



**RESVERLOGIX CORP.**

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

**FOR THE QUARTER ENDED JULY 31, 2008**

**SEPTEMBER 10, 2008**

This management's discussion and analysis of operations and financial position should be read in conjunction with Resverlogix Corp.'s (herein "Resverlogix" or the "Company") July 31<sup>st</sup>, 2008 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, 2008. 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, clinical trial 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 pharmaceuticals. Resverlogix is committed to applying the qualities of innovation, integrity and sound business principles in developing novel therapies for the treatment of unmet medical needs of 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 inflammation, Alzheimer's disease, fibrotic disorders and cancer.

The Company has developed three separate programs in the CVD area of research. The primary CVD program is NexVas™ Plaque Regression (NexVas™ PR) which targets ApoA-I enhancement via novel small molecules for plaque stabilization and regression. ApoA-I is the key building block of HDL, the "good cholesterol". 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 a new 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™ (TGF-β Shield™) is a dual focused program that aims to address the unmet medical need of 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 early to mid-stage clinical studies. This core strategy avoids the significant costs of the final phases of the drug development process by either licensing or selling its technology prior to late stage trials. The pursuit of this strategy allows the Company to mitigate a major portion of the biotech investment risk.

### ***Intellectual Property***

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

As of September 10, 2008, Resverlogix owns and/or has rights to six patent families comprised of one issued US patent application and numerous pending applications. This includes non-provisional US and Patent Cooperation Treaty (PCT) applications. The 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 has recently completed its Phase 1a clinical studies for its NexVas PR technology. The hiring of world renowned experts and dedicated staff has made a significant contribution to the rapid progression in furthering the development of the Company's CVD research programs.

### *Scientific Developments*

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 effects 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 humans. The African green monkey data, by virtue of being derived from a predictive animal model for the human situation, has been useful in designing of the Phase 1 trial.

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 University College London, 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.

In December 2007, the Company received approval by the U.S. Food and Drug Administration to initiate a Phase 1a clinical trial of oral RVX-208 in the United States. The Phase 1 clinical trial took place at a leading U.S. contract research organization. The trial consisted of three arms, an ascending single dose, a fed and fasted dose effect study, and a seven-day ascending multiple dose that enroll a total of 80 healthy volunteers. The primary objective of the trial was to evaluate oral RVX-208 in healthy adult subjects for safety, tolerability and pharmacokinetics. Results from this Phase 1a trial will be used for optimizing dosing for future trials including the company's Phase 1b trial.

In January 2008, the Company provided preliminary data from the RVX-208 Phase 1a single ascending dose (SAD) safety and pharmacokinetics study. These early results illustrated no safety and tolerance problems at any of the given doses. Preliminary pharmacokinetic (PK) data was also drawn which illustrated better than anticipated uptake activity of the drug.

In April 2008, the Company announced that it has completed dosing of its Phase 1a safety, tolerability and pharmacokinetics study for its lead drug candidate, RVX-208. The initial data was very good, and successfully met its study objectives.

In June 2008, the Company completed the planned exploratory efficacy analysis of the data from the Phase 1a, 7 day Multiple Ascending Dose (MAD) trial for RVX-208 treatment in healthy subjects. Analysis from two independent and external laboratories of blinded serum samples showed consistent improvements of key biomarkers for the RCT (reverse cholesterol transport) pathway. The Company observed increases in pre-beta HDL of in excess of 30%, cholesterol efflux above 10%, serum ApoA-I over 10%, and HDL-C over 10% (not statistically significant) verses placebo. These preliminary findings follow a similar pattern as demonstrated in the African green monkey studies.

In June 2008, the Company announced its sponsorship in a study which will address patients with acute coronary syndrome. Dr. Stephen J. Nicholls, M.B.B.S., Ph.D. of the Cleveland Clinic Coordinating Center for Clinical Research will lead a team of experts coordinating the development of a protocol for RVX-208 in a Phase 2b intravascular ultrasound study (IVUS). The Company anticipates conducting the Phase 2b trial next year, upon completion of a successful Phase 1b/2a trial. Cleveland Clinic researchers will assist in the planning and coordinating of the trial of RVX-208. The study will seek to answer important scientific questions surrounding the potential regression of atherosclerosis by measuring the rate of regression of coronary disease using IVUS, a technique that directly measures the amount of plaque in the coronary arteries.

**The following scientific developments were announced subsequent to the Company's quarter ended July 31, 2008:**

In August 2008, the Company announced the phase 1b/2a program commences for RVX-208. This trial will continue to examine safety and tolerance as well it is a proof of principle study for ApoA-I production and HDL functionality. Approximately half of the subjects will have low levels of HDL cholesterol and the remaining will have normal lipid levels.

