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SECOND QUARTER REPORT

October 31, 2005

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 and six months ended October 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 December 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

In June 2005 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) reached a written agreement on a protocol for a Phase III clinical trial of CPI-226 which, if successful, would support marketing approval. 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 multi-national pivotal Phase III study of CPI-226 in August 2005 pursuant to the SPA and plans to initiate the European segment of the study in early calendar 2006. The confirmatory Phase III trial is a 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. The multi-national study is planned to be completed in the first half of calendar 2007, followed by the submission for marketing approval in the US and Europe.

In the first Phase III study (completed July 2003 in the United States) with over 1,400 patients, CPI-226 demonstrated a 49% reduction in local catheter site infections ($p = 0.004$), a 21% reduction in catheter colonization ($p = 0.002$) and a 51% reduction in catheter replacements ($p=0.002$).

MIGENIX has initiated partnering activities seeking a development and commercialization partner for Japan.

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 (completed in September 2005) and a Phase IIb combination therapy study (currently enrolling patients). 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. Preclinical studies have demonstrated strong synergistic activity between MX-3253, interferon and ribavirin in the BVDV surrogate model for HCV infections, providing the basis for the Company's strategy to develop MX-3253 as a combination therapy for the treatment of HCV.

The Phase IIa monotherapy study was an open-label, randomized, dose-response (three dosage groups), 12-week monotherapy study in treatment naïve and interferon-intolerant genotype 1 HCV patients. Enrollment of patients in the study started in October 2004 and a total of 43 patients participated. The study met its objectives with the results demonstrating that celgosivir was well-tolerated with generally mild to moderate, reversible side effects, no serious adverse events, and some indication of antiviral activity. In two patients, a 1.0 \log_{10} (90% clearing of the virus) or greater reduction in viral load was observed, with one patient achieving a peak reduction in HCV RNA of 2.6 \log_{10} (99.8% clearing of the virus). As expected based on the mechanism of action and pharmacokinetics of celgosivir, other viral load changes in this monotherapy study were not clinically significant. The Company



concluded that the results, along with the strong preclinical synergy data generated to date, support the Company's combination therapy development strategy.

Enrollment in the Phase IIb combination study commenced in November 2005 and results of the study are expected in mid-calendar 2006. The Phase IIb study is 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). The study will evaluate viral load and safety parameters at various time points. Patients who respond to therapy during the trial will also have the option to continue on treatment for up to 48 weeks.

In July 2005 we completed a Material Transfer and License Option agreement with Schering-Plough providing for (a) the supply of PEGETRON™ (peginterferon alfa-2b powder for solution plus ribavirin 200 mg capsules) for the Phase IIb study, (b) certain technical and laboratory support and other services for the Phase IIb study, and (c) certain limited rights for review of clinical trial results and for the negotiation of a license agreement.

MX-594AN: Treatment of Acne

A license agreement was executed with Cutanea Life Sciences, Inc., ("Cutanea") a private, dermatological pharmaceutical company based in metropolitan Philadelphia, Pennsylvania, on December 7, 2005 to develop and commercialize MX-594AN for a number of dermatological indications. This agreement achieves our objective of securing a partner with an experienced team for the development and commercialization of MX-594AN.

Pursuant to the license agreement, MIGENIX will receive a small upfront payment and up to approximately US\$21 million in development and commercialization milestone payments, as well as royalties on net sales. Cutanea will have exclusive worldwide rights to develop and market MX-594AN and its analogues for dermatological indications. Future development activities will focus on the treatment of dermatological conditions with inflammatory and infectious components. Cutanea will take full responsibility for funding all development activities including formulation, clinical, regulatory, and commercialization costs.

MX-4509: Treatment of Neurodegenerative Diseases

MX-4509 (17 α -estradiol sodium sulfate) has completed a Phase I clinical study and is being evaluated for its potential in certain orphan neurodegenerative indications. A non-clinical study of MX-4509 in a potential neurodegenerative orphan indication was initiated during the quarter as part of the Company's development of MX-4509, with further clinical studies to follow, as deemed appropriate, based on the non-clinical study 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.

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 allowing us to proceed with 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 being developed 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 advancement into clinical development.

