



**RESVERLOGIX CORP.**

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

**FOR THE YEAR ENDED APRIL 30, 2006**

**JULY 19, 2006**

This management's discussion and analysis of operations and financial position should be read in conjunction with the Company's April 30, 2006 audited financial statements. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Information which is included herein contains estimates and assumptions which management is required to make concerning future events, and may constitute forward-looking statements under applicable securities laws. Statements contained herein that are not based on historical fact, including without limitation statements containing the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "continue", "estimate", "forecasts" and other similar expressions, constitute forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties that could cause actual results, events or developments to be materially different from those expressed or implied by such forward-looking statements. These risks include, but are not limited to those associated with the success of research and development programs, the regulatory approval process, competition, securing and maintaining corporate alliances, market acceptance of the Company's products, the availability of government and insurance reimbursements for the Company's products, the strength of intellectual property, financing capability, the potential dilutive effects of any financing, reliance on subcontractors and key personnel.

Although such expectations are viewed as reasonable by the Company, no assurance can be given that such expectations will be realized. Given these risks and uncertainties, readers are cautioned not to place any undue reliance on such forward-looking statements. The forward-looking statements are made as of the date hereof, and the Company disclaims any intention and has no obligation or responsibility, except as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **OVERVIEW**

Resverlogix Corp. is a Canadian biotechnology company engaged in the discovery and development of biopharmaceuticals. Resverlogix 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 Company's primary focus is to become a leader in the research, development and commercialization of novel therapeutics that reduce the risk of cardiovascular disease (CVD). The Company's secondary research focus is on fibrotic disorders and cancer.

The Company has developed three separate programs in the CVD area of research. The primary CVD program is NexVas™ Plaque Reduction (NexVas™ PR) which targets ApoA-I enhancement via novel small molecules for plaque stabilization and regression. ApoA-I is the key building block of HDL, the "good cholesterol". NexVas™ Vascular Inflammation (NexVas™ VI), the Company's second CVD program, is a research stage technology focused on molecular targets of vascular inflammation. The development of anti-inflammatory agents is poised to play a potentially significant role in the prevention of cardiovascular risk. ReVas™ is the Company's third cardiovascular program dedicated to the research and development of therapeutic compounds to be used with

medical devices and biomaterials for the local non-systemic treatment of CVD, in particular restenosis.

TGF- $\beta$  Shield™ is a dual focused program that aims to address the unmet medical need of grievous proliferate diseases, such as cancer and fibrosis, with a TGF-  $\beta$  inhibitor. The Company is focused on the development of a therapeutic approach to modulate the deleterious effects of TGF-  $\beta$  in cancers and fibrotic diseases, such as ophthalmic conditions of the eye.

The Company is focused on the primary stages of drug development, leading to Investigational New Drug (IND) application and early stage clinical studies. This strategy will avoid the significant costs and unknown results 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 Toronto Stock 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™ PR ApoA-1 technology in cardiovascular disease (CVD). Resverlogix continues to have discussions with these pharmaceutical firms and will not disqualify any candidate until the Company can conclude the formal agreements. Resverlogix's goal remains to establish an early partnership arrangement, via a stand still agreement, with the ideal candidate to accelerate collaboration for the sale of technology by end of 2006.

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 and optimization for future toxicology testing. The hiring of world renowned experts and a dedicated staff has made a significant contribution to this rapid progression in furthering the development of its lead technology NexVas™ in CVD.

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™ PR ApoA-1 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 was 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 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.

In October 2005, the Company announced preclinical findings on its lead NexVas™ technology. These research findings come from an expanding body of information illustrating the feasibility of small molecule ApoA1 enhancement in multiple animal models for the potential treatment of cardiovascular diseases and the regression of atherosclerosis. Resverlogix believes that with the consistency in animal models shown to date, its novel compounds illustrate properties likely to predict significant effects in humans as ApoA1/HDL raisers, eventually rendering them effective products for treating CVD. The results of these experiments have contributed to the continued expansion and development of the *in vitro* and *in vivo* preclinical program.

In December 2005, the Company announced that it had received a term sheet for a license agreement of its novel small molecule program, ReVas™, for the exclusive use in drug eluting stents and medical devices with the intent of using the technology for a potential treatment in the market of restenosis. In February 2006, Resverlogix agreed in principle to the terms to be contained in the license agreement with this medical technology organization.

In February 2006, Hiran Perera, Chief Financial Officer, announced his resignation in order to execute an entrepreneurial venture. Mr. Perera was available to Resverlogix in a consulting capacity for an interim period until a replacement was hired.

