



***Interim Management's Discussion and  
Analysis  
Form 51-102F1  
For the Quarter Ended October 31, 2006  
December 12, 2006***

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

This management's discussion and analysis of operations and financial position should be read in conjunction with Resverlogix Corp.'s ("Resverlogix" or the "Company") October 31<sup>st</sup>, 2006 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, 2006. 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.

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 December 12, 2006, Resverlogix owns and/or has rights to one issued United States patent and thirty-four (34) pending patent applications. This includes provisional and non-provisional applications in the United States and Patent Cooperation Treaty. Many of the thirty-four pending patent applications are interrelated and in effect assert rights to substantially similar inventions in different global jurisdictions. Eight of these applications are United States applications, three are European Patent Office applications and three are Patent Cooperation Treaty; foreign counterparts exist to many of these patent applications. The strategy is to build a strong patent portfolio around the core technology which 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 its 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. Therefore it is our policy to require employees, consultants, members of our Scientific 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

During the year, the Company continued its Request for Proposal (RFP) process with seven leading global life science organizations for an exclusive partnership regarding its NexVas™ PR ApoA-1 technology in cardiovascular disease (CVD). Resverlogix continues to have discussions with these pharmaceutical firms and will not disqualify any candidate until the Company can conclude the formal agreements.

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

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

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

In August 2006, the Company announced that it has expanded its cardiovascular disease research efforts into vascular inflammation. Preliminary findings have demonstrated that NexVas™ compounds have inhibitory effects on a number of inflammation markers, comparable to and better than our positive control. Resverlogix believes that this research expansion will continue to position the Company as a leader in CVD while presenting multiple commercial opportunities.

In September 2006, Resverlogix announced that it has chosen lead molecules for first administration in man studies. The pharmacokinetic results of the molecules in humans will guide and accelerate the further clinical development as to pharmacological doses needed to significantly raise ApoA-I, the core protein in HDL cholesterol. Administration of low doses, so called microdosing, is a technique which can improve predictability, efficiency and expedience of subsequent human trials. The Company will commence first administration in microdosing human trials early in 2007.

In September 2006, the Company opened its expanded laboratory, doubling the existing space to 6,000 square feet. The lab expansion was completed to accommodate the growing needs of the rapidly accelerating scientific programs and is part of the critical path as the Company moves towards an IND application for its Nexvas PR program.

In September 2006, the Company announced that its lead candidate, RVX-208, illustrated the ability to raise ApoA-I in animals up to 180 percent over controls. It is estimated that a larger than 8 percent permanent ApoA-I increase in humans would have a significant impact on atherosclerosis and cardiovascular disease. RVX-208 possesses significant higher potency relative to earlier compounds in the drug discovery program.

**Following are the events that occurred subsequent to the Company's second quarter ended, October 31, 2006:**

In November 2006, Resverlogix conducted its first clinical advisory meeting in Chicago prior to the American Heart Association's scientific meeting. Based on a thorough review of the science with leading experts such as Dr. Bo Angelin, professor of clinical metabolism at Karolinska Institute, Sweden, the expert panel recommended that the Company constitute a clinical advisory board for its ApoA-I enhancing lead program.

In November 2006, the Company announced that its clinical candidate, RVX-208, can rapidly increase plasma levels of ApoA-I up to 150 percent relative to control animals in the first 24 hours. The significance of this study is that a fast and sustained increase of ApoA-I are believed to benefit patients suffering from acute cardiovascular complications, such as acute coronary syndrome and post myocardial infarction. This data in combination with the increase of ApoA-I up to 180% in animal models following 7 days of treatment solidly demonstrates that RVX-208 rapidly increases the production of ApoA-I and that the large elevations of ApoA-I are sustained over time.