In studies conducted by Dr. William Craig at the University of Wisconsin Medical School and the VA Medical Center, the ability of MX-2401 to kill *Streptococcus pneumoniae* in the lungs and/or thighs of infected mice (a model used to evaluate the potential for efficacy in human pneumonia and complicated skin and soft tissue



infections) and the efficacy of MX-2401 against another serious gram-positive pathogen, *Staphylococcus aureus* were confirmed.

Other Research and Development Programs

Work in the Company's MX-4565 (neurodegenerative diseases) and MX-4042 (arthritis) programs is focused on advancing the compounds into animal studies and non-clinical development. During the quarter, the Company terminated development of certain preclinical HBV and HCV compounds acquired from Origenix in 2002 based on preclinical results (see "Capital and Intangible Asset Expenditures, Amortization and Write-downs" for write-down in the carrying value of these programs). The Company has advanced compounds from an internally developed non-nucleoside HCV program to the identification of a lead series stage of development.

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, assessment 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 and six months ended October 31, 2004 have been restated resulting in an increase of \$64,000 and \$193,000 in research and development expense respectively and a decrease of \$36,000 and \$70,000 in amortization expense respectively. This had no impact on the basic and diluted loss per common share for the three and six months ended October 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, | | | |
|--|----------------------------------|-------------------------------|---|---|
| | October 31, 2005 ("Q2/06") | July 31, 2005 ("Q1/06") | April 30, 2005 ⁽²⁾ ("Q4/05") | January 31, 2005 ^{(1) (2)} ("Q3/05") |
| Revenue | \$ - | \$ 269 | \$ 11 | \$58 |
| Operating Loss | \$ (3,407) | \$ (2,834) | \$ (3,211) | \$(3,289) |
| Loss | \$ (3,314) | \$ (2,772) | \$ (3,137) | \$(3,181) |
| Basic and diluted loss per common share | \$ (0.04) | \$ (0.04) | \$ (0.05) | \$(0.05) |
| Weighted average number of common shares outstanding | 74,258 | 69,440 | 59,802 | 59,794 |

| | Three months ended, | | | |
|--|---|--|---|---|
| | October 31, 2004 ^{(1) (2)} ("Q2/05") | July 31, 2004 ⁽¹⁾ ("Q1/05") | April 30, 2004 ⁽¹⁾ ("Q4/04") | January 31, 2004 ⁽¹⁾ ("Q3/04") |
| Revenue | \$2,089 | \$ - | \$ - | \$926 |
| Operating Loss | \$(947) | \$(3,351) | \$ (4,060) | \$(1,910) |
| Loss | \$(992) | \$(3,233) | \$ (3,922) | \$(1,776) |
| Basic and diluted loss per common share | \$(0.02) | \$(0.06) | \$ (0.08) | \$(0.04) |
| Weighted average number of common shares outstanding | 59,641 | 53,635 | 51,384 | 46,691 |

(1) The Operating Loss and Loss figures for Q1, Q2 and Q3 of Fiscal 2005 and 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 Q4/04 includes intangible asset write-downs of approximately \$0.9 million.

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 \$103 million to October 31, 2005.

The loss for the three months ended October 31, 2005 ("Q2/06") was \$3.3 million (\$0.04 per common share) compared with a loss of \$1.0 million (\$0.02 per common share) for the same period last year ("Q2/05") and a loss of \$2.8 million (\$0.04 per common share) for the three months ended July 31, 2005 ("Q1/06"). The increase in the Q2/06 loss compared to the Q2/05 loss is principally attributable to CPI-226 licensing revenues during Q2/05 related to the licensing agreement with Cadence signed in Q2/05 (see "Revenues") and higher research and



development expenses (see "Operating Expenses – Research and Development"). The Q2/06 loss attributable to the MitoKor operations and programs acquired on August 31, 2004 is \$0.4 million (\$0.6 million in Q2/05; \$0.8 million in Q1/06).

