



**RESVERLOGIX CORP.**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS  
FORM 51-102F1**

**FOR THE THREE AND SIX MONTHS  
ENDED OCTOBER 31, 2009**

**DECEMBER 15, 2009**

This Management's Discussion and Analysis ("MD&A") of the Company's operations and financial position should be read in conjunction with Resverlogix Corp.'s (herein "Resverlogix" or the "Company") cautionary statement regarding forward-looking statements below as well as the unaudited interim consolidated financial statements for the three and six months ended October 31, 2009 and the notes thereto and the audited financial statements and Management's Discussion and Analysis for the year ended April 30, 2009. The Company's financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts in the following MD&A are stated in Canadian dollars unless otherwise stated. References to "Resverlogix", "we", "us", or "our" mean Resverlogix Corp. and its subsidiaries unless the context otherwise requires. An additional advisory with respect to the use of non-GAAP measures is set out in this MD&A under "NON-GAAP MEASURES".

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This MD&A offers our assessment of Resverlogix's future plans and operations and contains forward-looking statements as defined under applicable Canadian securities legislation, including: our vision to be a leader in the research, development and commercialization of novel therapeutics that reduce the risk of cardiovascular disease referred to under "Overview"; our core strategy to either license or sell our technology prior to late stage trials referred to under "Overview"; our belief that our know-how related to our intellectual property will provide the Company with a significant competitive advantage referred to under "Intellectual Property"; our belief that RVX-208 is the only known orally-available novel small molecule that increases ApoA-I production and HDL functionality referred to under "Scientific Developments"; our plans to establish RVX-208 dose response for ApoA-I, HDL-c and regression of atherosclerosis with the evaluation of intravascular ultrasound ("IVUS") referred to under "Scientific Developments"; the exploration of various alternatives to generate positive cash flow through the raising of additional equity, licensing or partnering of the core NexVasPR™ technology referred to under "Liquidity and Capital Resources"; our belief that the Company's Phase 1b/2a trial will provide an understanding of the drug properties in humans through analysis of safety, pharmacokinetics and reverse cholesterol transport markers referred to under the "Outlook"; our plans to commence, in parallel, two Phase 2 clinical trials in addition to a future large Phase 2b IVUS trial referred to under "Outlook"; our intention to develop of follow-on compounds to build a pipeline of novel small molecules that raise ApoA-I referred to under "Outlook"; our intention to expand our Alzheimer's disease research through our collaboration with the Sun Health Research Institute referred to under "Outlook"; our goal of securing a partner prior to the completion of Phase 2 IVUS trials referred to under "Outlook"; and our strategy of expanding the product life cycle referred to under "Outlook". These forward-looking statements contained herein that are not based on historical fact, including without limitation statements containing the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "continue", "estimate", "forecasts" and other similar expressions.

Readers are cautioned that our expectations, beliefs, projections and assumptions used in preparation of such information, although considered reasonable at the time of preparation, may prove to be wrong, and as such, undue reliance should not be placed on forward-looking statements. With respect to forward-looking statements contained in this MD&A, we have made the key assumptions including:

- RVX-208 is the only orally available novel small molecule that we are aware of that increases ApoA-I production and HDL functionality;

- Our patent and patent applications will protect our ideas and inventions related to composition of matter, methods and treatments in our core areas of science and business;
- The final report of the Phase 1b/2a data will provide the required information to evaluate the drug properties of RVX-208 in humans through analysis of safety, pharmacokinetics and reverse cholesterol transport markers including ApoA-I, HDL-c, prebeta-HDL particles, alpha-1 HDL particles and cholesterol efflux via ABCA-1 transport; and
- We will be able to raise additional capital through external financing or partnering that provide additional funds for clinical programs including the planning of the Phase 2 programs.

Our actual results, events or developments could be materially different from those expressed or implied by these forward-looking statements. We can give no assurance that any of the events or expectations will occur or be realized. By their nature, forward-looking statements are subject to numerous known and unknown risks and uncertainties including but not limited to those associated with the success of research and development programs, clinical trial programs, the regulatory approval process, competition, securing and maintaining corporate alliances, market acceptance of the Company's products, the availability of government and insurance reimbursements for the Company's products, the strength of intellectual property, financing capability, the potential dilutive effects of any financing, reliance on subcontractors and key personnel and additional risk factors discussed in our AIF and other documents we file from time to time with securities authorities, which are available through SEDAR at [www.sedar.com](http://www.sedar.com). Additionally, risks and uncertainties are discussed on page 20 of this MD&A.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement are made as of the date hereof. The Company disclaims any intention and has no obligation or responsibility, except as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## OVERVIEW

Resverlogix is a Canadian biotechnology company engaged in the discovery and development of pharmaceuticals. Resverlogix is committed to applying the qualities of innovation, integrity and sound business principles in developing novel therapies for the treatment of unmet medical needs of human diseases. The Company's primary focus is the research, development and commercialization of novel therapeutics that reduce the risk of cardiovascular disease ("CVD"). The Company's secondary research focus is on inflammation, Alzheimer's disease, fibrotic disorders and cancer.

Resverlogix has three separate CVD research programs. The Company's primary CVD program is NexVas™ Plaque Regression ("NexVas™ PR") which targets ApoA-I enhancement via novel small molecules for plaque stabilization and regression. ApoA-I is the key building block of HDL, the "good cholesterol". As at December 15, 2009, top line results from the Company's Phase 1b/2a clinical trial which is focused on safety, tolerability and early analysis of pharmacodynamic effects on reverse cholesterol transport ("RCT") in our lead drug, RVX-208, were announced in September 2009 and we are currently awaiting the final report.

