



RESVERLOGIX CORP.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED JULY 31, 2011
and 2010**

OCTOBER 14, 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 condensed interim consolidated financial statements for the three months ended July 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, 2011. Our financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). An advisory with respect to the use of non-IFRS measures is set out in this MD&A under "NON-IFRS MEASURES". All amounts in the following MD&A are stated in US 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 Apolipoprotein A-I ("ApoA-I") production and high density lipoprotein ("HDL") functionality referred to under "Scientific Developments"; our plans to establish RVX-208 dose response for ApoA-I, high-density lipoprotein cholesterol ("HDL-c") and regression of atherosclerosis with the evaluation of intravascular ultrasound 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 20 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-IFRS MEASURES

To supplement our consolidated financial statements presented in accordance with IFRS, we use non-IFRS 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 IFRS and may differ from measures used by other entities.

OVERVIEW

We are a biotechnology company engaged in the development of novel therapies for important global medical markets with significant unmet medical needs. Our primary focus is the NexVas[™] PR program which is to develop novel small molecules that enhance ApoA-I production and reverse cholesterol transport (RCT). These vital therapies are focused to address the burden of atherosclerosis and other important diseases such as Acute Coronary Syndrome (ACS), Alzheimer's disease, Peripheral Artery Disease and other vascular disorders. Our secondary research focus is on inflammatory and autoimmune diseases.

Clinical and Research Programs

NexVas[™] Plaque Regression (NexVas PR) is our primary program for the development of drugs that increase the production of ApoA-I to reduce the risk of cardiovascular diseases (CVD). ApoA-I is the key building block of HDL, the "good cholesterol". Our lead drug candidate, RVX-208, is currently in two Phase 2b clinical trials - ASSURE and SUSTAIN - led by the Cleveland Clinic.

NexVas[™] Alzheimer's Disease (NexVas AD) is a program focused on development of drugs that enhance ApoA-I and RCT markers for stabilization and the potential transport of Beta Amyloid Plaque found in patients with dementia and Alzheimer's disease. The program will also seek to research novel biomarkers and diagnostics that may emerge and provide greater targeting for patients who could benefit the most from our novel agents.

NexVas[™] Autoimmune (NexVas AI) is a discovery stage effort focused on the development of drugs that target molecular markers of inflammation specifically targeted at important diseases such as Multiple Sclerosis (MS) and Rheumatoid Arthritis (RA).

ReVas[™] is a research stage program focused on the development of therapeutics to be used with medical devices for the treatment of CVD.

We are currently focused on mid-stage clinical studies. A core strategy is to avoid the significant costs of large clinical trials associated with the final phases of the drug development process. Therefore a goal of ours is to either license or sell our technology prior to late stage trials, allowing us to mitigate a significant component of biotechnology investment risk.

Our 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 two Phase 2b clinical studies underway.

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, 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 design modifications to our Phase 2b clinical trial, called ASSURE (ApoA-1 Synthesis Stimulation in Acute Coronary Syndrome patients), 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 were to undergo an intravascular ultrasound assessment versus the previously planned 60 patients;
- Trial sites increased from 20 to approximately 45;
- Clinical trials to be conducted in multiple countries;
- The study to include only patients with low HDL; and
- The primary endpoint would be plaque regression.

As described below, ASSURE's patient population was subsequently changed from those with Acute Coronary Syndrome to those with coronary artery disease who have a low level of high-density lipoprotein cholesterol (HDL-C).

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 in response to 12 weeks of treatment with RVX-208 or placebo. 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 with HDL below 45 mg/dl who were on newer leading statin agents at select doses, only one 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 December 2010, we announced that Cleveland Clinic researchers in combination with us and the Clinical Steering Committee unanimously approved the trial design for ASSURE. The Phase 2b multi-center, double-blinded, randomized ASSURE trial will test 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 (IVUS).

In January 2011, we announced that we had performed a post hoc analysis of data from the Phase 2b ASSURE trial to assess the potential treatment effects of RVX-208 on Alzheimer's Disease, and that we intended to further investigate the relationship between cardiovascular and Alzheimer's Disease biomarkers.

In June 2011, we announced that we had completed chronic repeated-dose toxicology studies on our lead compound, RVX-208. RVX-208 underwent six and twelve month testing in rodents and non-rodents, respectively, and the analysis, results and reporting of these studies to the appropriate regulatory authorities, had been completed.