In April 2006, the Company announced that Dr. Gregory Wagner had joined the Company as Vice President of Preclinical Development. Dr. Wagner will help lead the Company's efforts in developing its cardiovascular programs NexVas™ and ReVas™ toward IND (investigational new drug) submission to the Food and Drug Administration. Dr. Wagner has extensive experience in early drug development, and has worked with leading biotechnology and pharmaceutical companies, managing the IND enabling programs at these companies.

**Following are the events that occurred subsequent to the Company's fiscal year ended, April 30, 2006:**

In May 2006, Resverlogix announced the expansion of its research and development program for its lead technology NexVas™ into stroke. The objective of this expansion is to address the crippling disease of stroke and to fully develop the commercial opportunity for the Company's current product pipeline in ApoA1 enhancement therapies.

In May 2006, the Company announced that Dr. George Adams had joined its Scientific Advisory Board. Dr. Adams is a leading authority in drug-eluting technology and his knowledge will provide expertise for the development of the Company's drug-eluting technology, ReVas™. Dr. Adams, an expert in thrombosis and vascular biology, has partnered with Baxter Healthcare, World Heart, Dupont, Corvita, Pfizer and Boston Scientific over the last 30 years to develop and commercialize medical devices.

In May 2006, Resverlogix appointed Kelly McNeill as Chief Financial Officer. Mr. McNeill will help lead the Company's financial reporting and regulatory filing requirements, as well as management of corporate tax filings and tax planning strategies. Mr. McNeill is a chartered accountant with 10 years experience in senior management positions.

In June 2006, the Company appointed Theresa Kennedy as Vice President Corporate Communications. Mrs. Kennedy will provide strategic leadership and insight for the Company's communication activities. Mrs. Kennedy has more than 14 years of biotechnology experience, with her most recent role as Vice President of North American Life Sciences at Hill & Knowlton Canada.

In July 2006, Resverlogix completed the signing of the ReVas™ licensing agreement with Medtronic, Inc., a major medical devices company. The agreement would give Medtronic exclusive, worldwide rights to develop and commercialize its ReVas technology. After successful completion of a technology development program and a joint decision to initiate product development, Medtronic would make an initial cash payment to Resverlogix, and additional payments upon successful completion of certain predefined milestones. The Company would then be eligible to receive royalties on sales of any ReVas™ therapeutic component of novel drug-device combinations that result from this license agreement. While there is no assurance of any milestone or royalty payments, assuming the development of a successful commercial product with regulatory approval and market acceptance, Resverlogix would be eligible to receive up to US\$291,000,000 in combined payments.

## **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 have been cancelled. Pursuant to the Normal Course Issuer Bid, at April 30, 2006, the Company has acquired 118,100 of its common shares at an average price of \$6.05 per share to April 30, 2006. Total cost of this program including commissions has been \$725,519.

In 2006, the Company received \$21,745 from the exercise of 19,768 agent's options issued at \$1.10 per share in connection with the 2003 short form offering document financing. The Company also received \$123,648 from the exercise of 98,918 agent's options issued at \$1.25 and \$552,867 from the exercise of 184,289 agent's options issued at \$3.00 per share to the agents in connection with various brokered private placements.

In 2006, the Company received \$1,240,517 in total from the exercise of 700,300 options varying in price from \$1.20 to \$6.25.

## SELECTED ANNUAL INFORMATION

Financial information for the last three years ended April

	2006	2005	2004
Revenue	\$272,266	\$220,817	\$24,137
Net (loss)	(\$7,133,679)	(\$3,578,984)	(\$1,935,838)
Net (loss) per share (basic and fully diluted)	(\$0.30)	(\$0.17)	(\$0.12)
Assets	\$9,007,554	\$12,863,324	\$3,697,259
Long-term liabilities	\$0	\$0	\$32,930

## RESULTS OF OPERATIONS

Resverlogix incurred a net loss for the year ended April 30, 2006 of \$7,133,679, or \$0.30 per share. The net loss for the year ended April 30, 2005 was \$3,578,984 or \$0.17 per share. For the year ended April 30, 2006, \$1,912,953 was recorded as the cost of stock based compensation as per the CICA guidelines as compared to \$510,501 for the same period of the prior year. Options awarded to key new employees as a recruitment and retention inducement and the first granting of options to the directors since their initial election to the Board in April 2003 resulted in the increase of this non-cash entry. The average monthly "burn rate", revenues and expenditures excluding non-cash items, for the year ended April 30, 2006 was \$412,000 as compared to \$247,000 for the same period in the prior year. The planned increase in expenditures is a result of continued acceleration of the scientific and business progression of the Company.

