



**THIRD QUARTER REPORT
JANUARY 31, 2002**



M I C R O L O G I X

TO OUR SHAREHOLDERS:

The past quarter has been a very busy time for the entire Micrologix team. We have made significant progress on many fronts, including:

- Completed the Phase II study in acne with solid results.
- Accelerated enrollment in the Phase III trial of MBI 226.
- Added significant experience and expertise to our management team.
- Established our strategic direction.
- Defined and made progress towards our critical success factors for the next 12-24 months.
- Focused our internal R&D efforts to expand our pipeline.

MBI 226 PHASE III TRIAL UPDATE

Enrollment in our Phase III trial of MBI 226 is at approximately 1040 patients as of this writing. The steps we've undertaken over the past several months to address the initially lower than expected enrollment rates have most definitely paid off. There are currently 17 sites enrolling patients, with enrollment anticipated to be completed over the next several weeks when it is estimated total enrollment will have reached between 1100 and 1200 patients. Results from the trial are therefore anticipated to be available before the end of calendar 2002.

MBI 226 MARKET RESEARCH FINDINGS

A market research study was completed for MBI 226 in the prevention of central venous catheter-related bloodstream infections. The study was conducted by a major, US-based full-service market research firm focused on the pharmaceutical industry. For this study, they conducted a total of 120 interviews with ICU department heads, physicians who place catheters, infectious disease physicians, and Pharmacy & Therapeutic Committee members. The results of this research indicated a large U.S. market opportunity for MBI 226. Some of the specific findings of the study were:

- There is a need for more efficacious alternatives due to overall poor performance of existing products.
- An estimated U.S. market size of US\$500 million.
- The study suggested the optimal pricing of the product would be approximately US\$100 per average treatment course.
- The use of antimicrobial bonded catheters does not preclude the use of products such as MBI 226. Of those who reported using bonded catheters, over 90% use another antimicrobial agent as well.
- Assumptions made during the design of our Phase III study regarding the length of time a catheter remains in place and the number of dressing changes in that time period were correct and appropriate.

MBI 594AN UPDATE

Regarding MBI 594AN, we are managing the product formulation and manufacturing scenarios necessary to ensure appropriate cost of goods and margins. All we can say at this point is that we have very positive indications from third parties that we can meet the costs necessary for commercialization. We look forward to reporting progress to you in this area in the near future.

BUILDING A SOLID TEAM & ENVIRONMENT

We have already begun to execute on some of the components of our Strategic Plan. For example, as we have stated previously, one of our first efforts has been to make sure we have the right team in place. This means the right people, in the right positions, in the right environment. We have started by bringing in three senior people in the areas of Product Development & Regulatory Affairs, R&D and Corporate Development. These three people have significant industry experience, having been with companies such as Bristol Myers Squibb, American Home Products, Bausch & Lomb, and Roche. We are actively recruiting in a few other areas to augment our team for maximum sustainable performance and results.

In building the right environment, we have begun to establish a corporate culture at Micrologix that includes a disciplined, empowered, results-oriented philosophy. There is nothing more important to success than building a solid team and then creating a culture that fosters productivity, accountability and ownership. This is what produces outstanding results.

As you can see, we are very, very busy. Over the past five months, we have established our strategic direction, defined our critical success factors, completed the Phase II study in acne, accelerated enrollment in the Phase III CVC trial, added significant expertise to our management team, and focused our internal efforts to maximize value. With this, and our efforts to expand our pipeline through external sources, we are very confident in our ability to take Micrologix to the next level.

We thank you for your support.

Respectfully,



JAMES M. DEMESA, MD
President and CEO, Director

March 19, 2002

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Third Quarter ended January 31, 2002

The following should be read in conjunction with the audited consolidated financial statements and management's discussion & analysis of financial condition and results of operations for the year ended April 30, 2001; and the interim consolidated financial statements for the period ended January 31, 2002, including the related notes therein.

