



**RESVERLOGIX CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED APRIL 30, 2010 AND 2009**

**July 27, 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 audited consolidated financial statements for the years ended April 30, 2010 and 2009 and the notes thereto. 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 contains which provide forward-looking information within the meaning of applicable Canadian securities legislation, including without limitation statements containing the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "continue", "estimate", "forecasts" and other similar expressions. In particular, this MD&A includes forward-looking information related to: 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 NexVas™ PR 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 perform future 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 trials referred to under "Outlook"; and our strategy of expanding the product life cycle referred to under "Outlook".

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 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; 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 20 of this MD&A.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. 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 amount 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 also conducts research 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 currently focused on mid-stage clinical studies. A core strategy of the Company is to avoid the significant costs associated with large clinical trials associated with the final phases of the drug development process. A goal of the Company is to either license or sell 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".

## HIGHLIGHTS AND CURRENT DEVELOPMENTS

The Company is encouraged by the scientific developments of the NexVas™ CVD programs. The Company's science has progressed from a drug discovery stage of biotechnology research to completing Phase 1a, Phase 1b/2a and Phase 2 clinical studies for its NexVas™ PR technology, with a second upcoming Phase 2 clinical study. 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 programs.

### *Scientific Developments*

In May 2009, the Company announced that it had filed two new patent applications for compounds and their use in regulating inflammatory markers. Inflammatory markers are proteins generated by the body during periods of inflammation. These patent applications 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 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 had 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's understanding of the Reverse Cholesterol Transport system and the Company's targeted goal 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 was undertaking two parallel Phase 2 clinical studies, described further below. The studies were to 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 was to be conducted in 280 stable cardiovascular patients on standard of care therapy, including statins, examining lipid changes. Both of these clinical trials were to dose patients with coronary disease on standard treatment for 13 weeks. Start-up activities for these trials, including screening, randomization and dosing, had begun for the dose ranging study.

In December 2009, Resverlogix announced that it had begun dosing patients in ASSERT, its previously announced Phase 2 clinical trial being led by the Cleveland Clinic. ASSERT, which stands for ApoA-I Synthesis Stimulation Evaluation in Patients Requiring Treatment for Coronary Artery Disease, examines 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; the principal investigator is Dr. Stephen Nicholls, Medical Director of Intravascular Ultrasound at Cleveland Clinic. A total of 40 investigator sites across the US are participating in the study.

In February 2010, Resverlogix announced the completion of patient enrollment in ASSERT, a full five months ahead of the original schedule. RVX-208 was to be administered to approximately 280 patients with stable coronary artery disease for a period of 13 weeks under the randomized, double-blind, placebo-controlled, multi-centered US study. The primary objective of ASSERT was to determine if RVX-208 produces an increase in plasma apolipoprotein A-I (ApoA-I) levels compared to placebo group after three months of dosing. The secondary objectives were to examine the safety and tolerability of RVX-208, to compare the dose and time response relationships for ApoA-I over time, as well as to examine key reverse cholesterol markers involved with HDL functionality.

In February 2010, the Company also announced that it officially activated the first site for ASSURE-1, the Company's second Phase 2 clinical trial, and commenced enrollment of patients for dosing of RVX-208. ASSURE-1 is also being led by the Cleveland Clinic and examines RVX-208 in patients with acute coronary syndrome (ACS). This preparatory acute coronary syndrome study will ensure that at least 50 percent of the enrolled patients receive the IVUS (intravascular ultrasound) assessment.

In May 2010, the Company announced that ASSERT had completed dosing. Also, as a result of receiving data from the ASSERT trial faster than originally anticipated, the Company intended to apply pertinent findings from ASSERT to ASSURE-1. In order to expedite enrollment in ASSURE-1 while continuing the Company's primary patient safety concerns, ASSURE-1 was being voluntarily halted on a temporary basis in order to modify enrollment procedures.

## RESULTS OF OPERATIONS FOR THE YEAR ENDED APRIL 30, 2010

For the years ended April 30

(\$)	2010	2009
Interest income	2,815	164,950
Net loss	27,578,099	21,611,437
Net loss per share (basic and diluted)	0.67	0.73

Resverlogix recognized a net loss for the year ended April 30, 2010 of \$27.6 million (2009 - \$21.6 million), or \$0.67 per share (2009 - \$0.73 per share). The increase is primarily related to the recognition of a \$3.3 million loss on redemption of convertible debentures during the year ended April 30, 2010, and the recognition of a \$1.9 million gain on redemption of convertible debentures in the year ended April 30, 2009. This was partially offset by lower stock-based compensation and interest and accretion on convertible debentures, as well as the recognition of investment tax credits, for the year ended April 30, 2010.