The chronic toxicology studies supported the initiation of the longer duration, Phase 2b ASSURE clinical trial.

Results from the ASSURE trial demonstrated that RVX-208 is efficacious in elevating new production of ApoA-1, the key protein in 'good cholesterol', HDL cholesterol and HDL Alpha1 sub particles. None of these reverse cholesterol transport biomarkers appear to have reached their plateaus at the completion of the 12 week trial. As a result, FDA rules required that we complete the safety studies in order to progress to a six month human clinical study.

We identified more than 60 clinical sites in eight countries to participate in ASSURE. The Cleveland Clinic will serve as the trial co-manager and coordinate all data management and readouts of the primary endpoint. Countries with secured trial sites were located in both Europe and South America. With the completion of these chronic repeated-dose toxicology studies, we commenced the required national approval filings. Upon completion of regulatory filings in each specific country, we are then able to commence enrollment and dosing procedures.

ASSURE is a 26-week, multi-center, double-blind, randomized, parallel group, placebo-controlled clinical trial that will assess coronary atherosclerotic plaque changes in response to RVX-208 using intravascular ultrasound. ASSURE will examine the early effects of RVX-208 induced ApoA-1 production on atherosclerotic plaque regression in the setting of patients with coronary artery disease who have a low level of HDL-C. A total of 310 patients are expected to participate in ASSURE, of which 77 will receive placebo and 233 will be given 100 mg of RVX-208 twice daily. The primary endpoint of ASSURE is IVUS measurement of a change in percent atheroma volume from baseline to 26 weeks. Secondary objectives for ASSURE are: (i) safety and tolerability of RVX-208 as reflected by adverse events, and (ii) effects of RVX-208 on HDL and non-HDL lipid parameters.

In June 2011, we announced that new data on our Autoimmune program would be presented at the 10th World Congress on Inflammation in Paris, France. The presentation was entitled: "An Orally Bioavailable Small Molecule RVX-297 Significantly Decreases Clinical Signs in a Mouse Model of Multiple Sclerosis."

In June 2011, we also presented new data at the European Atherosclerosis Society in Gothenburg, Sweden in two presentations entitled: "Anti-Inflammatory Effects of a Novel Inducer of Apolipoprotein A-I Synthesis: Insights from the ASSERT Study," and "Increasing Circulating Concentration of All HDL Particle Subclasses in Hyper-Responders to Apolipoprotein A-I Induction: Insights from the ASSERT Study."

In September 2011, we announced that we had begun activating study sites for ASSURE, to be followed by enrollment of patients.

In September 2011, we also announced that we had also commenced enrollment and dosing of patients for a second Phase 2b clinical trial, SUSTAIN ("Study of Quantitative Serial Trends in lipids with Apolipoprotein A-1 stimulation"). SUSTAIN is a 24-week, multi-center, double-blind, randomized, parallel group, placebo controlled clinical trial. Approximately 172 subjects with established CVD who continue to have a high-risk for recurrent CVD events will be enrolled. All subjects in SUSTAIN will have a low level of HDL-C and are receiving standard of care therapy that includes up to 40 mg Atorvastatin or 20 mg Rosuvastatin. Subjects will receive 200 mg/day of RVX-208 or placebo in order to assess lipid trends and safety. In addition, other biomarkers of reverse cholesterol transport will be examined. The primary endpoint of SUSTAIN is the change in HDL-C from baseline after receiving RVX-208 for 24 weeks vs. placebo. Secondary endpoints include change in ApoA-I, LDL-C, non-HDL-C, apoB, TG and HDL subclasses. SUSTAIN will be conducted in South Africa.

Corporate Developments

In June 2011, we announced the closing of a public offering of 7 million units at a price of CAD\$1.80 per unit for gross proceeds of \$13.0 million (CAD\$12.6 million). Each unit was comprised of one Common Share and 0.5 of one Common Share purchase warrant. Each warrant was exercisable at a price of CAD\$2.25 per share for a period of five years from the closing date.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JULY 31, 2011 AND 2010

Upon transition to IFRS, we transitioned to presentation of our financial statements in US dollars.