The Company's second CVD program, NexVas™ Vascular Inflammation ("NexVas™ VI"), is a research stage technology focused on molecular targets of vascular inflammation. The development of anti-inflammatory agents is believed to play a potentially significant role in the prevention of cardiovascular risk.

The Company's third cardiovascular program - ReVas™ - is dedicated to the research and development of therapeutic compounds to be used with medical devices and biomaterials for the local non-systemic treatment of CVD, in particular restenosis.

The Company has also initiated a program in the area of cognitive disorders based on its NexVas technology platform. NexVas™ Alzheimer's disease ("NexVas™ AD") is a discovery stage technology for the development of drugs that enhance ApoA-I for stabilization and regression of Beta Amyloid Plaque. Epidemiological and mechanistic evidence indicates a link between low ApoA-I/HDL and neurodegenerative disease such as Alzheimer's disease.

TGF-β Shield™ ("TGF-β Shield™") is a preclinical technology for the treatment of grievous proliferative diseases such as cancer and fibrotic conditions.

The Company is focused on the primary stages of drug development, leading to early to mid-stage clinical studies. A core strategy of the Company is to avoid the significant costs of the final phases of the drug development process by either licensing or selling its technology prior to late stage trials, allowing the Company to mitigate a significant component of biotechnology investment risk.

Resverlogix's common shares trade on the Toronto Stock Exchange under the symbol "RVX".

### ***Intellectual Property***

The Company devotes significant resources to ensure protection of its ideas and inventions related to core areas of its business. The Company's intellectual property portfolio includes compositions, methods and treatments for cardiovascular and inflammatory disease, cancers and fibrotic indications.

As of December 15, 2009, Resverlogix owns and/or has rights to six patent families comprised of one issued US patent application and numerous pending applications. This includes non-provisional US and Patent Cooperation Treaty applications. The pending patent applications are interrelated and assert rights to substantially similar inventions in different jurisdictions.

The Company's intellectual property strategy is to build a strong patent portfolio around core technology that is important to the development of leading edge medicines. The Company's offensive and defensive strategies are to be the first to identify, isolate, and patent therapeutic agents with commercial importance, to seek out and license intellectual property believed to be useful in connection with potential products, and to control public disclosures.

The Company also believes that its know-how will provide a significant competitive advantage and intends to continue to develop and protect its proprietary tools, methods and trade secrets. It is our policy to require employees, consultants, members of our Scientific and Clinical Advisory Board and other third parties in collaborative agreements to execute confidentiality agreements. Employee, consultant and contract research organization agreements specify that all inventions resulting from work performed utilizing the Company's property, business strategies, and work completed during employment/services performed are the Company's exclusive property to the extent permitted by law.

### ***Trademarks***

"NexVas", "ReVas", and "TGF- $\beta$  Shield" and "Clearing the path to better health" are trademarks of Resverlogix Corp. in Canada and the United States.

## **HIGHLIGHTS AND CURRENT DEVELOPMENTS**

The Company is encouraged by the scientific development of NexVas™ CVD program. The Company's science has progressed from a drug discovery stage of biotechnology research to proof-of-concept. To date the Company completed a Phase 1a clinical study and is in the process of finalizing the data from the Phase 1b/2a clinical study for its NexVas PR technology. The hiring of world renowned experts and dedicated staff has made a significant contribution to the rapid progression in furthering the development of the Company's CVD research programs.

### ***Scientific Developments***

In November 2008, the Company announced key scientific data in an oral presentation highlighting the novel features of RVX-208 at the American Heart Association Scientific Meeting. The presentation, titled "Compound RVX-208 Modulates HDL-C Levels and Function in Non-human Primates and in Early Human Trials", was presented by Dr. Jacques Genest, MD, Director of the Division of Cardiology at McGill University Health Centre/Royal Victoria Hospital.

In November 2008, the Company announced that treatment with its lead drug RVX-208 in a post-hoc analysis from the Phase 1a clinical trial found that the treatment resulted in a positive trend on an important marker of cognitive function and Alzheimer's disease, The analysis of the plasma markers for Alzheimer's disease was performed by Dr. D. Larry Sparks, Senior Scientist and Head of the Roberts Laboratory for Neurodegenerative Disease Research at Sun Health Research Institute in Sun City, Arizona.

As of January 2009, RVX-208 completed Arm B and proceeded to Arm C of the study. Ongoing analyses of the data are underway. RVX-208 continues to be developed as an oral drug to increase ApoA-I production and HDL-c in patients with cardiovascular disease.

In April 2009, Resverlogix also announced that it would add a new assessment of a biomarker for Alzheimer's disease to the third and final arm of this clinical trial.

In May 2009, the Company announced that it had filed two new patent applications for novel compounds and their use in regulating inflammatory markers. Inflammatory markers are proteins generated by the body during periods of inflammation. These patents were filed based on the successful results demonstrated in numerous preclinical studies across several disease areas. The particular results achieved in the collagen induced arthritis ("CIA") model in rats demonstrated that Resverlogix's proprietary molecules markedly reduced inflammation while improving mobility of arthritic animals.

In August 2009, Resverlogix announced that initial results from its recently completed Phase 1b/2a trial met the study's primary endpoint to increase plasma ApoA-I in a safe and tolerable manner.

In August 2009, the Company also announced that it has successfully completed two arms of a Phase 1 BE (bio-equivalency) study for RVX-208. The Phase 1 BE trial is a program designed to show that the newly formed capsule version of RVX-208 is equivalent to the earlier powder in a bottle version that has been used in all trials to date.