The loss for the six months ended October 31, 2005 ("YTD Fiscal 2006") is \$6.1 million (\$0.08 per common share) as compared to \$4.2 million (\$0.07 per common share) for the same period last year ("YTD Fiscal 2005"). The increase in the YTD Fiscal 2006 loss compared to the YTD Fiscal 2005 loss is principally attributable to CPI-226 licensing revenue (see "Revenues" below). The YTD Fiscal 2006 loss attributable to the MitoKor operations and programs is \$1.2 million (\$0.6 million in YTD Fiscal 2005).

Revenues

Licensing revenues for Q2/06 were \$nil (\$2.1 million for Q2/05; \$nil for Q1/06) and were \$nil for YTD Fiscal 2006 (\$2.1 million for YTD Fiscal 2005). The Q2/05 and YTD Fiscal 2005 licensing revenues were pursuant to the August 2004 collaboration and license agreement with Cadence (see "DEVELOPMENT PROGRAMS - CPI-226: Prevention of Catheter-Related Infections").

Research and development collaboration revenues for Q2/06 were \$nil (\$nil for Q2/05; \$0.3 million for Q1/06) and were \$0.3 million for YTD Fiscal 2006 (\$nil for YTD Fiscal 2005). Research and development collaboration revenues for Q1/06 were pursuant to the sale of CPI-226 drug substance to Cadence.

Operating Expenses

Research and Development

Research and development expenses increased in Q2/06 to \$2.2 million (\$1.7 million in Q2/05; \$2.0 million in Q1/06) and were \$4.3 million for YTD Fiscal 2006 (\$4.1 million for YTD Fiscal 2005). 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 \$0.9 million (\$0.4 million in Q2/05; \$0.6 million in Q1/06) of Q2/06 research and development expenses and were \$1.5 million of research and development expenses for YTD Fiscal 2006 (\$0.5 million for YTD Fiscal 2005). The increase in the YTD Fiscal 2006 clinical program development costs compared with YTD Fiscal 2005 clinical program development costs is due to costs for the MX-3253 program. Clinical program development costs for the MX-3253 program were \$0.8 million (\$0.1 million in Q2/05; \$0.4 million in Q1/06) and were \$1.2 million for YTD Fiscal 2006 (\$0.2 million for YTD Fiscal 2005; Phase IIa monotherapy trial was initiated in October 2004 and completed in September 2005, and preparations for Phase IIb combination study advanced; see "DEVELOPMENT PROGRAMS - MX-3253: Treatment of Chronic HCV Infections"). Clinical program development costs for the MX-4509 program were \$nil (\$0.1 million in Q2/05; \$0.1 million in Q1/06; see "DEVELOPMENT PROGRAMS - MX-4509: Treatment of Neurodegenerative Diseases") and were \$nil (\$0.1 million in Q2/05; \$nil in Q1/06) for the MX-594AN program (Phase IIb trial completed in October 2003; Company has been delaying certain development work until a partner was secured; see "DEVELOPMENT PROGRAMS - MX-594AN: Treatment of Acne").

Personnel costs were \$0.7 million (\$0.9 million in Q2/05; \$0.8 million in Q1/06) of Q2/06 research and development expenses and were \$1.4 million of research and development expenses for YTD Fiscal 2006 (\$1.6 million for YTD Fiscal 2005).

Patent-related costs (net of patent cost recoveries) were \$0.3 million (\$0.1 million in Q2/05; \$0.2 million in Q1/06) of Q2/06 research and development expenses and were \$0.5 million of research and development expenses for YTD Fiscal 2006 (\$0.3 million for YTD Fiscal 2005).

Other 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. Other costs were \$0.3 million (\$0.3 million in Q2/05; \$0.4 million in Q1/06) of Q2/06 research and development expenses and are net of a \$0.1 million (\$nil in Q2/05; \$nil in Q1/06) reduction in MX-2401 costs resulting from the TPC government assistance (see "DEVELOPMENT PROGRAMS – MX-2401: Treatment of Serious Gram-positive Bacterial Infections"). Other costs were \$0.8 million for YTD Fiscal 2006 (\$1.7 million for YTD Fiscal 2005) with the reduction in YTD Fiscal 2006 costs being primarily due to higher MX-2401 process development costs in YTD Fiscal 2005.



