

# Micrologix

Biotech Inc

Third Quarter Report  
January 31, 2000

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## To Our Shareholders:

### Phase III Trials to be Initiated for MBI 226

During the quarter Micrologix successfully completed the Phase II clinical trial of MBI 226—a novel peptide antibiotic for the prevention of central venous catheter-related bloodstream infections—and announced plans to initiate Phase III in the third quarter of calendar 2000. These Phase III studies will form the basis for a New Drug Application to market MBI 226 in the US. The Phase II results confirm the data obtained in Phase I and further expands the database demonstrating that MBI 226 is safe and well tolerated by humans.

### Phase I Trials Initiated for MBI 594AN

In January 2000, Micrologix initiated Phase I clinical trials in the US to evaluate the safety and antimicrobial activity of MBI 594AN in the treatment of acne. Micrologix plans to complete the trials by mid-2000 and to initiate Phase II trials during the second half of the year.

The Phase I trial of MBI 594AN, a new drug product from Micrologix's Bactolysin series of compounds includes: (a) an open-label study to determine the safety and tolerability of MBI 594AN when applied topically to 20 acne patients; and (b) a randomized, double-blind, placebo-controlled trial to assess the antimicrobial effect of MBI 594AN when applied topically to 36 healthy volunteers who are colonized with *Propionibacterium acnes*. The results of this study will allow Micrologix to compare the activity of MBI 594AN to other drugs approved for the treatment of acne.

### Phase I Trial Initiated for MBI 853NL

In February 2000, Micrologix initiated a Phase I clinical trial in the US of MBI 853NL, a potential new treatment to prevent hospital-acquired infections caused by *Staphylococcus aureus* (*S. aureus*), including methicillin-resistant *S. aureus* (MRSA). Micrologix plans to complete the trial which will assess the safety and antimicrobial activity of MBI 853NL by mid-2000 and to initiate Phase II trials during the second half of the year.

The Phase I trial is a randomized, double-blind, placebo-controlled, dose-response study involving 30 healthy volunteers who are carriers of *S. aureus* in their nasal passages. Besides determining the safety and tolerability following intranasal application of MBI 853NL, the study is designed to investigate the effectiveness in eliminating and preventing re-growth of *S. aureus* in the nose.

### \$40 Million Financing Completed

Subsequent to the end of the quarter, we completed a \$40 million equity financing. A total of 4,000,000 special warrants were issued at a price of \$10.00 per special warrant. Each special warrant entitles the holder to acquire, at no additional cost, one common share of Micrologix. The proceeds from the financing will be used principally to fund the later stage clinical development of MBI 226 and the Company's planned Phase II clinical trials of MBI 594AN and MBI 853NL. The enhanced cash position

resulting from this financing will not only allow us to advance our clinical program but also provide us greater flexibility in securing strategic alliances with major pharmaceutical companies under terms of maximum benefit to Micrologix and its shareholders.

The underwriting syndicate for this financing was co-led by TD Securities Inc. and Yorkton Securities Inc. and included RBC Dominion Securities Inc., Goepel McDermid Inc. and Canaccord Capital Corporation. Micrologix has granted the underwriters warrants to purchase up to 400,000 common shares in two equal nine-month tranches, at \$12.00 per share in the first nine-month tranche and \$14.50 per share in the second nine-month tranche.

### Financial Highlights

Financial results for the nine months ended January 31, 2000 showed a net loss of \$5,683,963 or \$0.22 per common share, compared to a net loss of \$4,730,150 or \$0.21 per common share for the nine months ended January 31, 1999.

Total expenses were \$6,238,726 for the period compared with \$5,230,783 in 1999, an increase of 19%. This increase is due primarily to the commitment of resources to the Company's research and development programs including the Phase II clinical trial of MBI 226, preparations for and the initiation of Phase I clinical studies of MBI 594AN and preparations for the Phase I trial of MBI 853NL. Research and Development expenses increased 21% to \$4,506,475 for the period, compared to \$3,737,870 in 1999. General and Corporate expenses were \$1,732,251 for the period compared with \$1,492,913 in 1999, an increase of 16%. Interest revenues were \$554,763 an increase of 11% compared with 1999 due principally to higher rates of return on the investment of the Company's funds.

At January 31, 2000 the Company's cash and marketable securities were \$19,199,398 (before \$40 million financing completed in March 20, 2000) an increase of \$8,648,471 from April 30, 1999. This increase is comprised of \$13,766,144 proceeds (\$13,561,368 net) from the special unit financing completed in October 1999, \$300,000 received from the exercise of options, less \$4,925,315 used to fund operating activities and \$492,358 to fund capital expenditures. At January 31, 2000 there were 30,901,099 common shares outstanding.

