006; the Company advancing process development for MX-2401 in preparation for the non-clinical studies required to support a clinical trial application; up to US\$100,000 in milestones being achieved and payable in the next 12 months pursuant to the Company's preferred shares, the Company continuing to advance its highest priority programs while operating within an annual burn rate of \$11 million to \$13 million; and the Company's current financial resources being sufficient to fund operations to the end of the third quarter of calendar 2006. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Factors that could cause actual events or results expressed or implied by such forward looking statements to differ materially from any future results expressed or implied by such statements include, but are not



limited to: uncertainties related to early stage of technology and product development; uncertainties as to the requirement that a drug be found to be safe and effective after extensive clinical trials and the possibility that the results of such trials, if commenced and completed, will not establish the safety or efficacy of our products; risks relating to requirements for approvals by government agencies such as the FDA and/or Health Canada before products can be tested in clinical trials and ultimately marketed; the possibility that such government agency approvals will not be obtained in a timely manner or at all or will be conditioned in a manner that would impair our ability to advance development and/or market the product successfully; dependence on corporate collaborations; uncertainties as to future expense levels and the possibility of unanticipated costs or expenses or cost overruns, the possibility that opportunities will arise that require more cash than presently anticipated and other uncertainties related to predictions of future cash requirements; management of growth; dependence on key personnel; the possibility that we will not successfully develop any products; the possibility that advances by competitors will cause our proposed products not to be viable, the risk that our patents could be invalidated or narrowed in scope by judicial actions or that our technology could infringe the patent or other intellectual property rights of third parties; the possibility that any products successfully developed by us will not achieve market acceptance; and other risks and uncertainties which may not be described herein. Certain of these factors and other factors are described in detail in the Company's Annual Information Form and Annual Report on Form 20-F and other filings with the Canadian securities regulatory authorities and the U.S. Securities & Exchange Commission. Forward-looking statements are based on our current expectations and MIGENIX assumes no obligations to update such information to reflect later events or developments.

CONSOLIDATED BALANCE SHEETS

As at	July 31, 2005	April 30, 2005
(Unaudited—in thousands of Canadian dollars)	\$	\$
ASSETS		
Current		
Cash and cash equivalents	5,759	1,181
Short-term investments	10,232	10,846
Amounts receivable (note 4)	212	291
Government assistance receivable	18	471
Prepaid expenses and deposits	188	664
Total current assets	16,409	13,453
Long-term investments	1	1
Other assets (note 3[a][i])	-	186
Capital assets	1,082	1,142
Intangible assets	6,239	6,424
	23,731	21,206
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (note 5)	2,245	2,595
Current portion of capital lease obligation	53	63
Total current liabilities	2,298	2,658
Capital lease obligation	-	6
Preferred shares (notes 2[a] and 3[a][ii])	-	-
Total liabilities	2,298	2,664
Shareholders' equity		
Common shares (note 3[a][i])	120,779	115,221
Contributed surplus	741	636
Deficit	(100,087)	(97,315)
Total shareholders' equity	21,433	18,542
	23,731	21,206

See accompanying notes

On behalf of the Board:

"Colin Mallet"

"Alistair Duncan"

Director

Director

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(Unaudited—in thousands of Canadian dollars except per share amounts)	Three months ended July 31,	
	2005 \$	(restated – note 2[b]) 2004 \$
REVENUE		
Research and development collaboration (note 4)	269	-
	269	-
EXPENSES		
Research and development	2,029	2,320
General and corporate	827	911
Amortization	247	120
	3,103	3,351
Operating loss for the period	(2,834)	(3,351)
Other income (expense)		
Interest income	80	112
Foreign exchange (loss) gain	(18)	6
	62	118
Loss for the period	(2,772)	(3,233)
Deficit, beginning of period	(97,315)	(86,771)
Deficit, end of period	(100,087)	(90,004)
Basic and diluted loss per common share (note 3[d])	(0.04)	(0.06)
Weighted average number of common shares outstanding (in thousands – note 3[d])	69,440	53,635

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended July 31,	
	2005 \$	2004 \$ <i>(restated – note 2[b])</i>
(Unaudited—in thousands of Canadian dollars)		
OPERATING ACTIVITIES		
Loss for the period	(2,772)	(3,233)
Items not affecting cash:		
Amortization	247	120
Stock based compensation	105	96
Changes in non-cash working capital items relating to operating activities:		
Accrued interest on short-term investments	54	103
Amounts receivable	79	23
Government assistance receivable	453	-
Prepaid expenses and deposits	476	(29)
Accounts payable and accrued liabilities	(326)	415
Deferred revenue	-	267
Cash (used in) operating activities	(1,684)	(2,238)
FINANCING ACTIVITIES		
Issuance of common shares, net of issue costs	5,743	-
Proceeds on exercise of stock options	-	1
Repayment of capital lease obligation	(16)	(14)
Cash provided by (used in) financing activities	5,727	(13)
INVESTING ACTIVITIES		
Funds from short-term investments	5,958	8,202
Purchase of short-term investments	(5,397)	(5,954)
Other asset expenditures	-	(463)
Purchase of capital assets	(26)	(123)
Cash provided by investing activities	535	1,662
Increase (decrease) in cash and cash equivalents	4,578	(589)
Cash and cash equivalents, beginning of period	1,181	4,382
Cash and cash equivalents, end of period	5,759	3,793

See accompanying notes

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended July 31, 2005 (Unaudited—Canadian dollars)

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements. The accounting policies used in the preparation of these unaudited interim consolidated financial statements are consistent with the Company's most recent annual audited consolidated financial statements for the year ended April 30, 2005. These unaudited interim consolidated financial statements and notes do not include all disclosures required for annual financial statements and should be read in conjunction with the annual audited consolidated financial statements of the Company.