In August 2009, Resverlogix also announced the development of two new important papers by it and a third party. The first paper was a detailed White Paper describing Resverlogix understanding of the Reverse Cholesterol Transport system and the Company's targeted goals of reducing the Percent Atheroma Volume ("PAV") plaque build up in the arterial wall. The second paper was an abstract of a recently completed Pharmacoeconomics study showing the potential economic impact of being able to reduce the PAV as it relates to the impact on the United States' overburdened health system. These articles can be found at [http://www.resverlogix.com/media/fact\\_sheets.html](http://www.resverlogix.com/media/fact_sheets.html).

In September 2009, Resverlogix announced top line results from its Phase 1b/2a study which tested RVX-208 for 28 days in three different dosing arms. The most pronounced results were demonstrated among those subjects with low HDL cholesterol levels. Highlights from the study include:

- the primary endpoint, plasma ApoA-I increase compared to placebo, achieved a range in all subjects of 5.1% - 10.4% in all doses at days 8 and 28 respectively;
- at the lowest dose of 1mg/kg b.i.d. in subjects with low levels of HDL-c, plasma ApoA-I increases reached statistical significance of 5.7% (p<0.05) at day 8 and 7.8% (p<0.05) at day 28;

- a critical RCT functionality marker, alpha-1 HDL particles, illustrated highly statistical significance with an increase of 46.7% ( $p < 0.004$ ), in all subjects and 57.2% ( $p < 0.02$ ) in the low dose arm over placebo at day 28;
- pharmacokinetic parameters of RVX-208 were dose dependant with oral administration; RVX-208 was shown to be compatible with simvastatin (40mg); and
- seventy out of seventy two subjects completed the trial; one subject did not complete the trial due to personal reasons and one other subject did not complete the trial due to a serious adverse event, specifically cholecystitis (gall stones), which was judged not related to the study drug.

In October 2009, Resverlogix announced that it would undertake two parallel clinical studies. Start-up activities for both studies have commenced in conjunction with the Cleveland Clinic and the IVUS Steering Committee. The studies include a Phase 2 Pilot IVUS trial to examine early lipid effects, and atheroma plaque characterization of the coronary vessel wall in 120 acute coronary syndrome patients. In parallel to this, a Phase 2 Dose-Ranging trial will be conducted in 280 stable cardiovascular patients on standard of care therapy, including statins, examining lipid changes. Both of these clinical trials will dose patients with coronary disease who are on standard treatment for 13 weeks. The start-up activities for these trials have commenced with screening, randomization and first dosing expected in the first quarter of 2010.

### ***Peer Review and Recognition***

In March 2009, the Company's lead drug RVX-208 was featured in Dr. Steven Nissen's keynote address at the American College of Cardiology conference as one of the top seven HDL drugs to be watching. This information appeared in a Dow Jones article and subsequently appeared in a WallStreet Journal.com article.

In August 2009, Resverlogix announced that it had published a paper in *Tetrahedron* 2009, 65, 6932.

In October 2009, *Pharmaceuticals Approvals Monthly*, a well-respected biotech trade journal, wrote about the Company's Phase 1b/2a clinical trials results. Other media reports that reported on this data include PharmaWire, Business News Network, CBS national radio and Fierce Biotech.

In addition, a number of formal presentations of preclinical and clinical data were presented recently at prominent scientific meetings, including the Atherosclerosis, Thrombosis and Vascular Biology Annual Meeting in Washington, DC; the Cardiovascular Research Technologies in New York; the European Society Cardiology in Barcelona, Spain; the International Atherosclerosis Society Meeting in Boston, Massachusetts and the International Congress on Coronary Artery Disease in Prague, Czech Republic.

### ***Clinical Advisory Board***

The Company continues to work with its Clinical Advisory Board ("CAB"), comprised of Dr. Philip Barter, MBBS., Ph.D., MRACP, FRACP, Dr. Prediman K. Shah, M.D., Dr. Daniel Rader, M.D., Dr. Bo Angelin, M.D., Ph.D., Dr. Jacques Genest, M.D., FRCP(C) and Dr. Roger S. Newton, Ph.D., each world leading scientific researchers in the area of atherosclerosis and cardiovascular diseases. The purpose of the committee is to provide guidance to the Company in the development of the NexVas™ program. The support and

guidance received from the members of the CAB has assisted in accelerating the NexVas PR program in its clinical trial development.

### ***IVUS Clinical Steering Committee***

In October 2008, the Company established a Steering Committee for the RVX-208 Phase 2b clinical trial assessing atherosclerosis by intravascular ultrasound (“IVUS”). The role of the Steering Committee is to provide overall supervision of the trial and ensure that it is being conducted in accordance with the principles of Good Clinical Practice and FDA regulations. The Steering Committee will agree on the trial protocol, any protocol amendments and provide advice to the investigators on all aspects of the trial. The Chairman is Dr. Steven Nissen, M.D. The Principal Investigator for this trial will be Dr. Stephen Nicholls, M.B.B.S, Ph.D. Other members of the Committee include Dr. Christie M. Ballantyne, M.D., Dr. John J.P. Kastelein, M.D., Ph.D., and Dr. Allen Taylor, M.D.

### ***Appointment of Director and Chief Financial Officer***

In October 2009, Mr. Kelly B. McNeill was appointed to the Company’s Board of Directors. Mr. McNeill is a Chartered Accountant with several years of experience and expertise across all areas of corporate finance and operations. He has held leadership positions with companies in both the biotechnology and manufacturing sectors. Most recently, Mr. McNeill served as Chief Financial Officer with Resverlogix. Prior positions include: General Manager at Haworth Ltd. and Vice-President at SMED International. He has also held senior positions at Motorcoach Industries and Price Waterhouse. Mr. McNeill is a member of the Institute of Chartered Accountants of Alberta and holds a Masters of Accountancy and Bachelor of Commerce (Honours) from the University of Manitoba.

