



RESVERLOGIX CORP.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND NINE MONTHS ENDED JANUARY 31,
2011 AND 2010**

MARCH 17, 2011

This Management's Discussion and Analysis ("MD&A") of Resverlogix Corp.'s operations and financial position should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended January 31, 2011 and 2010 and the notes thereto and the audited consolidated financial statements and Management's Discussion and Analysis for the year ended April 30, 2010. Our financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). An advisory with respect to the use of non-GAAP measures is set out in this MD&A under "NON-GAAP MEASURES". All amounts in the following MD&A are stated in Canadian dollars unless otherwise stated. References to "Resverlogix", the "Company", "we", "us" or "our" mean Resverlogix Corp. and its subsidiaries unless the context otherwise requires.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking information within the meaning of applicable Canadian securities legislation. Forward-looking information is often, but not always, identified by the use of words such as "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 alternatives to generate positive cash flow through the raising of additional equity referred to under "Liquidity and Capital Resources"; our belief that our Phase 2 trials will provide an understanding of the drug properties in humans through analysis of coronary plaque atheroma, safety, pharmacokinetics and reverse cholesterol transport markers referred to under "Outlook"; our plans to perform future clinical trials referred to under "Outlook"; our intention to develop follow-on compounds to build a pipeline of novel small molecules that raise ApoA-I referred to under "Outlook"; and the consideration of performing further Alzheimer's disease research 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 anticipate that we will be able to raise additional capital through external financing or partnering that provide additional funds for clinical programs including the execution of our 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 our products, the availability of government and insurance reimbursements for our 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 Annual Information Form and other documents we file from time to time with securities authorities, which are available through SEDAR at 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. We disclaim any intention and have 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 our consolidated financial statements presented in accordance with Canadian GAAP, we use non-GAAP measures such as average monthly cash burn rate. This measure is provided to enhance readers' overall understanding of our current use of cash resources and is included to provide investors and management with an alternative measure for assessing our 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. We are committed to applying the qualities of innovation, integrity and sound business principles. Our primary focus is the research, development and commercialization of novel therapeutics that reduce the risk of cardiovascular disease (“CVD”). We also conduct research on inflammation, Alzheimer’s disease, fibrotic disorders and cancer.

We have three separate CVD research programs. Our 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 our Phase 2 ASSERT clinical trial which examined primarily whether our lead drug, RVX-208, produces an increase in plasma Apolipoprotein A-1 levels in patients with stable coronary artery disease, were announced in November 2010, as described further herein under “Scientific Development”.

Our 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.

Our 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.

We have also initiated a program in the area of cognitive disorders based on the 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.

We are 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 ours is to either license or sell the Company’s technology prior to late stage trials, allowing us 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

We are encouraged by the scientific developments of the NexVas™ CVD programs. Our science has progressed from a drug discovery stage of biotechnology research to completing Phase 1a, Phase 1b/2a and Phase 2 clinical studies for the 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 our programs.

Scientific Developments

In May 2010, we announced that our Phase 2 ASSERT clinical trial had completed dosing. Also, as a result of receiving data from ASSERT faster than originally anticipated, we intended to apply pertinent findings from ASSERT to ASSURE-1. In order to expedite enrollment in ASSURE-1 while continuing our primary patient safety concerns, ASSURE-1 was being voluntarily halted on a temporary basis in order to modify enrollment procedures.

In June 2010, we announced that we had collaborated with the Division of Cardiology at the Research Institute of the McGill University Health Centre (RI of the MUHC), to publish in the *Journal of American College of Cardiology* (JACC), a report entitled 'RVX-208 A Small Molecule that Increases Apolipoprotein A-I and High Density Lipoprotein Cholesterol In Vitro and In Vivo'. This peer reviewed manuscript contained data describing the successful results of many studies detailing the actions of RVX-208, an orally active novel small molecule for the treatment of atherosclerosis.

In June 2010, we announced that key scientific data was communicated in an oral presentation highlighting the novel features of our lead drug RVX-208 at the European Atherosclerosis Society Congress (EAS) conference held in Hamburg, Germany. The presentation titled "RVX-208 given orally raises plasma ApoA-I and HDL in human clinical trials," was presented by Dr. Norman Wong, MD, our Chief Scientific Officer. The data presented in Germany highlighted newly discovered data within the Phase 1b/2a trial in which patients with low HDL/Apo-AI demonstrated a greater benefit from taking RVX-208. In particular, in the case of patients in the highest risk category, subjects with low baseline HDL/Apo-AI, the data demonstrated that RVX-208 increased plasma levels of Apo-AI in the order of 13.25% compared to placebo.

In September 2010, we announced that our Phase 2 clinical trial, called ASSURE (ApoA-1 Synthesis Stimulation in Acute Coronary Syndrome patients), had its design modified with the objective of providing a more powerful endpoint.

Key changes to this clinical trial included:

- Raising the number of patients to be recruited from 120 to over 230;
- All patients will undergo an intravascular ultrasound (IVUS) assessment versus the previously planned 60 patients;
- Trial sites increased from 20 to approximately 45;
- Clinical trials will be conducted in multiple countries;
- The study will include patients with low HDL; and
- The primary endpoint would be plaque regression.

In November 2010, we announced top line results of the ASSERT Phase 2 clinical trial during the American Heart Association Scientific Sessions 2010. The ASSERT trial data demonstrated that the three key biomarkers in the reverse cholesterol transport (“RCT”) process showed dose dependant and consistent improvement. The trial showed dose dependent increases, though not statistically significant, in ApoA-I, the trial’s primary endpoint. The trial also showed statistically significant increases in HDL cholesterol including alpha1 particles or functional HDL, and highly statistically significant increases in large HDL particles. RCT is a pathway by which accumulated cholesterol is transported from the arterial wall to the liver for excretion, thus reducing and/or preventing atherosclerosis. In the high dose, ApoA-I achieved a 5.6% increase with a statistical value of $p=0.06$. Across all subjects, ApoA-I showed a trend to increase in higher doses with statistical significance of $p=0.035$. ApoA-I and other HDL particles continued to be increasing at the end of the 12 week study. Both the 8.3% HDL cholesterol increase and the 21.1% large particle HDL increase were highly statistically significant, $p<0.01$ and $p<0.001$ respectively. These pronounced HDL related increases via ApoA-I production are important as they take place later in the reverse cholesterol transport chain of events and strongly indicate the potential for plaque regression. In the high risk sub population, patients who had low HDL ≤ 45 mg/dl, the middle dose of 200 mg saw the most pronounced increases of 12% in ApoA-I ($p<0.02$), 21% in HDL ($p<0.015$) and large HDL of 32% ($p<0.018$). These findings will help us better target the patient population as well as dosing of RVX-208 for the upcoming ASSURE Phase 2b trial. Across all patients, incidents of elevated alanine aminotransferase liver enzymes (“ALTs”) in excess of 3 times the upper limit of normal (“ULN”) were experienced by 18 of 225 treated patients in ASSERT. It is important to note that elevated ALTs alone are not considered indicative of liver injury. Increases in bilirubin, which would indicate liver injury, were not experienced in any patient. In high risk patients, HDL below 45 mg/dl who were on newer leading statin agents at select doses, 1 patient of 45 experienced ALTs in excess of 3 times ULN. When measuring biochemical safety measures, in all doses, ALTs were highest at week 8 and declined at weeks 10 and 12, possibly indicating adaptation by the liver or that elevated ALTs are transient. Incidents of elevated ALTs were significantly less frequent with patients who were on new leading statin agents at low and medium doses. Targets levels for key RCT markers in these patients maintained or improved on these dosing combinations over co-administration with high doses of statins. We consider these findings important, novel and understandable given RVX-208 site of action to induce the production of new de-novo Apo particles is in the liver; we will incorporate these important new findings from the ASSERT trial into the design of the ASSURE trial and continue to make safety and targeted efficacy a primary focus for the future development of the drug.