OVERVIEW

MBI 226—Prevention of Central Venous Catheter ("CVC") Related Bloodstream Infections

As of January 31, 2002 we had enrolled approximately 930 patients in the Phase III trial of MBI 226. This compares with approximately 630 patients that were enrolled between October 2000 and October 2001. The significant increase in the enrollment rate during this quarter is the result of having increased the number of sites from the originally planned 12 sites to 25 sites. There are currently 17 sites enrolling patients, with enrollment anticipated to be completed over the next several weeks when it is estimated total enrollment will have reached between 1100 and 1200 patients. Results from the trial are therefore anticipated before the end of calendar 2002.

Our intention is to file a New Drug Application ("NDA") to obtain marketing approval for MBI 226 in the U.S. following completion of the current Phase III trial. The filing of the NDA is dependent upon a number of factors, including, but not limited to: positive results from the Phase III trial; successful completion of the validation and scale up of manufacturing operations; and discussions with the FDA preceding the NDA submission.

A market research study was completed for MBI 226 in preventing CVC-related bloodstream infections. The results of this research indicated a large U.S. market opportunity (estimated at US\$500 million) and suggested that the optimal pricing would be approximately US\$100 per average treatment course.

MBI 594AN—Treatment of Acne

Early in the quarter we announced results from the Phase II trial commenced in November 2000. Based on these results and the need to determine proper dosing, the next clinical trial for MBI 594AN is anticipated to be an expanded Phase II study. In combination with protocol design considerations and timing of this study we are managing the product formulation and manufacturing scenarios necessary to ensure appropriate cost of goods and margins. Some of these scenarios may require that we do additional studies before commencing a subsequent trial.

Building Our Product Pipeline

Since an important value driver in the biotech industry is the strength of a company's pipeline, we continue to evaluate opportunities to build and expand our portfolio of drug candidates. An important part of this is through internal growth, since many new product candidates can be derived from the constant search for new, more effective peptides. However, our peptide technology is only one platform for growth. It is also important that we identify and evaluate external opportunities to build and expand our portfolio. As part of our strategy, therefore, we will continue to look at complementary and/or supplementary technologies and compounds that will expand our pipeline and broaden our spectrum of indications.

RESULTS OF OPERATIONS

The net loss for the three months ended January 31, 2002 ("Q3/02"), is \$4.9 million (\$0.13 per share) compared to a net loss of \$2.9 million (\$0.08 per share) for the same period in 2001 ("Q3/01"). The year to date nine month ("YTD Fiscal 2002") net loss is \$14.1 million (\$0.37 per share) compared to \$7.5 million (\$0.20 per share) for the same period in 2001 ("YTD Fiscal 2001"). The increases in net loss result principally from our clinical development programs (see "Research & Development Expenses").

Third Quarter ended January 31, 2002

Micrologix has been unprofitable since its formation in January 1993 and has incurred a cumulative deficit of \$55.4 million to January 31, 2002. Losses are expected to continue for the next several years as we pursue the research, development and commercialization of our drug candidates and technologies.

Revenues

Interest income generated from investments of cash resources for Q3/02 was \$0.5 million (\$0.8 million in Q3/01) bringing YTD Fiscal 2002 interest income to \$1.8 million (\$2.5 million for same period in 2001). These decreases are the result of lower average cash balances available for investment (see "Liquidity and Capital Resources") and declining interest rates.

Micrologix currently has no revenues from product sales or licensing of products and/or technology to third parties. We anticipate that future revenues will consist primarily of licensing fees, research and development payments, milestone payments and royalties from licensing and collaborative agreements with pharmaceutical companies.

Research and Development Expenses

Research and development expenses increased in Q3/02 to \$4.5 million (\$2.5 million in Q3/01) bringing YTD Fiscal 2002 research and development expenses to \$13.0 million (\$7.3 million YTD Fiscal 2001). The increase in research and development expenses results principally from our clinical development programs, including the MBI 226 Phase III clinical trial initiated in September 2000. Clinical development program costs were \$3.7 million in Q3/02 (\$1.7 million in Q3/01) bringing YTD Fiscal 2002 clinical development program costs to \$10.0 million (\$4.7 million in YTD Fiscal 2001).

The level of research and development expenses for the remainder of Fiscal 2002 will be impacted principally by enrollment in the MBI 226 Phase III trial and activities related to the MBI 594AN program.