The average monthly Cash Burn Rate for the year ended April 30, 2010 was \$1.6 million (2009 - \$1.4 million). 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.

For the years ended April 30

(\$, except as otherwise noted)	2010	2009
Cash flow used in operations	18,412,377	16,718,661
Changes in non-cash working capital	539,890	388,126
	18,952,267	17,106,787
Number of months	12	12
Average Monthly Cash Burn Rate	1,579,356	1,425,566

### ***Interest Income***

The Company's interest income consisted primarily of interest earned on invested funds. Interest income was nominal for the year ended April 30, 2010 (2009 - \$164,950). Interest income decreased due to a decline in invested capital and lower interest rate yields on US Treasuries.

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

During the year ended April 30, 2010, research and development (“R&D”) expenditures totaled \$15.2 million (2009 - \$13.6 million). R&D expenditures for the year ended April 30, 2010 were impacted by the commencement of the Company’s two Phase 2 clinical trials, most notably the ASSERT trial. Dosing for the ASSERT trial was completed in early May 2010, five months ahead of schedule. R&D expenditures are net of government assistance. During the year ended April 30, 2010, the Company recognized \$0.5 million of investment tax credits.

In addition to the costs associated directly with clinical programs, research and development also includes other product development costs such as drug development and manufacturing and toxicology and other studies, and costs associated with discovery research. R&D expenses include salaries and benefits for R&D staff, consulting fees, supplies and general laboratory operating expenses.

During the year ended April 30, 2009, R&D expenditures were largely related to the completion of the Company’s 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***

During the year ended April 30, 2010, general and administrative expenditures totaled \$3.3 million (2009 - \$3.0 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 year ended April 30, 2010 were salaries and benefits, consulting and professional fees and directors’ fees.

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

During the year ended April 30, 2010, the Company recognized \$3.5 million of stock-based compensation (2009 - \$3.1 million). During the year ended April 30, 2010, the Company issued 1,082,000 stock options (2009 - 1,375,000 stock options). The weighted average fair value of stock options granted during the year ended April 30, 2010 was \$2.73 per option (2009 - \$2.07 per option), due, in part, to the increase in the Company’s stock price. Because employee options are valued at fair value at the grant date and consultants’ options are remeasured quarterly until vested, volatility in the price of the Company’s shares impacts stock-based compensation expense. Stock-based compensation is a non-cash expense.

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

During the year ended April 30, 2010, the Company recognized interest and accretion on convertible debentures of \$1.2 million (2009 - \$2.5 million). Accretion is a 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\$10.0 million of debentures in October 2008, redemption of 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 a non-cash interest expense in the statement of net loss.

### ***Foreign Currency Loss***

During the year ended April 30, 2010, the Company recognized a foreign currency loss of \$0.9 million (2009 - \$1.2 million). The Company's foreign currency gains and losses were attributable to US denominated cash and cash equivalents, restricted cash, accounts payable and convertible debentures. During the year ended April 30, 2010, the Company's US denominated cash and cash equivalents declined to US\$2.7 million (April 30, 2009 - US\$6.6 million); restricted cash decline to \$nil (April 30, 2009 - US\$6.0 million). Furthermore, the Company redeemed US\$10.0 million and US\$6.7 million of debentures in October 2008 and December 2009/January 2010, respectively. During the year ended April 30, 2010, the US dollar weakened significantly; foreign currency losses recognized on foreign-denominated assets exceeded foreign currency gains recognized on foreign-denominated liabilities.

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

During the year ended April 30, 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 year ended April 30, 2009, 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.

## RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED APRIL 30, 2010

For the three months ended April 30

(\$)	2010	2009
Interest income	65	366
Expenses:		
Research and development	5,415,213	1,963,624
General and administrative	986,738	893,327
Stock based compensation	2,177,587	1,098,850
Interest and accretion on convertible debentures	-	511,068
Depreciation and amortization	69,949	60,001
Foreign exchange (gain) loss	103,509	(112,363)
	8,752,996	4,414,507
Net loss	(8,752,931)	(4,414,141)
Net loss per share (basic and diluted)	(0.19)	(0.13)

Resverlogix recognized a net loss for the three months ended April 30, 2010 of \$8.8 million (2009 - \$4.4 million), or \$0.19 per share (2009 - \$0.13 per share). The increase is primarily related to the ASSERT trial. Furthermore, during the three months ended April 30, 2009, certain research and clinical studies were postponed to conserve cash. The increase in R&D spending was partially offset by a \$0.5 million decrease in interest and accretion on convertible debentures. The increase in stock based compensation reflects a higher average fair value per option based on the appreciation in the Company's share price.

