RESVERLOGIX CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FORM 51-102F1

FOR THE INTERIM PERIOD ENDING JULY 31, 2007

SEPTEMBER 12, 2007

September 12, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of operations and financial position should be read in conjunction with Resverlogix Corp.'s ("Resverlogix" or the "Company") July 31st, 2007 unaudited financial statements and should also be read in conjunction with the audited financial statements and Management's Discussion and Analysis for the year ended April 30, 2007. The financial statements have been prepared by management 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.

The Company has initiated during the year a new discovery program in the area of cognitive disorders from its current NexVas technology platform. NexVas™ Alzheimer's Disease (NexVas AD) is a discovery stage technology for the development of drugs that enhance ApoA-I for stabilization and regression of Beta Amyloid Plaque. Epidemiological and mechanistic evidence indicate a link between low ApoA-I/HDL and neurodegenerative disease such as Alzheimer's Disease.

TGF-β 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-β inhibitor. The Company is focused on the development of a therapeutic approach to modulate the deleterious effects of TGF-β 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.

Intellectual Property

The Company devotes significant resources to ensure protection of ideas and inventions related to core areas of business. The Company has rights to an intellectual property portfolio that covers several compositions, methods and treatments for cardiovascular and inflammatory disease, cancers and fibrotic indications.

As of September 12, 2007, Resverlogix owns and/or has rights to six patent families, comprising one issued US patent and twenty-five pending applications. This includes non-provisional US and Patent Cooperation Treaty (PCT) applications. The twenty-five pending patent applications are interrelated and assert rights to substantially similar inventions in different jurisdictions.

The Company's intellectual property strategy is to build a strong patent portfolio around the core technology that is important to the development of leading edge medicines. The Company's offensive and defensive strategies are to be the first to identify, isolate, and patent therapeutic agents with commercial importance, to seek out and license intellectual property believed to be useful in connection with potential products, and to control public disclosures.

The Company also believes that its know-how will provide a significant competitive advantage, and intends to continue to develop and protect its proprietary tools, methods and trade secrets. It is our policy to require employees, consultants, members of our Scientific and Clinical Advisory Board and other third parties in collaborative agreements to execute confidentiality agreements. Employee, consultant and contract research organization agreements specify that all inventions resulting from work performed utilizing the Company's property, business strategies, and work completed during employment/services performed are the Company's exclusive property to the extent permitted by law.

Trademarks

"NexVas", "ReVas", and "TGF-β Shield" are trademarks of Resverlogix Corp. in Canada and the United States."

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

HIGHLIGHTS AND CURRENT DEVELOPMENTS

The Company is encouraged by the scientific development of NexVas™ CVD program. 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 moving towards the filing of its Investigational New Drug (IND) application for its NexVas PR technology. The hiring of world renowned experts and a dedicated staff has made a significant contribution to this rapid progression in furthering the development of the Company's CVD research programs.

Scientific Developments

In May 2007, the Company announced the demonstration of a successful method and route of delivery for a potential therapeutic to select cells in the back of the eye. These findings were researched through the UCL Institute of Ophthalmology, University College London, and will be used for testing and development of the Company's TGF-β shield technology. Resverlogix is focused on the development of a therapeutic approach to modulate the deleterious effects of transforming growth factor-β in glaucomatous eyes, as well as in other fibrotic and ophthalmic conditions.

In June 2007, the Company announced a research collaboration with Dr. Larry Sparks and Sun Health Research Institute, Sun City Arizona, for its NexVas AD program. Dr. Sparks was the first to discover the neuropathologic link between cholesterol and Alzheimer's disease. In a three-year study at the Institute's Cleo Roberts Center for Clinical Research it was confirmed in nationwide clinical trials that elevated cholesterol levels might predict which aging seniors are more at risk of developing Alzheimer's disease. In a separate study directed by Dr. Sparks, it was demonstrated that Lipitor®, a cholesterol-lowering medication, slows the progression and reduces the deterioration of Alzheimer's disease. Sun Health Research Institute (SHRI) has been a leader nationally and internationally in the effort to find answers to disorders related to aging including Alzheimer's disease, Parkinson's disease, arthritis and prostate cancer. The Institute, founded in 1986, together with its Arizona consortium partners, has been designated by the National Institutes of Health as one of just 29 Alzheimer's Disease Centers in the nation.

