



**RESVERLOGIX CORP.**

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

**FOR THE THREE AND NINE MONTHS  
ENDED JANUARY 31, 2010**

**MARCH 15, 2010**

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 nine months ended January 31, 2010 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 2 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, either a Phase 2b IVUS trial or Phase 3 clinical 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 referred to under "Outlook"; our goal of securing a partner prior to the completion of Phase 2b 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 execution of the Company's Phase 2 programs and planning of the Phase 3 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 18 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.

### ***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.

## OVERVIEW

Resverlogix is a leading biotechnology company engaged in the discovery and development of novel therapies for important global medical markets with significant unmet needs. Resverlogix is committed to applying the qualities of innovation, integrity and sound business principles. 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 foci are 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". Top line results from the Company's Phase 1b/2a clinical trial which 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.

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 associated with the large clinical trials associated with the final phases of the drug development process. The Company plans to either license or sell its technology prior to the 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 diseases, cancers and fibrotic indications.

As of January 31, 2010, 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 January 2009, the Company completed Arm B and proceeded to Arm C of the Phase 1b/2a study.

In April 2009, Resverlogix announced that it would add a new assessment of a biomarker for Alzheimer's disease to the third and final arm of the Phase 1b/2a 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 Phase 1b/2a trial which 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 was 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 included:

- 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 Phase 2 clinical studies. 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 is being 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. Start-up activities for these trials, including screening, randomization and dosing, had begun for the dose ranging study; the IVUS trial was expected to commence in the first quarter of 2010.

In December 2009, Resverlogix announced that it had begun dosing patients in its Phase 2 clinical trial which was led by the Cleveland Clinic. This trial is examining RVX-208, Resverlogix's oral small molecule therapy for the treatment of atherosclerosis, in patients with stable coronary artery disease (CAD). This study is chaired by Dr. Steven Nissen, MD, Chairman of the Cleveland Clinic Department of Cardiovascular Medicine and the principal investigator is Dr. Stephen Nicholls, Medical Director of Intravascular Ultrasound at Cleveland Clinic. The Cleveland Clinic has named this trial, ASSERT, which stands for ApoA-I Synthesis Stimulation Evaluation in Patients Requiring Treatment for Coronary Artery Disease. A total of 40 investigator sites across the US are expected to be participating in the study.

### ***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 January 2010, Resverlogix researchers were lead authors on a peer-reviewed article titled "Stilbene analogs as inducers of Apolipoprotein-I transcription", which appeared in the *Journal of Medicinal Chemistry*, published online on January 14, 2010.

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., and Dr. Jacques Genest, M.D., FRCP(C) 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 develops the trial protocol and any protocol amendments, and provides advice to the investigators on all aspects of the trial. The Chairman is Dr. Steven Nissen, M.D and the Principal Investigator for this trial is 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 NINE MONTHS ENDED JANUARY 31, 2010**

Resverlogix recognized a net loss for the three months ended January 31, 2010 of \$8.7 million (2009 - \$6.5 million), or \$0.21 per share (2009 - \$0.26 per share). The Company's net loss for the nine months ended October 31, 2010 was \$18.8 million (2009 - \$17.2 million) or \$0.47 per share (2009 - \$0.61 per share). The increase is primarily related to the recognition of a loss on redemption of convertible debentures in the current periods, as opposed to a gain on redemption of debentures in the comparative nine months, offset in part 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 nine months ended January 31, 2010 was \$1.6 million (2009 - \$1.7 million) and \$1.6 million (2009 - \$1.4 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 for the three months ended January 31, 2010 and 2009 was nominal. Interest income for the nine months ended January 31, 2010 decreased to \$2,750 (2009 - \$164,587). Interest income decreased due to a decline in invested capital and lower interest rates yields on US Treasuries.

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

During the three months ended January 31, 2010, research and development ("R&D") expenditures totaled \$3.8 million (2009 - \$4.2 million). R&D expenditures for the three months ended January 31, 2010 were impacted by the commencement of Phase 2 clinical trials. Internal expenses include salaries and benefits for R&D staff, consulting fees, supplies and general laboratory operating expenses.

During the nine months ended January 31, 2010, R&D expenditures totaled \$9.8 million (2009 - \$11.7 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. During the nine months ended January 31, 2010, the Company completed the analysis of the Phase 1a/2b clinical trial and commenced the parallel Phase 2 clinical trials.

During the three and nine months ended January 31, 2009, R&D expenditures were primarily related to completion of the Phase 1a clinical trial and commencement of the Phase 1b/2a clinical trial. Other key components included chemical synthesis and pharmacokinetics and toxicology studies in preparation for the Phase 1b/2a clinical data.

