



Micrologix Biotech Inc.

second quarter

October.31.00

To Our Shareholders:

This has been a quarter of significant advancement for Micrologix. We initiated Phase III trials for MBI 226, prepared to begin a Phase II trial for MBI 594AN and a Phase Ib trial for MBI 853NL, and further strengthened our financial position. Micrologix's inclusion in the TSE 300 Composite Index subsequent to the end of the quarter highlights the progress the Company has made since listing on The Toronto Stock Exchange in February 1996.

Phase III Trials Initiated for MBI 226

In September, MBI began recruiting patients for the first of two pivotal Phase III studies for the prevention of catheter-related bloodstream infections. The study, which is anticipated to be complete by the fourth quarter of 2001, will enroll approximately 1,500 patients at 12 sites throughout the United States. Preparations are underway to begin the second pivotal study, with the entire Phase III program expected to be complete by the second quarter of 2002.

The objective of the trials is to demonstrate that MBI 226, administered at central venous catheter insertion sites, reduces or eliminates bacterial and fungal colonization of central venous catheters and prevents subsequent bloodstream infections. In the studies, MBI 226 is being compared to the current standard-of-care. Results of the studies will be used in support of a New Drug Application to market MBI 226 in the US.

Phase II Trial Initiated for MBI 594AN

During the quarter, MBI completed preparations for a US Phase II clinical trial of MBI 594AN for the treatment of acne. The trial which was initiated in early November is a randomized, double-blind, placebo-controlled, dose-ranging efficacy study in 75 acne patients. Patients will be treated daily for six weeks with either a placebo or one of two dose levels of MBI 594AN. The activity of MBI 594AN will be assessed based on acne lesion counts and physician assessment of each patient during the study. In addition, the safety, tolerability and systemic absorption of MBI 594AN will be assessed in 18 acne patients in a five-day open label study. The trial is expected to be completed in the third quarter of 2001.

Phase Ib Trial Initiated for MBI 853NL

In November, MBI initiated a Phase Ib clinical trial for MBI 853NL in preventing hospital-acquired infections caused by *Staphylococcus aureus* (*S. aureus*), including methicillin-resistant *S. aureus* (MRSA). The trial, which should be complete in the second quarter of 2001, is designed to further establish the safety and to quantify the anti-*S. aureus* activity of MBI 853NL at escalated doses.

MBI Added to TSE 300

Effective as of the close of business on December 14, 2000, MBI was added to the TSE 300 Composite Index in the Biotech/Pharmaceuticals subgroup and to the S&P/TSE Canadian SmallCap Index in the Health Care sector. The TSE 300 index is composed of 300 of the largest companies traded on the TSE and is the most widely used benchmark to measure the performance of the Canadian equity markets.

Financial Highlights

Financial results for the three months ended October 31, 2000 showed a loss of \$2.8 million (\$0.07 per common share), compared to a loss of \$1.9 million (\$0.08 per common share) for the same period in 1999. This brings the loss for the first six months of fiscal 2001 to \$4.6 million (\$0.12 per common share), compared to \$3.9 million (\$0.17 per common share) for the corresponding period in fiscal 2000.

The increased loss is primarily due to the costs associated with advancing three of the Company's drug candidates to later stage clinical trials—MBI 226 in Phase III, MBI 594AN in Phase II and MBI 853NL in Phase Ib. Research and development expenses for the first six months including the costs of the Company's clinical development programs increased by \$1.7 million (56%) to \$4.8 million. General and corporate expenses increased by \$0.3 million (30%) to \$1.4 million. The increase in expenses was partially offset by a \$1.4 million increase in interest income resulting from the Company's enhanced cash position. Interest income was \$1.7 million.

During the quarter, MBI received \$8.6 million for the purchase of 3,509,667 common shares from the exercise of warrants and after-market support options issued as part of the August 1999 special unit financing. At October 31, 2000, the Company's cash, cash equivalents and marketable securities were \$60.8 million, an increase of \$4.2 million from April 30, 2000. This increase consists of \$9.3 million (inclusive of the aforementioned \$8.6 million) received from the exercise of warrants, after-market support options and stock options, less \$4.0 million used for operating activities, \$0.9 million to fund capital expenditures and \$0.2 million to fund expenses associated with the March 2000 special warrant financing.

There are currently 39,344,809 (October 31, 2000—39,342,309) common shares issued and outstanding.