In October 2009, Resverlogix also announced the appointment of A. Brad Cann as Chief Financial Officer. Prior to joining Resverlogix, Mr. Cann served as Executive Vice President and Chief Financial Officer of Royal Host Real Estate Investment Trust. Prior to joining Royal Host, Brad was a business consultant and held senior management positions with several companies including Chief Financial Officer of a sulphur export development company. Previously, Mr. Cann held various positions with a chartered accounting firm. Brad holds a Bachelor of Commerce Degree from the University of Saskatchewan, is a Chartered Accountant and a Chartered Business Valuator.

## **RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2009**

Resverlogix recognized a net loss and comprehensive loss for the three months ended October 31, 2009 of \$4.7 million (2008 - \$5.5 million), or \$0.12 per share (2008 - \$0.20 per share). The Company's net loss and comprehensive loss for the six months ended October 31, 2009 was \$10.1 million (2008 - \$10.7 million) or \$0.26 per share (2008 - \$0.39 per share). The decrease is primarily related to the absence of a gain on settlement of convertible debentures in the current periods, offset by reductions in research and development, the Company's foreign exchange loss, and interest on convertible debentures as debentures have been redeemed or converted into common shares.

The average monthly Cash Burn Rate for the three and six months ended October 31, 2009 \$1.4 million (2008 - \$1.5 million) and \$1.5 million (2008 - \$1.3 million), respectively. This measure is based on the cash flow used in operations prior to changes in non-cash working capital from the Consolidated Statements of Cash Flows. The average monthly Cash Burn Rate is determined using the applicable period total divided by the number of months in the period.

### ***Revenue***

The Company's revenue consisted primarily of interest earned on invested funds. Interest income was approximately \$2,000 (2008 - \$70,000) and \$3,000 (2008 - \$155,000) for the three and six months ended October 31, 2009, respectively. Interest income decreased due to a decline in invested capital and lower interest rates yields on US Treasuries.

### ***Research and Development***

For the three months ended October 31, 2009, research and development expenditures ("R&D") totaled \$3.1 million (2008 - \$4.1 million). R&D expenditures were primarily related to completion of the Phase 1b/2a clinical trial, discovery program research and preparation for the upcoming Phase 2 trials. Other key areas of expense were analytical costs related to chemical synthesis and pharmacokinetics analysis of the Phase 1b/2a clinical data.

For the six months ended October 31, 2009, R&D expenditures totaled \$6.0 million (2008 - \$7.4 million). R&D decreased comparatively as certain research and development activities were postponed to focus on the clinical program. In addition, expenditures in toxicology decreased comparatively as a result of costs being incurred in the prior year associated with the commencement of the Phase 1a/2b trial. Other expenditures in the comparative period were focused on discovery activities including various animal studies. The Company closely monitors opportunities for optimization while processes are in place to generate efficiencies in output per contracted employee. Internal expenses include salaries and benefits for R&D staff, consulting fees, supplies and general laboratory operating expenses. The Company is completing the analysis of the Phase 1a/2b clinical trial and conducting various preparatory studies to commence a lipid dose response clinical trial and a pilot IVUS trial as part of the overall clinical development program.

### ***General and Administrative***

For the three and six months ended October 31, 2009, general and administrative expenditures totaled \$0.9 million (2008 - \$0.7 million) and \$1.6 million (2008 - \$1.3 million).

General and administrative expenses includes salaries and other operating costs not directly involved in research and development, as well as professional fees for services, such as legal, audit, tax, investor relations and business development. The most significant components for the three months ended October 31, 2009 were salaries and benefits, consulting and directors' fees totaling \$440,000 (2008 - \$290,000). The Company also incurred \$103,000 of professional fees (2008 - \$125,000), \$206,000 (2008 - \$137,000) of general operating costs and \$83,000 (2008 - \$48,000) related to shareholder and investor relations.

### ***Stock-based Compensation***

During the three and six months ended October 31, 2009, the Company recognized \$175,000 (2008 - \$774,000) and \$940,000 (2008 - \$1,139,000) of stock-based compensation. The reduction was the result of no additional stock options being issued in the current periods as well as a decline in the Company's share price which reduces the fair value of the consultant's stock-based compensation. Stock-based compensation is a non-cash expense.

### ***Interest and Accretion on Convertible Debt***

During the three and six months ended October 31, 2009, the Company recognized interest and accretion on convertible debentures of \$451,000 (2008 - \$743,000) and \$918,000 (2008 - \$1,552,000), respectively. Accretion is a monthly charge recorded to income to recognize debt issuance costs and the value of any conversion option over the term of the security. The reduction of interest and accretion expense is the result of the conversion of debentures into common shares partially offset by an increase in the interest rate from 12% to 18% in April 2009. The accretion is reflected as non-cash interest expense in the statement of net loss, comprehensive loss and deficit.

### ***Foreign Exchange***

During the three months ended October 31, 2009, the Company recognized a foreign exchange gain of \$11,000, reflecting relative stability in the both the Company's US denominated assets and liabilities and US / Canadian exchange rates during the quarter. During the six months ended October 31, 2009, the Company recognized a foreign exchange loss of \$581,000 on increased net US-denominated assets and reflecting a significant decline in the value of the US dollar relative to the Canadian dollar during the three months ended July 31, 2009.

### ***Gain on Settlement of Convertible Debentures***

During the three and six month period ended October 31, 2008, the Company recognized a \$1.9 million gain on settlement of convertible debentures related to the October 15, 2008 redemption of US\$10 million of the Company's debentures which is further described under "Cash Flows from Financing Activities".

