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THIRD QUARTER REPORT

January 31, 2009



The following is a discussion of the financial condition and results of operations of MIGENIX Inc. and its subsidiaries ("MIGENIX" or the "Company"). This discussion should be read in conjunction with the Company's April 30, 2008 audited consolidated financial statements, including the related notes included therein; Management's Discussion & Analysis of Financial Condition and Results of Operations for the year ended April 30, 2008; and the interim unaudited consolidated financial statements for the three and nine months ended January 31, 2009, including the related notes therein. All amounts herein unless indicated otherwise, are expressed in Canadian dollars. The discussion and analysis contained in this Management's Discussion & Analysis is as of March 13, 2009. Additional information on the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

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, and forward-looking information within the meaning of applicable securities laws in Canada (collectively referred to as "forward-looking statements"). Statements, other than statements of historical fact, are forward-looking statements and include, without limitation, statements regarding our strategy, future operations, timing and completion of clinical trials, prospects, plans and objectives of management. The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking statements, which include underlying assumptions, although not all forward-looking statements contain these identifying words. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other matters contemplated by the forward-looking statements will not occur.

Although our management believes that the expectations represented by such forward-looking statements are reasonable, there is significant risk that the forward-looking statements may not be achieved, and the underlying assumptions thereto will not prove to be accurate. Forward-looking statements in this MD&A include, but are not limited to, statements concerning our expectations for: reviewing and assessing the next steps in the Omigard™ program; Cutanea Life Sciences' plans to advance omiganan for the treatment of rosacea into Phase III clinical development; completing the agreed celgosivir preclinical work and delivery of a final report of the results to United Therapeutics; an agreement containing milestone payments up to US\$18 million and single digit royalties upon future celgosivir sales if United Therapeutics exercises its option to license the rights for celgosivir; United Therapeutic's option to exercise running into the third quarter of calendar 2009; MX-2401 being our next clinical program; Spring Bank Pharmaceuticals advancing SB9000 into clinical development in the first quarter of calendar 2010; receiving up to US\$ 21 million and US\$3.5 million in payments pursuant to our agreements with Cutanea Life Sciences and Spring Bank Pharmaceuticals, respectively; successfully completing amendment of the ITO agreement for the MX-2401 program; our estimate of US\$nil in milestone payments pursuant to our preferred shares in the next 12 months; working towards achieving an annual burn rate of approximately \$2 million; and the Company's financial resources being sufficient to fund operations into approximately the first quarter of calendar 2010.

With respect to the forward-looking statements contained in this MD&A, we have made numerous assumptions regarding, among other things: our ability to assess the next steps in the Omigard™ program; Cutanea's ability to manage, fund and advance omiganan for dermatological applications into Phase III and submit a NDA; our ability to successfully complete the agreed upon celgosivir preclinical work and deliver the final report of results to United Therapeutics within the planned timeframe; our ability to retain the personnel required to complete the celgosivir preclinical work or train/contract replacement personnel if required; Spring Bank's ability to manage, fund and advance SB9000 into clinical development; our ability to manage licensing opportunities; our ability to successfully complete discussions and/or amendments to the MX-2401 ITO agreement; and future expense levels being within our current expectations.

Actual results or events could differ materially from the plans, intentions and expectations expressed or implied in any forward-looking statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties and other factors including: dependence on corporate collaborations; potential delays; dependence on key personnel; 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 completed, will not establish the safety or efficacy of our products; 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; 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 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, except as required by applicable law.



BUSINESS OVERVIEW

We are in the business of researching, developing and commercializing drugs for the treatment of infectious diseases. We do not currently have any products approved for sale. Our drug development programs are summarized in the following table:

ANTI-INFECTIVE DRUG DEVELOPMENT PROGRAMS

Program Name and Compound Class	Disease Area	Stage of Development
Omigagan 1% gel (cationic peptide). Also known as Omigard™, CPI-226 and MX-226.	Prevention of catheter-related infections (topical)	Phase III; two Phase III studies completed. In March 2009 our partner Cadence Pharmaceuticals Inc. ("Cadence") announced the top-line results from the second Phase III clinical trial. The results did not meet the primary endpoint of the study. Cadence has made a strategic decision to discontinue further development of Omigard™. We will be reviewing and assessing the next steps for the Omigard™ program as further information becomes available. The North American and European development and commercialization rights for the topical treatment or prevention of device-related, burn-related or surgery-related infections are out-licensed to Cadence.
Omiganan for dermatological diseases (cationic peptide). Also known as CLS001.	Treatment of rosacea and other dermatological diseases (topical)	Phase II; a Phase II rosacea study was completed in the United States (a precursor product, MX-594AN, completed two Phase II studies in the United States for the treatment of acne). The global development and commercialization rights for omiganan for use in dermatological diseases are licensed to Cutanea Life Sciences Inc. ("Cutanea"). Cutanea has completed an end of Phase II meeting with the US Food and Drug Administration ("FDA") and is currently in discussions with potential co-development partners to provide financing for its development plans. Upon successful completion of various milestones in this program (starting with Phase III enrollment), we can receive up to US\$21 million in development and commercialization milestone payments and a single-digit royalty on net sales.
Celgosivir (alpha-glucosidase I inhibitor). Also known as MX-3253.	Treatment of viral infections (oral)	Phase II; completed three Phase II studies for the treatment of chronic hepatitis C virus (HCV) infections. In January 2009 we entered into an exclusive option agreement (the "Option Agreement") with United Therapeutics Corporation ("UTC"). Pursuant to the Option Agreement, we are conducting preclinical work funded by UTC to further characterize and investigate the utility of celgosivir in the treatment of viral infections. UTC is also funding certain other costs of the celgosivir program. Upon completion of the specified preclinical work and delivery of a final report of the results by MIGENIX, UTC may, in its sole discretion, exercise an option to license the rights to celgosivir for use in the prevention and treatment of viral diseases. If the option is exercised by UTC, MIGENIX could receive up to US\$18 million in milestone payments, as well as single digit royalties paid upon future sales of celgosivir. In the event that UTC exercises its option under the option agreement, UTC has agreed to assume all future costs related to the development and commercialization of celgosivir. MIGENIX anticipates that UTC's option will run into the third quarter of calendar 2009.
MX-2401 (lipopeptide).	Treatment of serious Gram-positive bacterial infections (intravenous)	Preclinical; MX-2401 is expected to be our next clinical candidate. The features of MX-2401 indicate a highly competitive intravenous agent for treating serious Gram-positive infections (including the highly publicized resistant bacteria, VRE and MRSA). Currently, activities in this program are focused on business development and scientific publication initiatives. At this time, we are seeking strategic options for advancing development of MX-2401 and are unable to provide guidance as to timelines for advancing this program to clinical trials. We have an agreement under the former Technology Partnerships Canada ("TPC") program which has provided funding for some of the costs in the MX-2401 program.



ANTI-INFECTIVE DRUG DEVELOPMENT PROGRAMS (continued)

Program Name and Compound Class	Disease Area	Stage of Development
SB 9000 (dinucleotide). Also known as MX-1313.	Treatment of hepatitis B virus (HBV) infections	Preclinical; out-licensed to Spring Bank Pharmaceuticals Inc. ("Spring Bank"). Spring Bank plans to advance SB9000 into clinical development in the first quarter of calendar 2010. We have a 1,000,000 convertible preferred share and 50,000 common share ownership position in Spring Bank. Upon successful completion of various milestones in this program, we can receive up to US\$3.5 million in milestone payments during development of SB9000 and royalties upon commercialization.
HCVnn (non-nucleoside polymerase inhibitor small molecule).	Treatment of chronic hepatitis C virus infections	Preclinical; lead series of compounds identified. This program is currently inactive and development work has stopped.

DEVELOPMENT PROGRAMS

Omiganan 1% gel (Omigard™): Prevention of Catheter-Related Infections

In the first Phase III study (completed July 2003 in the United States) with over 1,400 patients, omiganan 1% gel demonstrated a statistically significant 49% reduction in local catheter site infections ("LCSI") (p=0.004) (see enrollment target and re-analysis discussion below), and a statistically significant 21% reduction in catheter colonization (p=0.002), both secondary endpoints in the study. There was also a statistically significant 51% reduction in catheter replacements (p=0.002). Statistical significance was not reached in the study for the primary endpoint of catheter-related bloodstream infections.

In June 2005, Cadence (NASDAQ: CADX), our partner for the North American and European development and commercialization of omiganan 1% gel (Omigard™), and the FDA reached a Special Protocol Assessment ("SPA") agreement for a second, confirmatory Phase III clinical trial of omiganan 1% gel which, if successful, would support US marketing approval for the prevention of LCSIs, a recognized precursor to catheter-related bloodstream infections. The omiganan 1% gel development program also holds fast track status from the FDA.

Cadence initiated United States enrollment in the second, confirmatory multi-national pivotal Phase III study of omiganan 1% gel in August 2005 and European enrollment in the study was initiated in January 2006. This confirmatory Phase III trial was a randomized, evaluation committee-blinded study to assess the effectiveness of omiganan 1% gel vs. 10% povidone-iodine for the prevention of catheter-related infections in approximately 1,850 hospitalized patients (see enrollment target and re-analysis discussion below) with central venous catheters ("CVC"). This trial is known as the Central Line Infection Reduction Study, or "CLIRS" trial. The primary efficacy endpoint of the CLIRS trial was to evaluate whether omiganan 1% gel is superior to 10% povidone-iodine in reducing the incidence of LCSIs in patients requiring central venous catheterization. The trial was designed to have 80% power to detect significance at the p=0.05 level. Secondary objectives of the CLIRS study included assessing the effectiveness of omiganan 1% gel in preventing catheter colonization, catheter-related bloodstream infections and all-cause bloodstream infections in patients requiring central venous catheterization, as well as gathering additional safety data on omiganan 1% gel.

On April 30, 2007, Cadence announced its intent to discuss with the FDA a proposal to increase the number of patients to be enrolled in the CLIRS trial (the original target enrollment was 1,250 patients). The increase in the number of patients in the CLIRS trial was intended to maintain the statistical power of the trial and was prompted by Cadence's planned re-analysis of data from the first Phase III clinical trial of this product candidate. This re-analysis was performed as part of the standard procedure for analyzing data to prepare a final report of the study for a potential NDA or other applications for marketing authorization. Since LCSI was a secondary endpoint in the first Phase III trial and was the primary endpoint of the confirmatory Phase III study, the re-analysis required the use of a slightly different, stricter definition of LCSI, and showed that LCSIs were observed in 6.1% of subjects treated with the povidone-iodine control compared to 3.5% in the subjects treated with omiganan 1% gel. This represents a 41.9% decrease in LCSIs, statistically significant at p=0.032 (the previous analysis as a secondary endpoint indicated an approximately 49% reduction), as well as a reduction in the overall LCSI rate. The catheter colonization and catheter-related bloodstream infection results from the initial Phase III study were not impacted by the re-analysis.



Because the target sample size for the CLIRS trial was based, in part, upon the LCSI rate and treatment effect, Cadence believed that adding patients was prudent in order to maintain the statistical power of the study. Additionally, improvements to hospital infection prevention practices since the CLIRS trial began may reduce catheter-related infection rates, further supporting an increase in the number of patients. Cadence was required to obtain the FDA's concurrence with the increase in enrollment.

On July 30, 2007, Cadence announced that the FDA had agreed with their plan to increase the number of patients to be enrolled in CLIRS trial from 1,250 to 1,850. On May 6, 2008, Cadence announced final enrollment completion and maintained its guidance of having results of the study in the second half of calendar 2008. This guidance was revised by Cadence on August 7, 2008 to reflect their expectation of being able to report the results in the fourth quarter of 2008 and, if the results were positive, to submit an NDA for Omigard™ in the second quarter of 2009.

On September 15, 2008, Cadence announced that it was engaged in discussions with the FDA regarding the statistical analysis plan for the CLIRS trial and revised their guidance for reporting the results of the CLIRS trial from the fourth quarter of calendar 2008 to the first quarter of calendar 2009. The protocol for the CLIRS trial required that blinded data from patients treated in the study be reviewed by independent experts to determine the presence or absence of catheter-related infections. In recognition of the complexity of the patient data and the importance of a robust outcome assessment, Cadence proposed to the FDA a review of the blinded data by an additional group of independent experts, using the same protocol definitions and adjudication criteria as were provided to the initial group. The FDA agreed with Cadence's proposal and the blinded data assessments were completed with Cadence reporting top-line results of the study on March 12, 2009. The following is a summary of the top-line results as reported by Cadence:

- A total of 1,859 patients were enrolled at 58 clinical trial sites in the United States and Europe.
- The primary efficacy endpoint of CLIRS was the incidence of LCSI prior to study discharge among survivors in the modified intent to treat subset for Omigard™ compared to 10% povidone-iodine. A determination of LCSI was made by blinded evaluation committee adjudication. The incidence of LCSI was 6.3% for patients treated with Omigard™ compared to 8.6% for patients treated with povidone-iodine ($p=0.08$).
- There was evidence of antimicrobial efficacy observed in two of the secondary endpoints. Microbiologically-confirmed LCSI ("mcLCSI"), the subset of patients with LCSI plus a positive culture from the skin site or the catheter was 3.9% for patients treated with Omigard™ compared to 7.6% for patients treated with povidone-iodine ($p<0.01$). For the endpoint of catheter colonization ("CC"), which was a positive culture from the catheter, the incidence was 43.7% for patients treated with Omigard™ compared to 55.1% for patients treated with povidone-iodine ($p<0.01$).
- For the secondary endpoint of catheter-related bloodstream infections ("CRBSI"), which was defined as matched cultures from both the catheter and the blood, the incidence was 19.5% for patients treated with Omigard™ compared to 23% for patients treated with povidone-iodine ($p=0.08$).
- Safety data from CLIRS demonstrated that Omigard™ was generally safe and well tolerated. There were no statistically significant differences between Omigard™ and povidone-iodine across all key safety endpoints.