Three Months Ended July 31		
(in thousands of US dollars, except as otherwise noted)	2011	2010
Expenses	5,305	5,457
Finance income (costs)	(4,446)	(18,866)
Loss (income) before income taxes	859	(13,409)
Income taxes	53	-
Net and comprehensive loss (income)	912	(13,409)
Net loss (income) per share . basic	0.02	(0.27)
Net loss (income) per share . diluted	0.02	(0.26)

We recognized a net loss (income) and comprehensive loss (income) for the three months ended July 31, 2011 of \$0.9 million (2010 - \$13.4 million income), or \$0.02 per share (2010 - \$0.27 income per share).

The average monthly Cash Burn Rate, a non-IFRS measure as described on page 2 herein, for the three months ended July 31, 2011 was \$1.6 million (2010 - \$1.6 million). This measure is based on the cash flow used in operations prior to changes in non-cash working capital from the Consolidated Statements of Cash Flows. The average monthly Cash Burn Rate is determined using the applicable period total divided by the number of months in the period.

Three Months Ended July 31		
(in thousands of US dollars, except as otherwise noted)	2011	2010
Cash flow used in operations	(9,126)	(6,231)
Changes in non-cash working capital	4,395	1,418
	(4,740)	(4,813)
Number of months	3	3
Average Monthly Cash Burn Rate	(1,580)	(1,604)

Research and Development

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

During the three months ended July 31, 2011, gross R&D expenditures totaled \$4.2 million (2010 - \$3.7 million). Clinical costs increased approximately \$0.3 million compared to the prior period; clinical costs for the three months ended July 31, 2011 included pre-study costs associated with both ASSURE and SUSTAIN; whereas during the three months ended July 31, 2010, costs were associated with the latter stages of ASSERT. Salaries and research costs increased due to an expanded research program.

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 months ended July 31, 2011, general and administrative expenditures totaled \$1.2 million (2010 - \$1.8 million). The decrease in general and administrative expenditures is primarily attributable to the inclusion in the comparative period of costs associated with financing alternatives that we explored, as well as compensation and related costs.

Share-based Payments

Pursuant to IFRS, our share-based payments and depreciation and amortization are included in research and development and general and administrative rather than being presented separately in the statements of comprehensive loss (income). During the three months ended July 31, 2011, we recognized \$0.5 million (2010 - \$0.6 million) of share-based payments. During the three months ended July 31, 2011, we granted 1,386,000 stock options (2010 - 62,400) and 252,900 restricted stock units (2010 - nil). Share-based payments are a non-cash expense which does not impact operating cash flows.

Change in Fair Value of Warrant Liability

We have issued warrants in connection with various securities offerings. Under IFRS, warrants issued as part of a unit are reported as a liability until they are exercised or expire. These warrants are adjusted to fair value at each reporting period and any change in fair value between reporting periods is recorded in net loss (income) and comprehensive loss. During the three months ended July 31, 2011, the fair value of our warrant liability declined \$4.4 million, based primarily on the decline in the market price of our shares to CAD\$1.46 on July 31, 2011 from CAD\$1.94 on April 30, 2011. During the three months ended July 31, 2010, the fair value of our warrant liability declined \$18.9 million, based primarily on the decline in the market price of our shares to CAD\$2.72 on July 31, 2010 from CAD\$5.86 on

April 30, 2010. Gains and losses resulting from the revaluation of warrant liability are non-cash and do not impact our cash flows from operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

During the three months ended July 31, 2011, \$9.1 million of cash was used by operations, and during June 2011, we completed a unit offering which generated gross proceeds of \$13.0 million (CAD\$12.6 million). As at July 31, 2011, cash and cash equivalents totaled \$7.4 million, compared to \$4.8 million at April 30, 2011.

As at July 31, 2011, we had \$2.8 million of trade and other payables, compared to \$4.1 million as at April 30, 2011. An increase in accounts payable associated with pre-study ASSURE costs incurred in the quarter was more than offset by the decrease in accounts payable associated with the payment of certain clinical and other payables.