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

For the three and nine months ended January 31, 2010, general and administrative expenditures totaled \$0.7 million (2009 - \$0.7 million) and \$2.3 million (2009 - \$2.1 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. Significant components for the three and nine months ended January 31, 2010 were salaries and benefits, consulting and professional fees and directors' fees.

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

During the three and nine months ended January 31, 2010, the Company recognized \$0.4 million (2009 - \$0.9 million) and \$1.3 million (2009 - \$2.0 million) of stock-based compensation. During the three months ended January 31, 2010, the Company did not issue any stock options. Volatility in the price of the Company's shares impacts quarterly stock-based compensation expense. Stock-based compensation is a non-cash expense.

### ***Interest and Accretion on Convertible Debentures***

During the three and nine months ended January 31, 2010, the Company recognized interest and accretion on convertible debentures of \$0.3 million (2009 - \$0.4 million) and \$1.2 million (2009 - \$2.0 million), 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 redemption of US\$10 million of debentures in October 2008 and US\$6.7 million in December 2009 and January 2010, and 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 Loss***

During the three and nine months ended January 31, 2010, the Company recognized a foreign exchange loss of \$0.2 million (2009 - \$0.2 million) and \$0.8 million (2009 - \$1.3 million), respectively. The Company's foreign exchange gains and losses were attributable to US denominated cash and cash equivalent, restricted cash, accounts payable and convertible debentures. During the nine months ended January 31, 2010, the Company's US denominated cash and cash equivalents remained relatively unchanged; the Company redeemed US\$10 million and \$6.7 million of debentures in April 2009 and December 2009/January 2010, respectively. During the three months ended January 31, 2010 and 2009, the Canadian / US dollar exchange rate was relatively unchanged; during the nine months ended January 31, 2010, the US dollar weakened, while during the nine months ended January 31, 2009, the US dollar strengthened.

### ***Gain (Loss) on Redemption of Convertible Debentures***

During the three months ended January 31, 2010, the Company redeemed the outstanding US\$6.7 million of convertible debentures at 125% of par value, or CDN \$8.9 million, plus accrued interest. The consideration was allocated between the liability component of \$8.6 million and the equity component of \$0.3 million, which resulted in: (1) the recognition of a

\$3.3 million loss on redemption of the liability component of convertible debentures; and (2) the recognition of a \$14.0 million discount on redemption of the equity component of convertible debentures to deficit.

During the three months ended October 31, 2008, the Company recognized a \$1.9 million gain on redemption of convertible debentures related to the October 15, 2008 redemption of US\$10 million of the Company's debentures.

## **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 exercising of 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 maturities which provide required cash flow required for current operations. The Company invests only in securities issued by entities possessing high credit quality. As at January 31, 2010, the Company held no asset-backed commercial paper. 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 January 31, 2010, cash and cash equivalents totaled \$8.5 million, compared to \$12.6 million at April 30, 2009, reflecting \$3.2 million of cash provided by financing activities, \$7.0 million of cash provided by investing activities and \$14.3 million of cash used by operations during the nine months ended January 31, 2010.

At January 31, 2010, the Company had working capital of \$7.1 million. 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; 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 nine months ended January 31, 2010 totaled \$4.5 million (2009 - \$4.0 million) and \$14.3 million (2009 - \$11.2 million). The year-over-year changes are attributable primarily to changes in non-cash working capital, in particular accounts payable and accrued interest, and the recognition of realized foreign exchange gains/losses.

## ***Cash Flows from Financing Activities***

### **Common Shares**

The Company's financing activities during the three and nine months ended January 31, 2010 provided a net \$3.2 million of cash to the Company. During the three months ended January 31, 2009, the Company had nominal financing activity; during the nine months ended January 31, 2009, financing activity consisted primarily of the consumption of \$5.3 million of cash on the redemption of convertible debentures.

During the three months ended January 31, 2010, the Company completed a \$12.9 million equity private placement. Under the terms and conditions of the agreement, Resverlogix issued units at a price of \$2.50 per unit, representing 5,141,270 common shares (a "Common Share") and 1,785,318 warrants. 1,285,318 of the warrants have an exercise price of \$2.50 per share; 500,000 of the warrants have an exercise price of \$2.88; the warrants expire on December 18, 2011.

During the three months ended January 31, 2010, the Company also 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.

In April 2009, the Company closed a US\$20 million (CDN \$24.3 million) equity private placement. Resverlogix issued units at a price of CDN\$2.72 per unit, representing 8,916,845 warrants and 4,175,229 warrants. The warrants have an exercise price of \$2.72 per share and expire on April 16, 2014. The warrants contain anti-dilution provisions which, subject to regulatory or shareholder approval, would reduce the exercise price then in effect on a weighted average basis if any common shares or securities exchangeable to common shares are issued or sold at a price below the exercise price.