Upon evaluation of the results of the CLIRS trial and although a positive trend was observed, Cadence made a strategic decision to discontinue further development of Omigard™ and will therefore not proceed with submission of a New Drug Application ("NDA") to the FDA or a Marketing Authorization Application ("MAA") for Omigard™ to European regulatory authorities. Under the terms of the Collaboration and License agreement with Cadence, up to US\$27 million in development and commercialization milestone payments are payable to us upon the achievement of specified milestones, starting with the US regulatory submission process and a double-digit royalty on net sales (see "LIQUIDITY AND CAPITAL RESOURCES" for May 2006 financing involving these royalties). With Cadence's decision to discontinue development of Omigard™, these potential revenues may not be realized and the Collaboration and License agreement with Cadence may be terminated. In addition, Cadence is currently responsible for funding the clinical, regulatory, and commercialization costs related to omiganan 1% gel and is responsible for manufacturing. Cadence's commercialization focus was on the United States market and Cadence was intending to establish a strategic partnership(s) for the commercialization of Omigard™ for the rights it has outside of the United States. MIGENIX holds the rest of world ("ROW" territories outside North America and Europe) rights and we were working to out-license these rights either in combination with Cadence's rights outside the US to prospective global partners or to potential regional partners. We will be reviewing and assessing the next steps for the Omigard™ program as further information becomes available.



Omiganan for Dermatological Diseases

A license agreement for the development and commercialization of omiganan for use in dermatological diseases was executed on December 7, 2005, with Cutanea, a private, dermatological pharmaceutical company.

Pursuant to the license agreement, MIGENIX can receive up to approximately US\$21 million in development and commercialization milestone payments, as well as single digit royalties on net sales (see "LIQUIDITY AND CAPITAL RESOURCES" for May 2006 financing involving these royalties). Cutanea received exclusive worldwide rights to develop and market omiganan and its analogues for dermatological indications. Cutanea is responsible for funding all development activities including formulation, clinical, regulatory, and commercialization costs. Prior to licensing omiganan for dermatological diseases to Cutanea, MIGENIX had completed three Phase I and two Phase II clinical studies exploring the use of omiganan in the treatment of acne.

In January 2007, Cutanea initiated a Phase II rosacea clinical trial in the United States using CLS001, a topical formulation of omiganan for dermatologic use. In October 2007, MIGENIX was notified by Cutanea that the Phase II study of CLS001 had demonstrated:

- superior lesion count reductions and treatment success (as defined by Investigator Global Assessment scores) with once daily omiganan 2.5% gel compared to 1% omiganan once daily and vehicle at nine weeks of treatment;
- a dose-dependent response in both lesion reductions and treatment success among the once daily treatment arms; and
- that it was well tolerated at all doses tested.

Based on the promising results from this study, Cutanea selected a once daily dose of omiganan 2.5% gel for further development for the treatment of papulopustular rosacea. Cutanea had a successful end-of-Phase II meeting with the FDA in 2008 and is currently in discussions with potential co-development partners to provide financing for its development plans. Preparations for the initiation of Phase III clinical studies in the second half of calendar 2009 and the initiation of a dermal carcinogenicity study in the first quarter of calendar 2009 have been put on hold while discussions with potential partners are underway. Prior to placing these development activities on hold, Cutanea was targeting to submit a NDA for omiganan 2.5% gel in 2011.

Celgosivir: Treatment of Viral Infections

MIGENIX has been developing celgosivir for the treatment of chronic hepatitis C virus ("HCV") infections. The current standard of care treatment regimen for genotype 1 HCV infections (the most common North American genotype) is a combination therapy approach (combination of pegylated alpha interferon and ribavirin) which is effective in achieving a sustained virologic response in about 50% of treatment-naïve patients. Preclinical studies have demonstrated synergistic activity between celgosivir, interferon alpha and ribavirin, as well as other anti-HCV compounds. These data provided the basis for the Company's strategy to develop celgosivir as a combination therapy with pegylated alpha interferon and other anti-HCV products (including products currently in development) for the treatment of chronic HCV infections.

Our celgosivir clinical development activities to date include three Phase II clinical studies in patients infected with chronic HCV genotype 1: (i) a monotherapy study (completed in September 2005); (ii) a combination therapy study in patients previously non-responsive or partially responsive to pegylated alpha interferon-based therapy (completed in November 2006; final results April 2007); and (iii) a combination therapy viral kinetics study in treatment-naïve patients (completed July 2008).

Phase II Monotherapy Study

This Phase II study was an open-label, randomized, dose-response (three groups: 200 mg once daily; 200 mg twice daily; and 400 mg once daily), 12-week monotherapy study in 43 treatment-naïve and interferon-intolerant genotype 1 HCV patients. The results demonstrated that celgosivir was well tolerated with generally mild to moderate, reversible side effects and no serious adverse events were reported. The mean viral load reduction ("VLR") in HCV RNA did not reach clinical significance in any of the treatment arms, and there was no dose-dependent effect established. Although the efficacy results of this study were inconclusive, preclinical synergy results together with the expectation of a combination therapy approach to treatment and good safety profile of this compound at daily doses up to 400 mg motivated the Company to further pursue the development of celgosivir in combination with interferon-based anti-HCV therapy.



Phase II Combination Therapy Study in Non-Responder and Partial Responder Patients

This 12-week randomized multi-center, active-controlled Phase II combination study was designed to assess the efficacy, safety, and tolerability of celgosivir in combination with peginterferon alfa-2b, with or without ribavirin, in HCV-positive, genotype 1 patients who were non-responders or partial responders to prior therapy with pegylated alpha interferon and ribavirin.

This study and an extension protocol (see description of extension protocol below) were supported in part through a Material Transfer and License Option agreement with Schering-Plough Corporation ("Schering").

Enrollment in the non-responder study was completed in June 2006 and top-line results of the study were announced on November 6, 2006. MIGENIX was subsequently informed by Schering that approximately 50% of the original viral load samples from the study, which Schering tested under the Material Transfer and License Option Agreement, required retesting. Final top-line results of the study, after completion of the retesting by Schering, were announced April 11, 2007.

A total of 57 patients were enrolled into the study (36 were non-responders and 21 were partial responders to prior pegylated alpha interferon-based HCV treatment). Patients were randomized into three treatment arms: (i) celgosivir plus peginterferon alfa-2b plus ribavirin ("triple combination"); (ii) celgosivir plus peginterferon alfa-2b ("double combination"); and (iii) celgosivir placebo plus peginterferon alfa-2b plus ribavirin ("control treatment" i.e., standard of care). Overall, an Early Virological Response ("EVR" = 2 log₁₀ or greater HCV viral load reduction at 12 weeks) was achieved by 7/18 patients (38.9%) treated with triple combination compared with 6/19 patients (31.6%) in the control treatment arm. In the study, patients who were classified as non-responders, based on their prior response to optimized pegylated interferon plus ribavirin therapy, demonstrated:

- 42% (5/12) EVR in the triple combination arm compared to 10% (1/10) EVR in the control treatment arm;
- 1.63 log₁₀ mean VLR in the triple combination arm compared to a 0.92 log₁₀ VLR (control); and
- more rapid onset of treatment effect as measured by VLR within the first 2 weeks of therapy in the triple combination arm as compared to control.

The results in non-responders indicate a more pronounced effect in the triple combination-treated patients compared to the control-treated patients with a mean HCV RNA differential of 0.71 log₁₀ following 12 weeks of treatment. This effect was considered clinically significant by the investigators. With continued treatment in an extension protocol (see "The Extension Protocol" below), 2 of the non-responder "difficult-to-treat" patients treated with the triple combination achieved a sustained virologic response ("SVR") or absence of detectable virus at 6 months following end of treatment (week 72).

The celgosivir combination therapies were well tolerated and resulted in no serious adverse events over the 12 weeks of treatment. Fifty patients (88%) completed all 12 weeks of study treatment.

These top-line results demonstrated proof-of-concept and evidence of clinical benefit at 12 weeks of therapy when using celgosivir triple combination as compared to the active control treatment in patients with chronic HCV genotype 1 infections who were characterized as non-responders to prior therapy with optimized pegylated alpha interferon plus ribavirin. Non-responders in our study were defined as patients who never reached an EVR with optimized pegylated alpha interferon plus ribavirin (i.e. patients who did not achieve 2 log₁₀ or greater reduction in viral load at 12 weeks of their previous pegylated alpha interferon plus ribavirin treatment therapy). One third of the non-responder patients in this study (11 of 36) were actually "null responders" with VLRs of 0.4 log₁₀ or less in their previous therapy.

Data from this study were presented on April 15, 2007 at the 42nd Annual Meeting of the European Association for the Study of the Liver (EASL) held in Barcelona, Spain and on May 21, 2007 at Digestive Disease Week (DDW) 2007 held in Washington, DC.

The Extension Protocol: In conjunction with the non-responder study, a protocol was designed and approved by Health Canada to provide participants in the 12-week study with access to continued treatment for up to an additional 36 weeks. In consultation with their physicians, patients could elect to continue with their original treatment or, if on the double combination or the control treatments, could switch to the triple combination treatment. Of the 50 patients completing 12 weeks of treatment, 31 elected to continue treatment beyond 16 weeks, with 30 of these either continuing with or switching to the triple combination, and one patient remaining on double combination. Of the 30 patients receiving triple combination treatment, 11 patients completed 48 weeks of treatment with 5 patients achieving undetectable virus levels at the end of treatment. Three of these patients (all partial responders to prior therapy) relapsed subsequently, and two of the patients (both non-responders to prior



therapy) achieved a sustained virologic response (SVR). These two were patients who achieved undetectable virus levels in the 12-week study (1 on double combination treatment and the other on triple combination treatment; both on triple combination treatment during extension protocol) and maintained undetectable HCV RNA levels throughout the extension protocol.

The safety profile for patients exposed to celgosivir for up to 48 weeks did not differ from those in the initial 12 weeks of treatment (there were two serious adverse events during the extension protocol that were unrelated to celgosivir treatment). There was no increase in reported diarrhea with long-term treatment, nor an increase in incidence and severity of creatine kinase (CK) elevations (two side effects seen in previous studies). No new, previously unknown adverse events were reported.

Phase II Viral Kinetics (combination therapy in treatment-naïve patients)

In October 2006 the Company initiated a Phase II viral kinetics combination study of celgosivir in patients with chronic HCV (genotype 1) infection who had not received prior treatment for their infection. The focus of this study was on the viral kinetics, pharmacokinetics, safety and tolerability of celgosivir in combination with peginterferon alfa-2b and ribavirin. This Phase II study was a 12-week randomized, active-controlled study, initially in up to 20 patients in two treatment arms: (i) celgosivir plus peginterferon alfa-2b plus ribavirin (triple combination, or "PRC"); and (ii) peginterferon alfa-2b plus ribavirin (active control, standard of care, or "PR"). Enrollment in the study was slower than anticipated for reasons that Migenix believes include the significant time commitment required by patients due to the viral kinetics focus of the protocol, the small number of sites available due to the requirement of in-clinic stays, and that treatment-naïve patients may be less motivated to try new treatments.

On December 3, 2007, we reported preliminary four-week interim results from the study which indicated that 400 mg celgosivir once daily has no negative effects on the tolerability, pharmacokinetics and viral kinetics when combined with the standard of care drugs, as compared to the standard of care drugs alone. The interim results were for 10 patients who had completed four weeks of treatment equally divided between the two treatment arms described above. The following is a summary of the preliminary interim four-week results:

- Viral kinetics in both treatment groups were similar with a median reduction in HCV RNA at four weeks of 3.5 log₁₀ vs. 3.8 log₁₀ in the PRC and PR groups, respectively. The variability of response is wide with reductions of 5.4 log₁₀ to 0.8 log₁₀ and 4.5 log₁₀ to 2.5 log₁₀ for the PRC and PR groups, respectively. Virus was undetectable in one patient who was in the PRC group (none in the PR group).
- PRC treatment was well tolerated, with both the PRC and PR groups demonstrating similar tolerability, which is consistent with observations from prior studies. Gastrointestinal tolerability of the PRC treatment was slightly better in this study compared to prior studies. No serious adverse events were reported.

Due to the small number of patients in this interim analysis and the high response rate with standard of care alone in this study, efficacy results from the interim data were inconclusive. Based on a detailed analysis of the data from this study, the non-responder study and the related extension protocol, and previous clinical experience with celgosivir in HIV patients, the Company's plan was to add a 600 mg once daily celgosivir triple combination dosage arm to this study and to enroll approximately six additional patients in the new 600 mg treatment arm. In January 2008, following approvals from Health Canada and Institutional Review Board ("IRB") respectively, we added the 600 mg celgosivir combination therapy arm to the study. The purpose of this new treatment arm was to assess 600 mg celgosivir once daily for tolerability, pharmacokinetics and viral kinetics when combined with the standard of care drugs, pegylated interferon alfa-2b plus ribavirin, as compared to the standard of care drugs alone and to 400 mg celgosivir once daily plus the standard of care for up to 12 weeks of therapy. On May 27, 2008 we announced our decision to stop enrollment in the study. In addition to reducing expenses, the decision to stop the 600 mg combination arm of the study was made based on the loss of patients that were being transitioned to a new study site after a prior study site ceased operations in February 2008. The study was completed with the patients already enrolled in the 400 mg celgosivir combination treatment arm and the standard of care treatment arm and no patients were enrolled into the 600 mg treatment arm. The objective to evaluate 600 mg of celgosivir will be considered in the future development planning of celgosivir (see "Partnering" below).