***Peer Review and Recognition***

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.

In November 2007, the Company presented key scientific data highlighting the novel features of RVX-208 at the American Heart Association Scientific Session. The data was presented by Dr. Jacques Genest M.D., a member of the Company's Clinical Advisory

Board and director of the division of cardiology at McGill University's health centre. Resverlogix's novel drug has demonstrated the ability to increase the production of ApoA-I and functional HDL. In his presentation, Dr. Genest discussed the effects of oral administration of RVX-208 on serum ApoA-I levels, HDL subspecies distribution and the functional improvements of serum to promote cellular cholesterol efflux from vulnerable plaque cells. The fact that the data is based on African Green monkeys, in a context of dose-response, makes it predictive for similar treatment effects in humans.

On November 29, 2007, the World Economic Forum ("WEF") announced Resverlogix as the winner of the highly prestigious Technology Pioneer Award in recognition of its NexVas™ Plaque Regression program. Resverlogix was selected because of their efforts in developing highly promising new molecules that increase the production of ApoA-I and HDL for the treatment of atherosclerosis, the major underlying cause of cardiovascular disease (CVD).

The Technology Pioneers 2008 were nominated by the world's leading venture capital and technology companies. The final selection was made by a panel of leading technology experts appointed by the WEF. To be selected as a Technology Pioneer, a company must be involved in the development of life-changing technology innovation and have potential for long-term impact on business and society. In addition, it must demonstrate visionary leadership and show the signs of being a long-standing market leader. The award winners are companies that have been identified as developing and applying highly transformational and innovative technologies in the areas of energy, biotechnology and health, and information technology.

In July 2008, the Company announced that RVX-208, has been selected as one of the top 10 most promising cardiovascular disease drugs available for strategic partnering by an independent committee assembled by Windhover Information, a leading provider of business information products and services to senior executives in the pharmaceutical, biotechnology, and medical device industries. As a selected company, Resverlogix has been invited to present data on RVX-208 at Windhover's Therapeutic Area Partnerships conference on November 3-5, 2008 in Philadelphia.

The Company also announced in July 2008 that RVX-208 is featured in an article titled "Emerging Antidyslipidemic Drugs", by Drs.' Pollex, Joy and Hegele in the journal *Expert Opinion of Emerging Drugs*,

### ***Clinical Advisory Board***

The Company established a Clinical Advisory Board (CAB) of world leading scientific researchers in the area of atherosclerosis and cardiovascular diseases. The purpose of the committee is to provide guidance to the Company in the development of the NexVas program.

Resverlogix named Dr. Philip Barter, MBBS, PhD, MRACP, FRACP, Dr. Prediman K. Shah, MD, Dr. Daniel Rader, MD, Dr. Bo Angelin, MD, PhD and Dr. Jacques Genest, MD, FRCP(C), all internationally renowned cardiovascular researchers, to the CAB. 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 Director of the Division of Cardiology and the Director of the Atherosclerosis Research Center at Cedars-Sinai Medical Center. He is also Professor of Medicine at the David Geffen School of Medicine at the University of California, Los Angeles. 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. The support and guidance received from the members of the CAB has assisted in accelerating the NexVas PR program in its clinical trial development.

### ***Appointment of Directors and Key Personnel***

In May 2007, Resverlogix appointed Dr. Roger S. Newton, PhD, to the Board of Directors, effective July 10, 2007. Dr. Newton has worked in the pharmaceutical and life sciences industries for over 25 years, and is a former Senior Vice-President of Pfizer Global Research and Development, and a former Director of Esperion Therapeutics Inc., a Pfizer Inc. company. He was also Co-founder, President and Chief Executive Officer of Esperion Therapeutics, which was acquired by Pfizer Inc. for \$1.3 billion U.S. in 2004 and was also a key leader in the development of Lipitor the world's best selling drug. 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.

In September 2007, Stella Thompson joined the Board of Directors. Ms. Thompson has over 30 years of experience and expertise in corporate governance, with membership on a number of corporate and not-for-profit boards, as well as executive and management positions at a number of large corporations. She is currently principal consultant and co-founder of Governance West Inc., a consulting firm specializing in assisting boards of directors to achieve excellence in the governance of their organizations. Her expertise will assist the Company in facilitating strategic, organizational and operational excellence.