General and Corporate

General and corporate expenses decreased in Q2/06 to \$0.8 million (\$1.1 million in Q2/05; \$0.8 million in Q1/06) and were \$1.7 million for YTD Fiscal 2006 (\$2.0 million for YTD Fiscal 2005). Personnel costs were \$0.5 million in Q2/06 (\$0.6 million in Q2/05; \$0.6 million in Q1/06) and were \$1.0 million for YTD Fiscal 2006 (\$1.2 million for YTD Fiscal 2005).

Capital and Intangible Asset Expenditures, Amortization and Write-downs

Capital asset expenditures in Q2/06 were \$nil (\$0.1 million in Q2/05; \$nil in Q1/06) bringing YTD Fiscal 2006 capital asset expenditures to \$nil (\$0.2 million for YTD Fiscal 2005). Amortization expense on capital assets was \$0.1 million for YTD Fiscal 2006 (\$0.2 million for YTD Fiscal 2005).

Intangible asset expenditures in Q2/06 were \$nil (\$0.1 million in Q2/05; \$nil in Q1/06) bringing YTD Fiscal 2006 intangible asset expenditures to \$nil (\$0.1 million for YTD Fiscal 2005). Intangible assets at October 31, 2005 include acquired technology and capitalized technology license costs for the Company's neurodegenerative, lipopeptide, celgosivir, HBV and cationic peptide programs. The \$6.0 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 was \$0.4 million for YTD Fiscal 2006 (\$0.2 million for YTD Fiscal 2005), the increase for YTD Fiscal 2006 over YTD Fiscal 2005 due to there being only two months of amortization of the MitoKor programs in YTD Fiscal 2005 (acquired on August 31, 2004). During Q2/06, the Company completed a review of its intangible assets and determined that a write-down of \$0.1 million in the carrying value of the HBV and HCV assets acquired from Origenix in 2002 was appropriate (see "DEVELOPMENT PROGRAMS – Other Research and Development Programs"). There were no write-downs of intangible assets during Q2/05 and YTD Fiscal 2005.

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") dollar denominated cash and cash equivalents, amounts receivable and accounts payable balances. See "FINANCIAL INSTRUMENTS AND RISKS".

Interest income was \$0.2 million for each of YTD Fiscal 2006 and YTD Fiscal 2005. The foreign exchange loss was nominal for YTD Fiscal 2006 (\$0.1 million for YTD Fiscal 2005).

LIQUIDITY AND CAPITAL RESOURCES

As of October 31, 2005, the Company had cash, cash equivalents and short term investments of \$13.7 million (April 30, 2005: \$12.0 million) and the Company's net working capital was \$11.2 million (April 30, 2005: \$10.8 million). The \$0.4 million increase in working capital from April 30, 2005 to October 31, 2005 is primarily attributable to the \$5.7 million in net proceeds from public offering completed May 31, 2005 (see below) less the loss of \$5.3 million (excluding non-cash amortization, write-down of intangible assets and stock-based compensation) for the six months ended October 31, 2005. 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 and an additional \$0.1 million was accrued during Q2/06. 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 October 31, 2005 \$0.5 million in deferred compensation is included in accounts payable and accrued liabilities. With these steps the Company will continue advancing its highest priority programs (see "RISKS AND UNCERTAINTIES") while operating within an annual burn rate of \$11 million to \$13 million.

MIGENIX believes that its funds on hand at October 31, 2005, together with program prioritization and cost reduction efforts and expected interest income, are sufficient to provide for operations into the fourth quarter of calendar 2006 before funds received, if any, from financing activities, the exercise of warrants and options, and existing or new license agreements. 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 October 31, 2005, we had the following contractual obligations and commitments ^{(1) (2)}:

| Contractual Obligations | | Less than 1 year | | 4 – 5 years | After 5 years |
|---|--------------|-------------------------|--------------------|--------------------|----------------------|
| Payments due by period (Expressed in thousands of dollars) | Total | | 1 – 3 years | | |
| Capital Lease Obligations | 38 | 38 | - | - | - |
| Operating Leases | 219 | 219 | - | - | - |
| Purchase Obligations ⁽³⁾ | 1,352 | 1,352 | - | - | - |
| Total Contractual Obligations | 1,609 | 1,609 | - | - | - |