In July 2007, the Company released important data from a non-human primate study on the clinical lead compound, RVX-208. Data highlights from the study in adult African green monkeys illustrate that RVX-208 elevates both ApoA-I and HDL-c in a dose-dependent manner. When RVX-208 was administered over 28-day and 42-day treatment regimens, ApoA-I levels were increased up to 52% and HDL cholesterol levels increased up to 75%. By using a range of doses the Company has demonstrated a clear dose-response relationship for effects on both ApoA-I and HDL. The data confirmed the potency of RVX-208 on ApoA-I and HDL-c and added new information with robust dose-response using lower doses than the last reported monkey study in April 2007. No adverse affects were noted within the dosing ranges used. The data also provides additional information to better enable the execution of our proof-of-concept tests in man. The African green monkey data, by virtue of being derived from a predictive animal model for the human situation, are useful in designing of the Phase I trial which is expected to commence in the 4th quarter of this calendar year.

The following scientific developments were announced subsequent to the first quarter ended July 31, 2007:

In September 2007, the Company announced positive results from preliminary proof-of-concept studies for Resverlogix's TGF-Beta Shield™ as a potential new therapy for the treatment of glaucoma. The studies conducted by Dr. Maria Francesca Cordeiro, from the UCL Institute of Ophthalmology (IoO) showed data from an animal model that could lead to a novel therapy targeted against cells found at the back of the eye, for the treatment of glaucoma. Dr. Cordeiro's group at the IoO has an international reputation in the field of glaucoma research, and has been awarded the 2005 Lewis Rudin Prize for the best research paper published worldwide in 2004. As a Consultant Ophthalmologist at The Western Eye Hospital, London, she specializes in treating patients with glaucoma. This research is part of a sponsored agreement focused on the development of a therapeutic approach to modulate the deleterious effects of Transforming Growth Factor-Beta (TGF-Beta) in glaucomatous eyes, as well as in other fibrotic and ophthalmic conditions.

Peer Review and Recognition

In July 2007, the Company announced its abstract has been accepted to present key scientific data of its lead molecule RVX-208 at the 16th International Symposium for Drugs Affecting Lipid Metabolism (DALM). The presentation titled, "A novel drug RVX-208 raises plasma apolipoprotein A-I and HDL cholesterol," will be presented by Dr. Norman Wong, Resverlogix co-founder and chairman of the scientific advisory board on the opening day of the conference, October 4, 2007, in New York City. The conference is an international venue for the presentation of state of the art current therapeutics and research for the prevention of atherosclerosis and other cardiovascular diseases. Data will be presented at the conference indicating a growing body of evidence from predictive animal models, including non-human primates, indicates RVX-208's potential for preventing or regressing atherosclerosis.

In August 2007, the Company announced it has been awarded the 2007 North American Excellence in Technology of the Year Award by Frost & Sullivan. The award is bestowed upon the company that has pioneered the development and introduction of an innovative technology into the market; a technology that has either impacted or has the potential to impact several market sectors.

"Resverlogix NexVas™ PR technology for the treatment of atherosclerosis is a best-in-class technology for therapeutic drug development. The enhancement of ApoA-I has the potential to revolutionize how cardiovascular diseases are treated in the future," said Sangeetha Prabakar, Research Analyst for Frost & Sullivan.

This award recognizes a company's successful technology development that is expected to bring significant contributions to the industry in terms of adoption, change, and competitive posture. It also recognizes the overall technical excellence of a company and its commitment towards technology innovation.

Clinical Review Committee

The Company established a Clinical Review Committee based on the recommendation of a leading science panel of experts. The purpose of the committee is to provide guidance to the Company in the development of the NexVas program.

Based on the recommendation of the expert panel, Resverlogix named Dr. Philip Barter, Dr. Prediman K. Shah, Dr. Daniel Rader, Dr. Bo Angelin and Dr. Jacques Genest, all internationally renowned cardiovascular researchers, to its newly formed clinical review committee. Dr. Barter is currently director of the Heart Research Institute, in Sydney, Australia, and is also a professor of medicine at the University of Sydney. Dr. Shah is a director of the division of cardiology and the atherosclerosis research centre at Cedars-Sinai Medical Center, and is also a professor of medicine at the David Geffen School of Medicine at the University of California, Los Angeles. The support and guidance that will be received from these members of our clinical review committee will accelerate the NexVas plaque regression program. Dr. Rader is an associate professor of medicine and pathology at the University of Pennsylvania school of medicine in Philadelphia, Pennsylvania. He is director of preventive cardiology and the lipid clinic and associate director of the General Clinical Research Center. Dr. Rader is a member of the American Society of Clinical Investigation and serves on the executive committee of the arteriosclerosis thrombosis and vascular biology council of the American Heart Association and the scientific board of the Sarnoff Foundation. Dr. Bo Angelin is Professor of Clinical Metabolism at Karolinska Institutet and Head of the Center for Metabolism & Endocrinology and Director of Research & Development at Huddinge University Hospital. In addition to these appointments Dr. Angelin is currently serving as a member of the Nobel Assembly of Karolinska Institutet and the Nobel Committee for Physiology or Medicine and is member of the Board of Directors for Astra Zeneca. Dr. Genest is currently professor, faculty of medicine, at McGill University and director of the division of cardiology at McGill University Health Centre/Royal Victoria Hospital. He is also a member of a number of associations including the Canadian Medical Association, American College of Physicians, Royal College of Physicians and Surgeons of Canada, American College of Cardiology and the American Heart Association.