An additional presentation at the AHA conference was given by Dr. Norman Wong, our Chief Scientific Officer, containing new data detailing the effects of RVX-208 *in vivo*. The presentation was titled “RVX-208: An Orally Administrated Small Molecule Reduces Atherosclerosis in ApoE Null Mouse and Raises ApoA-I/HDL in Humans”. In the ApoE null mice model of atherosclerosis, the oral administration of RVX-208 reduced aortic plaques in both a prevention model as well as a regression model. The presented model showed plaque reductions of up to 41%.

In January 2011, we announced that RVX-208 illustrated positive effects on a novel marker of cognitive function and Alzheimer’s disease, plasma Amyloid beta 40 ($A\beta_{40}$). The analysis was performed based on increasing evidence in literature that the transport of potentially harmful $A\beta_{40}$ from the brain to the general circulatory system may be beneficial. Several population studies have indicated that high HDL cholesterol is associated with protection from developing Alzheimer’s disease. It has also been shown that plasma $A\beta_{40}$ is a risk

factor for developing Alzheimer's disease in older patients. Since the Alzheimer's disease biomarker A β ₄₀ bind to ApoA-1, it has been hypothesized that increasing ApoA-1 would transport A β ₄₀ out of the brain thereby decreasing the A β ₄₀ load in the brain, in effect having possible disease modifying effect.

To assess potential for treatment effects by RVX-208 on Alzheimer's disease, plasma A β ₄₀ was analyzed before and after 12 weeks treatment in a stable coronary artery disease population, i.e. the ASSERT population of 299 patients.

In the quartile with the lowest plasma A β ₄₀ at baseline, which is known to be at greater risk for developing Alzheimer's disease, at a dose of 150 mg, b.i.d., a highly significant 34.8 pg/ml change from baseline (p=0.0013) and 13.4% change compared to placebo was observed. The data further supports previous Phase I trial data and the hypothesis that RVX-208 treatment can also augment A β ₄₀ transport from the brain.

Corporate Developments

In September 2010, we announced that Mr. Kenneth Zuerblis was appointed to our Board of Directors. Mr. Zuerblis previously served as Chief Financial Officer and Senior Vice President of ImClone Systems, a biopharmaceutical company developing biologic medicines in the area of oncology, from 2008 through 2009 at which time he helped lead the sale of the company to Eli Lilly for US\$6.6 billion. Prior to joining ImClone, Mr. Zuerblis served as Chief Financial Officer of Enzon Pharmaceuticals Inc. from 1994 through 2005 and Corporate Controller from 1991 through 1994. He began his career at KPMG, LLP, in 1982, ultimately serving as Senior Manager prior to his departure in 1991. Mr. Zuerblis previously served as a member of the Board of Directors of XTL Biopharmaceuticals, Ltd., and is a member of the Board of Directors of Immunomedics and the New Jersey Technology Council. He received a BS in Accounting from Seton Hall University and is a certified public accountant in the State of New Jersey.

In December 2010, we announced that Dr. Eldon R. Smith OC, MD, FRCPC, FCAHS, FAHA, FIACS had been appointed to our Board of Directors. From 1992 to 1997, Dr. Smith, 71, was Dean of the Faculty of Medicine at the University of Calgary. From 1997 until 2010, he has been Editor-in-Chief of the *Canadian Journal of Cardiology*.

Dr. Smith's research interests include circulatory mechanics, exercise physiology and echocardiography. He has published more than 250 papers and book chapters and has been a contributor to many national and international organizations; he has been President of the Canadian Cardiovascular Society and the Association of Canadian Medical Colleges and Vice President of the Inter-American Society of Cardiology. He has served on a number of public boards including the Alberta Heritage Foundation for Medical Research, the Alberta Health Professions Advisory Board, and the Premier's Advisory Council on Health in Alberta. He founded and served as President and Director of the Peter Lougheed Medical Research Foundation, a national initiative to support excellence in health research in Canada. He is chair of the Advisory Board of the Libin Cardiovascular Institute of Alberta and from 2006 to 2010 he was appointed by the Federal Government to chair the development of a National Strategy for Cardiovascular Health and Disease.

In an effort to maintain a six member Board of Directors Dr. William Cochrane stepped down from the Board. Dr. Cochrane was on the Board since its inception. Dr. Peter Johann, was appointed as Dr. Cochrane's replacement as Chairman of the Board.

In December 2010, we also announced that Cleveland Clinic researchers in combination with us and the Clinical Steering Committee successfully advanced the ASSURE study with unanimous approval. In the Phase 2b multi-center, double-blinded, randomized “ApoA-I Synthesis Stimulation in Coronary Patients” (ASSURE) trial, researchers will test approximately 350 patients using a placebo-control arm for the assessment of coronary plaque changes with RVX-208 over a six month period, as determined by intravascular ultrasound.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JANUARY 31, 2011

For the three and nine months ended January 31

	Three months ended January 31		Nine months ended January 31	
	2011	2010	2011	2010
Interest income	31,642	283	57,229	2,750
Expenses	4,552,666	8,709,980	15,453,811	18,827,918
Net loss	4,521,024	8,709,697	15,396,582	18,825,168
Net loss per share (basic and diluted)	(0.09)	(0.21)	(0.30)	(0.47)

We recognized a net loss for the three months ended January 31, 2011 of \$4.5 million (2010 - \$8.7 million), or \$0.09 per share (2010 - \$0.21 per share). Our net loss and comprehensive loss for the nine months ended January 31, 2010 was \$15.4 million (2010 - \$18.8 million) or \$0.30 per share (2010 - \$0.47 per share).

The average monthly Cash Burn Rate, a non-GAAP measure as described on page 2 herein, for the three and nine months ended January 31, 2011 was \$1.4 million (2010 - \$1.6 million) and \$1.5 million (2010 - \$1.5 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.

For the three and nine months ended January 31

(\$, except as otherwise noted)	Three months ended January 31		Nine months ended January 31	
	2011	2010	2011	2010
Cash flow used in operations	(4,041,404)	(4,349,315)	(15,253,790)	(13,732,006)
Changes in non-cash working capital	(27,711)	(416,373)	1,731,385	235,061
	(4,069,115)	(4,765,688)	(13,522,405)	(13,496,945)
Number of months	3	3	9	9
Average Monthly Cash Burn Rate	(1,356,372)	(1,588,563)	(1,502,489)	(1,499,661)

Interest Income

Our interest income consisted primarily of interest earned on invested funds. Interest income for the three and nine months ended January 31, 2011 was \$31,642 (2010 - \$283) and \$57,229 (2010 - \$2,750), respectively. During the three months ended January 31, 2011, the Company invested cash in accounts that generated modest interest.

Research and Development

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 three months ended January 31, 2011, gross research and development ("R&D") expenditures totaled \$2.9 million (2010 - \$3.8 million). Clinical costs, which mostly represented final expenditures related to ASSERT, decreased significantly for the three months. Clinical expenditures for the three months ended January 31, 2010 were impacted by the commencement of ASSERT. Chemistry costs increased, in part due to preparations for ASSURE.

During the nine months ended January 31, 2011 gross R&D expenditures totaled \$10.2 million (2010 - \$9.8 million). Clinical costs decreased compared to the prior period. Clinical costs for the nine months ended January 31, 2011 included only the Phase 2 ASSURE trial; whereas during the nine months ended January 31, 2010, costs associated with both the Phase 1b/2a study and ASSURE were recorded. Clinical costs were also impacted by the postponement of the Phase 2b ASSURE trial. Conversely, similar to the quarter, year-to-date chemistry costs which included tablet development, increased significantly.

General and Administrative

General and administrative expenses includes salaries and benefits, directors' fees 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.

