



Micrologix Biotech Inc.

third quarter

January.31.01

To Our Shareholders:

This quarter was highlighted by the initiation of a US Phase II clinical trial for MBI 594AN for the treatment of acne. Additionally, enrollment of patients in a US FDA fast-tracked Phase III clinical trial of MBI 226 for the prevention of catheter-related bloodstream infections continued and a Phase Ib trial for MBI 853NL in the prevention of hospital-acquired Staphylococcus aureus infections was initiated. Micrologix's inclusion in the TSE 300 Composite Index was an important recognition of the progress the Company has made.

Phase III Trial MBI 226

In September 2000, MBI commenced a pivotal Phase III trial for the prevention of catheter-related bloodstream infections. There are currently 10 sites geographically dispersed throughout the United States participating in the study.

The objective of the trial 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 study, MBI 226 is being compared to the current standard-of-care. Results of the study will be used in support of a New Drug Application to market MBI 226 in the US.

Phase II Trial Initiated for MBI 594AN

In November, MBI initiated a US Phase II clinical trial of MBI 594AN for the treatment of acne. The trial is a randomized, double-blind, placebo-controlled, dose-ranging efficacy study. Patients are treated with either a placebo or one of two dose levels of MBI 594AN (treatments are daily over a period of six weeks). 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 calendar 2001.

Phase Ib Trial Initiated for MBI 853NL

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

Search For New President & CEO

On January 29, 2001 MBI's Board of Directors announced that it had accepted the resignation of Dany Hadary as President and CEO, and a director of the Company. Bud Foran, the Company's Chairman since 1995, assumed the responsibilities of President & CEO on an interim basis. Additionally, the Board announced it had formed a search committee to recruit a new President & CEO and on February 14, 2001, MBI engaged the services of a US based search firm with experience placing senior biotech executives in Canada. The search is progressing well with a number of candidates having been identified.

Ken Galbraith Joins Board

On February 5, 2001 MBI announced the appointment of Ken Galbraith to the Company's Board of Directors. Mr. Galbraith is President of Gigha Consulting Ltd and serves as an advisor to QLT Inc. He was part of QLT's management group for 12 years having progressed to the position of Executive Vice President and Chief Financial Officer. While there, he negotiated strategic alliances with major pharmaceutical companies such as Novartis AG, Baxter Healthcare Corp., American Home Products and Beaufour Ipsen Group. Mr. Galbraith brings a wealth of experience in biotechnology including business development, finance, information technology, technical operations and product manufacturing.

Financial Highlights

Financial results for the three months ended January 31, 2001 showed a loss of \$2.9 million (\$0.08 per common share), compared to a loss of \$1.8 million (\$0.07 per common share) for the same period in 2000. This brings the loss for the first nine months of fiscal 2001 to \$7.5 million (\$0.20 per common share), compared to \$5.7 million (\$0.22 per common share) for the corresponding period in fiscal 2000.

Interest income for the nine months increased to \$2.4 million compared with \$0.5 million in 2000, principally due to higher average cash balances. Total operating expenses for the nine months increased 59% to \$9.9 million compared with \$6.2 million in 2000.

The increase in operating expenses and loss is due to the advancement of 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 nine months, including the costs of the Company's clinical development programs, increased 62% to \$7.3 million compared with \$4.5 million in 2000. General and corporate expenses increased 52% to \$2.6 million compared with \$1.7 million in 2000.

At January 31, 2001, the Company's cash, cash equivalents and marketable securities were \$57.9 million, an increase of \$1.3 million from April 30, 2000. This increase consists of \$9.3 million received from the exercise of warrants, after-market support options and stock options, less \$6.8 million used for operating activities, \$1.0 million to fund capital expenditures and \$0.2 million to fund financing activities.

There are currently 39,349,059 (January 31, 2001—39,348,184) common shares issued and outstanding.