Board of Directors

In May 2007, Resverlogix appointed Dr. Roger Newton, PhD, to the Board of Directors, to be effective July 10, 2007. Dr. Newton has worked 25 years in the pharmaceutical and life sciences industries, and is currently senior vice-president of Pfizer Global Research and Development, and director at Esperion Therapeutics Inc., a Pfizer Inc. company. He was formerly co-founder, president and chief executive officer of Esperion Therapeutics. His exceptional track record will clearly add a very positive level of proven expertise in drug development, corporate finance and operational management to the board.

Issuance of Convertible Debentures

<u>January 2007 Financing</u>

The Company sold and issued to certain institutional investors $17.0 million (U.S.) of senior secured convertible debentures due January 4, 2010. The debentures are convertible any time at the option of the holders at a conversion price of $12.07 per share, subject to adjustments described further in the notes to the financial statements. As of the quarter ended July 31, 2007, the debentures carried an interest rate of ten percent, a two percent increase from its initial rate. The increase in the rate was the result of certain interest rate provisions in the debentures where the trading ranges of Company's share price closes below the conversion price used to value the conversion rights. In circumstances where the Company's share price trades below the conversion price then in effect for a pre-determined period of time and the holders convert their debentures, the Company is obligated to pay interest at the then applicable rate on the converted amount commencing on the conversion date through the maturity date of the debenture.

The Company announced on September 4, 2007, that as part of the financing amendment described below, the January 2007 debentures has been amended to eliminate the trading volume equity conditions under the original debenture. These original conditions limited the ability of the Company to issue shares in lieu of cash when paying any interest obligation. The Company has amended the January 2007 warrants previously priced at $15.09 to $10.25 in exchange for the waiver of the volume related equity conditions. The balance of the January 2007 notes and warrants remain unchanged from its original form.

As of September 12, 2007, the holders of the January 2007 financing have converted 961,000 of the underlying common shares leaving approximately 551,000 underlying common shares or $6.4 million (U.S.) of the debentures unconverted.

<u>June 2007 Financing and Subsequent Amendment of Terms</u>

On June 6, 2007, the Company sold and issued to certain institutional investors $25.0 million (U.S.) of senior secured convertible debentures due June 6, 2012 which were subsequently amended on August 31, 2007 and is described below.

Under the terms of the original financing the debentures were convertible any time at the option of the holders initially at a conversion price of $17.50 per share, subject to certain adjustments further described in notes to the July 31, 2007 financial statements. The debentures carried an eight percent interest rate payable semi-annually and are subject to increases in the rate between 10-15% pursuant to certain conditions where trading ranges of Company's share price closes below the conversion price then in effect. As of the quarter ended July 31, 2007, the interest rate was increased to 11% due to trading prices closing below the trading ranges of the debenture.

In circumstances where the Company's share price trades below the conversion price then in effect for a pre-determined period of time and the holders convert their debentures, the Company is obligated to pay interest at the then applicable rate on the converted amount commencing on the conversion date through the maturity date of the debenture ("Interest to Maturity"). Also issued were 529,350 accompanying warrants at an exercise price of $20.63 per share, subject to certain adjustments.

On August 31, 2007, the Company amended the terms of the June 2007 financing to eliminate the Interest to Maturity provisions and reduce the then in effect adjusted interest rate of 14% to a 12% fixed rate. In exchange for these amendments, the conversion price has been amended to $8.76 from the original conversion price of $17.50. In addition, the warrants issued under the June 2007 financing have been re-priced to $10.25 from $20.63 and an additional 529,000 warrants have been issued.