### *Revenue*

The revenue of the Company consisted of interest earned on funds invested and gain on the sale of marketable securities. Interest revenue was \$272,266 for the year ended April 30, 2006, as compared to \$185,787 for the year ended April 30, 2005. Some marketable securities were sold in 2005 at a net gain of \$35,030.

### *Research and Development*

For the year ended April 30, 2006, research and development expenditures totaled \$3,392,850 with a recovery of \$5,203 for government grants through the National Research Council's IRAP program. For the year ended April 30, 2005, research and development expenditures totaled \$1,724,198 with a recovery of \$147,479 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 IND application in the near future. Prominent contract research organizations and renowned research experts 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 and

development costs to increase in the next year when third-party pre-IND costs will be incurred.

*General and Administrative*

For the year ended April 30, 2006, general and administrative expenditures totaled \$1,829,821, compared to \$1,610,014 for the year ended April 30, 2005. 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 year was salaries, benefits, consulting fees and recruitment costs for \$937,099. The Company also incurred \$226,636 for shareholder and investor relations expenses, and \$280,736 for professional fees. The remaining expenditures were general operating costs.

*Stock Based Compensation*

The fair value of options granted to employees and consultants during the year ended April 30, 2006 was \$1,912,953, compared to \$510,501 for the year ended April 30, 2005. Actual cash expense associated with issuing employee stock options was nil. The Company has adopted the fair value method of accounting for employee awards granted under its stock option plan as required by Canadian accounting standards.

**SUMMARY OF QUARTERLY RESULTS**

The following tables present our unaudited quarterly results of operations for each of our last eight quarters. This data has been derived from our unaudited quarterly financial statements, which were prepared on the same basis as the annual audited financial statements. These unaudited quarterly results should be read in conjunction with our audited financial statements for the years ended April 30, 2006 and April 30, 2005.

	<b>For the three-month period ended</b>			
	<b>April 30 2006</b>	<b>Jan. 31 2006</b>	<b>Oct. 31 2005</b>	<b>July 31 2005</b>
Revenue	\$62,533	\$69,609	\$67,074	\$73,050
Net (loss)	(\$2,183,169)	(\$1,484,679)	(\$2,093,320)	(\$1,372,511)
Net (loss) per share (basic and fully diluted)	(\$0.09)	(\$0.06)	(\$0.09)	(\$0.06)

	<b>For the three-month period ended</b>			
	<b>April 30 2005</b>	<b>Jan. 31 2005</b>	<b>Oct. 31 2004</b>	<b>July 31 2004</b>
Revenue	\$113,802	\$61,591	\$32,329	\$13,095
Net (loss)	(\$1,197,622)	(\$1,138,161)	(\$657,488)	(\$585,713)
Net (loss) per share (basic and fully diluted)	(\$0.05)	(\$0.05)	(\$0.04)	(\$0.03)

We recorded a net loss from operations of \$2.2 million for the fourth quarter ended April 30, 2006 compared to a net loss from operations of \$1.5 million for the immediately preceding quarter. The increase in the loss from the previous quarter is primarily due to the timing of recording stock based compensation expenses. A stock based compensation expense of \$921,002 was recorded compared to \$132,852 in the third quarter ended January 31, 2006. Research and development costs decreased in the fourth quarter ended April 30, 2006 to \$771,942 from \$832,836 in the immediately preceding quarter due to additional animal studies conducted in the third quarter that were not repeated in the fourth quarter of 2006.

The primary factors and trends that have caused variations in our quarterly results is the progression of the research and development activity of the Company and the timing of recording stock-based compensation expenses. Increased research and development activities have been directed primarily towards the CVD programs in particular the NexVas™ program and the newly established ReVas™ program. Stock based compensation costs have fluctuated from quarter to quarter primarily tied to when options are issued and how they are accounted for and valued in those periods. The amortization of stock-based compensation is a non-cash expense.

## **LIQUIDITY**

As at April 30, 2006, cash and near cash investments totaled \$7,695,629 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 April 30, 2006, the Company had working capital of \$7,294,539 compared to \$11,766,876 at April 30, 2005. Given the overall low cash burn rate, the Company believes that it has sufficient cash reserves to operate for the next year with the assumption of no revenues.

## **CONTRACTUAL OBLIGATIONS**

The Company has the following contractual obligations as at April 30, 2006:

<b>Contractual Obligations</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Operating leases	\$162,465	\$169,246	\$74,658	\$27,515

The Company has entered into various research contracts. The initial deposits required upon acceptance of the contracts total \$199,626 and have been appropriately accrued in the financial statements. In addition, the Company is committed to pay \$408,049 upon completion of the studies. At April 30, 2006, none of the studies had commenced.