## **LIQUIDITY AND CAPITAL RESOURCES**

Resverlogix is a development stage company whose operations have been financed since inception through the sale of common shares and convertible debentures, as well as the conversion of common share purchase warrants and stock options. The Company's primary capital requirements relate to funding research and development activities, including pre-clinical and clinical trials, and for general working capital purposes.

The Company's objectives when managing capital is to ensure there are sufficient funds available to carry out its research, development and commercialization programs. Once funds have been raised, the company manages its liquidity risk by investing in highly liquid, debt securities with staggered maturities to provide required cash flow for current operations. The Company invests only in securities issued by entities possessing high credit quality. As at October 31, 2009, the Company held no asset-backed commercial paper and the Company has not experienced any credit or liquidity issues with any of its previously held asset-backed commercial investments. The Company also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions not in the ordinary course of business.

As at October 31, 2009, cash and cash equivalents totaled \$3.8 million, compared to \$12.6 million at April 30, 2009. At October 31, 2009, the Company had working capital of \$3.7 million compared to working capital of \$12.4 million as at April 30, 2009, reflecting the cash used by operations during the six months ended October 31, 2009.

The Company will require additional sources of financial resources to ensure that it has sufficient capital to fund its research development and corporate activities and retire its debentures on or before maturity. The Company continues to actively pursue additional opportunities to raise conventional capital, as described below; explore product out-licensing; and engage in partnering discussions concerning the Company's core NexVasPR™ technology; however there is no assurance that these initiatives will be successful.

### ***Cash Flows from Operating Activities***

Cash flows used in operating activities for the three and six months ended October 31, 2009 totaled \$4.0 million (2008 - \$2.9 million) and \$9.8 million (2008 - \$7.1 million). The year-over-year changes are attributable primarily to changes in non-cash working capital; the Company reduced its accounts payable and accrued liabilities significantly during both the three and six months ended October 31, 2009.

## **Cash Flows from Financing Activities**

### **Common Shares**

The Company's financing activities during the three and six months ended October 31, 2009 provided nominal cash flows (three and six months ended October 31, 2008 - \$5.2 million and \$5.0 million, respectively).

In April 2009, the Company closed the first tranche of a private placement equity financing for a total of US\$20 million (Cdn\$24.3 million). Under the terms and conditions of the Agreement for this first tranche, Resverlogix issued units to investors, led by NGN BioMed Opportunity II, L.P. ("NGN"), with each Unit comprising of one common share and 0.40 of a purchase warrant at a price of CDN \$2.72 per unit. Each whole warrant entitles the holder to acquire for a period of five years an additional common share at a price of \$2.72 per share. The Company issued a total of 8,916,845 common shares and 4,175,229 warrants. The warrants contain anti-dilution provisions which would reduce the exercise price then in effect on a weighted average basis if any common shares or securities exchangeable to common shares were issued or sold at a price below the exercise price.

The Company has entered into a non-binding Standby Equity Distribution Agreement ("SEDA") term sheet. The SEDA entitles the Company to issue a maximum of \$25 million of the Company's common shares to the investor over a maximum of 24 months; the arrangement is subject to regulatory approval. Subsequent to October 31, 2009, the Company has also entered into agency agreements in connection with financings. There is no assurance that these initiatives will be successful.

### **Convertible Debentures**

During 2007, the Company issued a total of US\$42 million of senior secured convertible debentures, comprised of two separate issuances of US\$17 million and US\$25 million on January 4, 2007 and June 7, 2007, respectively. The debentures were initially due on January 4, 2010 and June 6, 2012, respectively.

On August 31, 2007, the Company amended the US\$25 million convertible debentures to eliminate certain Interest to Maturity provisions and reduce the then in effect adjusted interest rate of 14% to a 12% fixed rate (see additional details below under "August 2007 Debenture Amendment").

On October 15, 2008, the Company redeemed US\$10 million of the then remaining US\$17.3 million of unconverted January and June 2007 debentures and amended the terms of the remaining debentures (see additional details below under "October 2008 Debenture Redemption and Amendment").

On April 9, 2009, the Company amended the terms of the remaining US\$7.2 million of debentures (see additional details under "April 2009 Debenture Amendment").

As of October 31, 2009, the Company had a total of US\$6.7 million of debentures outstanding, due on June 6, 2012; the debentures carry an interest rate of 18% per annum. Further detail of the provisions of the Company's debentures and amendments thereto are disclosed in the Company's unaudited interim consolidated financial statements for the three and six months ended October 31, 2009.

On November 18, 2009, the Company announced its intentions to redeem up to US\$6.7 million of its outstanding debentures. On November 22 and 27, 2009, the Company provided notices to debentureholders of its intention to redeem US\$3.0 and US\$3.7 million of its convertible debentures, respectively.

#### April 2009 Debenture Amendment

On April 9, 2009, the Company amended the October 15, 2008 amendment noted below to defer the debenture holders cumulative put rights which became exercisable on March 31, 2009 and expired on October 9, 2009. Upon amendment, the cumulative put rights became exercisable on October 9, 2009. The cumulative put rights permitted the debenture holders to request repayment of the debt as well as accrued interest in cash (see "October 2008 Debenture Redemption and Amendment" for additional details). In consideration for the foregoing, the Company amended the interest rate on the US\$7.2 million of outstanding debentures from 12% to 18% on a prospective basis and the Company deferred its call option to redeem the debentures as described below for the same six month period. Additionally, as part of the April 15, 2009 share purchase agreement for US\$20 million issuance of common shares described above, the Company permitted the debenture holders to become a party to the escrow agreement under this amending agreement.