During the three and nine months ended January 31, 2011, general and administrative expenditures totaled \$1.4 million (2010 - \$0.7 million) and \$3.7 million (2010 - \$2.3 million) respectively. The increase in general and administrative expenditures is attributable mostly to the inclusion of costs associated with financing alternatives explored by Resverlogix, as well as \$0.3 million of employee bonuses during the three months ended July 31, 2010 and other human resources costs.

Stock-based Compensation

During the three and nine months ended January 31, 2011, we recognized \$0.4 million (2010 - \$0.4 million) and \$1.7 million (2010 - \$1.3 million), respectively, of stock-based compensation. During the three months ended January 31, 2011 75,000 stock options were issued; during the nine months period we issued 502,400 stock options. The weighted average fair value of stock options granted during the nine months ended January 31, 2011 was \$2.13 per option (2010 - \$1.32 per option). 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 Resverlogix's shares impacts stock-based compensation expense. Stock-based compensation is a non-cash expense.

Interest and Accretion on Convertible Debentures

As a result of the redemption of our remaining convertible debentures in December 2009 and January 2010, we did not recognize any interest and accretion on convertible debentures during the three and nine months ended January 31, 2011 (2010 - \$0.3 million and \$1.2 million).

Foreign Currency Gain / Loss

During the three months ended January 31, 2011, we recognized a foreign currency gain of \$14,337 (2010 - \$185,000 loss), reflecting the relative stability of the Canadian dollar relative to the US dollar. During the nine months ended January 31, 2011, the foreign currency gain was \$32,025 as compared to a \$765,000 loss in 2010 which resulted from weakness in the US dollar.

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. Our primary capital requirements relate to funding research and development activities, including pre-clinical and clinical trials, and for general working capital purposes.

Our objective when managing capital is to ensure there are sufficient funds available to carry out our research, development and commercialization programs. Once funds have been raised, we manage our liquidity risk by investing in highly liquid, debt securities with maturities which provide required cash flow for current operations. We invest only in securities issued by entities possessing high credit quality. We also manage liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves our operating and capital budgets, as well as any material transactions not in the ordinary course of business.

As at January 31, 2011, cash and cash equivalents totaled \$7.7 million, compared to \$11.6 million at October 31, 2010 and \$4.6 million at April 30, 2010, reflecting: \$15.3 million of cash used by operations and \$18.5 million provided from prospectus offerings and other financing activities during the nine months ended January 31, 2011.

During June 2010, we completed two public equity offerings; the first for gross proceeds of \$9.2 million and the second for gross proceeds of \$10.0 million, as described below.

During June 2010, YA Global Master SPV Ltd. subscribed for \$0.2 million of Resverlogix's common shares under its Standby Equity Distribution Agreement, as described below.

At January 31, 2011, we had working capital of \$7.4 million. We are also able to draw on our Standby Equity Distribution Agreement ("SEDA"). The SEDA entitles us, at our sole discretion, to issue, and YA Global Master SPV Ltd. ("YA") is obligated to purchase, up to a maximum of \$25 million of Resverlogix's common shares over a maximum of 24 months commencing on March 26, 2010, up to \$500,000 of Resverlogix common shares in any ten-

day period, subject to reduction if the daily volume weighted average trading price of the common shares is below a minimum price specified by the Company. The ten-day maximum may be waived by YA. Our cash and cash equivalents are expected to be sufficient to satisfy the Company's cash obligations. Further, our cash and cash equivalents, together with the funds available from the SEDA, are expected to be sufficient to fund anticipated cash requirements over the next year. We may also raise additional capital other than through the SEDA. If we do not draw on the SEDA, and if we are not otherwise able to raise additional capital, we may not have sufficient capital to fund anticipated cash requirements over the next year. We could reduce the Company's cash requirements by eliminating or deferring discretionary spending. We continuously investigate and assess financing alternatives and expect to be able to raise additional capital.

Our anticipated clinical trials and regulatory approvals will require several years to complete. As such, we do not anticipate generating operating cash inflows in the foreseeable future, and we will require additional financial resources to ensure that we have sufficient capital to fund our long-term research development and corporate activities. Our long-term capital requirements will depend on, among other considerations, whether subsequent to ASSERT and ASSURE, we proceed with Phase 2b clinical trial or commence a Phase 3 clinical trial, the size of any trials, and whether the trials are funded entirely by us or, partially or entirely, by a strategic partner. We continue to actively pursue opportunities to raise conventional capital. We have engaged in discussions with potential agents concerning sourcing capital and intend to continue to raise additional capital to fund our capital requirements.

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

Cash Flows Used By Operating Activities

Cash flows used in operating activities for the three and nine months ended January 31, 2011 totaled \$4.0 million (2010 - \$4.3 million) and \$15.3 million (2010 - \$13.7 million). The year-over-year change reflects a number of items including a \$1.4 million increase in general and administrative expenditures, an offsetting \$1.2 million decrease in interest on convertible debentures; the recognition of realized foreign currency gains and losses; a \$1.7 million reduction in accounts payable (2010 - \$0.5 million); and the refund of investment tax credits.

Cash Flows from Financing Activities

Common Shares

Our financing activities during the three and nine months ended January 31, 2011 provided a net \$18.5 million of cash to us. During the nine months ended January 31, 2011, we completed two prospectus offerings. On June 8, 2010, we completed a public offering of 2.8 million units of Resverlogix 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, we completed a public offering of 3.1 million units of Resverlogix 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.

On March 26, 2010, we entered into the SEDA. The SEDA entitles us, at our 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 common shares of Resverlogix over a maximum of 24 months commencing on March 26, 2010, up to \$500,000 of common shares of Resverlogix in any ten-day period, subject to waiver by YA. The common shares sold under the SEDA will be purchased at a 5% discount to the prevailing market price. We may specify a minimum price for each drawdown, below which YA is not required to subscribe.

On May 26, 2010, we submitted a notice of intention to draw down \$1.0 million under our SEDA. 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. On June 11, 2010, YA subscribed for \$0.2 million of common shares of Resverlogix, reflecting a share price in excess of \$4.00 per share for two of ten days.

During the nine months ended January 31, 2011, we received \$0.9 million (2010 - \$nil) in connection with the exercise of warrants and stock options.

Cash Flows Used By Investing Activities

Additions to property and equipment and patents totaled \$0.3 million during the nine months ended both January 31, 2011 and 2010.

CONTRACTUAL OBLIGATIONS

The table below summarizes our contractual obligations by due date, as at January 31, 2011:

Twelve months ended January 31

	2012	2013	2014	2015	2016	Total
Research contracts (\$)	1,587,774	206,244	-	-	-	1,794,018
Operating leases (\$)	403,087	189,773	85,697	57,131	-	735,688

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Note 2 to our consolidated financial statements for the year ended April 30, 2010 includes a summary of our significant accounting policies.

The preparation of financial statements requires management to use estimates and assumptions that they believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the

reporting periods presented. These estimates and assumptions are subject to inherent risk of uncertainty and actual results may differ from these estimates and assumptions.

There have been no changes to the Company's significant accounting policies or estimates since April 30, 2010.

FUTURE CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards

The Accounting Standards Board ("AcSB") has prescribed that Canadian Generally Accepted Accounting Principles ("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 Resverlogix 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.

Our IFRS conversion 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. Our audit committee receives quarterly updates from management.

Our IFRS conversion project consists of three phases: diagnostic, solution development, and implementation and execution. We have 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 our 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 us 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 our financial results or financial position, we have not yet determined the full impact of our convergence to IFRS.

We prepared detailed evaluations of significant accounting components during the three months ended April 30, 2010. Although we have not yet determined the full effect of adopting IFRS, we have identified significant differences between Canadian GAAP and IFRS and are in the process of performing an analysis of IFRS accounting policy choices, our control environment, and system and business processes. Our view of the key areas where changes in accounting policies are expected to likely impact our 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 graded vesting methods; we currently use the straight-line method for equity-classified awards issued to employees. Under IFRS only the graded vesting method is permitted. Canadian GAAP permits companies to either estimate forfeitures at the time of grant or 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 our 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. We expect 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. We do not expect to adopt this election.