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

Respectfully,

“Dany Hadary”

Dany Hadary
President & CEO

December 12, 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 Balance Sheets

(Unaudited—Expressed in Canadian dollars)

	October 31 2000	April 30 2000
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ASSETS

Current		
Cash and cash equivalents	\$ 25,376,343	\$ 45,014,873
Marketable securities ⁽¹⁾	35,457,822	11,594,959
Accounts receivable and other	168,748	69,820
Prepaid expenses	359,429	97,531
Total current assets	61,362,342	56,777,183
Capital assets	3,309,904	2,156,795
Total assets	\$ 64,672,246	\$ 58,933,978

(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	\$ 2,550,895	\$ 2,050,438
Total current liabilities	\$ 2,550,895	\$ 2,050,438

SHAREHOLDERS' EQUITY

Share capital		
Common shares [Oct. 31— 39,342,309; Apr. 30—31,536,517]	\$ 95,672,932	\$ 49,013,357
Shares to be issued	613,572	111,072
Special warrants [Oct. 31—nil; Apr. 30—4,000,000]	—	37,359,811
Deficit	(34,165,153)	(29,600,700)
Total shareholders' equity	\$ 62,121,351	\$ 56,883,540
Total equity	\$ 64,672,246	\$ 58,933,978

On behalf of the Board:

“William J. Foran”

“Dany Hadary”

William J. (Bud) Foran
Director

Dany Hadary
Director

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.

Consolidated Statements of Loss and Deficit

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

	2000	1999
REVENUE		
Interest and sundry	\$ 872,835	\$ 210,284
EXPENSES		
Research and development	2,903,160	1,605,493
General and corporate	781,362	491,084
	3,684,522	2,096,577
Loss	(2,811,687)	(1,886,293)
Deficit, beginning of period	(31,353,466)	(22,923,998)
Deficit, end of period	\$(34,165,153)	\$(24,810,291)
Loss per common share ⁽¹⁾	\$ (0.07)	\$ (0.08)
Weighted average number of common shares outstanding ⁽²⁾	39,322,142	23,208,599

Six months ended October 31
(Unaudited—Expressed in Canadian dollars)

	2000	1999
REVENUE		
Interest and sundry	\$ 1,663,247	\$ 307,885
EXPENSES		
Research and development	4,780,134	3,060,002
General and corporate	1,447,566	1,117,347
	6,227,700	4,177,349
Loss	(4,564,453)	(3,869,464)
Deficit, beginning of period	(29,600,700)	(20,940,827)
Deficit, end of period	\$(34,165,153)	\$(24,810,291)
Loss per common share ⁽¹⁾	\$ (0.12)	\$ (0.17)
Weighted average number of common shares outstanding ⁽²⁾	37,516,476	23,208,599

- (1) Loss per share is based on the weighted average number of common shares outstanding during the period. Since the company's stock 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 December 12, 2000 there are 39,344,809 (Oct. 31, 2000—39,342,309) common shares outstanding, after-market support options to acquire 656,416 common shares, options to acquire 2,437,801 common shares and other commitments to issue approximately 172,000 common shares outstanding.

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

Six months ended October 31
(Unaudited—Expressed in Canadian dollars)

2000

1999

OPERATING ACTIVITIES

Loss for the period	\$ (4,564,453)	\$ (3,869,464)
Items not affecting cash		
Amortization	253,534	413,113
Deferred rental inducement	—	(13,001)
Write-down of capitalized patent costs	—	14,656
	<u>\$ (4,310,919)</u>	<u>\$ (3,454,696)</u>
Changes in non-cash working capital items relating to operating activities		
Accounts receivable and other	(98,928)	74,788
Prepaid expenses and deposits	(261,898)	(15,273)
Accounts payable and accrued liabilities	647,166	83,971
Cash flows used in operating activities	<u>\$ (4,024,579)</u>	<u>\$ (3,311,210)</u>

FINANCING ACTIVITIES

Issue of common shares for cash	\$ 9,327,947	\$ 300,000
Issue of special warrants/units for cash	(28,184)	13,583,088
Changes in non-cash working capital items relating to financing activities	(173,211)	707,503
Cash flows provided by financing activities	<u>\$ 9,126,552</u>	<u>\$ 14,590,591</u>

INVESTING ACTIVITIES

Funds from (purchase of) marketable securities	\$(23,862,863)	\$ 3,762,657
Capital asset expenditures	(1,406,642)	(176,239)
Shares to be issued	502,500	—
Changes in non-cash working capital items relating to investing activities	26,502	(127,469)
Cash flows provided by (used in) investing activities	<u>\$(24,740,503)</u>	<u>\$ 3,458,949</u>
Increase (decrease) in cash and cash equivalents	\$ (19,638,530)	\$ 14,738,330
Cash and cash equivalents, beginning of period	45,014,873	1,550,202
Cash and cash equivalents, end of period	<u>\$ 25,376,343</u>	<u>\$ 16,288,532</u>

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