The amended agreement also provides the holders with a once monthly 5% put option of principal amount at issuance. The put option provides the holder with the ability to request a portion of the principal to be repaid for cash, shares or some combination thereof. The Company has the option to pay the put obligation with shares if certain trading and equity conditions are met. The monthly put options are cumulative (if previous monthly put options are not exercised) but at no time can the holder request any amount in cash greater than the once monthly put option of 5% of the original principal amount.

The maximum monthly cash obligation under the put option assuming all holders issue a put in a given month is $1.28 million U.S (assumes the Company does not issue shares). The first put option is available to the holders after October 31, 2007. Unless permitted under Canadian securities legislation, the holders of the debentures, warrants and common shares will not be able to trade the debentures, warrants or common shares until October 8, 2007.

As of the quarter ended July 31, 2007, the company has paid its interest obligations of $139,000 U.S. on conversion of debentures to common shares in the form of 3,351 common shares and $21,000 U.S. in cash. The semi-annual interest obligation on the outstanding January financing due July 2, 2007 was $521,000 U.S. and was settled at the Company's option with the issuance of 38,713 shares.

As of September 12, 2007, total interest obligations of $1.8 million U.S. on conversion to common shares was paid in the form of 229,000 common shares and $47,000 U.S. in cash. The Interest to Maturity obligations included in the total interest obligation was $1.6 million U.S.

Further detail of the provisions of the January and June 2007 financings is disclosed in the Notes to the July 31, 2007 Financial Statements.

Retention of Financial Advisor

In January 2007, the Company retained UBS Securities to act as the financial advisor to assist the board of directors and management in its evaluation of strategic alternatives for the Company. Their role is to evaluate alternatives with the NexVas plaque regression franchise and secure a strategic agreement regarding the technologies. Resverlogix has not yet set a definitive timetable for completion of its evaluation and there are no assurances that the evaluation process will result in any specific transaction that will be acceptable to the Company.

RESULTS OF OPERATIONS

Resverlogix incurred a net loss for the three months ended July 31, 2007 of $6,985,811, or $0.28 per share. The net loss for the three months ended July 31, 2006 was $1,996,432 or $0.08 per share.

The average monthly "burn rate", of net revenues and expenditures excluding non-cash items, for the three months ended July 31, 2007 was $1,410,000 as compared to $547,000 for the same period in the prior year. The increase is primarily related to planned expenditures to accelerate the development of scientific programs and expanded market awareness activities.

Revenue

The revenue of the Company consisted primarily of interest earned on funds invested. Interest revenue was $296,215 for the three months ended July 31, 2007, as compared to $57,481 the same three month period in the prior year.

Research and Development

For the three months ended July 31, 2007, research and development expenditures totaled \$3,929,465. For the three months ended July 31, 2006, research and development expenditures totaled \$1,200,719. Key expense items relate to lead optimization of the Company's novel compounds using prominent contract research organizations and renowned research experts. These expenses include chemical synthesis, pharmacokinetics studies and toxicology testing in preparation for an IND application planned in the latter part of 2007. Although expenditures in this area have increased significantly, it is not unusual given the fast progression of the research and the stage of development. The Company continues to closely monitor results 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 has increased over the last year. The Company currently has 21 research and development staff. The Company expects future research & development costs to increase in the next quarters of fiscal 2008 when third-party IND and Phase I human clinical costs will be incurred.

General and Administrative

For the three months ended July 31, 2007, general and administrative expenditures totaled \$596,275, compared to \$497,242 for the three months ended July 31, 2006. 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 component of the expenses for the three month period ended July 31, 2007 was salaries, benefits, consulting fees and recruitment costs for \$245,874, as compared to \$233,953 for the three months ended July 31, 2006. The Company also incurred \$72,666 for shareholder and investor relations expenses, and \$129,505 for professional fees. This compares to \$68,634 and \$55,998 respectively for the same period last year. The remaining expenditures were related to general operating costs. Increased expenditures compared to the prior period were primarily due to the growth in the Company.

Stock Based Compensation

For the three months ended July 31, 2007, \$1,452,568 was recorded as the cost of stock based compensation as per the CICA guidelines as compared to \$281,574 for the same period of the prior year. The issuance of the stock options and the appreciation of the Company's trading value from the prior year period have resulted in the increase in stock based compensation expense. The recognition and amortization of stock based compensation is a non-cash expense.

Interest and Accretion on Convertible Debt

As result of issuing convertible debenture in January and June 2007, the Company has accrued interest at the stated coupon rate of 8% to 12% in the amount of \$679,102 for the three months ended July 31, 2007. The accretion of interest resulting from using the effective interest rate method on the carrying value of the convertible debt was \$621,708 for the three months ended July 31, 2007. The accretion is reflected as non-cash interest expense in the statement of operations and deficit.