Impairment of Assets – Impairments under IAS 36 “Impairment of Assets” are based on discounted cash flows. Under Canadian 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 have 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 Canadian 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.

Functional Currency – In preparing financial statements, an entity is required to determine its functional currency and then measure its assets, liabilities, income and expenses in that functional currency. IAS21 “The Effects of Changes in Foreign Exchange Rates” provides guidance on determining the appropriate functional currency which is based on a hierarchy of factors. The factors that carry the most weight are the currency that mainly influences sales prices for goods and services, the currency of the country whose competitive forces and regulations mainly determine the sales prices of an entity’s goods and services and the currency that mainly influences labour, material and other costs of providing goods or services. Other factors that may be used as additional evidence include the currency in which funds from financing activities are generated. Canadian GAAP does not have a similar hierarchy. We are currently assessing the determination of the appropriate functional currency under IFRS.

We are continuing to identify additional data that management will require from our systems and are progressing with the implementation of a new financial management system and an expanded chart of accounts that will better allow us 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.

We are in the process of finalizing an IFRS-compliant opening balance sheet as at May 1, 2010 and financial statements for the three months ended July 31, 2010, and plan, during the next quarter, to prepare IFRS-compliant financial statements for the three months ended October 31, 2010. We also intend to continue to evaluate the impact of the adoption of IFRS on material contracts, compensation arrangements and business activities that rely on financial information in early 2011.

We continue to evaluate the impact of the adoption of IFRS on our consolidated financial statements and are monitoring any changes issued by the AcSB that may impact our 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 early 2011. Our IFRS convergence plan may be amended at any time until the reporting date, May 1, 2011.

OFF-BALANCE SHEET ARRANGEMENTS

As of January 31, 2011, we have not entered into any off-balance sheet arrangements.

SUMMARY OF QUARTERLY RESULTS

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

(\$)	For the three months ended			
	January 31, 2011	October 31, 2010	July 31, 2010	April 30, 2010
Interest income	31,642	24,930	657	65
Net loss	(4,521,024)	(5,415,001)	(5,460,557)	(8,752,931)
Net loss per share (basic and diluted)	(0.09)	(0.10)	(0.11)	(0.19)

(\$)	For the three months ended			
	January 31, 2010	October 31, 2009	July 31, 2009	April 30, 2009
Interest income	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 diluted)	(0.21)	(0.12)	(0.14)	(0.13)

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

- Research and development was impacted by the stage of our clinical trials during each quarter, whether it be the Phase 1b/2a trial which commenced during the three months ended October 31, 2008 and was concluded during the three months ended October 31, 2009; or the Phase 2 ASSERT trial which commenced during the three months ended January 31, 2010 and was substantially completed during the three months ended October 31, 2010.
- General and administrative costs for the three months ended July 31, 2010 and the three months ended January 31, 2011 were impacted by the recognition of costs associated with financing initiatives that were not completed, as well as employee bonuses recognized during the three months ended July 31, 2010.

- The recognition of gains and losses upon the amendment and redemption of our 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 shares 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 based on the timing of stock option grants and fluctuations in our share price. 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. Our US denominated assets and liabilities declined substantially as a result of the redemption of our convertible debentures during the three months ended January 31, 2010.

RELATED PARTY TRANSACTIONS

During the three months ended January 31, 2011, we did not transact with any related parties.

OUTSTANDING EQUITY INSTRUMENTS

As at March 15, 2011, Resverlogix had authorized an unlimited number of common shares and preferred shares, and had 52,277,907 common shares issued and outstanding. At March 15, 2010, Resverlogix also had 3,790,900 stock options to acquire common shares, of which 2,027,500 options are vested and exercisable; and 8,308,190 warrants to acquire common shares outstanding, for a total of 64,376,997 common shares on a diluted basis.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Our 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.

We have designed and evaluated the effectiveness of the Company's ICFR. Our Chief Executive Officer and Chief Financial Officer have concluded that our ICFR are not effective as at January 31, 2011. There are certain material weaknesses in our ICFR due primarily to our 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 our 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 objectives of the control system are achieved. We are in the process of implementing additional measures with the intention of remedying these weaknesses in the future.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in our internal controls over financial reporting during the three months ended January 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

Throughout 2010 and into 2011, we continued to pursue research and clinical development of products in cardiovascular disease, driven by the significant unmet need in the treatment of atherosclerosis and by the large economic burden this disease has on health systems globally. 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 us, this reinforces the importance of demonstrating that our therapeutics indeed influences functional HDL via the ApoA-I pathway.

2010 was a particularly important year for our science, marked by considerable advancement of our lead drug candidate, RVX-208. As described further on page 5 herein, we completed our Phase 2 clinical ASSERT trial, our third set of human trials. Across all subjects, ASSERT data demonstrated that the three key biomarkers in the reverse cholesterol transport process showed dose dependent and consistent improvement. The trial showed dose dependent increases, though not statistically significant in ApoA-1, the trial's primary endpoint. The trial also showed statistically significant increases in HDL cholesterol including alpha1 particles or functional HDL, and highly statistically significant increases in large HDL particles. In the high dose, ApoA-I achieved a 5.6% increase with a statistical value of $p=0.06$. Across all subjects, ApoA-I showed a trend to increase in higher doses with statistical significance of $p=0.035$. ApoA-I and other HDL particles continued to be increasing at the end of the 12 week study. Both the 8.3% HDL cholesterol increase and the 21.1% large particle HDL increase were highly statistically significant, $p<0.01$ and $p<0.001$ respectively. Across all patients, incidents of elevated alanine aminotransferase liver enzymes ("ALTs") in excess of 3 times the upper limit of normal ("ULN") were experienced by 18 of 225 treated patients in ASSERT. It is important to note that elevated ALTs alone are not considered indicative of liver injury. Increases in bilirubin, which would indicate liver injury, were not experienced in any patient.

To date, we have completed three clinical trials, with participation by more than 450 subjects. We plan to complete a second Phase 2 clinical trial, ASSURE. We have made important modifications to the design of ASSURE which have the potential to demonstrate a more powerful endpoint for the planning of future clinical trials. Key changes to ASSURE

included: raising the number of patients to be recruited from 120 to over 300; all patients will undergo an IVUS assessment, compared to the previously planned 60 patients; the number of trials sites will increase from 20 to approximately 50 and clinical trials will be conducted in multiple countries to accelerate recruitment and provide a more global based patient assessment for the drug; the study will focus on high risk patients with low HDL; and the primary endpoint of the trial is now atherosclerotic plaque regression. The secondary objectives for this study include further assessing the safety and tolerability of the drug as well as to evaluate the effect of RVX-208 on lipid parameters and plaque composition. We will continue to provide further updates including commencement of dosing.

ASSERT and ASSURE will further enhance our understanding of RVX-208's early properties in humans by offering extensive analysis of coronary plaque atheroma, safety, pharmacokinetics and markers of reverse cholesterol transport that demonstrate enhanced HDL functionality, and offer further elucidation on combinations of RVX-208 with statins to maximize the potential for optimal safety and efficacy for patients as well as provide maximum value for health systems globally.

Future planning, including Phase 3 trials, will be subject to review by management, the Clinical Advisory Board and our Clinical Steering Committee. We continue to work closely with our 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 us to maintain a lead with the development of more robust and accurate screens for further potential follow-on compounds behind RVX-208.

Further development in drug discovery is enabling us to continue to build upon our position in building a pipeline for novel small molecules that raise ApoA-I production. We continue to focus primarily on the objective of improving the quality and longevity of patients who suffer from cardiovascular disease. Our research includes other areas with high unmet medical need such as Cognitive Impairment and Alzheimer's disease as well as Inflammation. We intend to expand on our collaboration with other potential partners to develop this program further in the future.