On July 21, 2008, we reported top-line 12-week results from the study, which like the interim 4-week results, showed no meaningful differences between the two treatment arms. The 12-week results are from 15 patients who received treatment during the study. Eleven patients completed all 12 weeks of treatment, 5 in the PRC group and 6 in the PR control group. The following is a summary of the intent-to-treat analysis for the 12-week treatment period:



- Pharmacokinetic results indicate that the addition of 400 mg celgosivir once daily in the PRC treatment regimen did not affect the pharmacokinetics of peginterferon over the first 4-week period evaluated. This observation provides support for further clinical investigation with peginterferon combination treatments.
- No significant difference was seen between treatment groups with a mean reduction in HCV RNA at 12 weeks of 3.7 log₁₀ vs 5.2 log₁₀ in the PRC and PR groups, respectively. The variability of response was wide with reductions of 5.5 log₁₀ to 1.6 log₁₀ and 6.5 log₁₀ to 2.3 log₁₀ for the PRC and PR groups, respectively.
- PRC treatment was well tolerated, with both the PRC and PR groups demonstrating similar tolerability, which is consistent with observations from prior studies. No serious adverse events were reported.

Due to the small number of patients in this study and the high response rate with the standard of care alone in treatment-naïve patients at 12 weeks of treatment, differences in efficacy between the treatment groups were inconclusive. Based on the data from this trial and previous trials, further dose ranging work (as was planned with the 600 mg dosage arm which was stopped as indicated above), in conjunction with other combination treatment optimization strategies, is needed.

Partnering

On June 26, 2007, Schering advised us that they would not be entering into a second period of exclusivity to negotiate the terms of a license agreement for celgosivir.

On January 27, 2009 we entered into an exclusive option agreement with UTC in respect of celgosivir. Pursuant to the option agreement, we are conducting certain specified preclinical work to further characterize and investigate the utility of celgosivir in the treatment of viral infections. UTC has agreed to fund the cost of this work as well as certain other costs of the celgosivir program. Upon completion of the specified preclinical work and delivery of a final report of the results by the company to UTC, UTC may, in its sole discretion, exercise an option to license the rights to celgosivir for use in the prevention and treatment of viral diseases. If the option is exercised by UTC, we could receive up to US\$18 million in milestone payments, consisting of an upfront payment, two development milestone payments and two territorial regulatory approval milestone payments, as well as single digit royalties paid upon future sales of celgosivir. In the event that UTC exercises its option under the option agreement, UTC has agreed to assume all future costs related to the development and commercialization of celgosivir. We anticipate that UTC's option will run into the third quarter of calendar 2009.

Intellectual Property Update

Patents owned by MIGENIX with claims directed to the use of celgosivir for the treatment of HCV, hepacivirus or flaviviridae infections have been issued, or have been granted or allowed in Europe, Norway, Australia, China, South Korea, New Zealand and South Africa. Prosecution of related patent applications, also claiming uses for celgosivir against HCV, continues in other key jurisdictions.

MX-2401: Treatment of Serious Gram Positive Bacterial Infections

MX-2401 is an injectable lipopeptide being developed for the treatment of serious Gram-positive bacterial infections. In preclinical testing, MX-2401 is rapidly bactericidal and demonstrates activity against a broad spectrum of Gram-positive bacteria including vancomycin-resistant enterococci ("VRE"), methicillin-resistant *S. aureus* ("MRSA") and penicillin-resistant *S. pneumoniae* ("PRSP").

MX-2401 has potent activity in animal disease models including thigh infection and pneumonia. In vivo pharmacokinetic/pharmacodynamic (PK/PD) analysis suggests the potential for increased effectiveness using less frequent dosing intervals. Potential initial indications include hospital-acquired pneumonia ("HAP"), community acquired pneumonia ("CAP") requiring hospitalization and complicated skin and skin structure infections ("cSSSI").

MIGENIX's development plan for MX-2401 was to initially seek regulatory approval for treating patients with cSSSI and then gain approval for other infections, caused by Gram-positive bacteria (e.g. MRSA, VRE) including CAP requiring hospitalization and HAP. Our priority for the MX-2401 program had been to file an US Investigational New Drug ("IND") application or Clinical Trial Application in late 2009 and begin clinical studies. In light of our current financial resources, the focus of our activities in this program is now on business development and scientific publication initiatives.

In October 2008 we presented results of our research on MX-2401 at the 48th Annual Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC) and the concurrent 46th Annual Infectious Diseases Society of America (IDSA) meeting held in Washington, DC. The titles of the three posters presented were:



- MX-2401 Bactericidal Activity and Membrane Depolarization in *Staphylococcus epidermidis* [F1-364]. By H. Yang, J.J. Clement, and D. Dugourd.
- Development of a Novel Method for Determining MX-2401 Drug Potency [F2-385]. By J. Fenn, R. Sui, J.J. Clement, and D. Dugourd.
- In Vitro Activity of MX-2401 a Novel Lipopeptide Against Multi-Drug Resistant (MDR) *Staphylococcus aureus* (SA) [F1-363]. By D.J. Hoban, B. Weshnoweski, R. Vashisht, G.G. Zhanel, and D. Dugourd.

The data presented in these posters further confirms the uniqueness and clinical potential of MX-2401. In addition to demonstration of a different mechanism of action from daptomycin, we have confirmed activity against pathogens responsible for difficult-to-treat infections in humans caused by community-acquired methicillin-resistant *Staphylococcus aureus* (CA-MRSA), hospital acquired MRSA (HA-MRSA), and vancomycin-resistant *S. aureus* (VISA).

Development activities in the MX-2401 program have been scaled back significantly based on available resources. Manufacturing process development at a European-based contract manufacturer initiated during the current fiscal year was reduced in scope and completed. Other work related to the manufacturing process was also completed. We are seeking strategic options for developing MX-2401 and we are unable to provide guidance as to the timing to advance this program to clinical trials. Prior to initiating clinical trials of MX-2401, various activities must be completed including: manufacturing process development, GLP non-clinical studies, manufacture of GMP quality MX-2401, submit and obtain regulatory approval for initiating clinical studies.

MIGENIX has an agreement with the Government of Canada under the former TPC program under which MIGENIX was reimbursed 26% of eligible MX-2401 development costs (see "LIQUIDITY AND CAPITAL RESOURCES" below).

Other Matters

In August 2008, the Company announced that it had reached an agreement with DJohnson Holdings Inc. ("DJohnson"), a significant shareholder of MIGENIX, that avoided a proxy contest at MIGENIX's annual meeting of shareholders held on October 31, 2008. As part of the agreement, MIGENIX reduced the size of its board of directors from seven members to five. The new Board is comprised of two members from the incumbent board (Pieter Dorsman and Alistair Duncan) and three DJohnson nominees (Douglas Johnson, Bruce Schmidt and Andrew Rae). To facilitate the resolution between the parties, Dr. James DeMesa agreed to resign as president and chief executive officer of MIGENIX effective August 11, 2008. On the same date Mr. Bruce Schmidt was appointed interim president and chief executive officer of MIGENIX and Mr. Douglas Johnson was appointed Chairman of the Board.

The new Board instructed management to concentrate its efforts on restructuring and stabilizing MIGENIX's operations. In this regard, management commenced an evaluation of the Company's programs, personnel and business strategies. In order to conserve cash resources management determined it would provide minimal funding for the development of the Company's various programs, while at the same time increasing out-licensing efforts to further advance its programs and generate additional financial and collaborative resources. As part of our cost reduction program, management continues to explore, evaluate and implement various cost cutting initiatives to reduce the Company's cash burn rate (see "LIQUIDITY & CAPITAL RESOURCES"). Cost cutting initiatives have included:

- re-negotiation of management and non-management personnel employment contracts, resulting in the planned departure of four managers at the Vice President level and twelve staff, representing a significant reduction in the Company's personnel;
- consolidation of the Company's operations to its head office located in Vancouver, British Columbia (San Diego office closed as at August 31, 2008);
- elimination of the Company's degenerative disease programs, including MX-4565 (including termination of license agreement with Washington University) and MX-4042; and
- a significant reduction in development activity in the Company's MX-2401 program (see "DEVELOPMENT PROGRAMS - MX-2401: Treatment of Serious Gram Positive Bacterial Infections" above);



Additionally, the new Board instructed management to make preparations to raise additional capital to finance the Company. A rights offering was initiated in December 2008 with the filing of a preliminary short form prospectus (see "LIQUIDITY and CAPITAL RESOURCES" below).

DISCLOSURE CONTROLS AND PROCEDURES

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian and United States securities laws, and include controls and procedures that are designed to ensure that information required to be disclosed by us is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

As of January 31, 2009, an evaluation was carried out, under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined under National Instrument 52-109 ("NI 52-109"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as at January 31, 2009.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and Chief Financial Officer, and effected by the Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP"). A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the design of our internal controls over financial reporting as at January 31, 2009. Management believes the design to be sufficient for the nature and size of the Company's business, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

As at the end of the Company's fiscal year ended April 30, 2008, management evaluated the design of our internal control over financial reporting and, based on that evaluation, determined that an aspect of our internal control over financial reporting required improvement. The control deficiencies identified by the Company did not result in adjustments to any of our annual audited or interim unaudited consolidated financial statements.

As a small organization, similar to other small organizations, the Company's finance department is composed of a small number of key individuals, resulting in limitations on the segregation of duties. Specifically, certain financial personnel performed duties that were not properly segregated allowing for the creation, review and processing of certain financial data without independent review and authorization. We will continue to develop and employ appropriate measures to properly assign job roles and responsibilities to employees to ensure the proper segregation of duties where feasible, and the Chief Executive Officer and Chief Financial Officer will continually monitor the financial activities of the Company. The Company had planned to add a Controller/Director of Finance during the 2008 fiscal year to fill a vacant position that during the period from August 2006 to July 2007 had been partially covered by contract personnel. This position however remains on hold and the Company engaged limited assistance for its April 30, 2008 year end in order to conserve financial resources. The Chief Executive Officer and Chief Financial Officer have concluded that considering the management and Audit Committee oversight, the risks



associated with the segregation of duties are not significant and therefore do not justify the expense associated with adding more personnel at this time.

The Chief Executive Officer and the Chief Financial Officer of the Company have evaluated whether there were changes to its internal control over financial reporting during the nine month period ended January 31, 2009 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting. No such significant changes were identified through their evaluation.

CRITICAL ACCOUNTING POLICIES

The Company's audited consolidated financial statements and unaudited interim consolidated financial statements are prepared in accordance with Canadian GAAP and the reporting currency is Canadian dollars. 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, accretion of the convertible royalty participation units 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 activities 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 costs are expensed as incurred, and development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. The Company assesses whether development costs have met the relevant criteria for deferral and amortization at each reporting date. No development costs have been deferred to date.

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. Under United States 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 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 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.

ADOPTION OF NEW ACCOUNTING POLICIES

Effective May 1, 2008, the Company adopted the following new recommendations of the CICA Handbook:

General Standards of Financial Statements (Section 1400)

The additional requirements of Section 1400 require management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Disclosure requirements pertaining to Section 1400 are contained in note 1 to the January 31, 2009 interim financial statements.

Capital Disclosures (Section 1535)

This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. Disclosure requirements pertaining to Section 1535 are contained in note 10 to the January 31, 2009 interim financial statements.

Financial Instruments – Disclosures (Section 3862)

Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in note 4 to the January 31, 2009 interim financial statements.

Financial Instruments – Presentation (Section 3863)

Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Company's financial instrument-related presentation disclosures.

NEW ACCOUNTING PRONOUNCEMENTS

The Company will be evaluating the impact of the following new standards:

International Financial Reporting Standards

The Accounting Standards Board of the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Early conversion to IFRS for fiscal years beginning on or after January 1, 2009 may also be permitted.

Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on actual commitments involving GAAP based clauses, long-term employee compensation plans and performance metrics. Accordingly, when the Company develops its IFRS implementation plan, it will have to include measures to provide extensive training to key finance personnel, to review contracts and agreements and to increase the level of awareness and knowledge amongst management, the Board of Directors and the Audit Committee. Additional resources may be engaged to ensure the timely conversion to IFRS.

Goodwill and Intangible Assets (Section 3064)

Effective May 1, 2009, the Company will be required to adopt the requirements of the CICA Handbook Section 3064 – Goodwill and Intangible Assets. Section 3064, which will replace Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company will be assessing the impact that this section will have on its financial position and results of operations.