## **RESULTS OF OPERATIONS**

Resverlogix incurred a net loss for the three months ended October 31, 2006 of \$3,164,869, or \$0.13 per share compared to a net loss of \$2,093,320 or \$0.09 per share in the same quarter of the prior year. The net loss for the six months ended October 31, 2006 was \$5,161,301, or \$0.21 per share compared to \$3,465,831 or \$0.15 per share for the same six month period in the prior year. The average monthly "burn rate", of net revenues and expenditures excluding non-cash items, for the three months ended October 31, 2006 was \$858,000 as compared to \$457,000 for the same period in the prior year. The increase is primarily related to planned increases in expenditures to accelerate the development of scientific programs and expanded market awareness activities. For the three months ended October 31, 2006, \$502,354 was recorded as the cost of stock based compensation as per the CICA guidelines as compared to \$662,737 for the same period of the prior year. A reduction in options granted since a grant was awarded to key employees and directors in the same prior year period resulted in the decrease of this non-cash entry.

### ***Revenue***

The revenue of the Company consisted primarily of interest earned on funds invested. Interest revenue was \$31,367 for the three months ended October 31, 2006, as compared to \$67,074 the same three month period in the prior year. Interest revenue was \$88,334 for the six months ended October 31, 2006, as compared to \$140,123 for the six months ended October 31, 2005.

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

For the three months ended October 31, 2006, research and development expenditures totaled \$2,086,727 compared to \$1,013,839 for the same prior year period. For the six months ended October 31, 2006, research and development expenditures were \$3,287,446, an increase of \$1,494,171 from the comparable six month prior year period. Key expense items relate to lead optimization of the Company's novel compounds. These expenses include chemical synthesis, pharmacokinetics studies and toxicology testing in preparation for an IND application planned in the near future. Prominent contract research organizations and renowned research experts were hired to expand and validate internal findings. Results are closely monitored for optimization while processes are in place to generate efficiencies in output per contracted employee. Internal expenses include salaries and benefits for R&D staff, consulting fees, supplies and general laboratory operating expenses. Expenses have increased steadily as additional staff members have been hired and the quantity and scope of experimentation have increased over the last year. The Company expects future research & development costs to increase in the third and fourth quarter of fiscal 2007 when third-party IND costs will be incurred.

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

For the three months ended October 31, 2006, general and administrative expenditures totaled \$519,732, compared to \$425,086 for the three months ended October 31, 2005. For the six months ended October 31, 2006, general and administrative expenditures totaled \$1,016,974, compared to \$845,450 for same six month period in the prior year. General and administrative expenses includes salaries and other operating costs not directly involved in research and development, as well as professional fees for services, such as legal, audit, tax, investor relations and business development. The major expense for the three months was salaries, benefits, consulting fees and recruitment costs for \$206,810. The Company also incurred \$54,698 for shareholder and investor relations expenses, and \$99,203 for professional fees. The remaining expenditures were related to general operating costs.

## SUMMARY OF QUARTERLY RESULTS

	For the three month period ended			
	Oct. 31 2006	July 31 2006	April 30 2006	Jan. 31 2006
Revenue	\$31,367	\$57,481	\$62,533	\$69,609
Net loss	(\$3,164,869)	(\$1,996,432)	(\$2,183,169)	(\$1,484,679)
Net loss per share (basic and fully diluted)	(\$0.13)	(\$0.08)	(\$0.09)	(\$0.06)

	For the three month period ended			
	Oct. 31 2005	July 31 2005	April 30 2005	Jan. 31 2005
Revenue	\$67,074	\$73,050	\$113,802	\$61,591
Net loss	(\$2,093,320)	(\$1,372,511)	(\$1,197,622)	(\$1,138,161)
Net loss per share (basic and fully diluted)	(\$0.09)	(\$0.06)	(\$0.05)	(\$0.05)

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

## LIQUIDITY

As at October 31, 2006, cash and near cash investments totaled \$2,858,330 as compared to \$7,695,629 at April 30, 2006. The Company's policy is to invest its cash reserves in low risk investments with a maturity of three months to two years at the time of purchase. The fixed income instrument maturity dates are usually matched to expected cash flow requirements. At October 31, 2006, the Company had working capital of \$1,903,671 compared to \$7,294,539 at April 30, 2006. Management intends to carry out financing in this fiscal year to continue to operate with the assumption of no revenues.