## LIQUIDITY AND CAPITAL RESOURCES

Resverlogix is a development stage company whose operations have been financed since inception primarily through the sale of common shares and convertible debentures. 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 objective 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. 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 April 30, 2010, cash and cash equivalents totaled \$4.6 million, compared to \$12.6 million at April 30, 2009, reflecting: \$18.4 million of cash used by operations; a net \$12.4 million provided from private placements and \$2.2 million of cash provided from the exercise of warrants; \$7.2 million released from escrow; and \$8.9 million expended on the redemption of convertible debentures.

At April 30, 2010, the Company had working capital of \$2.4 million.

On May 26, 2010, the Company submitted a notice of intention to draw down \$1.0 million under its Standby Equity Distribution Agreement. The drawdown and issuance of shares was subject to a minimum share price of \$4.00 per share, applicable only to this drawdown, below which YA was not required to subscribe. YA Global Master SPV Ltd. ("YA") subscribed for \$0.2 million of the Company's common shares, reflecting a share price in excess of \$4.00 per share for two of ten days.

On June 8, 2010, the Company completed a public offering of 2.8 million units of the Corporation at a price of \$3.30 per unit for gross proceeds of \$9.2 million. Each unit was comprised of one common share and 0.4 of one common share purchase warrant. Each warrant was exercisable at a price of \$4.00 per share for a period of four years from the closing date.

On June 22, 2010, the Company completed a public offering of 3.1 million units of the Corporation at a price of \$3.23 per unit for gross proceeds of \$10.0 million. Each unit was comprised of one common share and 0.4 of one common share purchase warrant. Each warrant was exercisable at a price of \$4.00 per share for a period of four years from the closing date.

The Company's cash and cash equivalents, together with the funds generated subsequent to April 30, 2010 from the financings described above and the funds available from the Company's Standby Equity Distribution Agreement as described below, are expected to be sufficient to fund anticipated cash requirements over the next year.

The Company's anticipated clinical trials and regulatory approvals will require several years to complete. As such, the Company does not anticipate generating operating cash inflows in the foreseeable future, and the Company will require additional sources of financial resources to ensure that it has sufficient capital to fund its long-term research development and corporate activities. The Company's long-term capital requirements will depend on, among other considerations, whether subsequent to ASSERT and ASSURE, it proceeds with Phase 2b clinical trials or commences a Phase 3 clinical trial, the size of any trials, and whether the trials are funded entirely by the Company or, partially or entirely, by a strategic partner. The Company continues to actively pursue opportunities to raise conventional capital. Notwithstanding very challenging capital markets, the Company has engaged in discussions with certain potential agents concerning sourcing capital and intends to raise additional capital within the next year.

The Company also continues to actively pursue product out-licensing and engage in partnering discussions concerning the Company's core NexVasPR<sup>TM</sup> technology.

There is no assurance that these initiatives will be successful. If the Company is unable to raise additional capital, it may need to defer or discontinue some or all of its research and development activities.

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

Cash flows used in operating activities for the year ended April 30, 2010 totaled \$18.4 million (2009 - \$16.7 million). The year-over-year changes are attributable primarily to: a \$2.1 million increase in research and development expenditures; the recognition of realized foreign exchange gains/losses; and changes in non-cash working capital, in particular accounts payable and accrued interest.

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

#### **Common Shares**

The Company's financing activities during the year ended April 30, 2010 provided a net \$5.3 million of cash to the Company. During the year ended April 30, 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 year ended April 30, 2010, the Company also entered into a Standby Equity Distribution Agreement ("SEDA"). The SEDA entitles the Company, at its sole discretion, to issue, and YA Global Master SPV Ltd., a fund managed by Yorkville Advisors, LLC, is obligated to purchase, up to a maximum of \$25 million of the Company's common shares over a maximum of 24 months, up to \$500,000 of Resverlogix Common Shares in any ten-day period. The Common Shares sold under the SEDA will be purchased at a 5% discount to the prevailing market price. The Company specifies a minimum price for each drawdown, below which YA is not required to subscribe.

In April 2009, the Company closed a US\$20 million (\$24.3 million) equity private placement. Resverlogix issued units at a price of \$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.

In October 2008, the Company paid \$5.3 million in cash in connection with the redemption of \$10.0 million of its convertible debentures.

#### **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 year ended April 30, 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 in October 2008 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 year ended April 30, 2010, the Company's restricted cash, previously held in escrow to settle any debenture put notices, decreased from \$7.2 million to \$nil.

