



***Interim Management's Discussion and  
Analysis  
Form 51-102F1  
For the Quarter Ended July 31, 2005***

***September 8, 2005***

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This management's discussion and analysis of operations and financial position should be read in conjunction with the Company's July 31, 2005 Quarterly Financial Statements. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

### **OVERVIEW**

*Resverlogix Corp.* is a Canadian biotechnology company engaged in the discovery and development of biopharmaceuticals. Combining expertise with innovation, Resverlogix's NEXVAS™ Program applies advanced medical research to develop therapies that increase high density lipoprotein (HDL), the "good cholesterol," to treat cardiovascular diseases. The TGF-β Shield™ Program utilizes an adoptive immunotherapy approach to target cancers and fibrotic diseases. Resverlogix Corp. is committed to applying the qualities of innovation, integrity and sound business principles in developing novel therapies for the treatment of unmet human diseases.

The Corporation is focused on the primary stages of drug development, leading up to Investigational New Drug (IND) application and early stage clinical studies. This strategy will avoid the significant costs and uncertainty of the final phases of the drug development process (late stage clinical trials) by either licensing or selling its technology. Hence, a major portion of the biotech investment risk should be eliminated.

Shares of Resverlogix trade on the TSX Exchange under the symbol, RVX.

### **HIGHLIGHTS**

During the year, the Company announced a Request For Proposal (RFP) process with seven leading global life science organizations for an exclusive standstill agreement regarding its NEXVAS technology in cardiovascular disease (CVD). Resverlogix is continuing to have discussions with these pharmaceutical firms and will not disqualify any candidate until the Company can conclude the formal agreements. The Company now believes that expanding the breadth of experiments and providing proof-of-principle on higher order animals will enhance the overall value prior to finalization of a preliminary standstill agreement. Therefore, Resverlogix has temporarily delayed the conclusion of these negotiations until such data can be shared with those parties. Resverlogix's goal remains to lock-up a partnership arrangement with the ideal candidate to accelerate the sale of technology by end of 2006.

The Company is encouraged with the scientific development and the potential that ApoA1/HDL-enhancing technologies like NEXVAS has.

In July 2005, Resverlogix announced that it had established a wholly-owned subsidiary called RVX Therapeutics Inc. for business and strategic objectives. Resverlogix Corp. will still hold its primary asset, NEXVAS technology, for cardiovascular applications. The

purpose of RVX Therapeutics is to hold non-core assets, such as TGF- $\beta$  Shield and others, that will develop separately from the NEXVAS technology. An independent third-party valuation group has been hired to provide the appropriate valuation for the transfer of this technology.

In July 2005, the Company completed renovations and moved into its expanded laboratory facilities. The new laboratory has state-of-the-art scientific equipment with which to perform experimentation, and the Company has hired two additional research associates, and is in the process of hiring other scientific staff. Renovations to the facility totaled \$186,000, and equipment additions totaled \$116,000.

In July 2005, the Company announced exciting new research that will expand the NEXVAS commercial opportunity to acute coronary syndrome in addition to current focus on dyslipidemia (also referred to as the "chronic" market). The Company has now validated in an animal model a rapid onset of ApoA1 enhancement that is applicable for the acute market. These findings are novel and will build upon the commercial opportunity of the NEXVAS chronic program.

In August 2005, Resverlogix announced that on behalf of its wholly owned subsidiary, RVX Therapeutics, it has filed a patent application covering a unique and expanded application of its cardiovascular technology. The Company has discovered pharmaceutical compounds which have the potential to be used with medical devices such as drug-eluting stents. It is estimated that by 2010 the drug-eluting device market will generate revenues in excess of \$8.0 billion U.S. annually.

The Company is encouraged by the scientific development of NEXVAS technology. The Company's science has progressed very quickly from a drug discovery stage of biotechnology research to proof of concept and is now in the process of lead selection for future toxicology testing. The hiring of world renowned experts and a dedicated staff has made a significant contribution to this rapid progression in meeting and exceeding corporate milestones.

## **FINANCING ACTIVITIES**

In June 2005, the Company announced a Normal Course Issuer Bid allowing the Company to repurchase up to 250,000 common shares during the period of June 24, 2005 to June 23, 2006 at the market price at the time of repurchase. All common shares repurchased by the Company will be cancelled. Pursuant to the Normal Course Issuer Bid, the Company has acquired 93,100 of its common shares at an average price of \$5.79 per share. No purchases were undertaken since July 28<sup>th</sup> up to reporting date (September 08, 2005). Total cost of this program including commissions was \$546,879.

In the three months ended July 2005, the Company received \$15,840 from the exercise of 14,400 agent's options issued at \$1.10 per share in connection with the 2003 Short Form Offering Document. The Company also received \$21,750 from the exercise of 17,400 agent's options issued at \$1.25 and \$273,549 from the exercise of 91,183 agent's options issued at \$3.00 per share to the agents in connection with various brokered private placements.

In May 2005, the Company received \$170,260 in total from the exercise of 124,800 options varying in price from \$1.20 to \$1.50.

## **RESULTS OF OPERATIONS**

Resverlogix incurred a net loss for the three months ended July 31, 2005 of \$1,372,511, or \$0.06 per share. The net loss for the three months ended July 31, 2004 was \$585,713 or \$0.03 per share. The increase in R&D activities, which was up \$505,244 from July 31, 2004, to accelerate the scientific and business progression of the Company was a key contributor for the higher loss in this period as compared to the same period in the prior year. For the three months ended July 31, 2005, \$196,362 was recorded as the amortization cost of stock based compensation as per the CICA guidelines as compared to nil for the same period of the prior year. The average monthly "burn rate", revenues and expenditures excluding non-cash items, for the three months was \$372,000 as compared to \$184,000 for the same period in the prior year.