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,			
	January 31, 2009 ("Q3/09")	October 31, 2008 ("Q2/09")	July 31, 2008 ("Q1/09")	April 30, 2008 ("Q4/08")
Revenue	\$38	\$28	\$ -	\$ -
Loss before other income and expense	\$(810)	\$(2,848)	\$(2,108)	\$(2,760)
Loss ⁽¹⁾	\$(1,309)	\$(3,322)	\$(2,644)	\$(3,244)
Basic and diluted loss per common share	\$(0.02)	\$(0.03)	\$(0.03)	\$(0.04)
Weighted average number of common shares outstanding	94,464	94,464	94,464	94,464

	Three months ended,			
	January 31, 2008 ("Q3/08")	October 31, 2007 ("Q2/08")	July 31, 2007 ("Q1/08")	April 30, 2007 ("Q4/07")
Revenue	\$ -	\$ -	\$6	\$ -
Loss before other income and expense	\$(3,107)	\$(2,714)	\$(2,821)	\$(2,981)
Loss	\$(3,424)	\$(2,997)	\$(3,100)	\$(3,128)
Basic and diluted loss per common share	\$(0.04)	\$(0.03)	\$(0.03)	\$(0.03)
Weighted average number of common shares outstanding	94,464	94,464	94,464	94,058

(1) Effective May 1, 2007, the Company adopted the determination and presentation of Comprehensive loss. For Q1/08, Q2/08, Q3/08, Q4/08, Q1/09, Q2/09 and Q3/09 there were no differences between Loss and Comprehensive loss.

The primary factors affecting the magnitude of the Company's losses have been research and development expenses (particularly clinical program development costs) not funded by a partner, licensing and collaboration revenues, and write-downs of intangible assets. The loss before other income and expenses and the loss in Q4/08 and Q3/08 are higher due primarily to the write-downs of intangible assets (Q4/08: \$0.4 million; Q3/08: \$0.5 million). The loss before other income and expenses and the loss in Q2/09 are higher principally due to: the reversal of approximately \$0.3 million in government assistance receivable (see "LIQUIDITY AND CAPITAL RESOURCES"); the severance paid to the former President & CEO (see "Other Matters" above and "RESULTS OF OPERATIONS – Operating Expenses – General and Corporate" below); and the severance paid or accrued for other staff including four Vice Presidents (see "Other Matters" above and "RESULTS OF OPERATIONS – Operating Expenses – General and Corporate" below). The loss before other income and expenses and the loss in Q3/09 is lower principally due to: reduction in personnel in prior quarters including Q2/09; and limited research and development activities during the quarter. The losses for the eight quarters include accretion expense as follows: Q3/09: \$0.5 million; Q2/09: \$0.4 million; Q1/09: \$0.6 million; Q4/08: \$0.6 million; Q3/08: \$0.5 million; Q2/08: \$0.4 million; Q1/08: \$0.4 million; and Q4/07: \$0.3 million, on the convertible royalty participation units issued in May 2006 (see "RESULTS OF OPERATIONS – Other Income and Expenses" below).

We have no fixed dividend policy and have not paid dividends since our incorporation. The payment of dividends is subject to the discretion of the board of directors and will depend, among other factors, on our earnings, capital requirements and financial condition. We currently intend to retain future earnings, if any, to finance the growth and development of our business and do not intend to pay any dividends on our common shares or preferred shares in the foreseeable future.

See "RESULTS OF OPERATIONS" and "LIQUIDITY AND CAPITAL RESOURCES" below for discussion of the period variations and trends in results of operations and financial condition.



RESULTS OF OPERATIONS

MIGENIX commenced operations in January 1993 and has devoted its resources to the research and development of experimental new drug candidates. See "BUSINESS OVERVIEW" and "DEVELOPMENT PROGRAMS" for a description of the Company's business, the drug candidates being developed and current development activities, development and commercialization agreements, and near-term milestones. No product candidates being developed by MIGENIX have been approved to be marketed commercially to date. MIGENIX has been unprofitable since its formation, incurring significant operating losses each year, and has incurred a cumulative deficit of \$144.8 million to January 31, 2009.

For Q3/09 MIGENIX incurred a loss of \$1.3 million (Q3/08: \$3.4 million) or \$0.02 (Q3/08: \$0.04) per common share, and for the nine months ended January 31, 2009 ("YTD Fiscal 2009"), the loss is \$7.3 million (\$0.08 per common share) compared to a loss of \$9.5 million (\$0.10 per common share) for the nine months ended January 31, 2008 ("YTD Fiscal 2008").

Revenues

During Q3/09, Q3/08, YTD Fiscal 2009 and YTD Fiscal 2008 the Company had nominal revenues (i.e. <\$0.1 million).

Over the next five financial years, we may earn development and commercial milestone revenue of: (a) up to US\$21 million plus a single digit percentage royalty based on net sales pursuant to our agreement with Cutanea; and (b) up to US\$18 million from our agreement with UTC in the event UTC exercises its exclusive option to license celgosivir plus a single digit percentage royalty based on net sales. The development milestones are dependent on the successful completion of various individual development and regulatory steps in each of the programs, and the commercial milestones are dependent on obtaining marketing approvals for the product candidates and achieving certain sales thresholds. The completion, timing and success of the activities that would lead to these milestone revenues and royalties are outside our control as the programs are directed by our partners. Additionally, we have the opportunity for revenues from OmigardTM should a path forward be determined following Cadence's decision to discontinue further development, the potential partnering of MX-2401 and our agreement with Spring Bank, however, at this time we are unable to estimate revenues (if any) over the next five financial years from them.

Operating Expenses

Operating expenses in Q3/09 were \$0.8 million (Q3/08: \$3.1 million) and were \$5.8 million for YTD Fiscal 2009 (YTD Fiscal 2008: \$8.6 million). The \$2.8 million decrease in YTD Fiscal 2009 operating expenses compared to YTD Fiscal 2008 consists principally of a \$2.0 million decrease in research and development expenses (see "Research and Development" below), a \$0.2 million decrease in general and corporate expenses (see "General and Corporate" below), a \$0.3 million decrease in interest income (see "Other Income and Expenses" below), a \$0.2 increase in accretion expense (see "Other Income and Expenses" below), partially offset by a \$0.5 million decrease in the write-down of intangible assets (see "Write-down of Intangible Assets" below).

Research and Development

Our research and development expenses consist primarily of salaries and related personnel expenses, costs associated with clinical trials, costs associated with non-clinical activities, patent-related costs and facility related costs. Clinical trial expenses include payments to vendors such as clinical research organizations, contract manufacturers, clinical trial sites, laboratories for testing of clinical samples and consultants. We charge all research and development expenses to operations as incurred because the underlying technology associated with these expenditures relates to our research and development efforts and has no alternative future uses.

We use our internal research and development resources, including our employees and facility, across various projects, and we do not account for these internal research and development expenses on a project basis. These expenses are included in the "unattributed expenses" category in the table below. We use external service providers to assist us in the conduct of our clinical trials, to manufacture our product candidates and to provide various other research and development related products and services. We have tracked many of these external research and development expenses on a project basis. To the extent that expenses associated with external service providers are not attributable to a specific project, they are included in the "unattributed expenses" category in the table below.



The following table summarizes our research and development expenses^(1,2) for the periods indicated:

Research & Development Expenses	Three months		Nine months	
	ended January 31		ended January 31	
(Canadian dollars, millions)	2009	2008	2009	2008
Program Expenses				
Omiganan 1% gel (partnered)	\$0.0	\$0.0	\$0.0	\$0.0
Omiganan for dermatological diseases (partnered)	0.0	0.0	0.0	0.0
Celgosivir	0.0	0.3	0.1	1.0
MX-2401 ⁽³⁾	0.0	0.3	0.4	0.4
MX-4509	0.0	0.0	0.0	0.0
Other projects	0.0	0.0	0.0	0.1
Total Program Expenses	\$0.0	\$0.6	\$0.5	\$1.5
Unattributed Expenses⁽³⁾				
Personnel	\$0.3	\$0.7	\$1.7	\$2.1
Patent costs	0.1	0.1	0.4	0.7
Other	0.1	0.2	0.4	0.7
Total Unattributed Expenses	\$0.5	\$1.0	\$2.5	\$3.5
Total Research & Development Expenses	\$0.5	\$1.6	\$3.0	\$5.0

(1) Before amortization expense, technology and license acquisition costs, and write-downs of intangibles assets.

(2) Value of \$0.0 million represents \$nil to ~\$50,000 in expenses during the period.

(3) Net of government assistance.

The omiganan programs are funded by our development and commercialization partners:

- Our partner for the North American and European development and commercialization of omiganan 1% gel, Cadence, funds the clinical, regulatory and commercialization costs related to the program and is responsible for manufacturing.
- Our partner, Cutanea, has the exclusive worldwide rights to develop and market omiganan and its analogues for dermatological indications. Cutanea is responsible for funding all development activities including formulation, clinical, regulatory, and commercialization costs.

The approximate \$0.9 million decrease in the YTD Fiscal 2009 celgosivir program costs compared to YTD Fiscal 2008 is principally due to the completion of clinical studies in the celgosivir program including the decision not to proceed with the expansion of the Phase II viral kinetics study and stopping work on a US Investigational New Drug (IND) application. Work initiated in Q3/09 is being funded by UTC (see "Celgosivir: Treatment of Viral Infections – Partnering").

The approximate \$1.0 million decrease in the unallocated research and development costs in YTD Fiscal 2009 is principally due to reductions in personnel, a shift in work from the celgosivir program to the MX-2401 program (less expensive materials consumed) and lower patent costs.

At this time, due to the risks inherent in the product development process and given the stages of our product development programs, we are unable to estimate with any certainty the costs we will incur in the continued development of our product candidates for potential commercialization. There are numerous factors associated with the successful commercialization of any of our drug candidates, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time. With product development timelines, the probability of success and development costs vary widely. Our future research and development expenses will depend on our financial resources and on the determinations we make as to the scientific and clinical success of each product candidate, as well as ongoing assessments as to each product candidate's commercial potential and prioritization. In addition, we cannot forecast with any degree of certainty which of our current product candidates will be subject to future collaborations, when such arrangements will be



secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements.

Our development expenses are currently less than they would otherwise be due to our limited financial resources. We expect our development expenses could be substantial over the next few years if we obtain more financial resources and if we resume the advancement of our product development programs. The lengthy process of completing clinical trials and seeking regulatory approval for our product candidates requires the expenditure of substantial resources. Any failure by us to obtain, or any delay in obtaining, regulatory approvals could materially adversely affect our product development efforts and, in turn, have a material adverse effect on our results of operations. As we obtain results from non-clinical studies and clinical trials, we may elect to discontinue or delay studies or clinical trials for a product candidate or development program in order to focus our resources on the most promising and/or highest priority product candidates or programs.

General and Corporate

General and corporate expenses in Q3/09 were \$0.3 million (Q3/08: \$0.9 million) and were \$2.5 million for YTD Fiscal 2009 (YTD Fiscal 2008: \$2.7 million). The approximate \$0.2 million decrease in general and corporate expenses for YTD Fiscal 2009 compared to YTD Fiscal 2008 is principally due to: reduced rent expense including closing of the San Diego office; reduced use of contract personnel for internal control work and accounting; reduction in external investor relations services, offset partially by higher legal fees and personnel costs. Personnel costs were \$0.2 million in Q3/09 (Q3/08: \$0.5 million) and were \$1.6 million for YTD Fiscal 2009 (YTD Fiscal 2008: \$1.5 million). The lower Q3/09 personnel costs compared to Q3/08 include reductions in personnel, salary reductions, elimination of cash compensation for directors and other cost reduction initiatives.

Amortization

Amortization expense for property and equipment was approximately \$0.2 million in YTD Fiscal 2009 (YTD Fiscal 2008: \$0.2 million).

Amortization expense for intangible assets was approximately \$0.1 million in YTD Fiscal 2009 (YTD Fiscal 2008: \$0.2 million).

Write-down of Intangible Assets

The Company reviews the carrying value of its intangible assets on a quarterly basis. Pursuant to the Q3/09, Q2/09 and Q1/09 quarterly reviews of the carrying values of the Company's intangible assets, no adjustments were made. In Q3/08 the Company determined that a \$0.5 million write-down was appropriate in respect of a technology acquired as part of our August 2004 merger with MitoKor. The write-down of intangible assets in Q3/08 and YTD Fiscal 2008 was \$0.5 million.

Other Income and Expenses

Other income and expenses include three principal items: (1) interest income generated from investments of the Company's cash balances; (2) accretion expense related to the convertible royalty participation unit financing completed in May 2006 (see "LIQUIDITY AND CAPITAL RESOURCES" below); and (3) foreign exchange gains and losses on the Company's United States dollar denominated cash and cash equivalents, amounts receivable and accounts payable balances (see "FINANCIAL INSTRUMENTS AND RISKS" below).

Interest income was approximately \$0.1 million for YTD Fiscal 2009 (YTD Fiscal 2008: \$0.4 million). The decrease in interest income is due to lower cash balances available for investing and lower interest rates obtained on our investments.

Accretion expense related to the convertible royalty participation units (see "LIQUIDITY AND CAPITAL RESOURCES" below) for Q3/09 was \$0.5 million (Q3/08: \$0.5 million) and is \$1.5 million for YTD Fiscal 2009 (YTD Fiscal 2008: \$1.3 million). The approximate \$0.2 million increase in YTD Fiscal 2009 accretion expense compared to YTD Fiscal 2008 is principally due to changes in assumptions during Q2/09 for the modeling of the royalty participation units (e.g. the timing to launch OmigardTM product, exchange rate applicable to US dollar royalty streams from license agreements, the timing and frequency of royalty payments), as well as the increasing liability component of the convertible royalty participation units. This accretion expense is a non-cash expense resulting from [i] accreting the liability component of the convertible royalty participation units to the maximum royalties payable of \$29.5 million (will be reduced for actual royalties paid, any units converted into common shares, and should our estimate of the probable royalties payable decline below \$29.5 million) over the estimated royalty



payment term using the effective interest method; and [iii] amortizing the deferred financing costs over the estimated royalty payment term also using the effective interest method. We will be reviewing the impact of Cadence's decision to discontinue further development of Omigard™ on the assumptions used in the accounting for the Convertible Royalty Participation Units (note 6). This review may result in a material adjustment in the carrying value of the debt component of the convertible royalty participation units and the accretion of the convertible royalty participation units;

The foreign exchange loss in YTD Fiscal 2009 was approximately \$0.1 million (YTD Fiscal 2008: \$0.1 million gain).