During the three and nine months ended April 30, 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 April 30, 2010:

Years ended April 30

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
Research contracts (\$)	4,053,944	-	-	-	-	4,053,944
Operating leases (\$)	236,029	246,629	99,188	85,697	35,707	703,250

During the year ended April 30, 2010, the Company has entered into various research contracts. The Company is committed to pay \$4.1 million for completion of research; 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, 2010 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 Chief Financial Officer and an external resource has been engaged to assist with certain aspects of the project and advise management. The Company’s audit committee receives quarterly updates from management.

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 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, during the last six months it has identified significant differences between GAAP and IFRS and is in the process of performing an analysis of IFRS accounting policy choices, its control environment, and system and business processes. The Company’s 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 for equity-classified awards issued to employees. Under IFRS only the accelerated or graded vesting methods are allowed; the Company expects to adopt the graded vesting method. 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 of the Company’s incentive plans.

Property and Equipment – International Accounting Standard (“IAS”) 16 “Property Plant and Equipment” and GAAP contain the same basic 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 does not expect to 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. In the event of an impairment trigger, 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.

During the quarter, the Company prepared detailed evaluations of significant accounting components. The Company is also in the process of identifying additional data that management will require from the Company’s systems and is in the process of completing the implementation of a new financial management system and an expanded chart of accounts that will better allow the Company to supply the data required to prepare IFRS-compliant financial statements, including the preparation of comparative figures. The preparation of IFRS-compliant financial statements is not anticipated to require running a parallel general ledger.

The Company plans to the prepare, during the second quarter of fiscal 2011, an IFRS-compliant opening balance sheet as at May 1, 2010, and commence the preparation of IFRS-compliant financial statements for the three months ended July 31, 2010. The Company also intends to perform an evaluation of the impact of the adoption of IFRS on material contracts, compensation arrangements and business activities that rely on financial information during the remainder of 2010.

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. It is also important to note that the International Accounting Standards Board have various ongoing projects that may impact the differences between IFRS and Canadian GAAP accounting policies before and after the date of transition. Further analysis will be ongoing throughout the year ended April 30, 2011. The Company’s IFRS convergence plan may be amended at any time until the reporting date, May 1, 2011.

### ***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 financial results.

### ***Financial Instruments Disclosure***

In June 2009, the CICA amended Handbook Section 3862 “Financial Instruments Disclosures”. The amendments provide for additional fair value measurements for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements:

Level 1 – observable inputs such as quoted prices in active markets;

Level 2 – inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3 – unobservable inputs for the asset or liability in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The amended standard is effective for fiscal years ended after September 30, 2009. The adoption of this standard did not have a significant impact on the disclosure in the Company’s consolidated financial statements.

### ***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 April 30, 2010, the Company has not entered into any off-balance sheet arrangements.

## SELECTED ANNUAL INFORMATION FOR THREE YEARS

For the three years ended April 30

(\$)	2010	2009	2008
Interest income	2,815	164,950	1,073,851
Net loss	27,578,099	21,611,437	28,378,168
Net loss per share (basic and diluted)	0.67	0.73	1.10
Assets	8,467,522	22,570,300	20,894,662
Current portion of convertible debentures	-	5,769,228	-
Convertible debentures, net of current portion	-	-	12,210,272

Resverlogix's interest income has declined due to a decline in invested capital and a decline in investment rates.

Resverlogix incurred a net loss for the year ended April 30, 2010 of \$27.6 million or \$0.67 per share (2009 - \$21.6 million or \$0.73 per share; 2008 - \$28.4 million or \$1.10 per share). The fluctuations are attributable mostly to changes in R&D expenditures, which have fluctuated as the Company progressed through preclinical studies and Phase 1a, Phase 1b/2a and Phase 2 clinical trials. Interest and accretion on convertible debentures has declined with the redemption of debentures in October 2008 and December 2009/January 2010. Annual results have also been impacted by the recognition of gains and losses recognized on the redemption of the Company's convertible debentures.

## 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 months ended			
	April 30, 2010	January 31, 2010	October 31, 2009	July 31, 2009
Interest income	65	283	1,743	724
Net loss	(8,752,931)	(8,709,697)	(4,667,475)	(5,447,996)
Net loss per share (basic and diluted)	(0.19)	(0.21)	(0.12)	(0.14)

(\$)	For the three months ended			
	April 30, 2009	January 31, 2009	October 31, 2008	July 31, 2008
Interest income	366	9,340	69,510	85,736
Net loss	(4,414,141)	(6,490,100)	(5,547,865)	(5,159,329)
Net loss per share (basic and diluted)	(0.13)	(0.26)	(0.20)	(0.19)

Items that impact the comparability of quarterly results of operations include:

- Interest income is comprised of the interest recorded on the Company's cash and cash equivalents, restricted cash and 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 and prevailing interest rates on short-term investments have declined.
- Research and development was impacted by 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 ASSERT Phase 2 clinical trial 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 was 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 options are recognized at fair value on the grant date in the case of employees and directors, and are remeasured at fair value quarterly until vested in the case of consultants. Therefore, stock based compensation fluctuates from quarter to quarter. 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 year ended April 30, 2010, the Company did not transact with any related parties.