In June 2008, the Company announced the addition of Dr. F. Allan Gordon, M.D., Ph.D. who will be the Company's Senior Vice President of Clinical Development. Dr. Gordon has more than 20 years of experience as a research scientist and clinician in cardiology. Prior to joining the Company, he was the CEO for Nile Therapeutics, an early stage bi-pharmaceutical in cardiovascular science, focused on acute heart failure. Moreover, Dr. Gordon led the international development program for Natrecor at Scios Inc, a Johnson & Johnson company and has worked with several large pharmaceutical companies in leading positions on clinical development programs for cardiovascular disease, including Astra-Zeneca, Bristol-Myers Squibb and Novartis. Dr. Gordon received his M.D. and Ph.D. from the Karolinska Institute in Sweden.

In July 2008, Jan Gray, CA joined the board of directors. Ms. Gray is a practicing chartered accountant who specializes in advising high net worth individuals with complex financial, investment and taxation issues. She is also Executive Vice-President and Treasurer of Cartwright Canada Inc., a legal publishing company and Controller of Felesky Flynn LLP, a regional Alberta law firm. Ms. Gray's prior experience includes being a former Vice

President and Controller of GE Capital Canada and previous to this she worked for Ernst & Young where she was a Manager in the National Accounting Group providing quality assurance on large public practice engagements.

## **RESULTS OF OPERATIONS**

Resverlogix incurred a net loss for the three months ended July 31, 2008 of \$5,159,330, or \$0.19 per share compared to a net loss of \$6,985,811 or \$0.28 per share for the three months ended July 31, 2007.

The average monthly “cash burn rate”, of net revenues and expenditures excluding non-cash items, for the three months ended July 31, 2008 was \$1,066,000 as compared to \$1,558,000 for the same period in the prior year. The decrease is primarily related to lower clinical and research and development compared to the Investigational New Drug (IND) related expenditures in the prior year period.

### ***Revenue***

The revenue of the Company consisted primarily of interest earned on funds invested. Interest revenue was \$85,737 for the three months ended July 31, 2008, as compared to \$296,215 for the three months ended July 31, 2007. Interest revenues decreased over the prior year comparatives due to a reduction of cash reserves from financing raised in January and June of 2007.

### ***Research and Development***

For the three months ended July 31, 2008, research and development (R&D) expenditures totaled \$3,289,489 as compared to \$3,929,465 for the same three month period in the prior year. R&D expenditures in the three month period were primarily related completion of the Phase 1a clinical trial. Other key areas of expense were chemical synthesis, pharmacokinetics studies and toxicology studies in preparation for the Phase 1b/2a clinical trial.

These expenses have decreased substantially from the prior year period as much of the clinical testing was completed during the quarter and expenditures slowed as the Company prepared for the next clinical trial. Expenditures in the prior year were high primarily due to the IND related activities. The Company will be entering into further Phase 1 and 2 human clinical trials and expects future R&D costs to increase in the following six month period as the clinical program advances. 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 Research & Development (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 approximately 44 full-time equivalent R&D staff and consultants. .

### ***General and Administrative***

For the three month period ended July 31, 2008, general and administrative expenditures totaled \$651,240, compared to \$596,275 for the three months ended July 31, 2007.

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, 2008 was salaries, benefits, consulting and directors' fees and recruitment costs for \$274,000, as compared to \$246,000 for the three months ended July 31, 2007. The Company also incurred \$151,000 for general operating costs and \$60,000 for shareholder and investor relations expenses. This compares to \$111,000 and \$38,000 respectively for the same period last year. These costs were partially offset by reductions of \$29,000 in professional and regulatory fees. .

### ***Stock Based Compensation***

For the three month period ended July 31, 2008, \$364,646 was recorded as the cost of stock based compensation as per the CICA guidelines as compared to \$1,452,568 for same period in the prior year. The reduction was the result of no additional stock options issued in the period as well as a depreciation of the Company's trading value from the prior year period which negatively impacts the valuation of the consultant's stock based compensation. The recognition of stock based compensation is a non-cash expense.

### ***Interest and Accretion on Convertible Debt***

For the three month period ended July 31, 2008, the Company has recorded interest of \$569,121 compared to \$679,099 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 \$240,468 for the three month period ended July 31, 2008, compared to \$621,708 for the three months ended July 31, 2007. The reduction of interest and accretion expense is the result of the conversion of debentures to common stock from the prior year period partially offset by an increase in the coupon rate of 8% to 12% from the three month period ended July 31, 2008. The accretion is reflected as non-cash interest expense in the statement of operations and deficit.

## **SUMMARY OF QUARTERLY RESULTS**

The following is a summary of selected financial information derived from the Company's unaudited interim period financial statements for each of the eight most recently completed quarters. This financial data has been prepared in accordance with GAAP.