Property & Equipment and Intangible Asset Expenditures

Property and equipment expenditures for YTD Fiscal 2009 were nominal (YTD Fiscal 2008: \$0.3 million).

Intangible asset costs capitalized in YTD Fiscal 2009 and YTD Fiscal 2008 were \$nil. Intangible assets at January 31, 2009 include acquired technology and capitalized technology license costs for the Company's lipopeptide (MX-2401), celgosivir, and HBV (SB9000) programs. The \$0.5 million carrying value of these intangible assets at January 31, 2009 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" below).

LIQUIDITY AND CAPITAL RESOURCES

As of January 31, 2009, the Company had cash, cash equivalents and short-term investments of approximately \$1.0 million (April 30, 2008: \$5.6 million) and the Company's net working capital (deficiency) was approximately (\$0.2) million (April 30, 2008: \$5.0 million). The approximate \$5.2 million decrease in net working capital from April 30, 2008 is primarily attributable to the \$5.0 million in expenses for the nine months ended January 31, 2009 that did not require the use of cash (non-cash expenses include: amortization, stock-based compensation, deferred share unit compensation and the accretion of the convertible royalty participation units). The Company's cash equivalents and short-term investments are invested in high-grade liquid financial instruments with maturity dates selected with respect to the expected timing of expenditures to fund operations (not to exceed three years), and prevailing and expected interest rates (see "FINANCIAL INSTRUMENTS AND RISKS" below).

MIGENIX has financed its operations to date primarily through the sale of equity securities. During Fiscal 2007 the Company completed two financing transactions totaling approximately \$20 million. One of the Fiscal 2007 financings involved a portion of the future royalties from the Company's license agreements with Cadence (see "DEVELOPMENT PROGRAMS – Omiganan 1% gel: Prevention of Catheter-Related Infections") and Cutanea (see "DEVELOPMENT PROGRAMS – Omiganan for Dermatological Diseases"). A total of 29,465 convertible royalty participation units were issued at a price of \$300 per unit. Each unit entitles the purchaser to receive up to \$1,000 of royalties under the license agreements to May 3, 2021. The \$1,000 of royalties per unit is as follows: [i] 75% of the royalties under the license agreements until \$300 of royalties is paid per unit; [ii] thereafter 50% of the royalties until a further \$300 of royalties is paid per unit; and [iii] thereafter 25% of the royalties until a further \$400 of royalties is paid per unit. The units contain features whereby the Company or the unit holders may elect to convert the units into the Company's common shares (see "OUTSTANDING SHARE DATA" below). In the event there are no royalties under the license agreements, there is no obligation for the Company to make any payments to the unit holders. The Company's obligation to pay royalties from the license agreements and/or to issue common shares upon conversion of a unit terminates upon the earlier of: (i) the date \$1,000 of royalties has been paid in respect of the unit; (ii) the date the unit is converted into common shares; and (iii) May 3, 2021. The Company has provided the buyers (through a trustee) with a first-lien security interest over certain assets of the Company relating to the license agreements. The security interest can be acted on in the event of default by the Company including bankruptcy, non-payment of royalties received under the two license agreements, and certain other events. In the event of default the Company would become obligated to pay the unit holders \$1,000 per unit less the royalties paid in respect of the unit.

On January 21, 2009 we received a receipt for a final short form prospectus relating to a rights offering in the aggregate amount of up to approximately \$2.3 million. Under the terms of the rights offering, shareholders of record on February 2, 2009, were entitled to receive one right for each common share held. Two rights entitled eligible holders to purchase a unit at the price of \$0.05 per unit (the "Basic Subscription Right"). Each unit was comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share at a price of \$0.10 at any time over the 12 month period following issuance of the warrants. Shareholders who fully exercised their Basic Subscription Rights were entitled to subscribe pro-rata for additional



units, that were not otherwise subscribed for prior to the expiry of the rights on February 26, 2009. The rights offering was approximately 25% oversubscribed. In March 2009 we issued approximately 49 million units pursuant to the exercise by holders of their rights for gross proceeds of approximately \$2.3 million (for additional information on the securities issued pursuant to the rights offering see "OUTSTANDING SHARE DATA").

In March 2005, the Company entered into an agreement with the Government of Canada under the TPC program. TPC projects are now managed by Industry Canada's Industrial Technologies Office ("ITO"). The ITO funding covered approximately 26% of eligible research and development costs in the Company's MX-2401 development program up to a maximum contribution from ITO of approximately \$9.3 million (see "DEVELOPMENT PROGRAMS – MX-2401: Treatment of Serious Gram Positive Bacterial Infections"). A royalty is payable to ITO if the MX-2401 program is successful (determination of success includes the obtaining of marketing approval). The royalty payable to ITO, if any, is 1.75% of any post commercialization revenues of the Company during the period ending March 31, 2019 to a maximum of \$30.4 million. The royalty rate is reduced to 1.2% should the cumulative royalties reach \$20.3 million. If the cumulative royalties have not reached \$20.3 million by March 31, 2019, the royalty period will be extended to the earlier of: (i) March 31, 2023; and (ii) the cumulative royalties paid reaching \$20.3 million. It is possible that these repayment terms could change in conjunction with other changes, if any, in the ITO agreement. Royalties, if any, that may be payable to ITO would be accounted for in the period in which it is determined that payment is likely.

MIGENIX has been in discussions to amend the agreement with ITO for various reasons, including technical risks in the MX-2401 manufacturing process development resulting in milestones in the agreement not having been met and more work being required compared to the original work plan in the agreement. As a result of the recent reductions in our operations (see "Other Matters" above) further discussions with ITO have occurred regarding the status of the MX-2401 program and our ability to advance MX-2401 development under the agreement. The amendments being discussed with ITO include termination of the agreement. We are unable at this time to predict the outcome of these discussions. During the period December 3, 2003 through March 31, 2008 we incurred eligible costs of approximately \$5.7 million resulting in approximately \$1.5 million being the contribution payable by ITO to us. As of January 31, 2007 we had received approximately \$1.1 million of ITO contributions and based on the current status of the agreement we have reversed approximately \$0.4 million of ITO contributions originally recorded as government assistance receivable. We are not currently recording any ITO contributions as being receivable and these claims, if any, will be recorded in the period they are received or in the period in which they otherwise meet the recognition criteria under Canadian generally accepted accounting principles. In the event of a default by us under the ITO agreement, ITO may require the Company to repay all or part of the ITO contributions received to date. The ITO contributions, if any, that may be repaid would be accounted for in the period in which it is determined that repayment is likely.

MIGENIX believes that its funds on hand at January 31, 2009, including the approximate \$2.3 million in gross proceeds from the rights offering completed in March 2009, combined with ongoing cost reduction measures, are sufficient to provide for operations into approximately the first quarter of calendar 2010 before funds received, if any, from existing or new license agreements or the exercise of warrants and options.

The Company's ability to advance its programs is constrained due to the Company's current financial resources. The Board and management have worked to reduce our financial commitments and, where necessary, rationalize certain programs through controlled spending and increased out-licensing efforts. The Company is working towards achieving an annual burn rate of approximately \$2 million a year. The magnitude of spending in the Company's development programs will be dependent on: the Company's financial resources, personnel resources, business strategies and the licensing status of our programs. We may need to increase or decrease our annual burn rate in response to such matters. MIGENIX may need to raise additional funds in support of its operations and there is no assurance that such funds can be obtained on satisfactory terms, or at all (see "RISKS AND UNCERTAINTIES" below).

The Company has used redeemable/convertible preferred shares to structure acquisitions and in-licensing transactions so as to lower the immediate cash cost of the transactions, 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 at January 31, 2009 (see "OUTSTANDING SHARE DATA" below) represent US\$5.25 million in potential future milestone payments in the lipopeptide/MX-2401 (US\$575,000), polyene (US\$675,000), and celgosivir (US\$4,000,000) programs. During the next 12 months we estimate that no preferred shares (US\$nil) could become convertible or redeemable pursuant to the achievement of certain of these milestones. 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.

As at January 31, 2009, we had the following contractual obligations and commitments ^{(1) (2) (3)(4)(5)}:

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Payments due by period <i>(Expressed in thousands of dollars)</i>					
Operating Leases ⁽⁶⁾	274	274	-	-	-
Purchase Obligations ⁽⁷⁾	64	49	15	-	-
Total Contractual Obligations	338	323	15	-	-

- (1) Excludes US\$5.25 million in contingent milestone obligations pursuant to the preferred shares discussed above and in "OUTSTANDING SHARE DATA" below.
- (2) Excludes the following in respect of technology license and acquisition agreements: (i) up to an additional US\$3.0 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) Excludes the following in respect of the ITO agreement (see "LIQUIDITY AND CAPITAL RESOURCES"): (i) royalties if the project is determined to be a success; and (ii) repayment, if any, of ITO contributions received by the Company.
- (4) Excludes \$29.5 million in respect of potential royalties pursuant to the convertible royalty participation units (see "LIQUIDITY AND CAPITAL RESOURCES").
- (5) Excludes approximately \$1.2 million of potential future milestone based payments to the Company's former President & CEO and other executives in respect of restructuring the severance requirements for such employees.
- (6) Includes office and lab premises lease agreements. The Company is seeking to reduce these premise lease obligations.
- (7) Represents obligations under research, manufacturing, and service agreements.

OUTSTANDING SHARE DATA

As at March 13, 2009, there are:

- 141,695,709 (January 31, 2009 and April 30, 2008: 94,463,806) common shares outstanding. The 47,231,903 increase in common shares outstanding subsequent to January 31, 2009 is in respect of the rights offering financing (see "LIQUIDITY AND CAPITAL RESOURCES");
- 5,250,000 (January 31, 2009 and April 30, 2008: 5,250,000) convertible redeemable preferred shares outstanding consisting of 300,000 Series A, 950,000 Series B, and 4,000,000 Series D preferred shares. On the achievement of any of the pre-determined product development milestones underlying the Series A, Series B and Series D preferred shares and the Company electing to convert, rather than redeem the applicable number of preferred shares for such milestone(s), the maximum number of common shares that could be issued under each series of preferred shares and the conversion price to be used to determine the number of common shares to be issued for such milestone(s) are as follows: Series A and B - 9,728,204 (average closing price 5 trading days prior to the conversion date, minimum price \$0.29); and Series D - 11,778,846 (average closing price 10 trading days prior to the conversion date). See "LIQUIDITY AND CAPITAL RESOURCES" for additional information on the Company's preferred shares;
- 29,465 (January 31, 2009 and April 30, 2008: 29,465) convertible royalty participation units outstanding (see "LIQUIDITY AND CAPITAL RESOURCES") convertible into up to 17,679,000 (January 31, 2009 and April 30, 2008: 17,679,000) common shares. The units are convertible at any time by the holders into the Company's common shares (initially 600 common shares per unit based at conversion price of \$0.50 per common share, with the number of common shares reduced proportionately for any royalties received by the unit holders). Additionally, the Company has an option to convert the units into common shares exercisable if the 20 trading day weighted average closing price of the Company's common shares is \$2.00 or greater and the average daily trading volume is 30,000 or greater;
- stock options outstanding for the purchase of 5,764,248 (January 31, 2009: 5,764,748; April 30, 2008: 4,034,631) common shares at an average exercise price per common share of \$0.41 (January 31, 2009: \$0.41; April 30, 2008: \$0.83);
- deferred share units outstanding that can be settled at the option of the Company by issuing up to 480,000 common shares (January 31, 2009: 480,000; April 30, 2008: 160,000), their equivalent fair market value in cash, or a combination of cash and common shares. The fair value of the outstanding deferred share units based on the \$0.045 closing price of the Company's common shares on March 13, 2009 is \$21,600



(January 31, 2009: \$60,000 [480,000 at a price of \$0.125 per common share]; April 30, 2008: \$36,800 [160,000 at a price of \$0.23 per common share]). As the Company has the intent and ability to settle the outstanding deferred share units by the issuance of common shares rather than payment in cash, no liability has been recorded in the Company's accounts at January 31, 2009 and April 30, 2008 with respect to the fair value of the outstanding deferred share units; and

- warrants outstanding for the purchase of 57,869,612 (January 31, 2009: 10,637,709; April 30, 2008: 18,190,301) common shares at a weighted average exercise price per common share of \$0.26 (January 31, 2009: \$0.95; April 30, 2008: \$0.76), as follows:

Number of Common Shares Issuable Upon Exercise	Exercise Price(s) per Common Share	Expiry Date(s)
40,913,160 ⁽¹⁾	\$0.10	March 5, 2010
6,318,743 ⁽¹⁾	\$0.10	March 13, 2010
883,950 ^(2,3)	\$0.50	May 3, 2009
9,631,250 ⁽⁴⁾	\$0.80	December 6, 2011
122,509 ⁽⁵⁾	US\$5.21 to US\$22.85	December 15, 2009 to June 22, 2011
Total = 57,869,612	Average = \$0.26 ⁽⁶⁾	

(1) Issued March 5, 2009 as part of the rights offering (see "LIQUIDITY AND CAPITAL RESOURCES").