## **OUTSTANDING EQUITY INSTRUMENTS**

As at July 27, 2010, Resverlogix had authorized an unlimited number of common shares and preferred shares, and had 51,924,351 common shares issued and outstanding. At July 27, 2010, Resverlogix had also 4,344,400 stock options to acquire common shares outstanding, of which 2,751,250 options are vested and exercisable, 8,745,038 warrants to acquire common shares outstanding. Details on share capital are outlined in Note 6 to the 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 April 30, 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 April 30, 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 ICFR. The Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s ICFR are not effective as at April 30, 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.

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

There have been no changes in Resverlogix’s internal controls over financial reporting during the year ended April 30, 2010 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## OUTLOOK

Throughout 2009 and 2010, Resverlogix continued to pursue research and clinical development of 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.

2009 and 2010 were pivotal for Resverlogix's science, marked by considerable advancement of its lead drug candidate, RVX-208, through to a third 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, and the commencement of its Phase 2 clinical program comprised of two parallel studies.

The first study, ASSERT, was a three-month lipid-dose response study in 299 stable cardiovascular disease patients on standard-of-care therapy including statins. Dosing commenced in December 2009 and completed in May 2010, five months ahead of schedule. Resverlogix's clinical team and collaborators at the Cleveland Clinic are in the process of assessing the trial data.

The second study, ASSURE, is a study in acute coronary syndrome patients to assess lipid effects; the IVUS (intravascular ultrasound) substudy's objective is to assess atheroma plaque composition and atheroma volume of the coronary vessel wall. Site activation for ASSURE commenced in February 2010. Due to the swift completion of ASSERT, trial data is available much earlier than anticipated. As such, Resverlogix voluntarily halted ASSURE so that pertinent findings from ASSERT could be applied to ASSURE.

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 Phase 2b 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. 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 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 companies should be regarded as speculative. Biotechnology research and development involves a significant degree of risk. An investor should carefully consider the risks and uncertainties described below, as well as other information contained in this Management's Discussion and Analysis. The risks and uncertainties described below is not an exhaustive list. 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 following 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.

### **Early Stage Development and Scientific Uncertainty**

The Company is in an early stage of development, which may require significant additional investment for research and development, scale-up manufacturing, clinical testing, and regulatory submissions of product candidates prior to commercialization. There can be no assurance that any such products will actually be developed. A commitment of substantial time and resources is required to conduct research and clinical trials if the Company is to complete the development of any product. It is not known whether any of these product or process candidates will meet applicable health regulatory standards and obtain required regulatory approvals, or whether such products can be produced in commercial quantities at reasonable costs and be successfully marketed, or whether our products will achieve market acceptance, or if our investment in any such products will be recovered through sales or royalties.

In addition, products may cause undesirable side effects. Results of early research may not be indicative of the results that will be obtained in later stages of research. If regulatory authorities do not approve the products or if regulatory compliance is not maintained, the Company would have limited ability to commercialize its products, and its business and

results of operations would be harmed. The Company may fail to develop any products, to obtain regulatory approvals, to enter clinical trials, or to commercialize any products.

### **Lack of Product Revenues and History of Losses**

To date, the Company has not recorded any revenues from the sale of biopharmaceutical products, and has a deficit of \$129.4 million to April 30, 2010. Losses are expected to continue in the near term as the Company continues its product development efforts, undertake clinical trials and seek regulatory approval for the sale of our product for the treatment of atherosclerosis and cardiovascular disease. The Company expects to incur losses unless and until such time as payments from corporate collaborations, product sales and/or royalty payments generate sufficient revenues to fund its continuing operations. Quarter to quarter fluctuations in revenues, expenses and losses are also expected. The Company is unable to predict the extent of any future losses or when the Company will become profitable, if ever. Even if the Company does achieve profitability, it may not be able to sustain or increase profitability on an ongoing basis.

### **Financing Requirements and Access to Capital**

The Company may attempt to raise additional funds through public or private equity or debt financing and/or from other sources. The Company's future capital requirements will depend on many factors, such as the following:

- Establishing and maintaining collaborative partnering relationships;
- Continued scientific progress in our research, drug discovery and developmental programs;
- The size of our programs and progress with preclinical and clinical programs;
- Time and costs involved in obtaining regulatory approvals;
- Competing technological and market developments, including the introduction by others of new therapies in our market; and
- General condition and availability of capital markets, particularly for biotechnology companies.