	<b>For the three month period ended</b>			
	<b>July 31 2008</b>	<b>April 30 2008</b>	<b>Jan. 31 2008</b>	<b>Oct. 31 2007</b>
Revenue	\$85,737	\$145,770	\$274,140	\$357,726
Net loss	(\$5,159,330)	(\$7,229,046)	(\$6,257,012)	(\$7,906,299)
Net loss per share (basic and fully diluted)	(\$0.19)	(\$0.28)	(\$0.24)	(\$0.31)

	<b>For the three month period ended</b>			
	<b>July 31 2007</b>	<b>April 30 2007</b>	<b>Jan. 31 2007</b>	<b>Oct. 31 2006</b>
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)

Items that impact the comparability of operating income include:

- Revenue is the interest recorded on the Company's short term investments. These balances will fluctuate with the amount of available cash to the Company and any financing activities that are undertaken. The increase in revenues from April 30, 2007 quarterly period to January 31, 2008 is the result of financing activities in January and June of 2007. The April 30, 2008 and July 31, 2008 quarters were lower than the prior year due reduced cash reserves and falling interest rate yields on short-term investments.
- The progression of the research and development activity of the Company directed towards the CVD programs, the completion of the IND for RVX-208 in the fall of 2007, and the completion of Phase 1a clinical programs in 4<sup>th</sup> quarter ended April 30, 2008.
- For the last five quarters, the Company has recorded interest and accretion expense as a result of convertible debenture financing that was closed in January and June of 2007. For the three month period ended July 31, 2008, the Company has recorded \$809,589 compared to \$1,300,807 for the prior year three month period. The value has decreased in the last few periods due to a reduction of the debt from conversions to common stock.
- 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. Stock based compensation ranged from a low of \$365,000 for the three month period ended July 31, 2008 to 2,852,000 within the last fiscal year end. The April 30, 2007 year period ranged from 282,000 to \$3,094,000. The amortization of stock-based compensation is a non-cash expense.
- The results for the three month period ended July 31, 2008 contain a net foreign exchange currency loss of \$42,667 compared to a net gain of \$108,749 for the year ended April 30, 2007, as a result of the recent depreciation of the Canadian dollar against the U.S. dollar. As a large portion of the company's expenses and financial instruments are denominated in U.S. dollars, it had a significant impact on the financial results.

## **LIQUIDITY AND CAPITAL RESOURCES**

Resverlogix is a development stage company whose operations have been financed since inception through the sale of equity securities, convertible debt financing and the conversion of common share purchase warrants and stock options. The Company's primary capital needs are funds to support research and development activities including pre-clinical and clinical trials, and for working capital.

The Company's objectives when managing capital is to ensure there are sufficient funds available to carry out its research, development and commercialization programs. Once funds have been raised, the company manages its liquidity risk by investing in highly liquid corporate bonds and bankers acceptances with staggered maturities to provide regular cash flow for current operations. At July 31, 2008 the Company held U.S. \$1.9 million of short-term asset-backed commercial paper with an R-1 High rating and a maturity date of September 4, 2008. As of September 10, 2008, the Company does not hold any asset-backed commercial paper and has not experienced any credit or liquidity issues with its asset-backed commercial investments. The Company also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material

transactions not in the ordinary course of business. The majority of the Company's accounts payable and accrued liabilities have maturities of less than three months.

As at July 31, 2008, cash and near cash investments totaled \$13,801,784 as compared to \$18,013,588 at April 30, 2008. At July 31, 2008, the Company had working capital of \$13,172,966 compared to \$16,267,778 at April 30, 2008.

The Company anticipates it will require additional sources of financial resources prior to the end of fourth quarter ended April 30, 2009 to ensure that it has sufficient working capital to fund its research development and corporate activities beyond July 31, 2009. The company is currently exploring various alternatives to fund the future operations including product out-licensing in Asia as well as continuing its partnering discussions with for the Company's core NexVasPR technology; however there is no assurance that these initiatives will be successful.

### **Financing Activities**

On January 4, 2007, 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 three month period ended July 31, 2008, the debentures continued to carry an interest rate of 12%, a four percent increase from its initial rate at inception. 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 make additional payments calculated using the interest methodology as defined in the debentures at the then applicable rate on the converted amount commencing on the conversion date through the maturity date of the debenture ("Interest to Maturity").

As of September 10, 2008, the holders of the January 2007 financing have converted 1,469,000 of the underlying common shares leaving approximately 24,500 underlying common shares or a face value of \$278,000 (U.S.) of the debentures unconverted.

As part of the August 31, 2007 financing amendment noted below, the January 2007 debentures were amended to eliminate the trading volume equity conditions under the original debentures. These original conditions limited the ability of the Company to issue shares in lieu of cash when paying any interest obligation. The Company amended the strike price of the 408,647 warrants issued under the January 2007 financing to \$10.25 from its original price of \$15.09 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. The effect of the modification to the remaining debt value from the original U.S. \$17 million convertible debenture and its related warrants was not significant to the Company's consolidated financial statements.