The conversion price of the outstanding debentures convertible into common shares remains at \$2.61 per share as amended on October 15, 2008 noted below. Additional terms of the outstanding debentures are further described under the respective amendments.

#### October 2008 Debenture Redemption and Amendment

On October 15, 2008, the Company redeemed US\$10 million of its debentures and amended the terms of the combined remaining US\$7.3 million of debentures. The Company redeemed the debentures by payment of US\$4.5 million in cash and US\$5.5 million by way of the issuance of 2,444,445 common shares at a price of \$2.61 per common share. The redemption and amendment included an agreement with the debenture holders to withhold all future put notices until March 31, 2009 (subsequently amended to October 9, 2009 as noted above) to a cash only option from a common share or cash option (see description of the put obligation under "August 2007 Debenture Amendment").

The amendment also extended the maturity of the remaining debentures to June 6, 2012. The conversion price for the remaining debentures, which are convertible into common shares, was amended to \$2.61 from \$8.76 and \$12.07, respectively. In addition, the warrant exercise price was adjusted to \$3.07 from \$10.25 per common share. The conversion price and warrant exercise price are each subject to certain anti-dilution adjustments which would reduce the price if the Company issues additional common shares or financial instruments that are convertible into common shares at prices below the conversion price and the warrant exercise price.

The amended principal balance at October 15, 2008 of US\$7.9 million included the US\$278,000 of the debentures issued in January 2007 and \$7.0 million of the debentures issued in June 2007, and also included \$590,000 of accrued interest.

As part of the amendment, the Company at its option can also initiate a mandatory conversion option which requires the holders to convert all of their debentures to common shares when the Company's share price trades over \$5.22 and meets other certain conditions.

#### August 2007 Convertible Debenture Amendment

On August 31, 2007, the Company amended the terms of the US\$25 million of debentures issued in June 2007 to eliminate the Interest to Maturity provisions (as contained and described under the January 2007 debenture below), and reduce the then in effect adjusted interest rate of 14% to a 12% fixed rate. In exchange for these amendments, the conversion price was amended to \$8.76 (subsequently amended to \$2.61 as noted above) from the original conversion price of \$17.50. In addition, the warrants issued in June 2007 were re-priced to \$10.25 (subsequently amended to \$3.07 as noted above) from \$20.63 and an additional 529,351 warrants were issued for a total issuance of 1,058,702.

This amendment provided the debenture holders with a once monthly 5% put option of principal amount at the time of issuance. Prior to the October 15, 2008 amendment noted above, the put option provided the holder with the ability to request a portion of the principal to be repaid for cash, shares or some combination thereof (subsequently amended to a cash only option as described above).

The put option noted above provided the holders with a once monthly 5% put option of initial principal amount. The put option allowed the holder to request a portion of the principal to be repaid in cash, shares or some combination thereof. The monthly put options are cumulative (if previous monthly put options are not exercised) but at no time prior to the October 15, 2008 amendment, which amended the cumulative put to a cash option only, could the holder request any amount in cash greater than the once monthly put option of 5% of the original principal amount plus any accrued interest.

#### Settlement of Interest and Debt Conversion Obligations

During the three months ended October 31, 2009, US\$57,000 of the Company's debentures at their face value were converted into 23,879 common shares at an average conversion price of \$2.61 per common share.

During the six months ended October 31, 2009, US\$267,000 of the Company's debentures were converted into 119,370 common shares at an average conversion price of \$2.61 per common share.

The Company paid its July 2, 2009 semi-annual debenture interest obligation of US\$504,000 with US\$378,000 in cash and US\$126,000 by issuing 55,505 common shares. The Company elected to pay its July 1, 2008 semi-annual debenture interest of US\$1,105,000 by issuing 113,393 common shares.

On November 18, 2009, the Company announced its intentions to redeem up to US\$6.7 million of its outstanding debentures.

As at December 15, 2009, US\$9.8 of the US\$25 million of debentures issued in June 2007 have been converted into 1.5 million common shares and the Company has redeemed US\$10 million of the debentures. As at December 15, 2009, US\$6.7 million of convertible debentures are outstanding and convertible into 2.5 million common shares.

### **Cash Flows from Investing Activities**

During the three and six months ended October 31, 2009, \$42,000 and \$47,000, respectively, was spent on capital additions, consisting mostly of laboratory and computer equipment. For the three and six months ended October 31, 2008, capital additions totaled \$14,000 and \$29,000, respectively, comprised primarily of robotic equipment used to automate the screening of chemical compounds.

During the three and six months ended October 31, 2009, patent expenditures totaled \$52,000 and \$137,000, respectively. During the three and six months ended October 31, 2008, patent expenditures totaled \$19,000 and \$91,000, respectively. The increased expenditures reflect increased legal costs associated with the Company's expanding patent-pending applications.

During the three months ended October 31, 2009, the Company's restricted cash was virtually unchanged at \$6.1 million. During the three months ended July 31, 2009, the Company's restricted cash declined \$1.1 million.

### **CONTRACTUAL OBLIGATIONS**

The table below summarizes the Company's contractual obligations by due date, as at October 31, 2009:

<b>Contractual Obligations</b>	<b>October 31, 2010</b>	<b>October 31, 2011</b>	<b>October 31, 2012</b>
Convertible debentures (US\$)	-	-	6,727,583
Research contracts (\$)	3,101,520	-	-
Operating leases (\$)	150,332	155,150	94,439

During the six months ended October 31, 2009, the Company has entered into various research contracts. The Company is committed to pay \$3,101,520 for completion of the research, and all payments are anticipated to April 2011.