(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 Q2/06 and YTD Fiscal 2006, the Company incurred legal fees of approximately \$90,000 and \$218,000 respectively (\$156,000 and \$390,000, respectively during Q2/05 and YTD Fiscal 2005) 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 December 7, 2005, there are:

- 74,258,656 (October 31, 2005: 75,445,428; April 30, 2005: 60,988,428) common shares outstanding. The 1,186,772 decrease in common shares outstanding subsequent to October 31, 2005 is the result of the cancellation of escrow shares pursuant to their terms;
- 14,600,000 (October 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 4,404,775 (October 31, 2005: 4,412,663; April 30, 2005: 3,996,575) common shares at an average exercise price per common share of \$1.20 (October 31, 2005: \$1.20; April 30, 2005: \$1.43); and



- warrants outstanding for the purchase of 13,305,801 (October 31, 2005: 14,293,301; April 30, 2005: 5,980,526) common shares at a weighted average exercise price per common share of \$1.07 (October 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 |
| 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 = 13,305,801 ⁽⁴⁾ | Average = \$1.07 ⁽⁵⁾ | |

(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) On December 5, 2005, 987,500 warrants outstanding at October 31, 2005 with an exercise price per common share of \$1.50 expired unexercised

(5) Weighted average exercise price using closing October 31, 2005 exchange rate of US\$1.00 equals \$1.1812

RISKS AND UNCERTAINTIES

No product candidates being developed by MIGENIX 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 MIGENIX'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 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 MIGENIX 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; 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 October 31, 2005 the carrying value of the Company's intangible assets in respect of its development programs is approximately \$6 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. These programs include the MX-4509, MX-4565, MX-4042 and MX-3108 programs, which collectively have a carrying value of \$5.1 million. Additionally, the Company has limited personnel and financial resources with which to optimally advance its 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: Cadence initiating the European segment of the CPI-226 multi-national Phase III study in early calendar 2006 and completing the study in the first half of calendar 2007 followed by the submission for marketing approval in the US and Europe; results from the Phase IIb MX-3253 combination study being expected in mid-calendar 2006; MIGENIX receiving approximately US\$21 million in development and commercialization milestone payments, as well as royalties on net sales pursuant to the license agreement with Cutanea; further clinical studies to follow for MX-4509; the Company advancing process development for MX-2401 in preparation for the non-clinical studies required to support advancement into clinical development; 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 financial resources being sufficient to fund operations into the fourth 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: dependence on corporate collaborations; 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; 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 | October 31, 2005 | April 30, 2005 |
|---|---------------------|-------------------|
| (Unaudited—in thousands of Canadian dollars) | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | 3,188 | 1,181 |
| Short-term investments | 10,488 | 10,846 |
| Amounts receivable (note 4) | 107 | 291 |
| Government assistance receivable | 130 | 471 |
| Prepaid expenses and deposits | 321 | 664 |
| Total current assets | 14,234 | 13,453 |
| Long-term investments | 1 | 1 |
| Other assets (note 3[a][i]) | - | 186 |
| Capital assets | 1,023 | 1,142 |
| Intangible assets | 5,967 | 6,424 |
| | 21,225 | 21,206 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities (note 5) | 2,992 | 2,595 |
| Current portion of capital lease obligation | 38 | 63 |
| Total current liabilities | 3,030 | 2,658 |
| Capital lease obligation | - | 6 |
| Preferred shares (notes 2[a] and 3[a][ii]) | - | - |
| Total liabilities | 3,030 | 2,664 |
| Shareholders' equity | | |
| Common shares (notes 3[a][i] and 6[a]) | 120,779 | 115,221 |
| Contributed surplus | 817 | 636 |
| Deficit | (103,401) | (97,315) |
| Total shareholders' equity | 18,195 | 18,542 |
| | 21,225 | 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 share and per share amounts) | Three months ended October 31, <i>(restated – note 2[b])</i> | | Six months ended October 31, <i>(restated – note 2[b])</i> | |
|--|--|-----------------|--|-----------------|
| | 2005 \$ | 2004 \$ | 2005 \$ | 2004 \$ |
| REVENUE | | | | |
| Licensing | - | 2,089 | - | 2,089 |
| Research and development collaboration (note 4) | - | - | 269 | - |
| | - | 2,089 | 269 | 2,089 |
| EXPENSES | | | | |
| Research and development | 2,224 | 1,743 | 4,253 | 4,063 |
| General and corporate | 848 | 1,063 | 1,675 | 1,974 |
| Amortization | 247 | 230 | 494 | 350 |
| Write-down of intangible assets | 88 | - | 88 | - |
| | 3,407 | 3,036 | 6,510 | 6,387 |
| Operating loss for the period | (3,407) | (947) | (6,241) | (4,298) |
| Other income (expense) | | | | |
| Interest income | 96 | 101 | 176 | 213 |
| Foreign exchange loss | (3) | (146) | (21) | (140) |
| | 93 | (45) | 155 | 73 |
| Loss for the period | (3,314) | (992) | (6,086) | (4,225) |
| Deficit, beginning of period | (100,087) | (90,004) | (97,315) | (86,771) |
| Deficit, end of period | (103,401) | (90,996) | (103,401) | (90,996) |
| Basic and diluted loss per common share (note 3[f]) | (0.04) | 0.02) | (0.08) | (0.07) |
| Weighted average number of common shares outstanding (in thousands – note 3[f]) | | | | |
| | 74,258 | 59,641 | 71,849 | 56,638 |