### **Convertible Debentures**

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

During the three months ended January 31, 2010, the Company redeemed its outstanding US\$6.7 million of the convertible debentures. In combination with the US\$10.0 million of the debentures redeemed in October 2008 and the conversion of the debentures into common shares, the Company no longer has any outstanding convertible debentures.

Additional detail on the Company's convertible debentures redeemed during the three months ended January 31, 2010 are disclosed in the Company's MD&A for the three and six months ended October 31, 2009 filed on SEDAR ([www.sedar.com](http://www.sedar.com))

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

In connection with the redemption of the Company's convertible debentures, during the three months ended January 31, 2010, the Company's restricted cash decreased from \$6.1 million (US\$5.6 million) to \$nil. During the nine months ended January 31, 2010, the Company's restricted cash, previously held in escrow to settle any debenture put notices, declined \$7.2 million.

During the three and nine months ended January 31, 2010 and 2009, additions to property and equipment and patents were modest.

### **CONTRACTUAL OBLIGATIONS**

The table below summarizes the Company's contractual obligations by due date, as at January 31, 2010:

<b>Contractual Obligations</b>	<b>January 31, 2011</b>	<b>January 31, 2012</b>	<b>January 31, 2013</b>	<b>January 31, 2014</b>	<b>January 31, 2015</b>
Research contracts (\$)	8,042,899	4,175,726	-	-	-
Operating leases (\$)	297,977	243,738	139,662	85,697	64,273

During the nine months ended January 31, 2010, the Company has entered into various research contracts. The Company is committed to pay \$12,218,625 for completion of the research, and all payments are anticipated to December 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***

The Accounting Standards Board ("AcSB") has prescribed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, at which time publicly accountable enterprises will be required to

prepare financial statements in accordance with IFRS. The conversion to IFRS will be required for the Company for the three months ended July 31, 2011, with comparative data for the three months ended July 31, 2010. 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.

The Company's IFRS convergence project is led by its finance and accounting management and an external resource has been engaged to assist with certain aspects of the project. The Company's IFRS conversion project consists of three phases: diagnostic, solution development, and implementation and execution. The Company has completed 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 the Company's financial statements, 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. Although many of the differences between IFRS and Canadian GAAP are not expected to have a material impact on the Company's financial results or financial position, the Company has not yet determined the full impact of the Company's convergence to IFRS.

Although the Company has not yet determined the full effect of adopting IFRS, it has identified differences between GAAP and IFRS and performed an initial analysis of IFRS accounting policy choices, its control environment, and system and business processes. The Company's preliminary view of the key areas where changes in accounting policies are expected that will likely impact the Company's consolidated financial statements are listed below. The list and comments should not be regarded as a complete list of changes that will result from the transition to IFRS.

**Share-Based Payments – IFRS 2 “Share-based Payments”** is substantially converged with Canadian GAAP. Canadian GAAP allows the use of either the straight-line or the accelerated methods to amortize graded-vesting features; the Company uses the straight-line method. Under IFRS only the accelerated or graded vesting methods are allowed. Canadian GAAP permits companies to either estimate forfeitures at the time of grant, or record the entire expense as if all options vested at the time of grant and record forfeitures as they occur. IFRS 2 requires companies to estimate the forfeiture at the time of grant. These differences are expected to impact the accounting measurement of the Company's incentive plans.

**Property and Equipment – International Accounting Standard (“IAS”) 16 “Property Plant and Equipment”** and GAAP contain the same basis principles, however there are some differences. IFRS requires that significant parts of an asset be depreciated separately. IFRS also permits property, plant and equipment to be measured using the fair value model or the historical cost model. The Company expects to use the historical cost model. IFRS 1 contains an elective exemption where an entity may elect to reset as the new cost basis for property, plant and equipment, its fair value at the date of transition. The Company has not yet determined whether it will adopt this election.

**Impairment of Assets – Impairments under IAS 36 “Impairment of Assets”** are based on discounted cash flows. Under GAAP, if an asset's estimated undiscounted future cash flows are below its carrying amount a writedown is required and is determined by the amount which the carrying amount exceeds fair value. IFRS does not contain an undiscounted

impairment test. This may result in write-downs where carrying values of assets were previously supported under GAAP on an undiscounted cash flow basis, but are not supported on a discounted cash flow basis.

Under GAAP, impairments are not reversed. Under IAS 36, a change in circumstances that results in an impairment of property, plant and equipment would require a redetermination of the amount of the impairment, with any reversal being recognized into income to the extent that the asset had been previously impaired.