General and Corporate Expenses

General and corporate expenses for Q3/02 were \$0.9 million (\$1.2 million in Q3/01) bringing YTD Fiscal 2002 general and corporate expenses to \$2.9 million (\$2.6 million YTD Fiscal 2001).

CAPITAL EXPENDITURES

Expenditures in Q3/02 for capital and intangible assets were \$0.2 million bringing total for YTD Fiscal 2002 to \$0.6 million.

LIQUIDITY AND CAPITAL RESOURCES

At January 31, 2002, we had \$44.2 million (April 30, 2001: \$55.8 million) in cash, cash equivalents and short-term investments. At January 31, 2002 \$42.1 million of these funds were invested in high-grade liquid short-term investments with interest rates ranging from 2% to 6.5% and maturities ranging from February 2002 to June 2004. The \$11.6 million decrease in cash, cash equivalents and short-term investments since April 30, 2001 consists primarily of the \$14.1 million net loss for YTD Fiscal 2002, less the \$2.5 million increase in accounts payable and accrued liabilities related to the MBI 226 Phase III clinical program.

We believe that our current funds on hand, together with expected interest income, should be sufficient to finance our operations and capital needs for approximately the next two years. In the future, we will need to raise additional funds in support of our operations. Our funding needs will vary, however, depending upon a number of factors including the progress of research and development programs, the costs associated with clinical studies and the regulatory process, collaborative and licensing arrangements with third parties, opportunities to in-license and/or acquire complementary technologies/product candidates, the possibility of unanticipated costs and expenses, and technological and market developments.

CONSOLIDATED BALANCE SHEETS

	January 31, 2002	April 30, 2001
(Unaudited—in thousands of Canadian dollars)	\$	\$
ASSETS		
Current		
Cash and cash equivalents	2,136	9,953
Short-term investments	42,113	45,839
Amounts receivable	77	148
Prepaid expenses and deposits	504	258
Total current assets	44,830	56,198
Capital assets	1,493	1,599
Intangible assets	1,823	1,752
	48,146	59,549
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	7,043	4,523
Total current liabilities	7,043	4,523
Contingencies (note 3)		
Shareholders' equity		
Share capital (note 2)	96,358	95,722
Shares to be issued	111	613
Deficit	(55,366)	(41,309)
Total shareholders' equity	41,103	55,026
	48,146	59,549

See accompanying notes

On behalf of the Board:



COLIN R. MALLET
Director



JAMES M. DEMESA
Director

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	Three months ended January 31		Nine months ended January 31	
(Unaudited—in thousands of Canadian dollars except per share amounts)	2002	2001	2002	2001
	\$	\$	\$	\$
REVENUE				
Interest income	495	792	1,758	2,455
EXPENSES				
Research and development	4,490	2,501	12,960	7,281
General and corporate	872	1,178	2,855	2,626
	5,362	3,679	15,815	9,907
Loss for the period	(4,867)	(2,887)	(14,057)	(7,452)
Deficit, beginning of period	(50,499)	(34,165)	(41,309)	(29,600)
Deficit, end of period	(55,366)	(37,052)	(55,366)	(37,052)
Loss per common share				
(note 2(c))	(0.13)	(0.08)	(0.37)	(0.20)
Weighted average number of common shares outstanding				
(in thousands) (note 2(c))	38,287	38,159	38,254	36,940