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 as 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. The debentures carried an 8% interest rate payable semi-annually and were 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. The interest rate was increased to 14% due to trading prices closing below the trading ranges of the debenture prior to the August 31, 2007 financing amendment. Prior to the August 31, 2007 financing amendment, the original \$25.0 million (U.S.) financing was subject to the same Interest to Maturity provisions as the \$17.0 million (U.S.) financing described above.

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 529,351 warrants have been issued for a total of 1,058,702.

The effect of the modification to the U.S. \$25 million convertible debentures and the related warrants on August 31, 2007 was an increase to the convertible debentures equity component of \$13.1 million, an increase to the related warrants of \$3.7 million and a corresponding increase to deficit of \$16.8 million, all within the Shareholders' equity category of the consolidated balance sheet. The modification had no significant impact of the liability portion of the convertible debentures and had no impact to the statement of operations and comprehensive loss.

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 plus any accrued interest.

The maximum monthly cash obligation under the put option assuming all holders issue a put in a given month is \$1.1 million U.S. plus accrued interest. The first put option was available to the holders after October 31, 2007.

As of September 10, 2008, the holders of the Amended June 2007 financing have converted 994,816 of the underlying common shares leaving approximately 2,068,000 underlying common shares or a face value of \$17.1 million (U.S.) of the debentures unconverted. Included in the conversion totals above was put notices totaling \$865,000 U.S. paid with 121,968 shares,

For the quarter ended July 31, 2008, the Company paid its total interest obligations of \$1,145,000 U.S. in the form of 117,213 common shares. Included in this quarter ended July 31, 2008 total was payment of the semi-annual interest obligation due July 1, 2008 of \$1,105,000 U.S. paid in the form of 113,393 common shares. No Interest to Maturity obligations in the July 31, 2008 quarter was paid for the January 2007 financing.

As of September 10, 2008, total historical interest obligations paid to date from the inception of the debentures was \$3,080,000 U.S. This obligation was paid in the form of 260,931 common shares and \$89,000 U.S. in cash. The total historical Interest to Maturity obligations were settled with 374,920 common shares which had a carrying a value of \$3,092,000 U.S. The shares issued to settle this conversion right obligation ("Interest to

Maturity”) are treated as an equity instrument for financial statement presentation purposes and are therefore classified as a discount to the corresponding debt conversion price with no corresponding carrying value.

Further detail of the provisions of the January and June 2007 financings is disclosed in the Financing Activities section of the Management’s Discussion and Analysis and the Notes to the July 31, 2008 Financial Statements

### **Investing Activities**

For the three months ended July 31, 2008, \$14,630 was spent on property and equipment additions, consisting mostly of lab and computer equipment. For the three months ended July 31, 2007, property and equipment additions totaled \$320,315. The expenditures in the prior year period were related to the addition of robotic equipment used to automate the screening of process for chemical compounds.

Patent additions totaled \$72,063 for the three months ended July 31, 2008, compared to \$29,494 for the three months ended July 31, 2007. 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, 2008:

<b>Contractual Obligations</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Research contracts	\$3,727,200	\$0	\$0	\$0	\$0
Convertible Debentures (U.S.\$)	\$0	\$278,334	\$0	\$18,812,821	\$0
Operating leases	\$206,731	\$166,841	\$152,259	\$134,913	\$13,491

The Company has entered into various research contracts. The Company is committed to pay \$3,727,200.00 for completion of the research, and all payments are anticipated to May 2010.

### **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, the testing for recoverability of intellectual property and patents and income tax valuation allowance.

## **Equity Based Instruments**

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock based payments for its common share purchase warrants and stock options for employee and key consultants issued by the Company. The pricing model requires the use of several assumptions, including the average expected life and volatility of the Company's stock, which are made at the time of the option grant. Management has selected these variables and uses the Black-Scholes model on a consistent basis.

## **Convertible Debentures**

The initial value of the convertible debentures are calculated incorporating estimated discount rates, terms and interest rate assumptions which, if changed could impact future earnings.

## **Intellectual Property and Patent**

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.

## **Income Tax Valuation Allowance**

The Company has a net tax benefit resulting from non-capital losses carried forward and pools of scientific research & development expenditures and investment tax credits. In view of the history of net losses by the Company, management has recorded a full valuation allowance against these potential income tax assets.

## **SIGNIFICANT ACCOUNTING POLICIES CHANGES**

Effective May 1, 2008, the Company adopted the new recommendations of Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, *Financial Instruments – Disclosure*, Section 3863 *Financial Instruments – Presentation*, Section 1535, *Capital Disclosures*, Section, Section 3064, *Goodwill and Intangible Assets* and changes to Section 1400, *General Standards of Financial Statement Presentation*. These sections relate to presentation and disclosure only and did not have an impact on the Company's financial results.