(2) Warrants have a cashless 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) Issued as part of the May 2006 convertible royalty participation unit financing (see "LIQUIDITY AND CAPITAL RESOURCES").

(4) Issued as part of the December 2006 bought deal public offering.

(5) These warrants were assumed by the Company as part of the acquisition of MitoKor.

(6) Weighted average exercise price using closing March 13, 2009 exchange rate of US\$1.00 equals \$1.2725.

During Q1/09, warrants to acquire 7,552,592 common shares expired unexercised at exercise prices ranging from \$0.45 to \$0.55.

Warrants for the purchase of 963,125 units at an exercise price of \$0.60 per unit, expired December 8, 2008. Each unit consisted of one common share and one half of one common share purchase warrant.

At the Company's Annual and Special Meeting held on October 31, 2008 shareholders approved a 2,000,000 increase in the number of common shares that can be issued under the Company's 2006 stock option plan.

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 also purchases goods and services in Euros. 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 YTD Fiscal 2009, the Company incurred legal fees of approximately \$0.3 million (YTD Fiscal 2008: \$0.3 million) inclusive of sales taxes, payable to a law firm where the former Secretary of the Company is a partner. These amounts are payable under normal trade terms. All transactions with related parties are recorded at their exchange amounts and accounts payable are subject to normal trade terms. Included in accounts payable and accrued liabilities at January 31, 2009 is approximately \$0.05 million (April 30, 2008: \$0.1 million) owed to this law firm.

During YTD Fiscal 2009, the Company recorded legal and other fees of approximately \$0.15 million inclusive of sales taxes, being claimed for reimbursement by a company owned by the Company's Chairman. These costs were incurred in connection with the requisition of a meeting of the Company's shareholders and the subsequent agreement reached with the Company on August 11, 2008 (see "Other Matters"). The costs are included in accounts payable and accrued liabilities at January 31, 2009. Reimbursement of the costs is intended from new funds raised by the Company.

RISKS AND UNCERTAINTIES

No product candidates being developed by MIGENIX have been approved to be marketed commercially. The Company has incurred significant losses since inception and as at January 31, 2009 had an accumulated deficit of approximately \$144.8 million. The Company's current financial resources are not sufficient to advance its non-partnered programs. The Company's ability to realize the carrying value of its assets is dependent on successfully advancing its technologies to market through the drug development and approval processes and ultimately achieving future profitable operations, the outcome of which cannot be predicted at this time, or in the alternative being able to sell the assets for proceeds for their carrying value or greater. The Company's financial resources following completion of the rights offering in March 2009 are expected to be sufficient for operations into the first quarter of calendar 2010.

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 or its partner's research and development activities will result in any commercially viable products or profitability, and we may continue to incur substantial losses over at least the next several years.

In March 2009 the Company received top-line Phase III clinical trial results for Omigard™ – these results did not meet the primary endpoint of the study. The Company is concentrating its efforts on: (i) reducing expenses; and (ii) licensing arrangements. Management and the board are planning to obtain additional funds through new licensing arrangements and milestones from existing license agreements, however, the outcome of these matters cannot be predicted at this time. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company has limited personnel and financial resources with which to optimally advance its programs. At January 31, 2009 the carrying value of the Company's intangible assets in respect of its development programs was approximately \$0.5 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 preclinical and/or clinical testing results;
- inability to secure development partnership and/or funding to support the program;
- carrying value of program exceeds estimated net recoverable value based on factors including projected cash flows;
- loss of license rights for failure to perform in accordance with license agreements; and/or
- decision not to pursue further development in the program.

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.

MIGENIX may need to raise additional funds in support of its operations and there is no assurance that such funds can be obtained on satisfactory terms, or at all. The Company's ability to raise capital is primarily dependent on



equity markets, the Company's market capitalization and results in the Company's drug development programs. To maintain a sufficient cash position to fund its operations MIGENIX will need to further delay 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: changes in our strategy to develop or out-license currently non-partnered programs; 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 manufacturing of our products; the amount of government and/or grant funding obtained; the costs involved in preparing, filing, obtaining, maintaining, defending and enforcing patent claims; our strategy to acquire or in-license new technologies and products, and other factors not within our control.

MIGENIX Inc.

Incorporated under the laws of British Columbia

**CONSOLIDATED BALANCE SHEETS**

(See Note 1 – Business Operations, Basis of Presentation and Going Concern Uncertainty)

As at	January 31, 2009	April 30, 2008
(Unaudited—in thousands of Canadian dollars)	\$	\$
ASSETS		
Current		
Cash and cash equivalents	969	2,621
Short-term investments	-	2,997
Amounts receivable	243	294
Government assistance receivable	-	899
Prepaid expenses and deposits	151	134
Total current assets	1,363	6,945
Long-term investments	1	1
Property and equipment	750	977
Intangible assets	456	544
Deferred financing costs (note 14[a])	269	-
	2,839	8,467
LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY		
Current		
Accounts payable and accrued liabilities	1,579	1,901
Total current liabilities	1,579	1,901
Convertible royalty participation units (note 6)	7,774	6,247
Preferred shares (note 7)	-	-
	9,353	8,148
Shareholders' (deficiency) equity		
Common shares (note 9[a][i])	125,156	125,156
Equity portion of convertible royalty participation units (note 6)	4,554	4,554
Contributed surplus (note 9[a][ii])	8,533	8,091
Deficit	(144,757)	(137,482)
Total shareholders' (deficiency) equity	(6,514)	319
	2,839	8,467

*Commitments and contingencies (note 8)**See accompanying notes*

On behalf of the Board:

"Alistair Duncan"

Director

"Pieter Dorsman"

Director

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

	Three months ended January 31,		Nine months ended January 31,	
	2009 \$	2008 \$	2009 \$	2008 \$
(Unaudited—in thousands of Canadian dollars except share and per share amounts)				
REVENUE				
Research and development collaboration (note 11)	38	-	66	6
	38	-	66	6
EXPENSES				
Research and development (note 5, 8[c])	424	1,558	2,970	5,015
General and corporate	319	902	2,537	2,732
Amortization	105	173	325	427
Write-down of intangible assets	-	474	-	474
	848	3,107	5,832	8,648
Loss before other income (expense)	(810)	(3,107)	(5,766)	(8,642)
Other income (expense)				
Accretion of convertible royalty participation units and amortization of transaction costs (note 6)	(530)	(485)	(1,528)	(1,331)
Interest income	20	106	75	376
Foreign exchange gain (loss)	11	62	(56)	76
	(499)	(317)	(1,509)	(879)
Loss and comprehensive loss for the period	(1,309)	(3,424)	(7,275)	(9,521)
Deficit, beginning of period	(143,448)	(130,814)	(137,482)	(124,717)
Deficit, end of period	(144,757)	(134,238)	(144,757)	(134,238)
Basic and diluted loss per common share (note 9[f])	(0.02)	(0.04)	(0.08)	(0.10)
Weighted average number of common shares outstanding (in thousands – note 9[f])				
	94,464	94,464	94,464	94,464

See accompanying notes

MIGENIX Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended January 31,		Nine months ended January 31,	
	2009 \$	2008 \$	2009 \$	2008 \$
(Unaudited—in thousands of Canadian dollars)				
OPERATING ACTIVITIES				
Loss for the period	(1,309)	(3,424)	(7,275)	(9,521)
Items not affecting cash:				
Amortization	105	173	325	427
Write-down of intangible assets	-	474	-	474
Stock-based compensation	50	51	380	236
Deferred share units compensation	-	-	62	-
Accretion of convertible royalty participation units and amortization of transaction costs (note 6)	530	485	1,528	1,331
Changes in non-cash working capital items relating to operating activities:				
Accrued interest on short-term investments	-	(1)	22	101
Amounts receivable	142	26	50	(57)
Government assistance receivable	-	(73)	899	(202)
Prepaid expenses and deposits	(34)	21	(17)	169
Accounts payable and accrued liabilities	(106)	(180)	(317)	43
Cash used in operating activities	(622)	(2,448)	(4,343)	(6,999)
FINANCING ACTIVITIES				
Proceeds on exercise of warrants	-	-	-	36
Rights offering costs	(269)	-	(269)	-
Cash provided by (used in) financing activities	(269)	-	(269)	36
INVESTING ACTIVITIES				
Funds from short-term investments	-	4,103	2,975	17,408
Purchase of short-term investments	-	(5,530)	-	(11,207)
Proceeds on disposal of equipment	-	-	-	12
Purchase of property and equipment	-	(147)	(15)	(331)
Cash provided by (used in) investing activities	-	(1,574)	2,960	5,882
Decrease in cash and cash equivalents	(891)	(4,022)	(1,652)	(1,081)
Cash and cash equivalents, beginning of period	1,860	5,886	2,621	2,945
Cash and cash equivalents, end of period	969	1,864	969	1,864
Supplemental cash flow information				
Issuance of common shares on conversion of preferred shares for milestone payment	-	-	-	115

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

**1. BUSINESS OPERATIONS, BASIS OF PRESENTATION AND GOING CONCERN
UNCERTAINTY**

MIGENIX Inc. (the "Company") is incorporated under the Business Corporations Act (British Columbia). The Company is a biopharmaceutical company engaged in the research, development and commercialization of drugs for the treatment of infectious diseases to advance therapy, improve health and enrich lives.

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. The Company has incurred significant losses since inception and as at January 31, 2009 had working capital deficiency of approximately \$0.2 million and an accumulated deficit of approximately \$144.8 million. The Company has been able, thus far, to finance its cash requirements primarily from equity financings and payments from licensing agreements. Subsequent to January 31, 2009, the Company received approximately \$2.3 million in gross proceeds from a rights offering financing (see note 14[a]). The Company's financial resources following completion of the rights offering are expected to be sufficient for operations into the first quarter of calendar 2010.

The Company's ability to realize the carrying value of its assets is dependent on successfully advancing its technologies to market through the drug development and approval processes and ultimately achieving future profitable operations, the outcome of which cannot be predicted at this time, or in the alternative being able to sell the assets for proceeds for their carrying value or greater.

Subsequent to January 31, 2009, the Company received top-line Phase III clinical trial results for Omigard™ – these results did not meet the primary endpoint of the study (note 14[b]). The Company is concentrating its efforts on: (i) reducing expenses; and (ii) licensing arrangements. Management and the board are planning to obtain additional funds through new licensing arrangements and milestones from existing license agreements, however, the outcome of these matters cannot be predicted at this time. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company was unable to continue as a going concern and such adjustments could be material.

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, 2008 with the exception of the adoption of the accounting policies described in note 2. 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

Effective May 1, 2008, the Company adopted the following new recommendations of the CICA Handbook:

[a] General Standards of Financial Statements (Section 1400)

The additional requirements of Section 1400 require management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Disclosure requirements pertaining to Section 1400 are contained in note 1.

[b] Capital Disclosures(Section 1535)

This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. Disclosure requirements pertaining to Section 1535 are contained in note 10.

[c] Financial Instruments – Disclosures(Section 3862)

Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in note 4.

[d] Financial Instruments – Presentation (Section 3863)

Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Company's financial instrument-related presentation disclosures.

3. RECENT CANADIAN ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET ADOPTED

[a] International Financial Reporting Standards

The Accounting Standards Board of the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Early conversion to IFRS for fiscal years beginning on or after January 1, 2009 may also be permitted.

[b] Goodwill and Intangible Assets (Section 3064)

Effective May 1, 2009, the Company will be required to adopt the requirements of the CICA Handbook Section 3064 – Goodwill and Intangible Assets. Section 3064, which will replace Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company will be assessing the impact that this section will have on its financial position and results of operations.

4. FINANCIAL INSTRUMENTS

[a] Financial assets and liabilities

The Company has classified its financial assets and liabilities as follows:

Financial assets

- Cash – classified as held for trading and is measured at fair value.
- Cash equivalents and short-term investments - classified both as held to maturity and are measured at amortized cost using the effective interest method. The Company will determine the appropriate classification of new cash equivalents and short-term investments at the time of their purchase. Currently, the Company has classified all of its cash equivalents and short-term investments as held to maturity, as it has the positive intent and ability to hold the investments to maturity.
- Amounts receivable and Government assistance receivable - classified as loans and receivables and are measured at amortized cost using the effective interest method.
- Long-term investment in Spring Bank Pharmaceuticals Inc. ("Spring Bank") - classified as available-for-sale and is measured at cost due to there being no quoted market for the Spring Bank Series A preferred shares or common shares held by the Company.

Financial liabilities

- Accounts payable, accrued liabilities, the liability component of the convertible royalty participation units and the preferred shares are classified as other liabilities and are initially measured at fair value. Subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

The carrying amounts of the Company's cash equivalents, short-term investments, amounts receivable, government assistance receivable, deposits and accounts payable, approximate fair value due to their short-term nature.

The fair value of long term investments has not been disclosed because of the unavailability of quoted market prices for the Spring Bank Series A preferred shares and common shares held by the Company. The Company does not currently have the intent to sell its investment in Spring Bank.