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended January 31		Nine months ended January 31	
	2002	2001	2002	2001
(Unaudited—in thousands of Canadian dollars)	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss for the period	(4,867)	(2,887)	(14,057)	(7,452)
Items not affecting cash:				
Amortization	176	136	506	389
Write-down of capitalized patent costs	—	—	40	—
Loss on disposal of capital assets	—	—	47	—
Changes in non-cash working capital items relating to operating activities:				
Accrued interest on short-term investments	(20)	(3)	(240)	(428)
Amounts receivable	(13)	(9)	71	(108)
Prepaid expenses and deposits	(25)	(154)	(246)	(416)
Accounts payable and accrued liabilities	1,212	150	2,618	797
Cash flows used in operating activities	(3,537)	(2,767)	(11,261)	(7,218)
FINANCING ACTIVITIES				
Issuance of common shares, net of issue costs	—	13	49	9,341
Issuance of special warrants, net of issue costs	—	(6)	(19)	(207)
Cash flows provided by financing activities	—	7	30	9,134
INVESTING ACTIVITIES				
Funds from (purchase of) short-term investments	4,945	7,961	3,966	(15,476)
Purchase of capital assets	(61)	(108)	(302)	(437)
Intangible asset expenditures	(126)	(39)	(250)	(588)
Cash flows provided by (used in) investing activities	4,758	7,814	3,414	(16,501)
Increase (decrease) in cash and cash equivalents	1,221	5,054	(7,817)	(14,585)
Cash and cash equivalents, beginning of period	915	25,376	9,953	45,015
Cash and cash equivalents, end of period	2,136	30,430	2,136	30,430
Supplemental cash flow information				
Increase in intangible assets for common shares to be issued	—	—	85	503

See accompanying notes

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Nine months ended January 31, 2002 (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 and on a basis consistent with the Company's most recent annual audited financial statements for the year ended April 30, 2001. These interim 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. SHARE CAPITAL

[a] Issued and outstanding

	Number of Common Shares (thousands)	Amount \$ (thousands)
Balance, April 30, 2001	39,359	95,722
Issued for cash pursuant to:		
Exercise of stock options	15	49
Issued pursuant to license and development agreement	100	587
Balance, January 31, 2002	39,474	96,358

[b] Stock options

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 (thousands)	Weighted Average Exercise Price \$
Balance, April 30, 2001	1,702	3.97
Options granted	1,149	1.63
Options exercised	(15)	3.30
Options forfeited/expired	(948)	(3.54)
Balance, January 31, 2002	1,888	2.77

The stock options expire at various dates between October 25, 2002 and September 6, 2010.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS, CONTINUED

Nine months ended January 31, 2002 (Unaudited—Canadian dollars)

[c] Loss per common share

Effective February 1, 2001, the Company retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants Section 3500 ("Earnings per Share") with respect to the calculation of loss per common share. This change had no impact on the loss per common share previously reported for the period ended January 31, 2001.

Loss per common share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period, excluding shares held in escrow or other contingently issuable common shares. Since the Company's stock options, common shares to be issued, escrow shares, underwriter options and warrants are anti-dilutive, fully diluted loss per common share has not been presented.

3. CONTINGENCIES

A former executive commenced an action against the Company on June 25, 2001, alleging that the Company has certain obligations with respect to stock options that were granted to the executive, including approximately 1.6 million stock options that have been recorded as forfeited/expired by the Company. The former executive is claiming unspecified damages, costs and interest. The litigation against the Company is in the very early stages and the Company cannot predict its outcome or any possible financial losses that it may incur as a result of the litigation. The Company does not expect any losses, if any, to have a material effect on the Company's operating results. Management believes the litigation against the Company is without merit and intends to defend the action vigorously.

4. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation adopted in the current period.

MICROLOGIX BIOTECH INC. is a biotechnology company engaged in the research, development and commercialization of innovative drugs to treat or prevent infectious diseases. The Company's current portfolio of anti-infective drug candidates is based on improved analogs of naturally occurring cationic peptides found in the host defense systems of most life forms. Micrologix currently has two drugs in clinical development: MBI 226 for preventing catheter-related bloodstream infections (Phase III) and MBI 594AN for treating acne (Phase II).

Forward-looking Statements

This Quarterly Report, including the discussion "To Our Shareholders" and "Management's Discussion & Analysis of Financial Condition and Results of Operations" 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 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: 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. These and other factors are described in detail in the Company's Annual Information Form and Annual Report on Form 20-F, forthcoming Quarterly Reports 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 Micrologix is not obligated to update such information to reflect later events or developments.



MICROLOGIX

MICROLOGIX BIOTECH INC.

3650 Wesbrook Mall
Vancouver, British Columbia
Canada V6S 2L2

Tel: (604) 221-9666

Fax: (604) 221-9688

Toll Free: 1-800-665-1968

Website: www.mbiotech.com