### Recent Accounting Pronouncements

In February 2008, the Accounting Standards Board (AcSB) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards (IFRS) effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, in the first quarter of the 2012 fiscal year with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 38 "Intangible Assets", thus mitigating the impact of adopting IFRS at the mandatory transition date.

The Company is currently evaluating the impact of the adoption of IFRS on its consolidated financial statements.

## OFF-BALANCE SHEET ARRANGEMENTS

As of July 31, 2008, the Company has not entered into any off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

In 2008, the Company paid consulting fees of \$20,000 (2007 - \$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 September 10, 2008)

### Authorized and Issued Share Capital

There were 27,304,184 common shares issued and outstanding for a total of \$48,298,658 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	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	375,000	\$7.23	10/6/10
Options	25,000	\$6.97	12/15/10
Options	400,000	\$7.60	2/28/13
Options	187,500	\$7.35	3/7/11
Options	105,000	\$6.80	6/8/10
Options	130,000	\$6.44	6/28/10
Options	227,500	\$14.16	1/4/11
Options	450,000	\$15.90	5/14/12
Options	180,000	\$12.07	9/18/11
Options	50,000	\$12.95	11/1/11
Options	110,000	\$12.88	2/11/12
Warrants	408,647	\$10.25	1/4/11
Warrants	1,058,702	\$10.25	6/6/12
Convertible debentures	24,500	\$12.07	1/4/10
Convertible debentures	2,068,000	\$8.76	6/6/12
Total	7,495,549	\$1.50 to \$15.90	

## **DISCLOSURE CONTROLS AND PROCEDURES**

As of July 31, 2008, 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, subject to the below noted weaknesses, 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, 2008 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.

## **OUTLOOK**

We continued to pursue our mission to be first-in-class in the research and early clinical development of revolutionary products. It is in this pursuit we achieved a great deal over the past year. The Company achieved proof-of- concept in non human primate studies which demonstrated that RVX-208 increased levels of ApoA-I and functional HDL cholesterol significantly. These development milestones for RVX-208 resulted in our first clinical candidate which recently completed its Phase 1a trial and successfully met its study objectives. Although the Phase 1a study was designed as a safety, tolerability and pharmacokinetics trial, we were very pleased to see initial proof-of-concept in humans, showing consistent improvements of key biomarkers for the RCT (reverse cholesterol transport) pathway. Given these results demonstrate a similar pattern from the non human primate studies we are encouraged we will see additional improvements in these biomarkers and maintain its safety profile in longer range trials upcoming trials in fiscal 2009.

Our competitors in the field of HDL therapy witnessed disappointing clinical trial results reinforcing new key findings that the industry has learned; the need to develop products that target reverse cholesterol transport (RCT) via the production of ApoA-I and functional HDL particles. For Resverlogix, this reinforces the importance of our ability to demonstrate that we are influencing functional HDL via the ApoA-I pathway.

This has been a pivotal year for our science. We have moved closer in achieving our mission with the rapid advancement of our lead drug candidate, RVX-208, into human trials. We continue to move forward commencing our Phase 1b/2a trial with an expected completion in the first half of 2009. Following this trial we expect to commence a Phase 2b IVUS proof-of-concept (POC) and vessel imaging trial with the Cleveland Clinic to measure atherosclerosis stabilization and regression. The IVUS uses a technique that directly measures the amount of plaque in the coronary arteries and will be conducted in numerous clinical research centers with an expected commencement towards the end of 2009. Our NexVas PR discovery program has produced numerous follow-on compounds with potent effects on ApoA-I in-vitro. We are currently planning to introduce one of these follow-on compounds as an IND candidate early next year. We also have made great progress in our NexVas Vascular Inflammation (VI) program with many interesting potential therapeutic targets being validated through animal models. As a leader in ApoA-I/HDL field, we continue to focus on our primary objective which is to improve the quality and longevity of patients' who suffer the grievous burden of cardiovascular disease. This year also saw the expansion into key research areas with high unmet medical need such as Alzheimer's disease. The Company intends to expand on its collaboration with Dr. Larry Sparks and Sun Health Research Institute and other potential partners to develop this program further in the coming year.

We continue our partnering efforts with numerous leading global pharmaceutical organizations showing an interest in our NexVas PR technology, three of which are in the process of performing detailed due diligence. In addition, our recently announced non-binding term sheet to out-license for cardiovascular indications to a single Asian country may provide non dilutive equity while continuing to further the development of our cardiovascular programs. Management is facilitating additional due diligence at this time with the intention of advancing this opportunity to a binding term sheet with an Asian pharmaceutical partner.