SUMMARY OF QUARTERLY RESULTS

	For the three month period ended July 31 2007	April 30 2007	Jan. 31 2007	Oct. 31 2006
Revenue	$296,215	$182,617	$49,714	$31,367
Net loss	($6,985,811)	($8,594,122)	($4,574,578)	($3,164,869)
Net loss per share (basic and fully diluted)	($0.28)	($0.36)	($0.19)	($0.13)

	For the three month period ended July 31 2006	April 30 2006	Jan. 31 2006	Oct. 31 2005
Revenue	$57,481	$62,533	$69,609	$67,074
Net loss	($1,996,432)	($2,183,169)	($1,484,679)	($2,093,320)
Net loss per share (basic and fully diluted)	($0.08)	($0.09)	($0.06)	($0.09)

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, as well as the revaluation of stock based compensation for key consultants in accordance with accounting standards. The amortization of stock-based compensation is a non-cash expense.

LIQUIDITY

As at July 31, 2007, cash and near cash investments totaled $32,636,996 as compared to $12,726,947 at April 30, 2007. The Company's policy is to invest its cash reserves in low risk investments with a maturity of less than one year at the time of purchase. The fixed income instrument maturity dates are usually matched to expected cash flow requirements. At July 31, 2007, the Company had working capital of $30,418,895 compared to $10,529,977 at April 30, 2007. Given the overall cash burn rate, the Company believes that it has sufficient cash reserves to operate for the next year with the assumption of no revenues.

FINANCING ACTIVITIES

On June 6, 2007, the Company sold and issued to certain institutional investors $25.0 million (U.S.) of senior secured convertible debentures due June 6, 2012 which were subsequently amended after the quarter ended July 31, 2007.

Under the original terms, the debentures were convertible any time at the option of the holders initially at a conversion price of $17.50 per share, subject to certain adjustments further described in notes to the July 31, 2007 financial statements. The debentures carried an eight percent interest rate payable semi-annually and are subject to increases in the rate between 10-15% pursuant to certain conditions where trading ranges of Company's share price closes below the conversion price then in effect. As of the quarter ended July 31, 2007, the interest rate was increased to 11% due to trading prices closing below the trading ranges of the debenture. Also issued were 529,350 accompanying warrants at an exercise price of $20.63 per share, subject to certain adjustments.

As previously noted in "Issuance of Convertible Debentures", on August 31, 2007, the Company amended the terms of the June 2007 financing to eliminate the Interest to Maturity provisions and reduce the then in effect adjusted interest rate of 14% to a 12% fixed rate. In exchange for these amendments, the conversion price has been amended to $8.76 from the original conversion price of $17.50. In addition, the warrants issued under the June 2007 financing have been re-priced to $10.25 from $20.63 and an additional 529,000 warrants have been issued.

The amended agreement also provides the holders with a once monthly 5% put option of principal amount at issuance. The put option provides the holder with the ability to request a portion of the principal to be repaid for cash, shares or some combination thereof. The Company has the option to pay the put obligation with shares if certain trading and equity conditions are met. The monthly put options are cumulative (if previous monthly put options are not exercised) but at no time can the holder request any amount in cash greater than the once monthly put option of 5% of the original principal amount.

The first put option is available to the holders after October 31, 2007. Unless permitted under Canadian securities legislation, the holders of the debentures, warrants and common shares will not be able to trade the debentures, warrants or common shares until October 8, 2007. Further detail is provided in the Subsequent Event note in the financial statements.

INVESTING ACTIVITIES

For the three months ended July 31, 2007, $320,315 was spent on property and equipment additions. Of this total, $310,251 was incurred for additional lab equipment. The remaining expenditures were for additional office equipment and software. For the three months ended July 31, 2006, property and equipment additions totaled $149,386.

Patent additions totaled $29,494 for the three months ended July 31, 2007, compared to $131,366 for the three months ended July 31, 2006. These expenditures reflect the legal costs associated with our expanding patent-pending applications.

CONTRACTUAL OBLIGATIONS

The Company has the following contractual obligations as at July 31, 2007:

Contractual Obligations	**2008**	**2009**
Research contracts	$2,663,000	$0
Operating leases	$152,256	$11,006

The Company has entered into various research contracts. The initial deposits required upon acceptance of the contracts total $522,282 and have been appropriately accrued in the financial statements.