## FINANCING ACTIVITIES

In August 2006, the Company announced a second Normal Course Issuer Bid allowing the Company to repurchase up to 150,000 common shares during the period of August 14, 2006 to August 13, 2007 at the market price at the time of repurchase. This followed a previously issued Normal Course Issuer bid that expired on June 23, 2006. Pursuant to the second Normal Course Issuer Bid, the Company has acquired 82,200 of its common shares at an average price of \$5.91 per share. The total cost of this program including commissions for the three months ended October 31, 2006 was \$490,796. During the six months ended October 31, 2006, the Company acquired a total of 127,500 of its common shares combined with the initial Normal Course Issuer Bid that expired in June of 2006 and

the current Normal Course Issuer Bid. These shares were repurchased at an average price of \$6.01 for a total cost of \$775,006 including commissions. All common shares repurchased by the Company were cancelled.

In the six months ended October 2006, the Company received \$206,226 from the exercise of 68,742 agent's options issued at \$3.00 per share to the agents in connection with a brokered private placement.

## **INVESTING ACTIVITIES**

For the three months ended October 31, 2006, \$212,540 was spent on property and equipment additions. Of this total, \$140,728 was dedicated to tenant improvement costs for the laboratory expansion. In the six months ended October 31, 2006, \$157,633 has been incurred in total, with an expected \$30,000 anticipated to complete the expanded lab facility. The remaining expenditures were for additional lab equipment. For the three months ended October 31, 2005, property and equipment additions totaled \$131,153.

Patent additions totaled \$104,272 for the three months ended October 31, 2006, compared to \$13,351 for the three months ended October 31, 2005. The increase in these expenditures reflects the legal costs associated with our expanded patent-pending applications.

## **CONTRACTUAL OBLIGATIONS**

The Company has the following contractual obligations as at October 31, 2006:

<b>Contractual Obligations</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Research contracts	\$5,273,000	\$1,012,000	\$0
Operating leases	\$167,722	\$126,390	\$60,533

The Company has entered into various research contracts. The initial deposits required upon acceptance of the contracts total \$209,341 and have been appropriately accrued in the financial statements.

## **DISCLOSURE OF OUTSTANDING SHARE DATA (as at December 12, 2006)**

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

There were 24,069,031 common shares issued and outstanding for a total of \$20,479,766 in share capital, net of share issue costs. There are no preferred shares issued.

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

Security Type	Number	Exercise Price	Expiry Date
Options	948,700	\$1.60	4/25/08
Options	28,000	\$1.16	7/15/08
Options	50,000	\$1.20	9/5/08
Options	200,000	\$1.50	3/15/09
Options	57,000	\$2.25	9/28/08
Options	200,000	\$2.25	9/28/10
Options	75,000	\$2.25	9/28/08
Options	30,000	\$4.50	2/16/09
Options	50,000	\$6.50	4/8/09
Options	20,000	\$7.00	5/6/09
Options	30,000	\$7.00	5/6/10
Options	25,000	\$5.50	6/27/10
Options	60,000	\$6.00	9/13/10
Options	60,000	\$6.00	9/13/07
Options	375,000	\$6.25	10/6/10
Options	50,000	\$6.00	12/15/10
Options	400,000	\$7.60	2/28/13
Options	197,500	\$7.25	3/7/11
Options	105,000	\$6.80	6/8/10
Options	130,000	\$6.44	6/28/10
Total	3,091,200	\$1.16 to \$7.60	

In October, 2006, an amended stock option plan was approved by shareholders at the Company's annual general meeting. The plan was amended to comply with new guidance on Section 613 and Staff Notice #2006-0001 from the Toronto Stock Exchange. The amended plan provides for a detailed amendment procedure that requires security holder approval prior to certain changes being made to options. In addition, the amended plan has been approved as a 10% rolling plan that allows for a reservation of a number of Common Shares under the plan to equal 10% of the Company's issued and outstanding Common Share on an undiluted basis. Provisions have also been added to make the amended plan a reloading plan, meaning that when options under the plan expire, are cancelled or are exercised, the number of Common Shares reserved for issuance under such expired, cancelled or exercised options automatically become eligible to be reallocated pursuant to new stock option grants.

## **RISKS AND UNCERTAINTIES**

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

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

## **ADDITIONAL INFORMATION**

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