The fair value of the convertible royalty participation units at January 31, 2009 is estimated to be approximately \$2.2 million based on the January 30, 2009 closing price of the Company's common shares of \$0.125 and the number of common shares issuable by the Company if 100% of the convertible royalty participation units were converted as of January 31, 2009. There is no quoted market price for the Company's convertible royalty participation units.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

4. FINANCIAL INSTRUMENTS (cont'd)

[b] Financial Risk Management

The Company is exposed to certain financial risks, including credit risk, market risk and liquidity risk

Credit risk. The Company is exposed to credit risk on its cash equivalents, short-term investments, amounts receivable, government assistance receivable and deposits in the event of non-performance of the other parties. At January 31, 2009, the Company's maximum credit risk exposure is as follows:

	Amount \$ (000's)
Cash equivalents	306
Short term investments	-
Amounts receivable	243
Government assistance receivable	-
Prepaid expenses and deposits	151
	<u>700</u>

The Company has an investment policy governing the purchase of cash equivalents and short-term investments and the Company monitors these investments on a regular basis. The investment policy contains objectives for the purchase of investments including preservation of capital, liquidity and return, as well as specifying minimum credit ratings for investments, types of permitted investments and diversification requirements. Consequently, management considers the risk of non-performance related to cash equivalents and short term investments to be minimal. The Company's investment policy is periodically reviewed by the Company's audit committee.

The Company does not currently maintain a provision for bad debts as the majority of amounts receivable are refundable sales taxes and costs recoverable under license agreements and the Company expects to collect these amounts. The aging of amounts receivable at January 31, 2009 is as follows:

	Amount \$ (000's)
Current including amounts not billed	167
Past due 30 – 90 days	15
Past due greater than 90 days	61
	<u>243</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

4. FINANCIAL INSTRUMENTS (cont'd)

[b] Financial Risk Management (cont'd)

Market risk. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or valuation of its financial instruments.

Interest rate risk. The Company's cash equivalents and short-term investments 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 prior to their maturity. The Company's practice is to hold such investments till their maturity. At January 31, 2009 the Company had approximately \$969,000 in cash equivalents and no short term investments.

Currency risk. The Company is exposed to financial risk related to fluctuation of foreign exchange rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar, primarily expenses for the Company's patent portfolio and research and development activities incurred in US dollars ("USD"). The Company also incurs some Euro denominated development costs. The Company believes that the results of operations, financial position and cash flows would be affected by a sudden change in foreign exchange rates, but would not impair or enhance its ability to pay its USD and Euro denominated obligations. The Company maintains USD cash balances to fund its short term USD expenditure requirements, however the Company must periodically purchase USD and Euros to meet its foreign currency requirements. Balances in foreign currencies at January 31, 2009 are as follows:

	USD \$ (000's)	Euro \$ (000's)
Cash and cash equivalents	43	-
Amounts receivable	161	-
Accounts payable and accrued liabilities	(389)	(88)
Net foreign currency exposure	(185)	(88)

A 5% weakening of the Canadian dollar against the USD and the Euro at January 31, 2009 would have increased the loss for the three and nine months ended January 31, 2009 by approximately \$10,000. A 5% strengthening of the Canadian dollar against the USD and the Euro at January 31, 2009 would have decreased the losses for the three and nine months ended January 31, 2009 by approximately \$10,000.

Liquidity risk. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the board of directors considers securing additional funds through equity, debt or partnering transactions. The board of directors approves the Company's annual operation and capital budgets as well as any material transactions outside the ordinary course of business.

The net liquidity of the Company is considered to be the cash, cash equivalents and short term investments available less accounts payable and accrued liabilities. At January 31, 2009 net liquidity is as follows:

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

4. FINANCIAL INSTRUMENTS (cont'd)

[b] Financial Risk Management (cont'd)

Liquidity risk (cont'd).

	Amount \$ (000's)
Cash and cash equivalents	969
Short term investments	-
Accounts payable and accrued liabilities	(1,579)
	(610)

At January 31, 2009 the following are the contractual maturities of the Company's accounts payable and accrued liabilities:

	Amount \$ (000's)
Less than 91 days	1,017
91 days to 1 year	63
Timing of payment controlled by Company (no time specified)	345
Provisions by the Company that may or may not be paid	154
	1,579

The Company's obligation under the convertible royalty participation units (note 6) is not included in the above net liquidity and contractual maturities analyses, as the obligation is payable from royalties from two of the Company's license agreements, conversion into the Company's common shares, or a combination of payments from the royalties and conversion into common shares.

5. RESEARCH GRANT

During the year ended April 30, 2008 the Company received US\$115,625 of grant funding awarded by The Michael J. Fox Foundation for Parkinson's Research ("MJFF") to evaluate MX-4565 in preclinical studies. The Company recorded this grant in its accounts payable and accrued liabilities and has reduced this liability as eligible research and development expenses are incurred (also a reduction of research and development expenses). At January 31, 2009 \$nil (April 30, 2008 - \$28,819) of this grant is recorded in the Company's accounts payable and accrued liabilities. For the three and nine months ended January 31, 2009 the Company applied \$nil and \$28,888 (\$20,421 and \$33,883 for the three and nine months ended January 31, 2008) against research and development expenses. The Company in November 2008 made the decision to terminate the MX-4565 program including providing notice to Washington University for the termination of its license agreement with the Company.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

6. CONVERTIBLE ROYALTY PARTICIPATION UNITS

	Number of Units	Debt Component \$ (000's)	Equity Component \$ (000's)
Balance, April 30, 2008	29,465	6,247	4,554
Accretion of royalty obligation	-	1,497	-
Amortization of transaction costs	-	30	-
Balance, January 31, 2009 (note 14[b])	29,465	7,774	4,554

On May 3, 2006, the Company completed a financing of \$8,839,500 relating to a portion of the future royalties from the Company's license agreements with Cadence Pharmaceuticals and Cutanea Life Sciences. A total of 29,465 convertible royalty participation units were issued at a price of \$300 per unit. Each unit entitles the purchaser to receive up to \$1,000 of royalties under the license agreements to May 3, 2021. The \$1,000 of royalties per unit is as follows: [i] 75% of the royalties under the license agreements until \$300 of royalties is paid per unit; [ii] thereafter 50% of the royalties until a further \$300 of royalties is paid per unit; and [iii] thereafter 25% of the royalties received until a further \$400 of royalties is paid per unit. In the event there are no royalties under the license agreements there is no obligation for the Company to make any payments to the unit holders.

The units can be converted at any time, at the option of the holder, into the Company's common shares (initially 600 common shares per unit based on conversion price of \$0.50 per common share, with the number of common shares reduced proportionately for royalties received by the unit holders). Additionally, the Company has an option to convert the units into common shares exercisable if the 20 trading day weighted average closing price of the Company's common shares is \$2.00 or greater and the average daily trading volume is 30,000 or greater.

The Company's obligation to pay royalties from the license agreements and to issue common shares upon conversion of a unit terminates upon the earlier of: [i] the date \$1,000 of royalties has been paid in respect of the unit; [ii] the date the unit is converted into common shares; and [iii] May 3, 2021.

The Company has provided the purchasers (through a trustee) with a first-lien security interest over certain assets of the Company relating to the license agreements. The security interest can be acted on in the event of default by the Company including bankruptcy, non-payment of royalties received under the two license agreements, and certain other events. In the event of default, the Company would become obligated to pay the unit holders \$1,000 per unit less any royalties paid in respect of the unit.

The \$8,839,500 of proceeds on issuance of the convertible royalty participation units have been classified in the Company's consolidated financial statements according to the separate equity and debt component parts using the relative fair value method resulting in: [i] \$4,554,165 (net of \$812,662 of costs inclusive of an allocation of the fair value of the agent's warrants) being allocated to the equity portion of convertible royalty participation units representing the pro-rata fair value of the conversion feature as determined by the Black-Scholes option pricing model; and [ii] \$3,472,673 being allocated to the carrying value of the debt component of the convertible royalty participation units (net of \$525,843 of deferred financing costs which is also inclusive of allocation of the fair value of the agent's warrants).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

6. CONVERTIBLE ROYALTY PARTICIPATION UNITS (cont'd)

The \$3,472,673 initial carrying value of the debt component of the convertible royalty participation units is being accreted to the maximum royalties payable of \$29,465,000 (will be reduced for actual royalties paid, any units converted into common shares and should the Company's estimate of the probable royalties payable decline below \$29,465,000) over the estimated royalty payment term using the effective interest method with the corresponding accretion expense being included in the consolidated statement of loss. The deferred transaction costs are being amortized on the same basis as the convertible royalty participation units, using the effective interest method.

For the three and nine months ended January 31, 2009, the accretion of the convertible royalty participation units amounted to \$519,244 and \$1,497,665, respectively (\$466,792 and 1,328,900, respectively for the three and nine months ended January 31, 2008) and the amortization of deferred transaction costs amounted to \$10,505 and \$30,299, respectively (\$18,606 and \$2,098, respectively for the three and nine months ended January 31, 2008).

Upon conversion of any of the convertible royalty participation units into common shares, the carrying value of the equity component plus the carrying value of the debt component would be reclassified as common share capital.

7. PREFERRED SHARES

	Number of Shares (000's)	Amount \$ (000's)
Series A		
Balance April 30, 2008 and January 31, 2009	300	-
Series B		
Balance April 30, 2008 and January 31, 2009	950	-
Series D		
Balance April 30, 2008 and January 31, 2009	4,000	-

The 5,250,000 Series A, Series B and Series D preferred shares outstanding at January 31, 2009 (April 30, 2008 – 5,250,000) represent up to US\$5,250,000 (April 30, 2008 - US\$5,250,000) 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\$3.

Effective December 19, 2008 the Company restructured its milestone obligations associated with the Series D preferred shares such that the milestones are not payable by the Company should they be achieved by a non-affiliated licensee and the Company is responsible for the payment of royalties on milestone and other revenues received from such non-affiliated licensees.

The 5,250,000 preferred shares outstanding as of January 31, 2009 and April 30, 2008 have been classified as a liability.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

8. COMMITMENTS AND CONTINGENCIES**[a] Premises lease agreements**

As at January 31, 2009 the Company has the following future annual minimum lease commitments through December 2009 with respect to its office and research premises in Vancouver, Canada:

Year ending April 30	Amount \$ (000's)
2009	75
2010	199
	274

The Vancouver office and research premises leases expire December 2009.

Rent expense for the three and nine months ended January 31, 2009 amounted to \$74,334 and \$256,640, respectively (\$133,656 and \$402,447 for the three and nine months ended January 31, 2008, respectively). For the three and nine months ended January 31, 2009, this expense has been allocated to: [i] research and development \$63,788 and \$190,980, respectively (\$79,892 and \$225,099 for the three and nine months ended January 31, 2008); and [ii] general and corporate \$10,546 and \$65,660, respectively (\$53,764 and \$177,348 for the three and nine months ended January 31, 2008, respectively).

[b] Research, manufacturing, service, acquisition and license agreements

[i] The Company is responsible for the payment of royalties on revenues derived from technology licensed to the Company. The term of these royalty obligations generally coincide with the life of the patents underlying the technologies licensed to the Company. As at January 31, 2009 and April 30, 2008, there were no royalties payable.

[ii] As at January 31, 2009, the Company has the following commitments to fund expenditures pursuant to research, manufacturing, and service agreements:

	Amount \$ (000's)
Less than 1 year	49
1 to 3 years	15
4 to 5 years	-
After 5 years	-
	64

Of this amount, approximately \$2,600 (US\$2,100) is denominated in US dollars.

[iii] Pursuant to certain technology and in-licensing/acquisition agreements, the Company may be required to pay upon the achievement of specified development milestones up to US\$8,250,000 of which US\$5,250,000 can be settled at the Company's option by the conversion and/or redemption of preferred shares issued by the Company as described in note 7.

8. COMMITMENTS AND CONTINGENCIES (cont'd)

[c] Government of Canada Industrial Technologies Office Contribution Agreement

In March 2005, the Company entered into an agreement with the Government of Canada under the former Technology Partnerships Canada ("TPC") program. TPC projects are now managed by Industry Canada's Industrial Technologies Office ("ITO"). The ITO funding covered approximately 26% of eligible research and development costs in the Company's lipopeptide program (MX-2401) up to a maximum contribution from ITO of approximately \$9,266,000. The amounts of any ITO contributions were recorded by the Company as a reduction in research and development expenses.

The Company has been in discussions to amend the agreement with ITO for various reasons, including technical risks in the MX-2401 manufacturing process development resulting in milestones in the agreement not having been met and more work being required compared to the original work plan in the agreement. As a result of the recent reductions in the Company's operations further discussions with ITO have occurred regarding the status of the MX-2401 program, the Company's ability to advance MX-2401 development under the agreement. The amendments being discussed with ITO include termination of the agreement. The Company is unable at this time to predict the outcome of these discussions.

During the period December 3, 2003 through March 31, 2008 we incurred eligible costs of approximately \$5,700,000 resulting in approximately \$1,480,000 as being the contribution payable by ITO to the Company. As of January 31, 2009 the Company had received approximately \$1,133,000 of ITO contributions and based on the current status of the agreement the Company has reversed approximately \$347,000 of ITO contributions originally recorded as government assistance receivable. This reversal resulted in a \$347,000 increase in research and development expenses during the nine months ended January 31, 2009. The Company is not currently recording any ITO contributions as being receivable and these claims, if any, will be recorded in the period they are received or in the period in which they otherwise meet the recognition criteria under Canadian generally accepted accounting principles. In the event of a default by the Company under the ITO agreement, ITO may require the Company to repay all or part of the ITO contributions received to date. The ITO contributions, if any, that may be repaid would be accounted for in the period in which it is determined that repayment is likely.