In the opinion of management, all adjustments (including reclassification and normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows have been made. Interim results are not necessarily indicative of results for a full year.

2. CHANGES IN ACCOUNTING POLICIES

[a] Financial Instruments

Effective for fiscal years beginning on or after November 1, 2004, CICA 3860, Financial Instruments – Disclosure and Presentation was amended to require obligations of a fixed amount that may be settled, at the issuer's option, by issuing a variable number of the issuer's own equity instruments to be presented as liabilities rather than equity. Effective for the fiscal year beginning May 1, 2005, the Company adopted the amended standard retroactively with restatement of prior periods. As a result of adopting this standard, the Company has reclassified its preferred shares from equity to liabilities.

[b] Patent Costs

Effective February 1, 2005, the Company changed its policy of recording as intangible assets, costs associated with the preparation, filing and obtaining of patents. As a result, such patent costs are now accounted for as research and development expenses in the period in which they are incurred. As this change was implemented in the fourth quarter of Fiscal 2005, the previously reported figures for the three months ended July 31, 2004 have been restated resulting in an increase of \$129,000 in research and development expenses and a decrease of \$34,000 in amortization expense. This had no impact on the basic and diluted loss per common share for the three months ended July 31, 2004.

3. SHARE CAPITAL

[a] Issued and outstanding

[i] Common shares

	Number of Shares (000's)	Amount \$ (000's)
Balance, April 30, 2005	60,988	115,221
Issued pursuant to public offering	14,457	5,558
Balance, July 31, 2005	75,445	120,779

On May 31, 2005, the Company completed a public offering of 14,457,000 units at a price of \$0.45 per unit for gross proceeds of \$6,505,650 with each unit consisting of one common share and one-half of one common share purchase warrant (total of 14,457,000 common shares and 7,228,500 warrants). Each whole warrant allows for the purchase of one common share at a price of \$0.55 per common share on or before May 31, 2008. In connection with the public offering the Company: [i] paid the agents a cash commission of \$488,000 and issued to the agents warrants expiring May 31, 2008 for the purchase of 1,084,275 common shares at a price of \$0.45 per common share; and [ii] incurred approximately \$460,000 in legal, professional and other costs of which \$185,669 was included in other assets at April 30, 2005.

[ii] Preferred shares

	Number of Shares (000's)	Amount \$ (000's)
Series A	350	—
Series B	1,000	—
Series C	5,250	—
Series D	4,000	—
Series E	4,000	—
Balance, April 30, 2005 and July 31, 2005	14,600	—

The 14,600,000 preferred shares outstanding at July 31, 2005 and April 30, 2005 represent up to US\$14,600,000 in potential future milestone payments related to drug development programs and other assets acquired by the Company. Upon the achievement of any of the milestones the applicable number of preferred shares are, at the Company's option, either convertible into common shares of the Company or redeemable for cash at US\$1 per preferred share. As the achievement of any of the milestones for the redemption or conversion of the preferred shares are uncertain, the preferred shares have been recorded at an aggregate value of US\$5.

The 14,600,000 preferred shares have been classified as a liability (note 2[a]).

3. SHARE CAPITAL (continued)

[b] Stock options

[i] Stock option transactions and the number of stock options outstanding with respect to both the 1996 and 2000 Stock Option Plans are summarized as follows:

	Number of Common Shares (000's)	Weighted Average Exercise Price \$
Balance, April 30, 2005	3,997	1.43
Options granted	721	0.43
Options forfeited/expired	(201)	(1.94)
Balance, July 31, 2005	4,517	1.25

The stock options expire at various dates between August 17, 2005 and June 30, 2013.

[ii] The following table summarizes information about options outstanding with respect to both the 1996 and 2000 Stock Option Plans at July 31, 2005:

Range of Exercise Prices \$	Options Outstanding			Options Exercisable	
	Outstanding (000's)	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life (years)	Exercisable (000's)	Weighted Average Exercise Price \$
0.38-0.55	734	0.43	7.7	200	0.44
0.56-0.80	607	0.78	5.0	547	0.78
0.81-1.07	1,339	0.94	5.3	916	0.90
1.08-1.59	1,288	1.51	4.7	1,164	1.54
1.60-2.30	327	1.84	4.9	270	1.85
2.31-3.40	51	2.87	2.7	51	2.87
3.41-5.37	83	4.69	1.4	83	4.69
5.38-8.00	88	5.78	2.3	88	5.78
	4,517	1.25	5.3	3,319	1.41