### **Scientific and Clinical Timelines on Price of Securities**

For planning purposes, we estimate and may disclose timing of a variety of clinical, regulatory and other milestones. We base our estimates on present facts and a variety of assumptions. Many underlying assumptions are outside the Company's control such as the ability to recruit patients, obtain access to clinical sites as expected or obtain approval from regulatory bodies such as the Food and Drug Administration to enter into trials. If the Company does not achieve milestones consistent with investors' expectations, the price of the Company's shares would likely decline.

### **Patents and Proprietary Technology**

The Company's success will depend in part on its ability to obtain, maintain, and enforce patent rights, maintain trade secret protection and operate without infringing the proprietary rights of third parties. There can be no assurance that pending patent applications will be allowed and that the Company will develop additional proprietary products that are patentable, that issued patents will provide any competitive advantage or will not be challenged by any third parties, or that patents of others will not have an adverse effect on the ability to do business. Furthermore, there can be no assurance that others will not

independently develop similar products, duplicate any of the products, or design around the products patented by the Company. In addition, the Company may be required to obtain licenses under patents or other proprietary rights of third parties. No assurance can be given that any licenses required under such patents or proprietary rights will be available on terms acceptable to the Company. If such licenses are not obtained it could encounter delays in introducing one or more of its products to the market, while it attempts to design around such patents, or could find that the development, manufacturing or sale of products requiring such licenses could be foreclosed. In addition, the Company could incur substantial costs in defending itself in suits brought against it on such patents or in suits which it attempts to enforce its own patents against other parties. Such disputes could involve arbitration, litigation or proceedings declared by the United Patent and Trademark Office or International Trade Commission or other foreign patent authorities. Intellectual property litigation can be extremely expensive, and this expense, as well as other consequences should the Company not prevail, could seriously harm our business.

Until such time, if ever, that patent applications are filed and or approved, the ability of the Company to maintain the confidentiality of its technology may be crucial to its ultimate possible commercial success. While procedures have been adopted to protect the confidentiality of its technology through signed invention and service agreements, no assurance can be given that such arrangements will be effective, that third parties will not gain access to trade secrets or disclose the technology, or that the Company can meaningfully protect its rights to its trade secrets.

### **Dependence on Collaborative Partners, Licensors and Others**

The Company's activities will require it to enter into various arrangements with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, manufacturing, marketing and commercialization of its products. The Company entered into an exclusive licensing arrangement with Medtronic Inc. ("Medtronic"), a major medical technology devices company, and the Company intends to attract other corporate partners and enter into additional research collaborations. There can be no assurance, however, that such collaborations will be established on favourable terms, if at all, or that its current Medtronic agreement or future collaborations will be successful. In particular, recent failures in HDL cholesterol therapies may negatively impact our potential partners' willingness to enter into partnering agreements due to the potential risks in the cholesterol market and the high clinical costs to bring such drugs to market. Failure to attract commercial partners for its products may result in the Company incurring substantial clinical testing, manufacturing and commercialization costs prior to realizing any revenue from product sales or result in delays or program discontinuance if funds are not available in sufficient quantities.

The licensing agreement with Medtronic grants Medtronic exclusive, worldwide rights to develop and commercialize the ReVas™ technology. Should Medtronic or any other collaborative partner fail to develop, manufacture, or commercialize successfully any product to which it has rights, or any partner's product to which the Company have rights, the business may be adversely affected. Failure of a collaborative partner to continue to participate in any particular program could delay or halt the development or commercialization of products generated from such program. In addition, there can be no assurance that the collaborative partners will not pursue other technologies or develop alternative products either alone or in collaboration with others, including the Company's competitors, as a means for developing treatments for the diseases targeted by the Company's programs.

Furthermore, the Company will hold licenses for certain technologies and there can be no assurance that these licenses will not be terminated, or that they will be renewed on conditions acceptable to the Company. The Company may negotiate additional licenses in respect of technologies developed by other companies and academic institutions. Terms of license agreements to be negotiated may include, inter alia, a requirement to make milestone payments, which may be substantial. The Company will also be obligated to make royalty payments on the sales, if any, of products resulting from licensed technology and, in some instances, is responsible for the costs of filing and prosecuting patent applications.

### **Damages Resulting from Claims from Former Employers**

Many of the Company's employees were previously employed at universities or other biotechnology or pharmaceutical companies, including competitors or potential competitors. The Company could be subject to claims that these employees or the Company have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. In many cases, litigation may be necessary to defend against these claims.

Even if the Company is successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If the Company fails in defending such claims, in addition to paying money claims, the Company may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent the ability to commercialize certain product candidates, which could severely harm the Company's business.