Standby Equity Distribution Agreement

We are also able to draw on our Standby Equity Distribution Agreement (the "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 CAD\$25 million of our common shares over a maximum of 24 months commencing on March 26, 2010, up to CAD\$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 and subject to the following restrictions. The number of shares distributed by Resverlogix pursuant to the SEDA shall not exceed: (1) in any twelve month period, 10% of the aggregate number of shares outstanding at the beginning of such period, and (2) during the term of the SEDA, 19.9% of the aggregate number of shares outstanding on March 26, 2010. This represents a maximum of approximately 5.2 million common shares pursuant to the SEDA prior to its scheduled expiry on March 26, 2012, based on the fact that between July 31, 2010 and March 26, 2011 approximately 52 million shares of Resverlogix were outstanding and on March 26, 2010, approximately 45 million common shares of Resverlogix were outstanding.

Base Shelf Prospectus

On September 15, 2011, we filed a preliminary short-form base shelf prospectus (the "Base Shelf Prospectus") with the securities commissions in each of the provinces of Canada. Subject to securities regulatory requirements, the Base Shelf Prospectus allows us to make offerings of common shares, preferred shares, debt securities, warrants, units, or any combination of such securities up to an aggregate offering price of CAD\$125 million during the 25 month period that the Base Shelf Prospectus remains effective.

Liquidity

We are a development stage company; our primary capital requirements relate to funding research and development activities, including pre-clinical and clinical trials, and for general working capital purposes. Our operations have been financed in recent years primarily through the sale of units representing common shares and warrants, most recently in June 2011.

Our primary objective when managing capital is to ensure we have sufficient funds available to carry out our research, development and commercialization programs based, in part, on continuous monitoring. As at July 31, 2011, all of our treasury funds were invested in high interest deposit accounts. When deemed appropriate, we may invest in conservative, highly rated, highly liquid debt securities such as government and corporate bonds and commercial paper with short term maturities, capable of supplying anticipated cash flows.

Our cash and cash equivalents, together with the funds available from the SEDA, are not expected to be sufficient to fund our planned business operations over the next year. Therefore, we may also raise additional capital other than through the SEDA. If we do not raise capital through the SEDA, and if we are not otherwise able to raise additional capital, we will not have sufficient capital to fund our planned business operations over the next year. These conditions result in a material uncertainty which may cast significant doubt on our ability to continue as a going concern. We could reduce our 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 ASSURE and SUSTAIN, we 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 months ended July 31, 2011 totaled \$9.1 million (2010 - \$6.2 million). The change was attributable primarily to a \$3.1 million increase in clinical supplies and prepayments associated with our clinical trials.

Cash Flows from Financing and Investing Activities

Common Shares

During the three months ended July 31, 2011, our financing activities provided a net \$12.0 million of cash to us. On June 14, 2011, we completed a unit offering of 7 million units of Resverlogix at a price of CAD\$1.80 per unit for gross proceeds of \$13.0 million (CAD\$12.6 million). Each unit was comprised of one common share and one-half of one common share purchase warrant. Each warrant is exercisable at a price of CAD\$2.25 per share for a period of five years from the closing date.

During the three months ended July 31, 2010, we completed two equity offerings. Firstly, on June 8, 2010, we completed a unit offering of 2.8 million units of Resverlogix at a price of CAD\$3.30 per unit for gross proceeds of \$8.8 million (CAD\$9.2 million). Each unit was comprised of one common share and 0.4 of one common share purchase warrant. Each warrant is exercisable at a price of CAD\$4.00 per share for a period of four years from the closing date. Secondly, on June 22, 2010, we completed a unit offering of 3.1 million units of Resverlogix at a price of CAD\$3.23 per unit for gross proceeds of \$9.8 million (CAD\$10.0 million). Each unit was comprised of one common share and 0.4 of one common share purchase warrant. Each warrant is exercisable at a price of CAD\$4.00 per share for a period of four years from the closing date.

On May 26, 2010, we submitted a notice of intention to draw down CAD\$1.0 million under our SEDA. The drawdown and issuance of shares was subject to a minimum share price of CAD\$4.00 per share, applicable only to this drawdown, below which YA was not required to subscribe. On June 11, 2010, YA subscribed for CAD\$0.2 million of common shares of Resverlogix, reflecting a share price in excess of CAD\$4.00 per share for two of the ten days.

During the three months ended July 31, 2011, additions to property and equipment and intangible assets totaled \$0.2 million (2010 - \$0.1 million).