Most patients receiving approved and future medications are covered by either government or private payer healthcare programs. The important stakeholders in healthcare delivery continue to place greater emphasis on the economic value of existing and new products being clearly demonstrated. Therefore potential revenues from Resverlogix's novel products have and will continue to be affected by the availability and extent of reimbursement from third-party payers, including reimbursement agencies, and administration of those programs.

We employ a detailed product life cycle strategy for our NexVas™ platform franchise. The goal of our life cycle strategy is to seek and optimize broad commercial pipeline opportunities for value creation. Moving forward through clinical development, we will strive to maximize safety and efficacy for patients with unmet medical need as well as create value for health systems globally.

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 us or that we believe to be immaterial may also adversely affect our business. If any one or more of the following risks occur, our business, financial condition and results of operations could be seriously harmed. Further, if we fail to meet the expectations of the public market in any given period, the market price of our common shares could decline.

Risks Relating to Our Business

We are a development stage company. If we do not develop commercially successful products, we may be forced to cease operations.

We are in an early stage of development, which may require significant additional investment for research and development, manufacturing, clinical testing, and regulatory submissions prior to commercialization. Investors must evaluate our business in light of the uncertainties and complexities affecting a development stage pharmaceutical company. We have not completed clinical development for any of our products and there can be no assurance that any such products will actually be developed. Each of our products will be unsuccessful if it:

- does not demonstrate acceptable safety and efficacy in preclinical studies and clinical trials or otherwise does not meet applicable regulatory standards for approval;
- does not offer therapeutic or other improvements over existing drugs used to treat the same or similar conditions;
- is not capable of being produced in commercial quantities at an acceptable cost, or at all; or
- is not accepted by patients, the medical community or third party payors.

A commitment of substantial time and resources is required to conduct research and clinical trials if we are to complete the development of any product. We have not proven our ability to develop and commercialize products. It is not known whether any of these products will meet applicable health regulatory standards and obtain required regulatory approvals, or (i) whether such products can be produced in commercial quantities at reasonable costs and be successfully marketed, (ii) whether our products will achieve market acceptance, or (iii) if our investment in any such products will be recovered through sales or royalties. Problems frequently encountered in connection with the development and utilization of new and unproven technologies and the competitive environment in which we operate might limit our ability to develop commercially successful products.

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, we would have limited ability to commercialize our products, and our business and results of operations would be harmed. We may fail to develop any

products, to obtain regulatory approvals, to enter clinical trials, or to commercialize any products. If we are unable to make our product candidates commercially available, we will not generate product revenues, and we may be forced to cease operations.

We have a history of net losses. We expect to continue to incur substantial net losses for the foreseeable future, and we may never achieve or maintain profitability.

To date, we have not recorded any revenues from the sale of biopharmaceutical products, and have incurred significant net losses in each year since our inception, including net losses of \$15.4 million for the nine months ended January 31, 2011, and \$27.6 million and \$21.6 million for the years ended April 30, 2010 and 2009 respectively. As of January 31, 2011 we had a deficit of \$144.8 million. We expect to incur substantial net losses and negative cash flow for the foreseeable future. Such losses have had, and will continue to have, an adverse effect on our stockholders' equity and working capital.

The process of developing and commercializing our products requires significant pre-clinical testing and clinical trials as well as regulatory approvals for commercialization and marketing before we could begin product sales. In addition, commercialization of our products would require us to establish a sales and marketing organization or contractual relationships to enable product manufacturing and other related activities. Because of the numerous risks and uncertainties associated with pharmaceutical product development and commercialization, we are unable to accurately predict the timing or amount of future expenses or when, or if, we will be able to achieve or maintain profitability. Currently, we have no products approved for commercial sale, and to date we have not generated any product revenue. We have financed our operations primarily through the sale of equity securities. The size of our future net losses will depend, in part, on the rate of growth or contraction of our expenses and the level and rate of growth, if any, of our revenues. We expect to incur losses unless and until such time as payments, if any, from corporate collaborations, product sales and/or royalty payments generate sufficient revenues to fund our continuing operations. Quarter to quarter fluctuations in revenues, expenses and losses are also expected. Even if we do achieve profitability, it may not be able to sustain or increase profitability on an ongoing basis.

We will need to raise additional capital in the future to fund our operations. If we cannot raise additional capital, we will have to delay, reduce or cease operations.

We will need to raise additional capital to fund our operations and to develop our products. We expect to attempt to raise additional funds through public or private equity or debt financing and/or from other sources. Our future capital requirements will be substantial and will depend on many factors, such as the following:

- the scope, rate of progress, results and costs of our preclinical studies and clinical programs;
- timing, costs and outcomes of regulatory proceedings;
- the cost and timing of developing sales and marketing operations or partnerships;
- payments received under any future partnerships;
- prosecution or defense of patent claims;
- the cost and timing of developing manufacturing capacity;
- the rate of progress in our research, drug discovery and developmental programs;
- costs associated with commercialization of our products; and

- competing technological and market developments, including the introduction by others of new therapies in our market.

We believe that with current cash and cash equivalents, together with funds available from our SEDA, we will be able to maintain our currently planned operations over the next year. We may also raise additional capital other than through the SEDA. If we do not draw on the SEDA, and if we are not able to raise additional capital, we may not have sufficient capital to fund anticipated cash requirements over the next year. Further, changing circumstances may cause us to consume capital significantly faster or slower than we currently anticipate. We have based these estimates on assumptions that may prove to be wrong, and we could utilize our available financial resources sooner than we currently expect.

There can be no guarantee that we will be able to access capital markets in the future to fund our ongoing operations. If we cannot access capital markets in the future we may be forced to cease operations. Any financing transaction may contain unfavorable terms. If we raise additional funds by issuing equity securities, our stockholders' equity will be diluted. If we raise additional funds through strategic partnerships, we may be required to relinquish rights to our products, or to grant licenses on terms that are not favorable to us.

Unstable market conditions may have serious adverse consequences on our business.

The recent economic downturn and market instability has made the business climate more volatile and more costly. Our business strategy may be adversely affected by unpredictable and unstable market conditions. If the current equity and credit markets deteriorate it may make any necessary equity or debt financing more difficult, more costly, and more dilutive. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon clinical development plans. There is a risk that one or more of our current or future strategic partners may encounter difficulties during challenging economic times, which would directly affect our ability to attain our operating goals on schedule and on budget.

If our clinical trials fail to establish the safety and efficacy of our products, including RVX-208, we will not be able to commercialize our products.

Drug discovery and development has inherent risk and the historical failure rate is high. Failures in the HDL cholesterol market by some pharmaceutical companies have highlighted the risk of these types of therapies. To obtain regulatory approval to market and sell any of our products, we must satisfy the United States Federal Drug Administration ("FDA"), Health Canada's Therapeutic Products Directorate (the "TPD"), and other regulatory authorities, through extensive clinical trials and preclinical studies, that our products are safe. If we cannot demonstrate that our drugs, including RVX-208, are safe and effective for human use, we may need to abandon one or more of its drug development programs.

We may not have conducted or may not conduct in the future the types of testing ultimately required by regulatory authorities, or future tests may indicate that our products are not safe for use in humans. Preclinical testing and clinical trials are expensive, can take many years and have an uncertain outcome. In addition, success in initial preclinical testing

does not ensure that later preclinical testing or clinical trials will be successful. 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, which may require us to conduct additional preclinical testing or to abandon product candidates that we believed to be promising;
- the regulators may require that we hold, suspend or terminate clinical research for noncompliance with regulatory requirements;
- we, our potential partners, the FDA, the TPD 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;
- we may decide, or regulators may require us, to conduct additional preclinical testing or clinical trials;
- enrollment in our clinical trials may be slower than anticipated;
- the cost of our clinical trials may be greater than anticipated;
- our products may have unfavorable pharmacology, toxicology or carcinogenicity;
- our product candidates may cause undesirable side effects; and
- the supply or quality of our drugs or other materials necessary to conduct clinical trials may be insufficient, inadequate or delayed.