### **Rapid Technological Change**

The biotechnology and pharmaceutical industries are characterized by rapid and substantial technological change. There can be no assurance that developments by others will not render the Company's products or technologies noncompetitive, or that the Company will keep pace with technological developments. Competitors have developed or are developing technologies that could be the basis for competitive products. Some of these products have an entirely different approach or means of accomplishing the desired therapeutic effect and could be more effective and less costly than the products to be developed by the Company. In addition, alternative forms of medical treatment may be competitive with the Company's products.

### **Competition**

Technological competition from pharmaceutical companies, biopharmaceutical companies and universities is intense and is expected to increase, in particular in the market for therapeutic products to treat, mitigate or prevent cardiovascular disease. Many potential competitors may have substantially greater product development capabilities or financial, scientific, marketing and human resources exceeding those of the Company. Moreover, competitors may develop products more quickly and obtain regulatory approval for such products more rapidly, or develop products which are more effective than those which the Company intends to develop. Research and development by others may render the Company's technology or products obsolete or noncompetitive or produce treatments or cures superior to any therapy developed or to be developed by the Company.

## **Government Regulations and Regulation of Drug and Product Approval**

Biotechnology, medical device and pharmaceutical companies operate in a high-risk regulatory environment. The manufacture and sale of products is governed by numerous statutes and regulations in the United States, Canada and other countries. The subject matter of such legislation includes approval of manufacturing facilities, controlled research and testing procedures, review and approval of manufacturing, preclinical and clinical data prior to marketing approval, as well as regulation of marketing activities, notably advertising and labeling. The process of obtaining necessary regulatory approvals is lengthy, expensive and uncertain. The Company or its collaborators may fail to obtain the necessary approvals to commence or continue preclinical or clinical testing including our drug RVX-208 or to manufacture or market our potential products in reasonable time frames, if at all. In addition, governmental authorities in Canada, the United States, or other countries may enact regulatory reforms or restrictions on the development of new therapies that could adversely affect the regulatory environment in which the Company operates or the development of any products that may be developed. Many of the products and processes that are being currently developed require significant development, testing and the investment of significant funds prior to their commercialization. There can be no assurance that RVX-208 or any other drugs will actually be developed to a commercial level. Completing clinical testing through late stage trials and obtaining required approvals is expected to take several years and to require the expenditure of substantial resources. There can be no assurance that clinical trials will be completed successfully within any specified period of time, if at all. Furthermore, clinical trials may be delayed or suspended at any time by the Company or by the FDA/TPD if it is determined at any time that the subjects or patients are being exposed to unacceptable risks. No assurance can be given that RVX-208 or any of the other product candidates will prove to be safe and effective in clinical trials or that the Company will receive the requisite regulatory approval. Moreover, any regulatory approval of a drug which is eventually obtained may be granted with specific limitations on the indicated uses for which that drug may be marketed or may be withdrawn if problems occur following initial marketing or if compliance with regulatory standards is not maintained.

## **Delay or Abandonment of the Commercialization of Drugs under Development**

Drug discovery and development has inherent risk and the historical failure rate is high. Failures in the HDL cholesterol market by some pharmaceutical companies has highlighted the risk of these types of therapies. If the Company cannot demonstrate that its drugs, including RVX-208, are safe and effective for human use, it may need to abandon one or more of its drug development programs.

In addition, results in preclinical or clinical trials may not predict the results of later-stage clinical trials. There are a number of factors that could cause a clinical trial to fail or be delayed including:

- the clinical trials may produce negative or inconclusive results;
- the regulators may require that the Company hold, suspend or terminate clinical research for noncompliance with regulatory requirements;
- the Company, its potential partners, or the FDA or foreign regulatory authorities could suspend or terminate a clinical trial due to adverse side effect of a drug on subjects or patients in the trial;
- the Company may decide, or regulators may require it, to conduct additional preclinical testing or clinical trials;
- enrollment in the Company's clinical trials may be slower than anticipated;

- the cost of the Company's clinical trials may be greater than anticipated; and
- the supply or quality of the Company's drugs or other materials necessary to conduct its clinical trials may be insufficient, inadequate or delayed.

If any of the Company's drugs in clinical studies, including RVX-208, do not show sufficient efficacy in patients with the targeted indication, it could negatively impact the Company's development and commercialization or partnership plans goals for this and other drugs and the Company's share price could decline.

### **Dependence on Key Personnel**

The Company depends on certain members of its management and scientific staff and the loss of services of one or more of whom could adversely affect the operations, research and development. The Company does not have employment agreements with any of its senior management that would prevent them from leaving the Company. In addition, the Company's ability to manage growth effectively will require it to continue to implement and improve its management systems and to recruit and train new employees. There can be no assurance that the Company will be able to successfully attract and retain skilled and experienced personnel. In addition, failure to succeed in clinical trials may make it more challenging to recruit and retain qualified scientific personnel.