### **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

Note 2 of to the Company's consolidated financial statements for the year ended April 30, 2009 includes a summary of the Company's significant accounting policies.

The application of some of these policies requires management to make certain estimates, judgments and assumptions that they believe are reasonable based upon the information available and are subject to the inherent risk of inaccuracy, particularly where they relate to events that are expected to take place well into the future. These estimates and assumptions affect the reported amounts of assets at the date of the financial statements and the reported amounts of expenses during the periods presented.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

### ***International Financial Reporting Standards***

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards (“IFRS”) effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, in the first quarter of the 2012 fiscal year with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 38 “Intangible Assets”, thus mitigating the impact of adopting IFRS at the mandatory transition date.

The Company’s IFRS conversion project consists of three phases: Diagnostic, Solution Development, and Implementation and Execution. The Company has commenced the Diagnostic phase, which involved a high-level preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight as to the most significant areas of difference applicable to the Company which includes more extensive presentation and disclosure requirements under IFRS.

The Company is continuing to evaluate the impact of the adoption of IFRS on its consolidated financial statements and is monitoring any changes issued by the AcSB that may impact the Company’s adoption of IFRS.

### ***Business Combinations***

In January 2009, the CICA issued Section 1582, Business Combinations. This Section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the Company’s first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted. This section replaces Section 1581, Business Combinations and harmonizes Canadian GAAP with IFRS. The Company has not assessed the impact of the adoption of this standard.

## **OFF-BALANCE SHEET ARRANGEMENTS**

As of October 31, 2009, the Company has not entered into any off-balance sheet arrangements.

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of selected financial information derived from the Company's unaudited interim consolidated financial statements for each of the eight most recently completed quarters.

	For the three month period ended			
	October 31, 2009	July 31, 2009	April 30, 2009	January 31, 2009
Revenue (\$)	1,743	724	366	9,338
Net loss (\$)	(4,667,475)	(5,447,996)	(4,414,141)	(6,490,102)
Net loss per share (basic and fully diluted) (\$)	(0.12)	(0.14)	(0.13)	(0.26)

	For the three month period ended			
	October 31, 2008	July 31, 2008	April 30, 2008	January 31, 2008
Revenue (\$)	69,510	85,736	145,770	274,140
Net loss (\$)	(5,547,865)	(5,159,329)	(7,229,046)	(6,257,012)
Net loss per share (basic and fully diluted) (\$)	(0.20)	(0.19)	(0.28)	(0.24)

Items that impact the comparability of results of operations include:

- Revenue is comprised of the interest recorded on the Company's short term investments. These balances will fluctuate with the amount of cash held by the Company which fluctuates based on, among other factors, the Company's financing activities. The increase in revenues from April 30, 2007 quarterly period to January 31, 2008 is the result of financing activities in January and June of 2007. Interest income has declined as cash reserves and prevailing interest rate on short-term investments have declined.
- The progression of the research and development activity of the Company directed towards the CVD programs, the completion of Phase 1a clinical programs in three months ended April 30, 2008 and the commencement of the Phase 1b/2a during the three months ended October 31, 2009.
- The recognition of gains upon the amendment of the Company's convertible debentures. Interest and accretion on convertible debentures is impacted by the conversion of the convertible debentures into common stock and the US\$10 million redemption of debt on October 15, 2008.
- Stock based compensation fluctuates based on the granting and vesting of stock options, as well as the quarterly revaluation of certain stock options. As such, stock-based compensation fluctuates from quarter to quarter. Stock-based compensation is a non-cash expense.
- During the three month results ended October 31, 2009, the Company recognized a net foreign exchange currency gain of \$11,000 compared to a loss of \$1.1 million for the second quarter of 2008, as a result of the recent depreciation of the Canadian dollar

against the US dollar. As a large portion of the company's expenses and financial instruments are denominated in US dollars, it had a significant impact on the Company's financial results.

## **RELATED PARTY TRANSACTIONS**

During the three and six months ended October 31, 2009, the Company did not transact with any related parties.

## **OUTSTANDING SHARES AND SECURITIES CONVERTIBLE INTO SHARES**

As at December 15, 2009, Resverlogix had authorized an unlimited number of common shares and preferred shares, and had 39,418,139 common shares issued and outstanding. Also as at December 9, 2009, Resverlogix had 3,740,000 options to acquire common shares outstanding, of which 2,341,250 options are vested and exercisable, 6,357,108 warrants to acquire common shares outstanding, and had convertible debentures outstanding which could be converted into 2,577,618 common shares. Details on share capital are outlined in Note 7 to the unaudited interim consolidated financial statements.

## **DISCLOSURE CONTROLS AND PROCEDURES**

As of October 31, 2009, the President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") together with the Company's management have evaluated the design of the Company's disclosure controls and procedures. They concluded that the Company's disclosure controls and procedures, subject to the below noted weaknesses, can provide reasonable, not absolute, assurance that the objectives of the control systems are met.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company's Chief Executive Officer and Chief Financial Officer are responsible for designing internal control procedures over financial reporting, or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The Company, due to its limited number of financial staff, has weaknesses in its control over financial reporting which are:

1. Due to the limited number of staff, it is not possible to achieve segregation of all duties. Management has attempted to mitigate the risk of material misstatement in financial reporting through a combination of extensive and detailed review by senior management and the board of directors. Where practicable, the Company will make necessary changes to improve the segregation of duties.

2. Due to the limited number of staff, the Company has a risk of material misstatement related to complex and non-routine complex accounting transaction. Management and Board reviews are utilized to mitigate these risks but there is no guarantee that a material misstatement would be prevented. The Company will attempt to remediate this weakness by employing outside consultants with the appropriate expertise when the need arises to assist with complex accounting and technical issues.