If any of our drugs in clinical studies, including RVX-208, do not show sufficient efficacy in patients with the targeted indication, it could negatively impact our development and commercialization or goals for this and other drugs and, as result, materially adversely affect our business, financial condition and results of operations.

We may be required to conduct broad, long-term clinical trials to address concerns that the long-term use of our leading product, RVX-208, in broader chronic indications might increase the risk of liver damage. This may materially adversely affect our business, financial condition and results of operations.

In our recent Phase 2 clinical trial, results showed some patients had increased liver enzymes, which may signal potential liver toxicity resulting from use of RVX-208. While such increase may not indicate liver toxicity, if further tests were to determine such risk did exist the FDA may require us to conduct broad, long-term clinical trials to address these concerns prior to receiving FDA approval for RVX-208. These clinical trials would be expensive and could delay any commercialization of RVX-208. Adverse results in these trials could prevent commercialization of RVX-208 for chronic indications or could jeopardize existing development in other indications.

If our testing assumptions are incorrect our products may not be approved for marketing.

The design of our clinical trials is based on many assumptions about the expected effect of our product candidates. If those assumptions prove incorrect, the clinical trials may not produce statistically significant results. We cannot assure you that the design of, or data collected from, the clinical trials of our product candidates will be sufficient to support the FDA and foreign regulatory approvals.

We are dependent on third parties to conduct our clinical trials and to provide services for certain important aspects of our business. If these third parties do not

perform as contractually required or expected, we may not be able to obtain regulatory approval for our products, or we may be delayed in doing so.

We rely on third parties, such as contract research organizations, medical institutions, academic institutions, independent clinical investigators and contract laboratories, to conduct our preclinical studies and clinical trials, and we expect to continue to do so in the future. We rely heavily on these parties for successful execution of our clinical trials, but do not control many aspects of their activities. As a result, many important aspects of our product development are outside our direct control. We are responsible for confirming that our preclinical studies are conducted in accordance with applicable regulations and that each of our clinical trials is conducted in accordance with its general investigational plan and protocol. The FDA requires us to comply with regulations and standards, commonly referred to as good laboratory practices, or GLP, for conducting and recording the results of our preclinical studies and good clinical practices for conducting, monitoring, recording and reporting the results of clinical trials, to assure that data and reported results are accurate and that the clinical trial participants are adequately protected. Our reliance on third parties does not relieve us of these responsibilities. If the third parties conducting our clinical trials do not perform their contractual duties or obligations, do not meet expected recruitment or other deadlines, fail to comply with the FDA's good clinical practice regulations, do not adhere to our clinical trial protocols or otherwise fail to generate reliable clinical data, development, approval and commercialization of our products, including RVX-208, may be extended, delayed or terminated or may need to be repeated, and we may not be able to obtain regulatory approval.

We do not currently own or operate manufacturing facilities for clinical or commercial production of the active pharmaceutical ingredient, or API, used in RVX-208. As a result, we rely on third parties to supply the API. We expect to continue to depend on third parties to supply the API for our lead product candidates and any additional product candidates we develop in the foreseeable future. An API manufacturer must meet high precision and quality standards for that API to meet regulatory specifications and comply with regulatory requirements. A contract manufacturer's failure to comply with applicable regulations and requirements could result in refusal to approve or a delay in approval of RVX-208 or other product candidate. We are ultimately responsible for confirming that the APIs used in our product candidates are manufactured in accordance with applicable regulations. Furthermore, if our third party drug suppliers fail to achieve and maintain high manufacturing standards in compliance with applicable regulations, we could be subject to certain product liability claims in the event such failure to comply resulted in defective products that caused injury or harm.

We rely on partnerships and strategic relationships for our success. The failure to successfully collaborate with third parties may delay, prevent or otherwise impair the development or commercialization of our products or revenue expectations.

As a result of the costs and risks associated with commercializing a product candidate we seek strategic partnerships with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, manufacturing, marketing and commercialization of our products, and we intend to attract 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 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 our products may result in our 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, and this may materially adversely affect our business, financial condition and results of operations.

Should a collaborative partner fail to develop, manufacture, or commercialize successfully any product to which it has rights, or any partner's product to which we 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 our competitors, as a means for developing treatments for the diseases targeted by our programs.

Furthermore, we 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 us. We 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. We may also be obligated to make royalty payments on the sales, if any, of products resulting from licensed technology and, in some instances, are responsible for the costs of filing and prosecuting patent applications.

We face significant competition in seeking appropriate strategic partners, and these strategic partnerships can be intricate and time consuming to negotiate and document. We may not be able to negotiate additional strategic partnerships on acceptable terms, or at all. We are unable to predict when or if we will enter into any additional strategic partnerships because of the numerous risks and uncertainties associated with establishing strategic partnerships. If we are unable to negotiate additional strategic partnerships for our products we may be forced to delay or terminate development or commercialization of one or more of our products. If we elect to increase our expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us.

If we enter into partnerships or other strategic relationships, we may lose important rights to and control over the development of our products.

As a result of the costs and risks associated with commercializing a product we will seek strategic partnerships in order to continue to develop and, if approved, market our products. Such strategic partnerships may require us to relinquish control over the timing and manner of clinical trials and commercialization of our products. Strategic partners may experience financial difficulties or choose to terminate the arrangement or independently work on a competing product resulting in the delay or discontinuation of development or commercialization of our product candidates. Furthermore, disputes may arise between us and our strategic partners that result in the delay or termination of the research, development or commercialization of our product candidates or that result in costly litigation or arbitration that diverts management's attention and consumes resources. Strategic partners may not properly maintain or defend our intellectual property rights or may use our proprietary information in a manner that could jeopardize or invalidate our proprietary information or expose us to potential litigation.

If our products fail to achieve market acceptance for any reason, such failure may materially adversely affect our business, financial condition and results of operations.

There can be no assurance that any of our products, if approved for marketing, will achieve market acceptance. If our products, once approved, do not receive market acceptance for any reason, it will adversely affect our business, financial condition and results of operations. The degree of market acceptance of any products we develop will depend on a number of factors, including:

- the clinical efficacy and safety of our products;
- our products' potential advantages over existing and future treatment methods;
- the price of our products; and
- reimbursement policies of government and third-party payers, including hospitals and insurance companies.

If after we obtain regulatory approval to sell our products, physicians, and healthcare payors fail to adopt our products or conclude that our products are not safe and effective, physicians could choose not to use them to treat patients. Our competitors may also develop new technologies or products which are more effective or less costly, or that seem more cost-effective than our products.

In addition, regulations affecting the pricing of pharmaceutical products may change in ways adverse to us. While we cannot predict the likelihood of any regulatory proposals, if a government agency were to adopt proposals limiting market or third-party payor pricing for pharmaceutical products, it could materially adversely affect our business, financial condition and results of operations.

We cannot be certain that we will ever obtain regulatory approvals in Canada, the United States, or other countries. The failure to obtain such approvals may materially adversely affect our business, financial condition and results of operations.

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. We are required to obtain various regulatory approvals prior to being able to study, commercialize and distribute our products. The regulatory review and approval process required to perform a clinical study in both Canada and the United States includes evaluation of preclinical studies and clinical studies, as well as the evaluation of our manufacturing process. This process is complex, lengthy, expensive, resource intensive and uncertain. Securing regulatory approval to market our products also requires the submission of extensive preclinical and clinical data, manufacturing information regarding the process and facility, scientific data characterizing our product and other supporting data to the regulatory authorities in order to establish its safety and effectiveness. We, or our collaborators, may fail to obtain the necessary approvals to commence or continue preclinical or clinical testing including RVX-208 or to manufacture or market our products in reasonable time frames, if at all.