## **CRITICAL ACCOUNTING ESTIMATES**

In preparing the Company's financial statements, management is required to make certain estimates, judgments and assumptions that the Company believes are

reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets at the date of the financial statements and the reported amounts of expenses during the periods presented. Significant accounting policies and methods used in preparation of the financial statements are described in note 2 to the Consolidated Financial Statements. Critical accounting estimates include the fair value of options and common share purchase warrants, and the testing for recoverability of intellectual property and patents.

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock based payments, which requires assumptions, including the average expected life and volatility of the Company's stock, to be made at the time of grant.

Management periodically reviews the useful lives and the carrying values of the intellectual property and patents. They are reviewed for impairment whenever events or changes in circumstances indicate the carrying amounts of the assets may not be recoverable.

### **NEW ACCOUNTING POLICY**

Effective May 1, 2004, costs incurred in obtaining patents, all legal expenses to file, revise and defend patents, and all regulatory body fees relating to the patents are capitalized. Patent costs are amortized upon issuance on a straight-line basis over the remaining legal life of the respective patents. The Company uses an 18 year amortization period. On an ongoing basis, management reviews the valuation, taking into consideration any circumstances which might have impaired the recoverable value.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As of April 30, 2006, the Company has not entered into any off-balance sheet arrangements.

### **TRANSACTIONS WITH RELATED PARTIES**

In 2006, the Company paid consulting fees of \$30,000 (2005 - \$30,000) to an entity controlled by a director of the Company. The transactions were recorded at the amounts agreed to by the related parties.

### **DISCLOSURE OF OUTSTANDING SHARE DATA (as at July 19, 2006)**

#### **Authorized and Issued Share Capital**

There were 24,151,231 common shares issued and outstanding for a total of \$20,559,500 in share capital, net of share issue costs. There are no preferred shares issued.

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

Security Type	Number	Exercise Price	Expiry Date
Options	948,700	\$1.60	4/25/08
Options	28,000	\$1.16	7/15/08
Options	50,000	\$1.20	9/5/08
Options	200,000	\$1.50	3/15/08
Options	57,000	\$2.25	9/28/08
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
Options	60,000	\$6.00	9/13/10
Options	60,000	\$6.00	9/13/07
Options	375,000	\$6.25	10/6/10
Options	50,000	\$6.00	12/15/10
Options (1)	400,000	\$7.60	2/28/10
Options (1)	197,500	\$7.25	3/7/11
Options (1)	105,000	\$6.80	6/8/10
Options (1)	130,000	\$6.44	6/28/10
Total	3,091,200	\$1.16 to \$7.60	

**Notes:**

1) The option grant is subject to availability under the Stock Option Plan, and upon vesting may require shareholder approval.

**FINANCIAL INSTRUMENTS**

The Company is exposed to market risk related to changes in interest and foreign currency exchange rates, each which could adversely affect the value of our current assets and liabilities.

The Company has a portfolio of short term investments which are substantially investment grade commercial debt and government agency notes. These investments are made with the primary objective of achieving the highest rate of return while preserving the liquidity and safety of the principal. Our investment policy limits investments to certain types of instruments issued by institutions with investment grade credit ratings and places restrictions on maturities and concentration by type and issuer. The current portfolio of short-term investments has maturity dates ranging from May 2006 to April 2007. We do not believe that the results of operation or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to our investment portfolio due to the short-term maturities of the investments.

The Company has not entered into any forward currency contracts or other financial derivatives to hedge against foreign exchange risk. The Company's operating and capital expenditures have been primarily denoted in Canadian dollars during the 2006 fiscal period which has limited the exposure to foreign exchange risk. The Company will monitor future U.S. cash needs and determine what actions should be taken to manage future currency risk.

The market value of the short-term investment is approximately \$4.7 million with unrealized interest revenues of \$62,000 as at April 30, 2006. The average investment yield for the year ended April 30, 2006 was 3% compared to 2.8% for the prior year. Interest income from short-term investments is classified as revenue in the financial statements. Interest income related to these instruments was previously described under "RESULTS FROM OPERATIONS – Revenue".

### **DISCLOSURE CONTROLS**

An evaluation was performed under the supervision and with the participation of the Corporation's senior management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Corporation's disclosure controls and procedures as of April 30, 2006. Based on the evaluation, the Corporation's management concluded that the Corporation's disclosure controls and procedures were effective as of April 30, 2006.

### **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).