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

Respectfully,

"Dany Hadary"

**Dany Hadary**  
President and CEO

## Corporate Profile

**Micrologix Biotech Inc. is a biopharmaceutical company developing novel drugs to treat severe and life-threatening diseases—particularly those caused by antibiotic-resistant microorganisms. Micrologix was granted fast track designation by the US Food and Drug Administration for MBI 226, an antimicrobial drug product for the prevention of central venous catheter-related bloodstream infections which the Company anticipates will be in Phase III clinical trials in Q3 2000. In Q1 2000, Micrologix initiated Phase I clinical trials of MBI 594AN for the treatment of acne and MBI 853NL for the prevention of hospital-acquired *S. aureus* infections. Micrologix's portfolio of drug candidates is based on improved analogs of the anti-infective peptide compounds found in the host-defense systems of most life forms.**

## Consolidated Balance Sheets

January 31 (Unaudited—Expressed in Canadian dollars)	2000	1999
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 11,337,465	\$ 1,037,788
Marketable securities <sup>(1)</sup>	7,861,933	11,186,162
Accounts receivable and other	57,728	78,242
Prepaid expenses	160,339	75,334
	19,417,465	12,377,526
<b>Capital assets</b>	2,356,741	2,815,278
	\$ 21,774,206	\$ 15,192,804

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

<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 944,863	\$ 942,624
Accrued financing costs	204,776	—
	1,149,639	942,624
Deferred rental inducement	7,761	34,220
	1,157,400	976,844

<b>Shareholders' Equity</b>		
<b>Share capital<sup>(2)</sup></b>		
30,901,099 Common shares	47,130,524	33,269,156
[1999—23,058,599]		
Shares to be issued	111,072	111,072
Deficit	(26,624,790)	(19,164,268)
	20,616,806	14,215,960
	\$ 21,774,206	\$ 15,192,804

(2) As at March 20, 2000 there are 31,366,017 common shares outstanding, special warrants to acquire 4,000,000 common shares (see "\$40 Million Financing Completed" in "To Our Shareholders"), warrants to acquire 3,665,250 common shares, after-market support options to acquire 512,832 common shares, after-market support warrants to acquire 400,000 common shares and options to acquire 1,186,500 common shares outstanding.

On behalf of the Board:

"William J. Foran"

"Dany Hadary"

William J. (Bud) Foran  
Director

Dany Hadary  
Director

## Consolidated Statements of Loss and Deficit

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

	2000	1999
<b>Revenue</b>		
Interest and sundry	\$ 246,878	\$ 149,302
<b>Expenses</b>		
Research and development	1,446,473	1,252,827
General and corporate	614,904	507,386
	2,061,377	1,760,213
Net loss	(1,814,499)	(1,610,911)
Deficit, beginning of period	(24,810,291)	(17,553,357)
Deficit, end of period	\$ (26,624,790)	\$ (19,164,268)
Net loss per common share <sup>(1)</sup>	\$ (0.07)	\$ (0.07)

Nine months ended January 31  
(Unaudited—Expressed in Canadian dollars)

	2000	1999
<b>Revenue</b>		
Interest and sundry	\$ 554,763	\$ 500,633
<b>Expenses</b>		
Research and development	4,506,475	3,737,870
General and corporate	1,732,251	1,492,913
	6,238,726	5,230,783
Net loss	(5,683,963)	(4,730,150)
Deficit, beginning of period	(20,940,827)	(14,434,118)
Deficit, end of period	\$ (26,624,790)	\$ (19,164,268)
Net loss per common share <sup>(1)</sup>	\$ (0.22)	\$ (0.21)

- (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.

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

Nine months ended January 31 (Unaudited—Expressed in Canadian dollars)	2000	1999
<b>Operating Activities</b>		
Net loss for the period	\$ (5,683,963)	\$ (4,730,150)
Items not affecting cash		
Amortization	631,704	566,368
Deferred rent inducement	(19,958)	(19,502)
Write down of capitalized patent costs	26,850	—
	(5,045,367)	(4,183,284)
Changes in non-cash working capital items		
Accounts receivable and other	52,158	(3,486)
Prepaid expenses and deposits	(30,287)	8,491
Accounts payable and accrued liabilities	98,181	28,590
Net cash used in operating activities	(4,925,315)	(4,149,689)
<b>Financing Activities</b>		
Issue of share capital for cash	300,000	—
Issue of special units	13,561,368	—
Changes in non-cash working capital relating to financing activities	204,776	—
Net cash provided by financing activities	14,066,144	—
<b>Investing Activities</b>		
Proceeds from marketable securities	1,138,792	5,081,570
Capital assets purchased	(309,191)	(719,634)
Changes in non-cash working capital relating to investing activities	(183,167)	(175,367)
Net cash provided by investing activities	646,434	4,186,569
Net increase in cash and cash equivalents	9,787,263	36,880
Cash and cash equivalents, beginning of period	1,550,202	1,000,908
Cash and cash equivalents, end of period	\$ 11,337,465	\$ 1,037,788

## 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.

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