SIGNIFICANT ACCOUNTING POLICIES CHANGES

Effective May 1, 2007, the Company adopted the new recommendations of Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation, Section 3865, Hedges and Section 1530, Comprehensive Income. In accordance with the transitional provisions of the new standards, prior period financial statements were not restated.

Section 1530, Comprehensive Income

The section requires the presentation of comprehensive income and its components in a new financial statement. Comprehensive income is the change in the net assets of a company arising from transactions, events, and circumstances not related to shareholders. The Company has not recognized any adjustment through comprehensive income for the three-month period ended July 31, 2007.

Section 3855, Financial Instruments – Recognition and Measurement, and Section 3861, Financial Instruments – Disclosure and Presentation

These sections establish standards for classification, recognition, measurement, presentation and disclosure of financial instruments (including derivatives) and non-financial derivatives in the financial statements. This standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on the financial classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

The Company has designated its financial instruments as follows:

- Cash and cash equivalents and short-term investments are classified as "Available-for-Sale" and carried at fair value and changes in fair value of financial assets are marked-to-market and recorded in other comprehensive income at each period end.
- Accounts payable, accrued liabilities and convertible debentures are classified as "Other Liabilities". After initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

The new standard requires derivative instruments that may be recorded in other financial instruments (the "host instrument") to be treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument and are to be measured at fair value with subsequent changes recognized in other income. In accordance with CICA Handbook Section 3855, the Company conducted a search for embedded derivatives in all contractual arrangements and did not identify any embedded features that require separate presentation from the host contract.

As a result of adopting Section 3855, deferred financing costs relating to convertible notes, have been reclassified from deferred financing costs to convertible debentures on the consolidated balance sheet. These costs will be taken into earnings using the effective interest method over the life of the related debt.

Section 3865, Hedges

This section specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. This standard did not have an impact on the Company's financial statements for the three-month period ended July 31, 2007.

DISCLOSURE OF OUTSTANDING SHARE DATA (as at September 12, 2007)

Authorized and Issued Share Capital

There were 25,327,985 common shares issued and outstanding for a total of $31,896,700 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	24,000	$1.16	7/15/08
Options	25,000	$1.20	9/5/08
Options	200,000	$1.50	3/15/09
Options	57,000	$2.53	9/28/08
Options	200,000	$2.25	9/28/10
Options	75,000	$2.47	9/28/08
Options	30,000	$5.27	2/16/09
Options	50,000	$7.44	4/8/09
Options	20,000	$7.96	5/6/09
Options	30,000	$7.96	5/6/10
Options	25,000	$6.18	6/27/10
Options	60,000	$6.97	9/13/10
Options	60,000	$6.97	9/13/07
Options	375,000	$7.23	10/6/10
Options	50,000	$6.97	12/15/10
Options	400,000	$7.60	2/28/13
Options	197,500	$7.35	3/7/11
Options	105,000	$6.80	6/8/10
Options	130,000	$6.44	6/28/10
Options	235,000	$14.16	1/4/11
Options	450,000	$15.90	5/14/12
Warrants	408,647	$10.25	1/4/11
Warrants	1,058,702	$10.25	6/6/12
Convertible debentures	550,898	$12.07	1/4/10
Convertible debentures	3,012,258	$8.76	6/6/12
Total	8,777,705	$1.16 to $15.90	

DISCLOSURE CONTROLS AND PROCEDURES

As of June 30, 2007, the President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") together with the Company's management have evaluated the design of the Company's disclosure controls and procedures. They concluded that the Company's disclosure controls and procedures can provide reasonable, not absolute, assurance that the objectives of the control systems are met.

INTERNAL CONTROLS

The CEO and CFO 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.

The Company, due to its limited number of staff, has weaknesses in its control over financial reporting which are:

1. Due to the limited number of staff, it is not possible to achieve segregation of all duties. Management has attempted to mitigate the risk of material misstatement in financial reporting through a combination of extensive and detailed review by senior management and the board of directors. Where practicable, the Company will make necessary changes to improve the segregation of duties.
2. Due to the limited number of staff, the Company has a risk of material misstatement related to complex and non-routine complex accounting transaction. Management and Board reviews are utilized to mitigate these risks but there is no guarantee that a material misstatement would be prevented. The Company will attempt to remediate this weakness by employing outside consultants with the appropriate expertise when the need arises to assist with complex accounting and technical issues.