Our product life cycle strategy for NexVas PR continues to expand and offer broad commercial pipeline opportunities for a pharmaceutical partner. Moving forward through clinical development and expanding market life cycle opportunities provides our technologies with accreted value and greater market potential for both our shareholders and a potential pharmaceutical partner.

## **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 preclinical research may not be indicative of the results that will be obtained in later stages of preclinical 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 \$83,713,372 to July 31, 2008. 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 atherosclerosis and 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.

### **Scientific and Clinical Timelines on Price of Securities**

For planning purposes, we estimate and may disclose timing of a variety of clinical, regulatory and other milestones, such as when we anticipate filing an investigational new drug (IND) application, or when a certain drug may enter the clinic, or when we anticipate completing a clinical trial. We base our estimates on present facts and a variety of assumptions. Many underlying assumptions are outside our control. If we do not achieve milestones in accordance with our investors' expectations, the price of our securities would likely decrease.

## **Review of Strategic Alternatives**

The Company is reviewing the potential partnering 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 the best possible strategic agreement regarding the Company's technologies. The Company has not set a definitive timetable for completion of its evaluation. There can be no assurances that the evaluation process with any potential life-sciences partner will result in any specific transaction that will be acceptable to the Company.

## **Financing Impact on Operations**

As of July 31, 2008, the Company had outstanding face value CAD \$18,686,468 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 be 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 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 10, 2008, the rate of interest on the debenture financing is 13%. If the interest rate increases, the Company may not be able to meet its debt service obligations without issuing additional common shares.

The June 2007 convertible debentures which were subsequently amended on August 31, 2007 contain certain provisions which provide 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 the Company maintains a closing bid price per common share equal to or greater than \$4.00 and the Company's trading dollar volume is at least \$250,000 for no less than 10 of 20 consecutive trading days prior to the exercise of the put. 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. If a put option is exercised and the obligation is satisfied with common shares, the number of shares issued will be based the lesser of (i) the volume weighted average price for the 5 consecutive trading days preceding the put date and (ii) the \$8.76 per common share conversion price.

As of September 10, 2008, put conversion options have been exercised in the amount of \$865,000 U.S. and were settled with 121,968 shares. The maximum monthly cash obligation under the put option assuming all holders issue a put in a given month is \$1.1 million U.S. plus any accrued unpaid interest. If the debt holders exercise the put options,

the financial obligations could impact the ability of the Company to fund its operations. For example:

- Put options involving cash could draw a substantial portion of available cash and thereby reduce our ability to fund operations
- Put options involving cash could impact the available cash required under the financing covenants as described in “Financing Covenants Governing Debentures”.
- Put options and cumulative put options involving shares that are exercised below the conversion price will result in additional shares being issued than originally anticipated resulting in additional dilution for shareholders.

Future sales of substantial amounts of our common stock from these debentures in the public market, or the perception that such sales could occur, could adversely affect trading prices of our securities.

### **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:

- Issue 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 August 31, 2007 amendment of the 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. Based on our current understanding of expected expenditures, we believe we will require additional funding in the next fiscal year to continue to develop our clinical and discovery programs. 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. Our future capital requirements will depend on many factors, such as the following:

- Establishing and maintaining collaborative partnering relationships;
- Continued scientific progress in our research, drug discovery and developmental programs;
- The size of our programs and progress with preclinical and clinical programs;
- Time and costs involved in obtaining regulatory approvals;
- Impact of the potential exercise of put and conversions from the convertible debt financing; and
- Competing technological and market developments, including the introduction by others of new therapies in our market; and
- General condition and availability of capital in the equity markets for biotechnology companies.

In addition, the current debenture holders have rights to 50% of any new capital which could be a deterrent for other potential investors to provide additional financing. In addition, if debt financing is provided, the current convertible debt holders have a right, at their option, to require the Company to repurchase all or a portion of their notes, which may discourage future debt financing. No such provision exists for any equity financing.

Provisions also exist within the current debenture holders' agreement to provide special anti-dilution adjustments which would reduce the price of the existing securities if the Company issues additional common shares or financial instruments that can be converted to common shares below the then applicable conversion price. This could also serve as a deterrent to potential future investors.

### **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. If the Company's stock price continues to be highly volatile, it may make it difficult for investors to liquidate their investment and could increase your risk of suffering a loss. 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, partnering activities, 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. During the 15 months preceding July 31, 2008, the market price of our common stock ranged from \$6.71 to \$22.88 per share. The stock price 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 exercise conversion or puts on 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.