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three months ended October 31, | | Six months ended October 31, | |
|---|-----------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| | 2005 | (restated – note 2[b]) 2004 | 2005 | (restated – note 2[b]) 2004 |
| (Unaudited—in thousands of Canadian dollars) | \$ | \$ | \$ | \$ |
| OPERATING ACTIVITIES | | | | |
| Loss for the period | (3,314) | (992) | (6,086) | (4,225) |
| Items not affecting cash: | | | | |
| Amortization | 247 | 230 | 494 | 350 |
| Write-down of intangible assets | 88 | - | 88 | - |
| Stock-based compensation | 76 | 155 | 181 | 251 |
| Gain on disposal of capital assets | - | (3) | - | (3) |
| Changes in non-cash working capital items relating to operating activities: | | | | |
| Accrued interest on short-term investments | 14 | (2) | 68 | 101 |
| Amounts receivable | 105 | 13 | 184 | 36 |
| Government assistance receivable | (112) | - | 341 | - |
| Prepaid expenses and deposits | (133) | (57) | 343 | (86) |
| Accounts payable and accrued liabilities | 746 | 364 | 420 | 779 |
| Deferred revenue | - | (267) | - | - |
| Cash (used in) operating activities | (2,283) | (559) | (3,967) | (2,797) |
| FINANCING ACTIVITIES | | | | |
| Issuance of common shares, net of issue costs | - | 543 | 5,743 | 543 |
| Proceeds on exercise of stock options | - | - | - | 1 |
| Repayment of capital lease obligation | (15) | (14) | (31) | (28) |
| Cash (used in) provided by financing activities | (15) | 529 | 5,712 | 516 |
| INVESTING ACTIVITIES | | | | |
| Funds from short-term investments | 5,017 | 6,499 | 10,975 | 14,701 |
| Purchase of short-term investments | (5,286) | (3,406) | (10,683) | (9,360) |
| Other asset expenditures | - | (28) | - | (491) |
| Purchase of capital assets | (4) | (70) | (30) | (193) |
| Intangible asset expenditures | - | (93) | - | (93) |
| Acquisition of business, net of cash acquired (note 4) | - | 635 | - | 635 |
| Proceeds on disposal of capital assets | - | 22 | - | 22 |
| Cash (used in) provided by investing activities | (273) | 3,559 | 262 | 5,221 |
| (Decrease) increase in cash and cash equivalents | (2,571) | 3,529 | 2,007 | 2,940 |
| Cash and cash equivalents, beginning of period | 5,759 | 3,793 | 1,181 | 4,382 |
| Cash and cash equivalents, end of period | 3,188 | 7,322 | 3,188 | 7,322 |
| Supplemental cash flow information | | | | |
| Issuance of common shares for acquisition of a business | - | 5,999 | - | 5,999 |
| Issuance of preferred shares for acquisition of a business | - | - | - | - |