[iii] Stock-based Compensation Expense

The Company recorded stock based compensation expense of \$105,000 for the three months ended July 31, 2005 (\$96,000 for the three months ended July 31, 2004) relating to stock options granted to executive officers, directors, and employees since May 1, 2003 and to consultants since May 1, 2002. This expense has been allocated on the same basis as cash compensation resulting in \$48,000 (2004 - \$48,000) being allocated to research and development and \$57,000 (2004 - \$48,000) being allocated to general and corporate for the three months ended July 31, 2005. The estimated fair value of the stock options granted was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

3. SHARE CAPITAL (continued)

[b] Stock options

[iii] Stock-based Compensation Expense

	Three months ended July 31,	
	2005	2004
Annualized volatility	76.2%	82.0%
Risk-free interest rate	3.5%	3.5%
Expected life of options in years	5.0	5.0
Dividend yield	0.0%	0.0%

The weighted average fair value of stock options granted during the three months ended July 31, 2005 was \$0.26 (2004 – \$0.82). The estimated fair value of stock options is amortized to expense over the vesting period of the stock options.

The Black-Scholes pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly variable assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the fair value estimate, the Black-Scholes model does not necessarily provide a reliable single measure of the fair value of the Company's stock options.

[iv] Pro-forma Information – Stock-based Compensation

Pro-forma disclosure is required to reflect the impact on the Company had it elected to adopt the fair value method of accounting for options granted to executive officers, directors and employees effective May 1, 2002. If the computed fair values of stock options granted May 1, 2002 to April 30, 2003 had been amortized to expense over their vesting periods, the loss and loss per common share would have been:

(thousands, except per share amounts)	Three months ended July 31,	
	2005	2004
		<i>(restated-note 2)</i>
Loss for the period as reported	(2,772)	(3,233)
Compensation charge related to stock options granted to executive officers, directors and employees during the period May 1, 2002 to April 30, 2003	(22)	(26)
Pro-forma loss for the period	(2,794)	(3,259)
 Pro-forma basic and diluted loss per common share	 (0.04)	 (0.06)

3. SHARE CAPITAL (continued)

[c] Warrants

As at July 31, 2005, the Company had warrants outstanding for the purchase of 14,293,301 (April 30, 2005: 5,980,526) common shares as follows:

[i] 7,228,500 (April 30, 2005: nil) common shares at an exercise price per common share of \$0.55, expiring on May 31, 2008;

[ii] 1,084,275 (April 30, 2005: nil) common shares at an exercise price per common share of \$0.45, expiring on May 31, 2008;

[iii] 5,851,664 (April 30, 2005: 5,851,664) common shares at a weighted average exercise price per common share of \$1.56 (range of \$1.25 to \$3.00), expiring between December 5, 2005 and December 3, 2007, of which warrants for the purchase of 1,970,414 common shares have an exercise feature allowing the warrant holders to elect to satisfy their obligation to pay the exercise price to the Company by accepting a lesser number of common shares; and

[iv] 128,862 (April 30, 2005: 128,862) common shares at a weighted average net exercise price per common share of US\$13.53 (range of US\$13.21 to US\$17.75), expiring between June 21, 2006 and June 22, 2011. These warrants were assumed as part of the acquisition of MitoKor and if exercised and the maximum milestone payments associated with the Series E Preferred shares (note 3[a][ii]) are achieved could result in the payment to the warrant holders of US\$88,659 in milestone payments, payable at the Company's option, in cash and/or common shares.

[d] Loss per common share

(thousands, except per share amounts)	Three months ended July 31,	
	2005	2004 <i>(restated- note 2)</i>
Numerator:		
Loss for the period	(2,772)	(3,233)
Denominator:		
Weighted average number of common shares outstanding including escrowed shares	70,627	54,822
Less: weighted average number of escrowed shares outstanding	(1,187)	(1,187)
Weighted average number of common shares outstanding	69,440	53,635
Basic and diluted loss per common share	(0.04)	(0.06)

4. SEGMENTED INFORMATION

The Company operates primarily in one business segment with operations located in Canada and the United States. All of the Company's long-lived assets are located in Canada except for intellectual property and capital assets with a net book value of \$5,263,000 [April 30, 2005 - \$5,407,000] and \$13,000 [April 30, 2005 - \$16,000], respectively, which are located in the United States. During the three months ended July 31, 2005, 100% of total revenue was derived from one collaborator in the United States [2004 – nil%]. At July 31, 2005, included in amounts receivable are \$nil due from this research collaborator [April 30, 2005 - \$58,000].

5. RELATED PARTY TRANSACTIONS

All transactions with related parties are recorded at their exchange amounts and accounts payable are subject to normal trade terms. During the three months ended July 31, 2005, the Company incurred legal fees of approximately \$128,000 [2004 – \$234,000] inclusive of sales taxes, payable to a law firm where the Secretary of the Company is a partner. Included in accounts payable and accrued liabilities at July 31, 2005, is approximately \$193,000 [April 30, 2005 – \$209,000] owed to this law firm.