### **Dependence on Third Party Clinical Research Organizations**

The Company depends on independent clinical investigators, contract research organizations and other third party service providers in the conduct of its clinical trials and expects to continue to do so in the future. The Company relies heavily on these parties for successful execution of its clinical trials, but does not control many aspects of their activities. For example, the investigators are not employees of the Company. However, the Company is responsible for ensuring that each of its clinical trials is conducted in accordance with the general investigational plan and protocols of the trial. Third parties may not complete activities on schedule, or may not conduct the Company's clinical trials in accordance with regulatory requirements. The failure of these third parties could delay or prevent the development, approval and commercialization of the Company's drugs, including RVX-208.

### **Status of Healthcare Reimbursement**

The Company's ability to successfully market therapeutic products depends in part on the extent to which reimbursement for the cost of such products and related treatments will be available from government health administration authorities, private health insurers and other healthcare organizations. Significant uncertainty exists as to whether newly-approved pharmaceutical products will qualify for reimbursement from these organizations. Furthermore, challenges to the price of medical products continue to grow in frequency due to increased focus on cost containment and pharmacoeconomic issues. These recent changes will become more pronounced as leading therapeutics in the atherosclerosis market such as statins are set to come off patent over the next few years. Health authorities will continue to increase their scrutiny and pharmacoeconomic diligence on new products in all disease areas including those for the cardiovascular market. These rapid changes in the healthcare reimbursement marketplace will potentially have a significant impact on the future marketability of new drugs in development. It is expected that new drug entrants will not only have to be effective and safe but also have to provide a clear value proposal to health systems, such as risk reduction in major adverse cardiovascular events, over the current standard of care therapy, statin therapy.

In light of these market changes in drug development, pricing of drug therapies has come under significant pressure with government authorities and private health insurers around the world. The top current leading reimbursed markets; USA, Japan, Germany, UK, France, Spain, Italy, and Canada, have implemented healthcare reforms that focus specifically on value and reimbursement. Reforms such as reference based pricing, pharmacoeconomics, and numbers needed to treat are a few of the many instruments that healthcare organizations utilize to ensure maximum value for reimbursed therapeutics. Healthcare reform is underway in these top global markets and there is additional uncertainty about the viability of current pricing methodologies for reimbursement. There can be no assurance that adequate third-party coverage will be available to establish price levels which would allow the Company to realize an acceptable return on its investment in product development.

### **Potential Clinical and Product Liability**

The Company has entered into human clinical trials that involve inherent risks in the testing of unproven products. A large portion of the risk is mitigated through the highly regulated approval process within the clinical laboratory, as well as clinical insurance coverage, but a certain level of risk remains. Product liability insurance is costly, availability is limited and may not be on terms which would be acceptable to the Company, if at all. An inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the continuation of clinical trials and the commercialization of potential products in the future. A product liability claim brought against the Company or withdrawal of a product from the market at a future date could have a material adverse effect upon the Company and its financial condition.

### **Volatility of Share Price, Fluctuation of Operating Results and Absence of Dividends**

The Company's shares have historically been highly volatile. During the twelve months preceding April 30, 2010, the market price of the Company's common shares ranged from \$2.10 to \$8.20 per share. If the Company's share price continues to be highly volatile, it may make it difficult for investors to liquidate their investment and could increase investors' risk of suffering a loss. Factors such as the Company's Phase 2 and/or Phase 3 clinical or nonclinical results, operating results, financing activities, partnering activities, regulatory actions, status of patents filed by the Company or others, public concern over the safety of the Company's drugs or others' biopharmaceutical products, and other factors could have a significant effect on the share price or trading volumes for the Company's shares. The Company's shares have been subject to significant price and volume fluctuations, and may continue to be subject to significant price and volume fluctuations in the future, particularly with very volatile stock markets worldwide. The Company has not paid dividends to date and does not expect to pay dividends in the foreseeable future; this could also have an effect on the share price or trading volumes for the Company's common shares.

### **U.S. Investors Civil Liabilities**

The Company was formed under the laws of the Province of Alberta. Some of the members of the board of directors and officers are residents of countries other than the United States. As a result, it may be impossible for U.S. investors to affect service of process within the U.S. upon the Company or these persons or to enforce against the Company or these persons any judgments in civil and commercial matters, including judgments under U.S. federal or state securities laws. In addition, a Canadian court may not permit U.S. investors

to bring an original action in Canada or to enforce in Canada a judgment of a state or federal court in the United States.

## **ADDITIONAL INFORMATION**

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