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 our ability to develop our products. Many of the products and processes that are

being currently developed by us 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 we attempt to develop 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 us or by the FDA, the TPD or foreign regulatory authorities if it is determined that the subjects or patients are being exposed to unacceptable risks. We may encounter delays or rejections based on varying regulatory interpretations or changes in regulatory agency policies, during the period in which we develop a product.

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 we 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. We have limited experience in filing and pursuing applications necessary to gain these regulatory approvals.

The approval procedures vary among countries and can involve additional product testing and administrative review periods. The time required to obtain approval in various countries vary from one another. Approval in one country does not ensure approval by the regulatory authorities of other countries. The failure to obtain such approvals may materially adversely affect our business, financial condition and results of operations.

Regulatory authorities may not approve our products even if they meet safety and efficacy endpoints in clinical trials.

The FDA, the TPD and other foreign regulatory agencies can delay, limit or deny marketing approval for many reasons, including finding a product may not be considered safe and effective; the manufacturing processes or facilities may not meet applicable requirements; or changes in approval policies or regulations. Our product candidates may not be approved even if they achieve their endpoints in clinical trials. Regulatory agencies, including the FDA, or their advisors may disagree with our trial design and our interpretations of data from preclinical studies and clinical trials. Regulatory agencies may change requirements for approval even after a clinical trial design has been approved. Regulatory agencies also may approve a product candidate for fewer or more limited indications than requested or may grant approval subject to the performance of post-marketing studies. In addition, regulatory agencies may not approve the labeling claims that are necessary or desirable for the successful commercialization of our product candidates.

Our products will remain subject to ongoing regulatory review even if they receive marketing approval. If we fail to comply with continuing regulations, we could lose these approvals, and the sale of any future products could be suspended.

In the event we receive regulatory approval to market a particular product candidate, United States, Canadian or other foreign regulatory authority could condition approval on conducting additional costly post-approval studies or could limit the scope of approved uses. In addition, the product may later cause adverse effects that limit or prevent its widespread use, force us to withdraw it from the market or prevent or delay our ability to obtain regulatory approvals in additional countries. In addition, we will continue to be subject to

regulatory review and periodic inspections to ensure adherence to applicable regulations. After receiving marketing approval, the FDA imposes extensive regulatory requirements on the manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and record keeping related to the product. Failure to comply with the regulatory requirements could result in:

- civil or criminal penalties or fines;
- injunctions;
- product seizures, detentions or import bans;
- voluntary or mandatory product recalls and publicity requirements;
- suspension or withdrawal of regulatory approvals; and
- refusal to approve pending applications for marketing approval of new drugs or supplements to approved applications.

We may be subject to product liability claims if our products harm people, and we do not have product liability insurance.

The manufacture and sale of pharmaceutical products involve an inherent risk of product liability claims and associated adverse publicity. We have entered into human clinical trials that involve inherent risks in the testing of unproven products. We currently have only clinical trial liability insurance for our products; we do not have product liability insurance. We do not know if we will be able to maintain existing or obtain additional clinical trial liability insurance or obtain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. This type of insurance is expensive and may not be available on acceptable terms. If we are unable to obtain or maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential clinical trial and product liability claims, we may be unable to commercialize our products. A successful clinical trial liability or product liability claim brought against us in excess of our insurance coverage, if any, may require us to pay substantial amounts. This could have a material adverse effect on our business, financial condition and results of operations.

The pharmaceutical industry is extremely competitive. If our competitors develop and market products that are more effective, safer or less costly than any future products that we may develop, our commercial opportunity will be reduced or eliminated.

The technological competition we face from new and established 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. 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 we intend to develop. Our commercial opportunity will be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer side effects or are less expensive than any future products that we may develop and commercialize. In addition, significant delays in the development of our product candidates could allow our competitors to bring products to market before us and impair our ability to commercialize our product candidates. Research and development by others may render our technology or products obsolete or noncompetitive or produce treatments or cures superior to any therapy developed or to be developed by us.

We anticipate that, if approved for cardiovascular / atherosclerotic disease, RVX-208 would potentially compete with Niacin, Niaspan, cholesteryl ester transfer protein (“CETP”) inhibitors such as anacetrapib and dalcetrapib, and PPAR agents such as pioglitazone.

We anticipate that, if approved for vascular inflammation, RVX-208 would potentially compete with novel anti-inflammatory agents currently in preclinical development.

We anticipate that, if approved for mild cognitive impairment / Alzheimer’s disease, RVX-208 would potentially compete with other agents and novel approaches to this disease such as small molecules, Namenda and PBT2, and monoclonal antibody technologies (“MOABs”) such as Bapineuzumab.

Many of our competitors have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Established pharmaceutical companies may invest heavily to discover quickly and develop novel compounds or drug delivery technology that could make our product candidates obsolete. Smaller or early stage companies may also prove to be significant competitors, particularly through strategic partnerships with large and established companies. In addition, these third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies and technology licenses complementary to our programs or advantageous to our business. Accordingly, our competitors may succeed in obtaining patent protection, receiving FDA approval or discovering, developing and commercializing products before we do. If we are not able to compete effectively against our current and future competitors, our business will not grow and our financial condition will suffer.

We are dependent upon retaining and attracting key personnel and others, the loss of which could materially adversely affect our business, financial condition and results of operations.

We depend on certain members of our management and scientific staff, the loss of whose services might significantly delay or prevent the achievement of research, development or business objectives and would materially adversely affect our business, financial condition and results of operations. We do not have employment agreements with any of our senior management that would prevent them from leaving Resverlogix. In addition, our success depends, in large part, on our ability to improve our management systems and attract and retain qualified management, scientific and medical personnel, and on our ability to develop and maintain important relationships with commercial partners, leading research institutions and key distributors. We face intense competition for such personnel and relationships. We cannot assure that we will attract and retain such persons or maintain such relationships. In addition, failure to succeed in clinical trials may make it more challenging for us to recruit and retain qualified scientific personnel.

We may not be able to attract, train and retain a sufficient number of qualified employees to maintain and grow our business.

We expect that our potential expansion into areas and activities requiring additional expertise, such as further clinical trials, governmental approvals, manufacturing, sales, marketing and distribution will place additional requirements on our management, operational and financial resources. We expect these demands will require an increase in management and scientific personnel and the development of additional expertise by

existing management personnel. There is currently aggressive competition for employees who have experience in technology and engineering. The failure to attract and retain such personnel or to develop such expertise could materially adversely affect our business, financial condition and results of operations.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information. Disclosure of this information may materially adversely affect our business, financial condition and results of operations.

We rely on trade secrets, which we seek to protect, in part, through confidentiality and non-disclosure agreements with our employees, collaborators, suppliers, and other parties. There can be no assurance that these agreements will not be breached, that we would have adequate remedies for any such breach or that our trade secrets will not otherwise become known to or independently developed by our competitors. We might be involved from time to time in litigation to determine the enforceability, scope and validity of our proprietary rights. Any such litigation could result in substantial cost and divert management's attention from our operations.

We may need to implement additional finance and accounting systems, procedures and controls in the future as we grow and to satisfy new reporting requirements.

As we grow we may access capital markets more broadly which could require us to implement additional finance and accounting systems along with enhanced internal control systems. This will result in increased costs to us as we continue to undertake efforts to comply with best practices and applicable rules and requirements applicable to public companies. These rules may make it more difficult and costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage as compared to the policies previously available to public companies. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or our board committees or as executive officers. In addition, we may need to hire additional legal and accounting staff with appropriate experience and technical knowledge, and we cannot assure that if additional staffing is necessary that we will be able to do so in a timely fashion.

Our products may not be eligible for reimbursement from government or private third-party payors, or may be eligible for reimbursement at lower prices than we currently anticipate, which could materially adversely affect our business, financial condition and results of operations.

Our 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 and could materially adversely affect our business, financial condition and results of operations. 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 us to realize an acceptable return on its investment in product development. If we cannot realize an acceptable return on our investment in product development we may need to delay or cease our product development.

It may be difficult or impossible for U.S. investors to enforce judgments against us, our directors or our officers in Canada.