CONTRACTUAL OBLIGATIONS

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

Twelve months ended July 31
(thousands of US dollars)

	2012	2013	2014	2015	2016	Total
Research contracts	11,396	9,409	1,000	-	-	21,805
Operating leases	270	90	90	15	-	465

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Note 4 to our condensed interim consolidated financial statements for the three months ended July 31, 2011 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.

Significant estimates are used for, but not limited to, the assessment of clinical supplies and long-lived assets, and the calculation of stock based compensation.

TRANSITION TO IFRS

We transitioned from Canadian generally accepted accounting principles (Canadian GAAP) and adopted International Financial Reporting Standards (IFRS) as at May 1, 2011 with a transition date of May 1, 2010. The changes in our reported results were the result of our adoption of IFRS and not an underlying change in our business. The interim consolidated financial statements represent our initial presentation of our results and financial position under IFRS. They have been prepared in accordance with International Accounting Standard 34 . *Interim Financial Reporting* and IFRS 1 . *First Time Adoption of International Financial Reporting Standards (IFRS 1)*, and include the restatement of comparative amounts for 2010 for retroactive application.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosure. An explanation of how the transition to IFRS has affected our reported financial position, financial performance and cash flows is provided in note 7 to the financial statements. Key areas where changes in accounting policies impacted our condensed interim consolidated financial statements are listed below. There were material differences between Canadian GAAP and IFRS.

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. IAS 21 *The Effects of Changes in Foreign Exchange Rates* provides guidance on determining the appropriate functional currency which is based on a hierarchy of factors. Canadian GAAP did not have a similar hierarchy. We determined that our appropriate functional currency for each entity within the group under IFRS is the US dollar. Because our functional currencies are denominated in US dollars, the impact of fluctuations in foreign currency exchange rates relating to assets and liabilities denominated in Canadian dollars is recognized in net loss and comprehensive loss.

Presentation Currency

Prior to transition to IFRS, our financial statements were presented in Canadian dollars. Concurrent with the transition to IFRS, we changed the presentation of our financial statements to US dollars, the currency which most significantly impacts our financial results. We believe that presentation in US dollars results in greater transparency by avoiding further foreign currency translation fluctuations between a US dollar functional currency and a Canadian dollar presentation currency.

Classification of Expenses

Under IFRS, an entity must present an analysis of expenses using a classification based either on their *nature* or their *function* within the entity. The nature of expense method classifies expenses according to their nature and does not reallocate the expenses across various functions within the entity, while the function of expense method classifies expenses according to their function such as cost of sales and administrative expenses, and discloses the costs by which activity it supports. The most discernible difference under the function format is that share-based payments and depreciation and amortization are not separately identified on the statements of comprehensive loss; rather, they are included as part of the respective functions. We have adopted the function format and have reclassified our interim statement of comprehensive loss; however, total comprehensive loss has not been impacted.

Warrants

Under Canadian GAAP, all warrants issued were classified as equity. IFRS requires warrants issued pursuant to unit offerings with an exercise price denominated in a currency other than an entity's functional currency to be treated as a liability (rather than equity) measured at fair value, with changes in fair value recognized in the statement of comprehensive loss. Operating cash flows have not been impacted as a result of this change in accounting treatment.

Share-Based Payments

Under Canadian GAAP, we used the straight-line method for equity-classified awards issued to employees. Under IFRS, we use the graded vesting method, the only method permitted.

RECENT ACCOUNTING PRONOUNCEMENTS

The following new IFRS pronouncements have been issued but are not yet effective and may impact us in the future:

The IASB issued IFRS 9, *Financial Instruments*, as the initial phase of replacing IAS 39, *Financial Instruments: Recognition and Measurement*. The standard revises and limits the classification and measurement models available for financial assets and liabilities to amortized cost or fair value depending on the nature of the financial instrument and

management's intentions. We are currently assessing the impact of the new standard on our consolidated financial statements.

The IASB issued IFRS 10, "Consolidated Financial Statements" to supersede IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation - Special Purpose Entities". The standard expands on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control in circumstances where the determination is difficult to assess. This new standard is effective for annual periods beginning on or after January 1, 2013. We are currently assessing the impact of the new standard on our financial statements, but do not anticipate the standard having a significant impact on our consolidated financial statements.