### *Revenue*

The revenue of the Company consisted of interest earned on funds invested. Interest revenue was \$73,050 for the three months ended July 31, 2005, as compared to \$13,095 for the three months ended July 31, 2004.

### *Research and Development*

For the three months ended July 31, 2005, research and development expenditures totaled \$774,234 with a recovery of \$5,204 for government grants through the National Research Council's IRAP program. For the three months ended July 31, 2004, research and development expenditures totaled \$267,725 with a recovery of \$3,940 for government grants. Key expense items relate to lead optimization of the Company's novel compounds. These expenses include chemical synthesis, pharmacokinetics studies and toxicology testing in preparation for Investigational New Drug application in the near future. Prominent contract research organizations and renowned academics were hired to expand and validate internal findings. Results are closely monitored for optimization while processes are in place to generate efficiencies in output per contracted employee. Internal expenses include salaries and benefits for R&D staff, consulting fees, supplies and general laboratory operating expenses. Expenses have increased steadily as additional staff members have been hired and the quantity and scope of experimentation have increased over the last year. The Company expects future research & development costs to increase in the next year when third-party pre-IND costs will be incurred.

### *General and Administrative*

For the three months ended July 31, 2005, general and administrative expenditures totaled \$420,364, compared to \$301,399 for the three months ended July 31, 2004. General and administrative expenses includes salaries and other operating costs not directly involved in research and development, as well as professional fees for services, such as legal, audit, tax, investor relations and business development. The major expense for the three months was salaries, benefits and consulting fees for \$192,892. The Company also incurred \$81,102 for investor relations and other costs, and \$67,526 for professional fees. The remaining expenditures were general operating costs.

## SUMMARY OF QUARTERLY RESULTS

	For the three month period ended			
	July 31 2005	April 30 2005	Jan. 31 2005	Oct. 31 2004
Revenue	\$73,050	\$113,802	\$61,591	\$32,329
Net loss	(\$1,372,511)	(\$1,197,622)	(\$1,138,161)	(\$657,488)
Net loss per share (basic and fully diluted)	(\$0.06)	(\$0.05)	(\$0.05)	(\$0.04)

	For the three month period ended			
	July 31 2004	April 30 2004	Jan. 31 2004	Oct. 31 2003
Revenue	\$13,095	\$15,323	\$5,629	\$1,725
Net loss	(\$585,713)	(\$1,033,430)	(\$308,632)	(\$193,074)
Net loss per share (basic and fully diluted)	(\$0.03)	(\$0.06)	(\$0.02)	(\$0.01)

The increase in the quarterly losses is a result of the progression of the research & development activity of the Company. Also, in the fourth quarter of the 03/04 fiscal year (quarter ending April 30, 2004), a stock-based compensation expense of \$578,286 was recorded as the Company chose to early adopt the fair value method of accounting for options granted under its Stock Option Plan. The amortization of stock-based compensation is a non-cash expense.

### LIQUIDITY

As at July 31, 2005, cash and near cash investments totaled \$10,745,448 as compared to \$12,103,450 at April 30, 2005. The Company's policy is to invest its cash reserves in low risk investments with a maturity of three months to two years at the time of purchase. The fixed income instrument maturity dates are usually matched to expected cash flow requirements. At July 31, 2005, the Company had working capital of \$10,345,553 compared to \$11,766,876 at April 30, 2005. Given the overall cash burn, the Company believes that it has sufficient cash reserves to operate for two years with the assumption of no revenues.

### DISCLOSURE OF OUTSTANDING SHARE DATA (as at September 8, 2005)

#### Authorized and Issued Share Capital

Class	Par Value	Authorized	Issued
Common	No par value	Unlimited	23,428,997
Preferred	No par value	Unlimited	2,000,000 (Series A)

### **Description of Options, Warrants and Convertible securities outstanding**

<b>Security Type</b>	<b>Number</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Options	1,205,000	\$1.60	4/25/08
Options	28,000	\$1.16	7/15/08
Options	167,500	\$1.20	9/5/08
Options	10,000	\$1.25	2/9/06
Options	213,000	\$1.50	3/15/08
Options	67,000	\$2.25	9/28/08
Options	128,000	\$2.25	8/31/07
Options	200,000	\$2.25	9/28/09
Options	75,000	\$2.25	9/28/08
Options	30,000	\$4.50	2/16/09
Options	50,000	\$6.50	4/8/09
Options	20,000	\$7.00	5/6/09
Options	30,000	\$7.00	5/6/10
Options	25,000	\$5.50	6/27/10
Agent's Options	70,886	\$1.25	2/20/06
Agent's Options	161,848	\$3.00	5/23/06
Total	2,481,234	\$1.16 to \$7.00	

### **RISKS AND UNCERTAINTIES**

Resverlogix is at an early stage of development and has incurred losses to date. Developing new technologies will require further time and costs for research and development. It may be a number of years before the technology begins to generate revenues. There is no assurance that any of the Company's developments will be successful.

The success of Resverlogix is dependent on its ability to obtain patents and the proposed technology meeting acceptable cost and performance criteria in the marketplace. The Company will be dependent on ongoing marketing efforts in licensing of its technology.

### **ADDITIONAL INFORMATION**

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