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

Respectfully,

“William J. Foran”

William J. (Bud) Foran
Chairman, President and CEO

March 16, 2001

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)

	January 31 2001	April 30 2000
ASSETS		
Current		
Cash and cash equivalents	\$ 30,429,738	\$ 45,014,873
Marketable securities ⁽¹⁾	27,499,248	11,594,959
Accounts receivable and other	177,549	69,820
Prepaid expenses	513,319	97,531
Total current assets	58,619,854	56,777,183
Capital assets	3,296,763	2,156,795
	\$ 61,916,617	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	\$ 2,669,320	\$ 2,050,438
Total current liabilities	\$ 2,669,320	\$ 2,050,438

SHAREHOLDERS' EQUITY

Share capital		
Common shares [Jan. 31— 39,348,184; Apr. 30—31,536,517]	\$ 95,685,944	\$ 49,013,357
Special warrants [Jan. 31—Nil; Apr. 30—4,000,000]	—	37,359,811
Shares to be issued	613,572	111,072
Deficit	(37,052,219)	(29,600,700)
Total shareholders' equity	\$ 59,247,297	\$ 56,883,540
	\$ 61,916,617	\$ 58,933,978

On behalf of the Board:

“William J. Foran”

“Colin R. Mallet”

William J. (Bud) Foran
Director

Colin R. Mallet
Director

Stock Listing

The Company's common shares trade on the Toronto Stock Exchange (included in TSE 300 composite index) 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 January 31
(Unaudited—Expressed in Canadian dollars)

	2001	2000
REVENUE		
Interest and sundry	\$ 792,234	\$ 246,878
OPERATING EXPENSES		
Research and development	2,501,240	1,446,473
General and corporate	1,178,060	614,904
	3,679,300	2,061,377
Loss	(2,887,066)	(1,814,499)
Deficit, beginning of period	(34,165,153)	(24,810,291)
Deficit, end of period	\$(37,052,219)	\$(26,624,790)
Loss per common share ⁽¹⁾	\$ (0.08)	\$ (0.07)
Weighted average number of common shares outstanding ⁽²⁾	39,345,934	30,901,099

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

	2001	2000
REVENUE		
Interest and sundry	\$ 2,455,481	\$ 554,763
OPERATING EXPENSES		
Research and development	7,281,374	4,506,475
General and corporate	2,625,626	1,732,251
	9,907,000	6,238,726
Loss	(7,451,519)	(5,683,963)
Deficit, beginning of period	(29,600,700)	(20,940,827)
Deficit, end of period	\$(37,052,219)	\$(26,624,790)
Loss per common share ⁽¹⁾	\$ (0.20)	\$ (0.22)
Weighted average number of common shares outstanding ⁽²⁾	38,126,295	25,772,766

- (1) Loss per share is based on the weighted average number of common shares outstanding during the period including shares held in escrow. Since the company's after-market support options are anti-dilutive, fully diluted loss per common share has not been presented.
- (2) As at March 16, 2001 there are 39,349,059 (Jan. 31, 2001—39,348,184) common shares outstanding, after-market support options to acquire 200,000 common shares, options to acquire 1,608,075 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

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

	2001	2000
OPERATING ACTIVITIES		
Loss for the period	\$ (7,451,519)	\$ (5,683,963)
Items not affecting cash		
Amortization	389,380	631,704
Deferred rental inducement	—	(19,958)
Write-down of capitalized patent costs	—	26,850
	<u>\$ (7,062,139)</u>	<u>\$ (5,045,367)</u>
Changes in non-cash working capital items relating to operating activities		
Accounts receivable and other	(107,729)	52,158
Prepaid expenses and deposits	(415,788)	(30,287)
Accounts payable and accrued liabilities	797,490	98,181
	<u>\$ (6,788,166)</u>	<u>\$ (4,925,315)</u>
FINANCING ACTIVITIES		
Issuance of common shares for cash	\$ 9,340,959	\$ 300,000
Issue of special warrants/units for cash	(28,184)	13,561,368
Changes in non-cash working capital items relating to financing activities	(178,900)	204,776
	<u>\$ 9,133,875</u>	<u>\$ 14,066,144</u>
INVESTING ACTIVITIES		
Funds from (purchase of) marketable securities	\$(15,904,289)	\$ 1,138,792
Capital asset expenditures	(1,026,848)	(309,191)
Changes in non-cash working capital items relating to investing activities	293	(183,167)
	<u>\$ (16,930,844)</u>	<u>\$ 646,434</u>
Cash flows provided by (used in) investing activities	<u>\$ (16,930,844)</u>	<u>\$ 646,434</u>
Increase (decrease) in cash and cash equivalents	\$(14,585,135)	\$ 9,787,263
Cash and cash equivalents, beginning of period	45,014,873	1,550,202
Cash and cash equivalents, end of period	<u>\$ 30,429,738</u>	<u>\$ 11,337,465</u>

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