The IASB issued IFRS 13, "Fair Value Measurement". The main provisions of the standard include defining fair value, setting out in a single standard a framework for measuring fair value, and specifying certain disclosure requirements about fair value measurements. This new standard is effective for annual periods beginning on or after January 1, 2013. We are currently assessing the impact of the new standard on our consolidated financial statements, but do not anticipate the standard having a significant impact on our consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

As of July 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.

(thousands of US dollars)	For the Three Months Ended			
	July 31, 2011 (IFRS)	April 30, 2011 (IFRS)	January 31, 2011 (IFRS)	October 31, 2010 (IFRS)
Revenue	-	-	-	-
Comprehensive income (loss)	(912)	(4,654)	16,966	(23,641)
Net income (loss) per share (basic and diluted)	(0.02)	(0.09)	0.32	(0.45)

(thousands of US dollars)	For the Three Months Ended			
	July 31, 2010 (IFRS)	April 30, 2010 (Canadian GAAP)*	January 31, 2010 (Canadian GAAP)*	October 31, 2009 (Canadian GAAP)*
Revenue	-	-	-	-
Comprehensive income (loss)	13,409	(8,517)	(8,277)	(4,343)
Net income (loss) per share (basic)	0.27	(0.19)	(0.20)	(0.11)
Net income (loss) per share (diluted)	0.26	(0.19)	(0.20)	(0.11)

* Figures previously presented in Canadian dollars have been translated into US dollars using the average Canadian/US dollar exchange rate for the quarter. Canadian GAAP figures may not be directly comparable to IFRS.

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

- Research and development was impacted by the particular stage of our various clinical trials during each particular quarter, specifically our Phase 1b/2a trial which concluded during the three months ended October 31, 2009; our 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; and our Phase 2b ASSURE and SUSTAIN trials for which we performed pre-study work during the three months ended July 31, 2011.
- Research and development was also impacted by the timing of costs related to our non-clinical studies and chemistry.

- General and administrative costs were impacted by the recognition of costs associated with financing alternatives that were explored, as well as fluctuations associated with the recognition of compensation and related costs.
- Warrants issued pursuant to unit offerings with an exercise price denominated in a currency other than an entity's functional currency are remeasured to reflect the change in fair value as at reporting period, with changes in fair value recognized in the statement of comprehensive loss, resulting in volatility in quarterly income (loss).
- Share-based payments fluctuates from quarter to quarter based on the timing and fair value of stock option grants. Share-based payments is a non-cash expense.
- The recognition of foreign currency gains and losses resulting from fluctuations in Canadian denominated assets and liabilities and Canadian / US dollar exchange rates.
- The redemption of US\$6.7 million of our debentures during the three months ended January 31, 2010 resulted in the recognition of a gain and impacted interest and accretion on convertible debentures.

RELATED PARTY TRANSACTIONS

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

OUTSTANDING EQUITY INSTRUMENTS

As at October 14, 2011, we had authorized an unlimited number of common shares and preferred shares, and had 59,277,907 common shares issued and outstanding. At October 14, 2011, we also had 5,102,700 stock options to acquire common shares, of which 2,717,466 options are vested and exercisable; 252,300 restricted stock units; and 11,808,189 warrants to acquire common shares outstanding, for a total of 76,441,096 common shares on a diluted basis.

DISCLOSURE CONTROLS AND PROCEDURES

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

As of July 31, 2011, the President and Chief Executive Officer (%CEO+) and Chief Financial Officer (%CFO+) together with our management have evaluated the design of our disclosure controls and procedures. They concluded that our disclosure controls and procedures were not effective as at July 31, 2011 due to weaknesses in internal controls over financial reporting identified below.

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 our ICFR and evaluated their effectiveness. There are certain material weaknesses in our ICFR due primarily to internal expertise with regards to complex accounting. Our Chief Executive Officer and Chief Financial Officer have concluded that our ICFR are not effective as at July 31, 2011.

Regardless of how well an internal control system is designed and operated, it can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements resulting from error or fraud due to the inherent limitations of any internal control system.

We have implemented enhancements to our ICFR including additional procedures, adding additional dedicated financial reporting and accounting staff and implementing a new financial information system, with the intention of achieving effective ICFR as at October 31, 2011.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

In addition to adding additional dedicated financial reporting and accounting staff, redistributing certain responsibilities, implementing additional accounting procedures and implementing a new financial information system in fiscal 2011, during the three months ended July 31, 2011, the following changes have been made that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting: we continued to expand our knowledge of IFRS and we implemented an information system to assist with the management of our share-based payments.