See accompanying notes

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended October 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 and six months ended October 31, 2004 have been restated resulting in an increase of \$64,000 and \$193,000 in research and development expenses and a decrease of \$36,000 and \$70,000 in amortization expense for the three and six months ended October 31, 2004, respectively. This had no impact on the basic and diluted loss per common share for the three and six months ended October 31, 2004.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended October 31, 2005 (Unaudited—Canadian dollars)

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, October 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.

As of October 31, 2005, included in total common shares outstanding were 1,186,772 escrowed common shares subject to cancellation pursuant to the escrow terms (note 6[a]).

[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 October 31, 2005 | 14,600 | - |

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended October 31, 2005 (Unaudited—Canadian dollars)

3. SHARE CAPITAL (continued)

[a] Issued and outstanding

[ii] Preferred shares

The 14,600,000 preferred shares outstanding at October 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]).

[b] Shareholder Rights Plan

On September 6, 2005 shareholders reconfirmed the Company's Shareholder Rights Plan, as amended. The amendments to the Rights Plan Agreement were limited in number and effect. Amendments included (i) removing the application of the Rights Plan to "flip-over events" as defined in the original agreement; and (ii) various technical amendments, reflecting changes in the Company's name and British Columbia corporate statutes since the initial Rights Plan and the correction of certain typographical and similar errors. The Shareholder Rights Plan as amended will remain in effect until July 31, 2010, unless terminated earlier.

[c] 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 | 806 | 0.43 |
| Options forfeited/expired | (390) | (1.89) |
| Balance, October 31, 2005 | 4,413 | 1.20 |

The stock options expire at various dates between November 11, 2005 and June 30, 2013.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended October 31, 2005 (Unaudited—Canadian dollars)

3. SHARE CAPITAL (continued)

[c] Stock options

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

| Range of Exercise Prices \$ | Options Outstanding | | | Options Exercisable | |
|--------------------------------|---------------------------------|---------------------------------------|---|---------------------------------|---------------------------------------|
| | Number Common Shares (000's) | Weighted Average Exercise Price \$ | Weighted Average Remaining Contractual Life (years) | Number Common Shares (000's) | Weighted Average Exercise Price \$ |
| 0.38-0.55 | 759 | 0.43 | 7.2 | 270 | 0.43 |
| 0.56-0.80 | 586 | 0.78 | 4.7 | 547 | 0.78 |
| 0.81-1.07 | 1,319 | 0.94 | 5.0 | 1,063 | 0.91 |
| 1.08-1.59 | 1,260 | 1.52 | 4.4 | 1,150 | 1.55 |
| 1.60-2.30 | 310 | 1.84 | 4.6 | 262 | 1.85 |
| 2.31-3.40 | 45 | 2.88 | 2.4 | 45 | 2.88 |
| 3.41-5.37 | 82 | 4.70 | 1.2 | 82 | 4.70 |
| 5.38-7.00 | 52 | 5.90 | 3.6 | 52 | 5.90 |
| | 4,413 | 1.20 | 5.0 | 3,471 | 1.32 |

[d] Stock-based Compensation Expense

The Company recorded stock-based compensation expense of \$76,000 and \$181,000 for the three and six months ended October 31, 2005 (\$155,000 and \$251,000 for the three and six months ended October 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 \$24,000 and \$72,000, respectively (2004 - \$55,000 and \$103,000, respectively) being allocated to research and development and \$52,000 and \$109,000, respectively (2004 - \$100,000 and \$148,000, respectively) being allocated to general and corporate for the three and six months ended October 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:

| | Three months ended October 31, | | Six months ended October 31, | |
|-----------------------------------|-----------------------------------|-------|---------------------------------|-------|
| | 2005 | 2004 | 2005 | 2004 |
| Annualized volatility | 76.1% | 81.1% | 76.2% | 81.8% |
| Risk-free interest rate | 3.5% | 3.6% | 3.5% | 3.5% |
| Expected life of options in years | 5.0 | 5.0 | 5.0 | 5.0 |
| Dividend yield | 0.0% | 0.0% | 0.0% | 0.0% |

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

 Three and six months ended October 31, 2005 (Unaudited—Canadian dollars)

3. SHARE CAPITAL (continued)
[d] Stock-based Compensation Expense

The weighted average fair value of stock options granted during the three months ended October 31, 2005 was \$0.30 (2004 – \$0.56) and was \$0.27 for the six months ended October 31, 2005 (2004 - \$0.76). 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.