During the quarter ended July 31, 2007 we have not made any changes in the Company's internal controls over financial reporting that would materially affect, or is reasonable likely to materially affect, the Company's internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Prospects for companies in the biotechnology industry generally may be regarded as uncertain given the nature of the industry. Accordingly, investments in biotechnology companies should be regarded as speculative. Biotechnology research and development involves a significant degree of risk. An investor should carefully consider the risks and uncertainties described below, as well as other information contained in this Management's Discussion and Analysis. The risks and uncertainties described below is not an exhaustive list. Additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial may also adversely affect the Company's business. If any one or more of the following risks occur, the Company's business, financial condition and results of operations could be seriously harmed. Further, if the Company fails to meet the expectations of the public market in any given period, the market price of the Company's common shares could decline.

Early Stage Development and Scientific Uncertainty

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

In addition, products may cause undesirable side effects. Results of early pre-clinical research may not be indicative of the results that will be obtained in later stages of pre-clinical or clinical research. If regulatory authorities do not approve the products or if regulatory compliance is not maintained, the Company would have limited ability to commercialize our products, and our business and results of operations would be harmed. The Company may fail to develop any products, to obtain regulatory approvals, to enter clinical trials, or to commercialize any products.

Lack of Product Revenues and History of Losses

To date, the Company has not recorded any revenues from the sale of biopharmaceutical products, but has accumulated net losses of $40,351,310 to July 31, 2007. Losses are expected to increase in the near term as the Company continues its product development efforts, enter clinical trials and seek regulatory approval for the sale of our product for the treatment of cardiovascular disease. The Company expects to incur losses unless and until such time as payments from corporate collaborations, product sales and/or royalty payments generate sufficient revenues to fund its continuing operations. Quarter to quarter fluctuations in revenues, expenses and losses are also expected. The Company is unable to predict the extent of any future losses or when the Company will become profitable, if ever. Even if the Company does achieve profitability, it may not be able to sustain or increase profitability on an ongoing basis.

Review of Strategic Alternatives with UBS

The Company has engaged UBS to review the potential sale of its technology to a leading life-sciences company. The evaluation is focused on reviewing what steps should be taken by the Company to secure a strategic agreement regarding the Company's technologies. The Company has not yet set a definitive timetable for completion of its evaluation. There can be no assurances that the evaluation process will result in any specific transaction that will be acceptable to the Company.

Financing Impact on Operations

As of July 31, 2007, the Company had outstanding face value CAD $39,913,670 of convertible debentures. The amount and the terms of the convertible debentures and other financial obligations could have important consequences for our operations. For example:

- We could increase our vulnerability to general adverse economic condition and industry conditions that could limit our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes;

- We may we required to dedicate a substantial portion of our cash flow to the payment of principal and interest on the debentures, thereby reducing funds available to the Company for operations and any future business opportunities;
- We may be limit our planning flexibility for, or ability to react to, changes in business plans or industry conditions;
- We may be placed at a competitive disadvantage with competitors who may have less indebtedness and other obligations or greater access to financing.

The January 2007 convertible debentures contain an adjusting interest rate based on the trading price of the Company's share and carry a range of 10%-15% that once adjusted can not be subsequently reduced. As of September 12, 2007, the rate of interest on the debenture financing is 12%. If the interest rate increases, the Company may not be able to meet its debt service obligations without issuing additional common shares.

Financing Covenants Governing Debentures

Our financing contains certain covenants that could impair the Company' ability to take advantage of certain business opportunities that would be advantageous to the Company. The amended debenture contains certain covenants that among other things, limit our ability and the ability of our subsidiary to:

- Issues or incur new debt, excluding certain permitted debt, without offering to repurchase some portion of the debenture at the debt holder discretion.
- Company shall at all times have Available Cash of at least (i) $20,000,000 as of December 31, 2007; (ii) $15,000,000 as of March 30, 2008; (iii) $10,000,000 as of June 30, 2008; and (iv) $10,000,000 as of September 30, 2008, unless the outstanding principal and accrued interest is less than these values. – these are only applicable to the Amended June 2007 financing.
- Issue additional equity instruments such as common shares, options, convertible debt at a purchase price per share less than the conversion price then in effect. Any such issuance less than the conversion price in effect would result in the re-pricing of the conversion price to the new effective price.
- Issue additional new securities without offering 50% of the offered securities to the existing debenture holders.
- Purchase or redeem our capital stock
- Sell or otherwise dispose of assets

These restrictions could limit our ability to obtain future financing, make acquisitions or needed capital expenditures, withstand economic downturns in our industry or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise.