## **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There have been no changes in Resverlogix's internal controls over financial reporting during the six months ended October 31, 2009 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## **NON-GAAP MEASURES**

To supplement the Company's consolidated financial statements presented in accordance with Canadian GAAP, the Company uses non-GAAP measures such as average monthly cash burn rate. This measure is provided to enhance readers' overall understanding of the Company's current use of cash resources and is included to provide investors and management with an alternative measure for assessing the Company's operating results in a manner that is focused on the use of cash for operations and to provide a more consistent basis for comparison between quarters. This measure is based on the cash flow used in operations prior to changes in non-cash working capital from the Consolidated Statements of Cash Flows. The average monthly value is determined using the applicable period total divided by the number of months in the period. These measures are not in accordance with or an alternative to GAAP and may differ from measures used by other entities.

## **OUTLOOK**

Throughout 2009 Resverlogix continued to pursue research and clinical development of potentially revolutionary products in cardiovascular disease, driven by the significant unmet need in the treatment of atherosclerosis. Atherosclerosis is the major underlying cause of premature death and morbidity in cardiovascular disease patients, especially those with low HDL. Disappointing clinical trial results experienced by others in the field of HDL therapy continues to reinforce new key findings and the need to develop products that target Reverse Cholesterol Transport via the production of ApoA-I and functional HDL particles. For Resverlogix, this reinforces the importance of demonstrating that our therapeutics indeed influences functional HDL via the ApoA-I pathway.

This past year has been pivotal for our science, marked by considerable advancement of our lead drug candidate, RVX-208, through to a second set of human trials, and the continued expansion of our research programs. RVX-208 milestones included successful completion of the Phase 1a clinical trial and completion of dosing in the Phase 1b/2a clinical study. The completed Clinical Study Report is expected to be completed by the end of 2009. This trial will further our understanding of RVX-208's early properties in humans over 28 days by performing extensive analysis of safety, pharmacokinetics and markers of reverse cholesterol transport including ApoA-I, HDL-c, preBeta-HDL particles, alpha-1 HDL

particles. This provides additional information on how to best move RVX-208 forward through larger and longer trials.

With favourable results in its most recent Phase 1b/2a clinical trial, Resverlogix is now performing a comprehensive Phase 2 clinical program which has within it two studies. The studies are to proceed in parallel. The first study, ASSERT, is a three-month lipid-dose response study in 280 stable cardiovascular disease patients on standard-of-care therapy including statins. The second study, ASSURE 1, is a study in 120 acute coronary syndrome patients where a low and high dose will be compared to placebo to assess lipid effects. A pilot-IVUS (intravascular ultrasound) study has been embedded in 60 patients with the objective of assessing atheroma plaque composition and atheroma volume of the coronary vessel wall. The substudy will compare IVUS images before and after three months of treatment and is designed to illustrate trends in plaque composition and volume change. Both studies will commence in the first quarter of 2010 and be headed by the Cleveland Clinic.

Future planning, including a Phase 2b IVUS trial and Phase 3 trials, will be subject to review by management, the Clinical Advisory Board and the Company's IVUS Clinical Steering Committee. The Company continues to work closely with its external expert committees to ensure that future clinical development of RVX-208 has the greatest chance of success. Our NexVas™ Plaque Regression program continues to enable Resverlogix to sustain our lead in the development of more robust and accurate screens for further potential follow-on compounds behind RVX-208. Further development in drug discovery is enabling the Company to better position itself in building a pipeline for novel small molecules that raise ApoA-I production.

We continue to make progress in our NexVas™ Vascular Inflammation program with many interesting potential therapeutic targets being validated through animal models. We continue to focus on our primary objective of improving the quality and longevity of patients who suffer from cardiovascular disease. Recently, Resverlogix expanded into key research areas with high unmet medical need such as Alzheimer's disease. The Company intends to expand on its collaboration with Dr. Larry Sparks and Sun Health Research Institute and other potential partners to develop this program further in the near future.

We continue our partnering discussions with leading global pharmaceutical organizations that have evidenced an interest in our NexVas™ PR technology platform. In addition, we are also in ongoing discussions to license for cardiovascular indications to single Asian countries, which has the potential to provide an additional source of capital to the Company to further research and development efforts. Management is facilitating the due diligence process with interested parties with the goal of securing a partner prior to the completion of Phase 2 IVUS trials. The present business climate in the healthcare sector, which potential business partners are subject to, makes it difficult to predict whether our partnering discussions will result in reaching an agreement.

We employ a detailed product life cycle strategy for our NexVas™ platform franchise. The goal of Resverlogix's life cycle strategy is to seek and optimize broad commercial pipeline opportunities for value creation. Moving forward through clinical development, the Company will strive to maximize market potential and create value for both shareholders and a pharmaceutical partner.

## **RISKS AND UNCERTAINTIES**

The biotechnology industry generally may be regarded as uncertain given the nature of the industry. Accordingly, investments in biotechnology should be regarded as speculative. Biotechnology research and development involves a significant degree of risk. The risks and uncertainties faced by Resverlogix are substantially the same as those disclosed in the Company's MD&A for the year ended April 30, 2009 filed on SEDAR ([www.sedar.com](http://www.sedar.com)), in the section titled "Risks and Uncertainties".

Additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial may also adversely affect the Company's business. If any one or more of the risks occur, the Company's business, financial condition and results of operations could be seriously harmed. Further, if the Company fails to meet the expectations of the public market in any given period, the market price of the Company's common shares could decline.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company can also be found on SEDAR at [www.sedar.com](http://www.sedar.com).