[d] Employment Contracts and Severance Agreements

In August and October 2008 the Company entered into agreements with the Company's former President & CEO and other executives in respect of restructuring the severance requirements for such employees. Pursuant to these agreements the Company is required to pay upon the achievement of specified milestones up to approximately \$1,227,000 to such executives. These commitments expire as follows: [i] approximately \$920,000 between August 10, 2010 and December 31, 2010; and [ii] approximately \$307,000 the later of: December 31, 2012 and twelve months from termination of the executive's employment.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

9. SHARE CAPITAL

[a] Issued and outstanding

[i] Common shares

	Number of Shares (000's)	Amount \$ (000's)
Balance, April 30, 2008 and January 31, 2009 (note 14[a])	94,464	125,156

[ii] Contributed surplus

	Amount \$ (000's)
Balance, April 30, 2008	8,091
Stock-based compensation (note 9[c])	380
Issuance of deferred share units (note 9[e])	62
Balance, January 31, 2009 (note 14[a])	8,533

[b] Stock options

[i] Stock option transactions and the number of stock options outstanding with respect to the 1996, 2000 and 2006 Stock Option Plans are summarized as follows:

	Number of Common Shares (000's)	Weighted Average Exercise Price \$
Balance, April 30, 2008	4,035	0.83
Options granted	3,717	0.16
Options forfeited/expired	(1,987)	(0.80)
Balance, January 31, 2009	5,765	0.41

[ii] The following table summarizes information about options outstanding with respect to the 1996, 2000 and 2006 Stock Option Plans at January 31, 2009:

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

9. SHARE CAPITAL (cont'd)

[b] Stock options (cont'd)

Range of Exercise Prices \$	Number Common Shares (000's)	Options Outstanding		Options Exercisable	
		Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life (years)	Number Common Shares (000's)	Weighted Average Exercise Price \$
0.09 - 0.13	1,777	0.11	5.3	1,129	0.11
0.14 - 0.20	-	-	-	-	-
0.21 - 0.30	1,367	0.21	4.9	1,134	0.21
0.31 - 0.45	935	0.42	3.1	859	0.41
0.46 - 0.68	720	0.62	4.4	444	0.61
0.69 - 1.02	521	0.86	0.9	521	0.86
1.03 - 1.53	353	1.11	2.0	353	1.11
1.54 - 2.30	86	1.84	1.3	86	1.84
2.31 - 3.45	-	-	-	-	-
3.46 - 5.18	1	5.03	0.6	1	5.03
5.19 - 6.21	5	5.76	0.9	5	5.76
	5,765	0.41	3.9	4,532	0.45

The stock options expire at various dates between February 27, 2009 and October 21, 2016.

The maximum number of common shares that can be issued as at January 31, 2009 under the 1996, 2000 and 2006 Stock Option Plans inclusive of stock options outstanding at January 31, 2009 is 9,286,625 (April 30, 2008 – 7,286,625). On October 31, 2008 shareholders approved a 2,000,000 increase in the number of common shares that can be issued under the Company's 2006 stock option plan.

[c] Stock-based compensation expense

The Company recorded stock-based compensation expense of \$49,815 and \$379,857 for the three and nine months ended January 31, 2009, respectively (\$50,436 and \$236,073 for the three and nine months ended January 31, 2008, respectively) 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 \$8,512 and \$55,533, respectively for the three and nine months ended January 31, 2009 (\$24,614 and \$112,274 for the three and nine months ended January 31, 2008, respectively) being allocated to research and development and \$41,303 and \$324,324 for the three and nine months ended January 31, 2009, respectively (\$25,822 and \$123,799 for the three and nine months ended January 31, 2008) being allocated to general and corporate. 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 January 31,		Nine months ended January 31,	
	2009	2008	2009	2008
Annualized volatility	n/a	n/a	79.0%	76.1%
Risk-free interest rate	n/a	n/a	3.2%	4.5%
Expected life of options in years	n/a	n/a	5.3	5.5
Dividend yield	n/a	n/a	0.0%	0.0%

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

9. SHARE CAPITAL (cont'd)

[c] Stock-based compensation expense (cont'd)

The weighted average fair value of stock options granted during the nine months ended January 31, 2009 was \$0.10 (\$0.45 for the nine months ended January 31, 2008). No options were granted during the three month periods ended January 31, 2009 and January 31, 2008. 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.

[d] Warrants

[i] Warrants for the purchase of common shares

As at January 31, 2009, the Company had warrants outstanding for the purchase of 10,637,709 (April 30, 2008 - 18,190,301) common shares as follows:

Number of Common Shares Issuable upon Exercise (000's)	Exercise Price(s) per Common Share	Expiry Date(s)
884 ^(1,2)	\$0.50	May 3, 2009
9,631 ⁽³⁾	\$0.80	December 6, 2011
123 ⁽⁴⁾	US\$5.21 to US\$22.85	December 15, 2009 to June 22, 2011
10,638 ⁽⁵⁾	Average = \$0.95 ⁽⁶⁾	

[1] These warrants have a cashless 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.

[2] Issued to the agents as part of the May 2006 royalty unit financing.

[3] Issued as part of the December 2006 bought deal public offering.

[4] Assumed as part of the acquisition of MitoKor.

[5] See note 14[a] for warrants issued subsequent to January 31, 2009

[6] Weighted average exercise price using closing January 31, 2009 exchange rate of US\$1.00 equals \$1.2265.

During the nine months ended January 31, 2009 warrants to acquire 7,552,592 common shares expired unexercised at exercise prices ranging from \$0.45 to \$0.55.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

9. SHARE CAPITAL (cont'd)**[d] Warrants (cont'd)**

[ii] Warrants for the purchase of units

As at January 31, 2009, the Company had no warrants outstanding for the purchase of units (April 30, 2008 - 963,125). On December 8, 2008 warrants for the purchase of 963,125 units at an exercise price of \$0.60 per unit, expired unexercised. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole share purchase warrant allowed for the purchase of one common share at an exercise price of \$0.80 per common share, expiring December 6, 2011.

[e] Deferred share units

	Number of Units (000's)
Balance, April 30, 2008	160
Issuance of deferred share units	320
Balance, January 31, 2009	480

On September 12, 2006 shareholders of the Company approved a deferred share unit plan. Under the deferred share unit plan, 750,000 common shares have been reserved for issuance. A deferred share unit represents a future right to receive, at the option of the Company, one common share or its equivalent fair market value in cash at the time of the holder's retirement, death, or the holder otherwise ceasing to provide services to the Company.

On May 29, 2008, the Company awarded 320,000 deferred share units to non-management directors of the Company. As of the date of award, the Company recorded additional compensation expense and contributed surplus of \$62,400 based on the closing price of the Company's common shares of \$0.195 on the date of award. This expense has been allocated on the same basis as cash compensation resulting in \$nil and \$62,400 being allocated to general and corporate for the three and nine months ended January 31, 2009, respectively (\$nil for the three and nine months ended January 31, 2008).

The fair value of the 480,000 outstanding deferred share units based on the \$0.125 closing price of the Company's common shares on January 30, 2009 is \$60,000 (April 30, 2008 – 160,000 outstanding at \$0.23 share price for fair value of \$36,800). As the Company has the intent and ability to settle the outstanding deferred share units by the issuance of common shares rather than payment in cash no liability has been recorded in the Company's accounts at January 31, 2009 and April 30, 2008 with respect to the fair value of the outstanding deferred share units.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

9. SHARE CAPITAL (continued)

[f] Loss per common share

(thousands, except per share amounts)	Three months ended January 31,		Nine months ended January 31,	
	2009	2008	2009	2008
Numerator:				
Loss and comprehensive loss for the period	(1,309)	(3,424)	(7,275)	(9,521)
Denominator:				
Weighted average number of common shares outstanding	94,464	94,464	94,464	94,464
Basic and diluted loss per common share	(0.02)	(0.04)	(0.08)	(0.10)

10. MANAGEMENT OF CAPITAL

The Company's objectives in managing capital are to ensure a sufficient liquidity position to finance its research and development activities, clinical trials, corporate administration, working capital and overall capital expenditures. The Company attempts to manage its liquidity to minimize shareholder dilution whenever possible. The Company considers the items included in the consolidated shareholder's deficiency/equity, cash & cash equivalents, short term investments, amounts receivable, government assistance receivable, preferred shares and the convertible royalty participation units as capital.

Since inception, the Company has financed its liquidity needs primarily through public offerings and private placements of common shares. The Company has also met its liquidity needs through the sale of the royalty participation units and structuring some of its future licensing milestone payments as convertible redeemable preferred shares. Additionally, the Company has also met its liquidity needs through non-dilutive sources such as licensing fees from partners, interest income, government assistance and grant funding. To meet future requirements, the Company, as necessary, will raise cash or improve liquidity through some or all of the following: public or private equity (note 1) and collaborative and licensing agreements.

The Company is not subject to any externally imposed capital requirements. There have been no changes to the Company's objectives and what it manages as capital since the prior fiscal period.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended January 31, 2009 (Unaudited—Canadian dollars)

11. SEGMENTED INFORMATION

- [a] The Company operates primarily in one business segment with operations located in Canada. The Company closed its United States office August 31, 2008 and as of January 31, 2009 has no United States based employees.
- [b] During the three and nine months ended January 31, 2009:
 - [i] 56% and 75% of revenue was derived from one licensee in the United States (no revenue from this licensee for the three and nine months ended January 31, 2008). At January 31, 2009, included in amounts receivable is \$51,856 (April 30, 2008 - \$nil) from this licensee.
 - [ii] 44% and 25% of revenue was derived from one optionee in the United States (no revenue from this optionee for the three and nine months ended January 31, 2008). At January 31, 2009, included in amounts receivable is \$71,444 (April 30, 2008 - \$nil) from this optionee.
 - [iii] nil and nil of revenue was derived from a second licensee in the United States (\$nil and \$6,224 of revenue from this licensee for the three and nine months ended January 31, 2008). At January 31, 2009, included in accounts receivable is \$37,844 (April 30, 2008 - \$31,072) from this licensee.

12. EXCLUSIVE OPTION AGREEMENT WITH UNITED THERAPEUTICS

On January 27, 2009 the Company entered into an exclusive option agreement with United Therapeutics Corporation ("UTC") in respect of the Company's drug candidate celgosivir. Pursuant to the option agreement, the Company is conducting certain specified preclinical work to further characterize and investigate the utility of celgosivir in the treatment of viral infections. UTC has agreed to fund the cost of this work as well as certain other costs related to celgosivir. Upon completion of the specified preclinical work and delivery of a final report of the results by the Company, UTC may, at its sole discretion, exercise an option to license the rights to celgosivir for use in the prevention and treatment of viral diseases. If the option is exercised by UTC, the Company could receive up to US\$18 million in milestone payments and single digit royalties paid upon future sales of celgosivir. In the event that UTC exercises its option under the option agreement, UTC has agreed to assume all future costs related to the development and commercialization of celgosivir. The Company anticipates that that UTC's option to exercise will run into the third quarter of calendar 2009.

13. RELATED PARTY TRANSACTIONS

All transactions with related parties are recorded at their exchange amounts and accounts payable are subject to normal trade terms unless otherwise noted. During the three and nine months ended January 31, 2009, the Company:

- [a] incurred legal fees of \$24,552 and \$267,893, respectively (\$111,541 and \$319,548 for the three and nine months ended January 31, 2008) inclusive of sales taxes, payable to a law firm where the former Secretary of the Company is a partner (ceased to be Secretary August 12, 2008). Included in accounts payable and accrued liabilities at January 31, 2009, is \$47,950 (April 30, 2008 – \$118,684) owed to this law firm; and
- [b] recorded legal and other fees of approximately \$151,191 inclusive of sales taxes, being claimed for reimbursement by a company owned by the Company's Chairman. These costs were incurred in connection with the requisition of a meeting of the Company's shareholders and the subsequent agreement reached with the Company on August 11, 2008. The costs are included in accounts payable and accrued liabilities at January 31, 2009. Reimbursement of the costs is intended from new funds to be raised by the Company.

14. SUBSEQUENT EVENTS

Subsequent to January 31, 2009:

- [a] The Company issued 47,231,903 units at a price of \$0.05 per unit for gross proceeds of approximately \$2.3 million, with each unit consisting of one common share and one common share purchase warrant (total of 47,231,903 common shares and 47,231,903 warrants). Each whole warrant allows for the purchase of one common share at a price of \$0.10 per common share (40,913,160 on or before March 5, 2010 and 6,318,743 on or before March 13, 2010). The Company incurred approximately \$0.4 million in legal, professional and other costs in connection with the rights offering, of which approximately \$0.3 million is recorded as deferred financing costs at January 31, 2009. The costs of the rights offering inclusive of the deferred financing costs at January 31, 2009 will be deducted from the proceeds of the offering in allocating the net proceeds of the offering to shareholder's equity (common share capital and contributed surplus);

- [b] The Company received top-line Phase III clinical trial results for Omigard™ from its partner Cadence Pharmaceuticals Inc. – these results did not meet the primary endpoint of the study. Cadence has made a strategic decision to discontinue further development of Omigard™. The Company will be reviewing and assessing the next steps for the Omigard™ program as further information is available. Additionally, the Company will be reviewing the impact of these developments on the assumptions used in the accounting for the Convertible Royalty Participation Units (note 6). This review may result in a material adjustment in the carrying value of the debt component of the Convertible Royalty Participation Units and the accretion of the Convertible Royalty Participation Units; and

- [c] Options to acquire 500 common shares expired at an exercise price of \$5.03.