Financing Requirements and Access to Capital

The Company will require substantial additional funds for further research and development, planned clinical testing, regulatory approvals, establishment of pilot-scale manufacturing capabilities and, if necessary, the marketing and sale of its products. The Company may attempt to raise additional funds for these purposes through public or private equity or debt financing, collaborations with other biopharmaceutical companies and/or from other sources. There can be no assurance that additional funding or partnership will be available on terms acceptable to the Company and which would foster successful commercialization of the products.

Patents and Proprietary Technology

The Company’s success will depend in part on its ability to obtain, maintain, and enforce patent rights, maintain trade secret protection and operate without infringing the proprietary rights of third parties. There can be no assurance that pending patent applications will be allowed and that the Company will develop additional proprietary products that are patentable, that issued patents will provide any competitive advantage or will not be challenged by any third parties, or that patents of others will not have an adverse effect on the ability to do business. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the products, or design around the products patented by the Company. In addition, the Company may be required to obtain licenses under patents or other proprietary rights of third parties. No assurance can be given that any licenses required under such patents or proprietary rights will be available on terms acceptable to the Company. If such licenses are not obtained it could encounter delays in introducing one or more of its products to the market, while it attempts to design around such patents, or could find that the development, manufacturing or sale of products requiring such licenses could be foreclosed. In addition, the Company could incur substantial costs in defending itself in suits brought against it on such patents or in suits which it attempts to enforce its own patents against other parties.

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

Dependence on Collaborative Partners, Licensors and Others

The Company's activities will require it to enter into various arrangements with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, manufacturing, marketing and commercialization of its products. The Company entered into an exclusive licensing arrangement with Medtronic, Inc., a major medical technology devices company. The Company is eligible to receive certain payments upon successful completion of predefined milestones and 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. The Company intends to attract other corporate partners and enter into additional research collaborations. There can be no assurance, however, that such collaborations will be established on favourable terms, if at all, or that its current Medtronic agreement or future collaborations will be successful. Failure to attract commercial partners for its products may result in the Company incurring substantial clinical testing, manufacturing and commercialization costs prior to realizing any revenue from product sales or result in delays or program discontinuance if funds are not available in sufficient quantities.

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

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

Damages resulting from claims from former Employers

Many of the Company's employees were previously employed at universities or other biotechnology or pharmaceutical companies, including competitors or potential competitors. The Company could be subject to claims that these employees or the Company have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if the Company is successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If the Company fails in defending such claims, in addition to paying money claims, the Company may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent the ability to commercialize certain product candidates, which could severely harm our business.

Rapid Technological Change

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

Government Regulations and Regulation of Drug and Product Approval

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

Competition

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

Dependence on Key Personnel

The Company depends on certain members of its management and scientific staff and the loss of services of one or more of whom could adversely affect the operations, research and development. In addition, the Company's ability to manage growth effectively will require it to continue to implement and improve its management systems and to recruit and train new employees. There can be no assurance that the Company will be able to successfully attract and retain skilled and experienced personnel.

Status of Healthcare Reimbursement

The ability to successfully market certain therapeutic products may depend 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 organizations. Significant uncertainty exists as to whether newly approved healthcare products will qualify for reimbursement. Furthermore, challenges to the price of medical products and services are becoming more frequent. There can be no assurance that adequate third-party coverage will be available to establish price levels, which would allow the Company to realize an acceptable return on its investment in product development.

Potential Product Liability

Pharmaceutical products involve an inherent risk of product liability claims and associated adverse publicity. Product liability insurance is costly, availability is limited and may not be on terms which would be acceptable to the Company, if at all. An inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of potential products. A product liability claim brought against the Company or withdrawal of a product from the market, could have a material adverse effect upon the Company and its financial condition.

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

Market prices for the securities of biotechnology companies, including the Company, have historically been highly volatile. Factors such as fluctuation of the Company's operating results, announcements of technological innovations, patents or new commercial products by the Company or competitors, results of clinical testing, regulatory actions, or public concern over the safety of biopharmaceutical products and other factors could have a significant effect on the share price or trading volumes for the common shares. The Company's common shares have been subject to significant price and volume fluctuations and may continue to be subject to significant price and volume fluctuations in the future. Resulting fluctuations below the conversion prices on the convertible debt financing could have an adverse affect on the Company's cash flow or a dilution of ownership from the issuance of common stock, if the holders of the debt choose to convert the debt at such a time where the Company's shares are trading on the stock market below the conversion prices then in effect. Such an action would obligate the Company to pay interest to maturity of the Convertible Debt in the form of cash, common stock or a combination thereof. The Company has not paid dividends to date and does not expect to pay dividends in the foreseeable future.

U.S. Investors Civil Liabilities

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

ADDITIONAL INFORMATION

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