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 October 31, | | Six months ended October 31, | |
|---|-----------------------------------|----------------------------------|---------------------------------|----------------------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | | <i>(restated- note 2[b])</i> | | <i>(restated- note 2[b])</i> |
| Loss for the period as reported | (3,314) | (992) | (6,086) | (4,225) |
| Compensation charge related to stock options granted to executive officers, directors and employees during the period May 1, 2002 to April 30, 2003 | (5) | (26) | (27) | (52) |
| Proforma loss for the period | (3,319) | (1,018) | (6,113) | (4,277) |
| Proforma basic and diluted loss per common share | (0.04) | (0.02) | (0.09) | (0.08) |

[e] Warrants

As at October 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;

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

 Three and six months ended October 31, 2005 (Unaudited—Canadian dollars)

3. SHARE CAPITAL (continued)
[e] Warrants

[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 \$1.00 to \$3.00), expiring between December 5, 2005 (note 6[b]) 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.

[f] Loss per common share

| (thousands, except per share amounts) | Three months ended October 31, | | Six months ended October 31, | |
|--|-----------------------------------|----------------------------------|---------------------------------|----------------------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | | <i>(restated- note 2[b])</i> | | <i>(restated- note 2[b])</i> |
| Numerator: | | | | |
| Loss for the period | (3,314) | (992) | (6,086) | (4,225) |
| Denominator: | | | | |
| Weighted average number of common shares outstanding including escrowed shares | 75,445 | 60,828 | 73,036 | 57,825 |
| Less: weighted average number of escrowed shares outstanding | (1,187) | (1,187) | (1,187) | (1,187) |
| Weighted average number of common shares outstanding | 74,258 | 59,641 | 71,849 | 56,638 |
| Basic and diluted loss per common share | (0.04) | (0.02) | (0.08) | (0.07) |

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended October 31, 2005 (Unaudited—Canadian dollars)

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 \$5,118,000 (April 30, 2005 - \$5,407,000) and \$11,000 (April 30, 2005 - \$16,000), respectively, which are located in the United States. During the six months ended October 31, 2005, 100% of total revenue was derived from one collaborator in the United States. During the three and six months ended October 31, 2004, 100% of total revenue was derived from one collaborator in the United States. At April 30, 2005, included in amounts receivable is \$58,000 due from this research collaborator.

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 and six months ended October 31, 2005, the Company incurred legal fees of approximately \$90,000 and \$218,000 respectively (\$156,000 and \$390,000, respectively for the three and six months ended October 31, 2004) 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 October 31, 2005, is approximately \$108,000 (April 30, 2005 - \$209,000) owed to this law firm.

6. SUBSEQUENT EVENTS

[a] On November 30, 2005, 1,186,772 common shares held in escrow (note 3[a][i]) were cancelled in accordance with the escrow terms reducing the issued and outstanding common shares to 74,258,656. There are no common shares held in escrow following this cancellation.

[b] On December 5, 2005, 987,500 of the warrants described in note 3[e][iii] with an exercise price per common share of \$1.50 expired unexercised.

[c] On December 7, 2005 the Company entered into a license agreement with Cutanea Life Sciences, Inc., to develop and commercialize MX-594AN for a number of dermatological indications. Pursuant to the license agreement, MIGENIX will receive a small upfront payment and up to approximately US\$21 million in development and commercialization milestone payments, as well as royalties on net sales. Under the terms of the agreement, Cutanea will have exclusive worldwide rights to develop and market MX-594AN and its analogues for dermatological indications. Cutanea will take full responsibility for funding all development activities including formulation, clinical, regulatory, and commercialization costs.