## **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. Such disputes could involve arbitration, litigation or proceedings declared by the United Patent and Trademark Office or International Trade Commission or other foreign patent authorities. Intellectual property litigation can be extremely expensive, and this expense, as well as other consequences should the Company not prevail, could seriously harm our business.

Until such time, if ever, that patent applications are filed and or approved, 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 through signed invention and service agreements, no assurance can be given that such arrangements will be effective, that third parties will not gain access to trade secrets or disclose the technology, or that 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. ("Medtronic"), 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. In particular, recent failures in HDL cholesterol therapies may negatively impact our potential partners' willingness to enter into partnering agreements due to the potential risks in the cholesterol market and the high clinical costs to bring such drugs to market. Failure to attract commercial partners for 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. In many cases, litigation may be necessary to defend against these claims such as the dispute that involved the University of Calgary, Dr Norman Wong, one of the Company's co-founders, and Resverlogix Corp. Although this dispute was settled with no compensatory damages or ongoing claims against the Company's intellectual property, no guarantees exist that such claims from other companies or institutions could be brought against the Company.

Even if the Company is successful in defending against these claims as was the case noted above, 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.

## **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.

## **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 preclinical or clinical testing including our drug RVX-208 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 RVX-208 or any other drugs will actually be developed to a commercial level. Completing clinical testing through late stage trials and obtaining required approvals is expected to take several years and to require the expenditure of substantial resources. There can be no assurance that clinical trials will be completed successfully within any specified period of time, if at all. Furthermore, clinical trials may be delayed or suspended at any time by 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 RVX-208 or any of the other 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.

### **Delay or Abandonment of the Commercialization of Drugs under Development**

Drug discovery and development has inherent risk and the historical failure rate is high. Although cardiovascular drugs have experienced higher approval rates than other treatments, recent failures in the HDL cholesterol market by some of our competitors has highlighted the risk of these types of therapies. If the Company cannot demonstrate that our drugs, including RVX-208, are safe and effective for human use, we may need to abandon one or more of our drug development programs.

In addition, successful results in preclinical or early human clinical trials, including the recently announced Phase 1a results for RVX-208, may not predict the results of late-stage clinical trials. There are a number of factors that could cause a clinical trial to fail or be delayed including:

- the clinical trials may produce negative or inconclusive results
- the regulators may require that we hold, suspend or terminate clinical research for noncompliance with regulatory requirements;
- we, our potential partners, the FDA or foreign regulatory authorities could suspend or terminate a clinical trial due to adverse side effect of a drug on subjects or patients in the trial;
- we may decide, or regulators may require us, to conduct additional preclinical testing or clinical trials;
- enrollment in our clinical trials may be slower than we currently anticipate;
- the cost of our clinical trials may be greater than we anticipate; and
- the supply or quality of our drugs or other materials necessary to conduct our clinical trials may be insufficient, inadequate or delayed.

If any of our drugs in clinical studies, including RVX-208, do not show sufficient efficacy in patients with the targeted indication, it could negatively impact our development and commercialization or partnership plans goals for this and other drugs and our stock price could decline.

### **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. The Company does not have employment agreements with any of its senior executive officers that would prevent them from leaving the Company. 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. In addition, failure to succeed in clinical trials may make it more challenging to recruit and retain qualified scientific personnel.

## **Dependence on Third Party Clinical Research Organizations**

We depend on independent clinical investigators, contract research organizations and other third party service providers in the conduct of our clinical trials for our drugs and expect to continue to do so in the future. We rely heavily on these parties for successful execution of our clinical trials, but do not control many aspects of their activities. For example, the investigators are not our employees. However, we are responsible for ensuring that each of our clinical trial is conducted in accordance with the general investigational plan and protocols of the trial. Third parties may not complete activities on schedule, or may not conduct our clinical trials in accordance with regulatory requirements. The failure of these third parties could delay or prevent the development, approval and commercialization of our drugs, including RVX-208.

## **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. Recent issues with other therapies in the cardiovascular market have increased the scrutiny under what will be reimbursed in the future and will be strongly linked to effective and safe drugs over the current standard of care with statin therapy.

In addition, the pricing of drug therapies has come under significant pressure with government authorities and private health insurers especially in the United States where healthcare costs are some of the highest in the world. 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 Clinical and Product Liability**

The Company has entered into human clinical trials that involve inherent risks in the testing of unproven products. A large portion of the risk is mitigated through the highly regulated approval process within the clinical laboratory, as well as clinical insurance coverage, but a certain level of risk remains. 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 continuation of clinical trials and the commercialization of potential products in the future. A product liability claim brought against the Company or withdrawal of a product from the market at a future date, could have a material adverse effect upon the Company and its financial condition.

## **ADDITIONAL INFORMATION**

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