OUTLOOK

The last year was marked by considerable advancement of our lead drug candidate, RVX-208. As described further on page 5 herein, we completed our Phase 2 ASSERT clinical trial, our third set of human trials, to test the safety and efficacy of RVX-208 and were very encouraged by the results. To date, we have completed three clinical trials, with participation by more than 450 subjects.

In September 2011, we began activating study sites for our Phase 2b ASSURE clinical trial, opening the door for patient enrollment. ASSURE is a 26-week, multi-center, double-blind, randomized, parallel group, placebo-controlled clinical trial that will assess coronary atherosclerotic plaque changes in response to RVX-208 using IVUS. ASSURE will examine the early effects of RVX-208 induced ApoA-1 production on atherosclerotic plaque regression in the setting of patients with coronary artery disease who have a low level of HDL-C. A total of 310 patients are expected to participate in ASSURE, of which 77 will receive placebo and 233 will be given 100 mg of RVX-208 twice daily. The primary endpoint of ASSURE is IVUS measurement of a change in percent atheroma volume from baseline to 26 weeks. Secondary objectives for ASSURE are: (i) safety and tolerability of RVX-208 as reflected by adverse events, and (ii) effects of RVX-208 on HDL and non-HDL lipid parameters. Enrollment for ASSURE is expected to be completed by the end of 2011.

In September 2011, we also began dosing patients in our recently announced Phase 2b SUSTAIN clinical trial. SUSTAIN is a 24-week, multi-center, double-blind, randomized, parallel group, placebo controlled clinical trial. Approximately 172 subjects with established CVD who continue to have a high-risk for recurrent CVD events will be enrolled. All subjects in SUSTAIN will have a low level of HDL-C and are receiving standard of care therapy that includes up to 40 mg Atorvastatin or 20 mg Rosuvastatin. Subjects will receive 200 mg/day of RVX-208 or placebo in order to assess lipid trends and safety. In addition, other biomarkers of reverse cholesterol transport will be examined. The primary endpoint of SUSTAIN is the change in HDL-C from baseline after receiving RVX-208 for 24 weeks vs. placebo. Secondary endpoints include change in ApoA-I, LDL-C, non-HDL-C, apoB, TG and HDL subclasses. SUSTAIN will be conducted in South Africa. Data from SUSTAIN is anticipated in summer 2012.

Findings from ASSERT, ASSURE and SUSTAIN will expand 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.

We will continue to ensure that we have the capital to fund our ongoing business activities.

We will continue to work closely with our external committees comprised of world-renowned experts to ensure that future clinical development of RVX-208 has the greatest chance of success.

Our research 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 a pipeline of 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 Autoimmune diseases. We intend to expand on our collaboration with other potential partners to develop this program further in the future.

Most patients receiving approved 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 our 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.

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 a net loss of \$0.9 million for the three months ended July 31, 2011. As of July 31, 2011, we had a deficit of \$126.6 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.

Current cash and cash equivalents, together with funds available from our SEDA, will not be sufficient to maintain our currently planned operations over the next year, and our contractual obligations for the next twelve months exceed our cash and cash equivalents. We intend to raise additional capital. As described below, any equity financing transaction would result in our existing common stockholders experiencing immediate dilution.

If we do not draw on the SEDA, and if we are not able to raise additional capital, we will not have sufficient capital to fund our currently planned operations over the next year. We would have to reduce our cash requirements by eliminating or deferring spending on research, development and corporate activities.

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 (the "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 injury. This may materially adversely affect our business, financial condition and results of operations.

In our recent Phase 2 clinical trial, results showed that for some patients, there were elevations in serum enzymes which are sensitive markers of liver injury; however other clinical laboratory tests indicate there was no impairment in liver function and patients were asymptomatic for liver injury. We believe that the current therapeutic regimen is safe with regard to effects on the liver. However, 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 or foreign regulatory 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 study, manufacture and sale of products are 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 Canada, the United States and other countries 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 July 31, 2011, the closing market price of our common shares ranged from \$1.40 to \$6.39 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 common shares. We expect to enter into additional financing transactions involving the issuance of our common stock. Any such financing transaction 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.