The Company is in the process of performing detailed evaluations of each significant accounting component, and anticipates completing this process in Summer 2010. The Company is also in the process of identifying additional data that Management will require from its systems and implementing an information system that will allow the Company to supply the data required to comply with 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. Further analysis will be ongoing throughout 2010.

#### ***Goodwill and Intangible Assets***

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets", which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. The adoption of this standard did not have any impact on the Company's interim financial results.

#### ***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 January 31, 2010, 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			
	January 31, 2010	October 31, 2009	July 31, 2009	April 30, 2009
Revenue (\$)	283	1,743	724	366
Net loss (\$)	(8,709,697)	(4,667,475)	(5,447,996)	(4,414,141)
Net loss per share (basic and fully diluted) (\$)	(0.21)	(0.12)	(0.14)	(0.13)

	For the three month period ended			
	January 31, 2009	October 31, 2008	July 31, 2008	April 30, 2008
Revenue (\$)	9,340	69,510	85,736	145,770
Net loss (\$)	(6,490,100)	(5,547,865)	(5,159,329)	(7,229,046)
Net loss per share (basic and fully diluted) (\$)	(0.26)	(0.20)	(0.19)	(0.28)

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 fluctuate with the amount of cash held by the Company which fluctuates based on, among other factors, the Company's financing activities. 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, the commencement of the Phase 1b/2a trial during the three months ended October 31, 2008, and the commencement of Phase 2 trials during the three months ended January 31, 2010.
- The recognition of gains and losses upon the amendment and redemption of the Company's convertible debentures in October 2008 and December 2009/January 2010. Interest and accretion on convertible debentures is also impacted by the conversion of the convertible debentures into common stock and the US\$10 million redemption of debentures during the three months ended October 31, 2008 and the US\$6.7 million redemption of debentures during the three months ended January 31, 2010.
- Stock based compensation fluctuates from quarter to quarter based on the granting and vesting of stock options, as well as the quarterly revaluation of certain stock options. Stock-based compensation is a non-cash expense.
- The recognition of foreign exchange gains and losses resulting from fluctuations in US denominated assets and liabilities and Canadian / US dollar exchange rates.

## **RELATED PARTY TRANSACTIONS**

During the three and nine months ended January 31, 2010, the Company did not transact with any related parties.

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

As at March 15, 2010, Resverlogix had authorized an unlimited number of common shares and preferred shares, and had 45,199,192 common shares issued and outstanding. At March 15, 2010, Resverlogix had also 4,090,000 options to acquire common shares outstanding, of which 2,415,000 options are vested and exercisable, 7,223,081 warrants to acquire common shares outstanding. Details on share capital are outlined in Note 7 to the unaudited interim consolidated financial statements.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is communicated to Management on a timely basis to allow timely and appropriate decisions regarding required public disclosure.

As of January 31, 2010, 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 were not effective as at January 31, 2010 due to weaknesses in internal controls over financial reporting identified below.

## **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.

Management has designed and evaluated the effectiveness of its Internal Controls over Financial Reporting (“ICFR”). The Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s ICFR are not effective as at January 31, 2010. There are certain material weaknesses in the Company’s ICFR due primarily to its inability to achieve effective segregation of duties in certain areas and the lack of internal expertise with regards to complex accounting areas due to limitations in staffing. These weaknesses are mitigated by extensive monitoring of the performance of processes and review by Management. Management and the Board of Directors attempt to mitigate, but not compensate, the risk of a material misstatement in financial reporting. There is a reasonable possibility that a material misstatement in the Company’s financial statements would be detected and/or prevented. However, there can be no assurance that the risk of a material misstatement can be reduced to a remote likelihood; a control system, no matter how well

conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system are achieved.

Management is actively pursuing a remediation process which includes the Company's systems and processes.

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

There have been no changes in Resverlogix's internal controls over financial reporting during the nine months ended January 31, 2010 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## **OUTLOOK**

Throughout 2009 and early 2010, 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. Renewed interest 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 Resverlogix's science, marked by considerable advancement of its 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 completion of the Phase 1a clinical trial and the Phase 1b/2a clinical study.

With the favourable results in its most recent Phase 1b/2a clinical trial, Resverlogix has begun its Phase 2 clinical program comprised of two parallel studies. The first study, ASSERT, which started dosing in December 2009, 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) substudy 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. ASSURE-1 commenced in the first quarter of 2010. Both studies are being headed by the Cleveland Clinic.

These trials will further our understanding of RVX-208's early properties in humans over 13 weeks by performing extensive analysis of safety, pharmacokinetics and markers of reverse cholesterol transport that demonstrate enhanced HDL functionality. This will provide additional information on how to best move RVX-208 forward through larger and longer trials in the future.

Future planning, including a Phase 2b IVUS trial and/or 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 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 trial or commencement of Phase 3 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).