We were formed under the laws of the Province of Alberta. Some of the members of our board of directors and our 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 us or these persons or to enforce against us 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.

Risks Relating to our Intellectual Property

We may not accurately predict the protection afforded by our patents and proprietary technology and if our predictions are wrong, this may materially adversely affect our business, financial condition and results of operations.

Our success will depend in part on our ability to obtain, maintain, and enforce patent rights, maintain trade secret protection and operate without infringing the proprietary rights of third parties, both domestically and internationally.

Our patent positions are highly uncertain, and any future patents we receive for our potential products will be subject to this uncertainty, which may adversely affect our business, financial condition and results of operations. There can be no assurance that pending patent applications will be allowed and that we 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 us. In addition, we 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 us. If such licenses are not obtained we could encounter delays in introducing one or more of our products to the market, while we attempt to design around such patents, or could find that the development, manufacturing or sale of products requiring such licenses could be foreclosed. In addition, we could incur substantial costs in defending suits brought against us on such patents or in suits in which we attempt to enforce our own patents against other parties. Such disputes could involve arbitration, litigation or proceedings declared by the United States 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 we not prevail, could seriously harm our business. With respect to any infringement claim asserted by a third party, we can give no assurances that we will be successful in the litigation or that such litigation would not have a material adverse effect on our business, financial condition and results of operation.

Until such time, if ever, that patent applications are filed and or approved, our ability to maintain the confidentiality of the described technology may be crucial to our ultimate possible commercial success. While procedures have been adopted to protect the confidentiality of our 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 we can meaningfully protect our rights to our trade secrets.

Even if valid and enforceable patents cover our products and technologies, such patents will provide protection only for a limited amount of time.

Even if patents are issued regarding our product candidates or methods of using them, those patents can be challenged by our competitors who can argue that our patents are invalid and/or unenforceable. Third parties may challenge our rights to, or the scope or validity of, our patents. Patents also may not protect our products if competitors devise ways of making these or similar product candidates without legally infringing our patents. The Federal Food, Drug and Cosmetic Act and the FDA regulations and policies provide incentives to manufacturers to challenge patent validity or create modified, non-infringing versions of a drug or device in order to facilitate the approval of generic substitutes. These same types of incentives encourage manufacturers to submit new drug applications that rely on literature and clinical data not prepared for or by the drug sponsor.

We also rely on trade secrets to protect our technology, especially where we do not believe that patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. The employees, consultants, contractors, outside scientific collaborators and other advisors of our company and our strategic partners may unintentionally or willfully disclose our confidential information to competitors. Enforcing a claim that a third party illegally obtained and is using our trade secrets is expensive and time consuming and the outcome is unpredictable. Failure to protect or maintain trade secret protection could adversely affect our competitive business position.

Our research and development collaborators may have rights to publish data and other information in which we have rights. In addition, we sometimes engage individuals or entities to conduct research that may be relevant to our business. The ability of these individuals or entities to publish or otherwise publicly disclose data and other information generated during the course of their research is subject to certain contractual limitations.

These contractual provisions may be insufficient or inadequate to protect our trade secrets and may impair our patent rights. If we do not apply for patent protection prior to such publication or if we cannot otherwise maintain the confidentiality of our technology and other confidential information, then our ability to receive patent protection or protect our proprietary information may be jeopardized.

Litigation or other proceedings or third party claims of intellectual property infringement could require us to spend time and money and could shut down some of our operations.

Our commercial success depends in part on not infringing patents and proprietary rights of third parties. Others have filed, and in the future are likely to file, patent applications covering products that are similar to our product candidates, as well as methods of making or using similar or identical products. If these patent applications result in issued patents and we wish to use the claimed technology, we would need to obtain a license from the third party. We may not be able to obtain these licenses at a reasonable cost, if at all.

In addition, administrative proceedings, such as interferences and reexaminations before the U.S. Patent and Trademark Office, could limit the scope of our patent rights. We may incur substantial costs and diversion of management and technical personnel as a result of our involvement in such proceedings. In particular, our patents and patent applications may be subject to interferences in which the priority of invention may be awarded to a third party. We do not know whether our patents and patent applications would be entitled to priority over patents or patent applications held by such a third party. Our issued patents may also be subject to reexamination proceedings. We do not know whether our patents would survive reexamination in light of new questions of patentability that may be raised following their issuance.

We may be subject to claims for intellectual property infringement from former employers of our key employees, which could result in loss of intellectual property, our key employees or both.

Many of our employees were previously employed at universities or other biotechnology or pharmaceutical companies, including competitors or potential competitors. We could be subject to claims that these employees or we 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 we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying money claims, we 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 our business, financial condition and results of operations.

Risks Relating to Owning our Common Stock

Our stock price has been and may continue to be extremely volatile. It may be difficult to resell our common stock.

The market price of our common stock has fluctuated substantially in the past and could fluctuate substantially in the future. During the twelve months preceding January 31, 2011, the closing market price of our common shares ranged from \$1.89 to \$8.00 per share. In addition, the trading prices of life science and biotechnology company stocks in general have experienced extreme price fluctuations in recent years. The valuations of many life science companies without consistent product revenues and earnings are high based on conventional valuation standards, such as price to revenue ratios. These trading prices and valuations may not be sustained. Any negative change in the public's perception of the prospects of life science or biotechnology companies could depress our stock price regardless of our results of operations. In addition our stock may fluctuate based on a variety of factors, including actual or anticipated regulatory approvals or disapprovals of our products or competing products, actual or anticipated results and timing of our clinical trials, changes in the expected or actual timing of our development programs, changes in our operating results, conditions or trends in the life science and biotechnology industries, announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments, additions or departures of key personnel, sales and distributions of our common stock by us or our shareholders, changes in general conditions in the economy or other developments affecting us, our clients, or our competitors, some of which may be unrelated to our performance.

Among other things, volatility in our stock price could mean that investors will not be able to sell their shares at or above prices at which they were acquired. The volatility also could impair our ability in the future to offer common stock as a source of additional capital. In addition, in the past, stockholders have often instituted securities class action litigation after periods of volatility in the market price of a company's securities. If a stockholder files a securities class action suit against us, we would incur substantial legal fees, and our management's attention and resources would be diverted from operating our business in order to respond to the litigation.

If we sell common stock in the future, existing common shareholders will experience immediate dilution and our stock price may decrease.

We will need to raise additional capital to fund our operations and to develop our products. We will likely raise such additional capital through the sale of our common shares from time to time. As a result, our existing common stockholders will experience immediate dilution upon any such issuance. We are currently a party to a SEDA pursuant to which we may issue up to \$25 million worth of common shares until the SEDA's expiration on March 26, 2012. We expect to enter into additional financing transactions involving the issuance of our common stock. Any such financing transaction or draw down on our SEDA will result in our existing common stockholders experiencing immediate dilution.

If our estimates regarding timing of milestones are incorrect our stock price may decrease.

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 our 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 we do not achieve milestones consistent with investors' expectations, the price of our shares would likely decline.

We do not currently intend to pay dividends on our common stock and, consequently, investors' ability to achieve a return on investment will depend on appreciation in the price of our common stock.

We have not to date paid any dividends on our common stock. We currently intend to invest our future earnings, if any, to fund the development and growth of our business. The payment of dividends will be at the discretion of our board of directors and will depend on our results of operations, capital requirements, financial condition, future prospects, contractual arrangements, restrictions imposed by applicable law, any limitations on payments of dividends present in any debt agreements we may enter into and other factors our board of directors may deem relevant. If we do not pay dividends, your ability to achieve a return on your investment in our company will depend on any future appreciation in the market price of our common stock. There is no guarantee that our common stock will appreciate in value or even maintain the price at which our holders have purchased their common stock.

ADDITIONAL INFORMATION

Additional information relating to Resverlogix can also be found on SEDAR at www.sedar.com.