



*For the Three and Six Months  
Ended October 31, 2009*

**CORPORATE OFFICE:**

202, 279 Midpark Way SE

Calgary, Alberta, Canada T2X 1M2

Phone: (403) 254-9252 Fax: (403) 256-8495 Email: [info@resverlogix.com](mailto:info@resverlogix.com)

[www.resverlogix.com](http://www.resverlogix.com)

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**TRADING SYMBOL:**

TSX: RVX

### **Notice to Reader**

The accompanying interim consolidated financial statements are the responsibility of Resverlogix Corp.'s management. The financial statements are considered by management to present fairly, in all material respects, the financial position of the Company as at October 31, 2009 and April 30, 2009 and the results of its operations and its cash flows for the three and six months ended October 31, 2009 and 2008 in accordance with Canadian generally accepted accounting principles.

The Company's independent auditors, KPMG LLP Chartered Accountants, have not performed a review of these interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

December 15, 2009

# RESVERLOGIX CORP.

Interim Consolidated Balance Sheets  
(Unaudited)

	October 31, 2009	April 30, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,769,368	\$ 12,564,267
Restricted cash (note 3)	6,060,305	7,163,928
Prepaid expenses and deposits	1,071,668	1,430,055
	<u>10,901,341</u>	<u>21,158,250</u>
Property and equipment (note 4)	673,646	708,498
Intellectual property and patents (note 5)	809,411	703,552
	<u>\$12,384,398</u>	<u>\$22,570,300</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,539,938	\$ 2,577,563
Accrued interest on convertible debentures	445,620	365,238
Convertible debentures (note 6)	5,203,265	5,769,228
	<u>7,188,823</u>	<u>8,712,029</u>
Shareholders' equity (note 7):		
Common shares	73,340,917	72,237,124
Convertible debentures equity component	14,361,139	14,952,621
Contributed surplus	17,437,001	16,496,537
Warrants	26,017,371	26,017,371
Deficit	(125,960,853)	(115,845,382)
	<u>5,195,575</u>	<u>13,858,271</u>
	<u>\$12,384,398</u>	<u>\$22,570,300</u>

Nature of operations (note 1)  
Commitments (notes 5 and 8)

See accompanying notes to the interim consolidated financial statements.

# RESVERLOGIX CORP.

Interim Consolidated Statements of Net Loss, Comprehensive Loss and Deficit  
(Unaudited)

	Three months ended October 31,		Six months ended October 31,	
	2009	2008	2009	2008
Revenue:				
Interest income	\$ 1,743	\$ 69,510	\$ 2,467	\$ 155,247
Expenses:				
Research and development	3,076,140	4,133,547	5,993,296	7,432,036
General and administrative	922,934	687,516	1,572,420	1,338,756
Stock-based compensation	174,534	774,112	940,464	1,138,758
Interest and accretion on convertible debentures	450,906	742,858	918,042	1,552,447
Depreciation and amortization	56,148	64,090	113,130	142,526
Foreign exchange loss (gain)	(11,444)	1,096,841	580,586	1,139,508
	4,669,218	7,498,964	10,117,938	12,744,031
Gain on settlement of convertible debentures (note 6)	–	1,881,591	–	1,881,591
Net loss and comprehensive loss	4,667,475	5,547,863	10,115,471	10,707,193
Deficit, beginning of period	121,293,378	83,713,372	115,845,382	78,554,042
Settlement and modification of convertible debentures (note 6)	-	6,780,157	-	6,780,157
Amendment of warrants (note 7)	-	1,245,439	-	1,245,439
Deficit, end of period	125,960,853	97,286,831	125,960,853	97,286,831
Net loss per common share – basic and diluted	\$ 0.12	\$ 0.20	\$ 0.26	\$ 0.39
Weighted average number of common shares	39,388,025	28,006,163	39,349,766	27,587,268

See accompanying notes to the interim consolidated financial statements.

# RESVERLOGIX CORP.

Interim Consolidated Statements of Cash Flows  
(Unaudited)

	Three months ended October 31,		Six months ended October 31,		
	2009	2008	2009	2008	
Cash provided by (used in):					
Operations:					
Net loss	\$(4,667,475)	\$(5,547,863)	\$(10,115,471)	\$(10,707,193)	
Items not involving cash:					
Stock-based compensation	174,534	774,112	940,464	1,138,758	
Depreciation and amortization	56,148	64,090	113,130	142,526	
Accretion on convertible debentures	133,211	229,574	245,811	470,042	
Interest paid in common shares	2,742	17,980	154,926	1,177,338	
Services paid in common shares	122,500	-	122,500	-	
Gain on settlement of convertible debentures	-	(1,881,591)	-	(1,881,591)	
Unrealized foreign exchange (gain) loss	(19,495)	1,919,471	(663,503)	2,105,714	
	(4,197,835)		(4,424,227)	(9,202,143)	(7,554,406)
Changes in non-cash working capital:					
Prepaid expenses and deposits	302,905	79,441	358,387	(245,245)	
Accounts payable and accrued liabilities	(466,233)	943,712	(1,081,678)	735,441	
Accrued interest on convertible debentures	333,231	530,196	84,925	(53,840)	
	(4,027,932)	(2,870,878)	(9,840,509)	(7,118,050)	
Financing:					
Convertible debentures redeemed	-	(5,260,600)	-	(5,260,600)	
Proceed from exercise of options and warrants	-	91,875	-	213,935	
Share issuance costs (recovery)	113	-	6,179	-	
	113	(5,168,725)	6,179	(5,046,665)	
Investing:					
Restricted cash	8,128	-	1,103,623	-	
Short term investments	-	6,350,144	-	11,166,167	
Property and equipment additions	(41,651)	(13,981)	(47,188)	(28,610)	
Patent additions	(51,532)	(18,529)	(136,949)	(90,592)	
Non-cash investing working capital	52,218	(21,278)	119,945	(21,278)	
	(32,837)	6,296,356	1,039,431	11,025,687	
Decrease in cash and cash equivalents	(4,060,656)	(1,743,247)	(8,794,899)	(1,139,028)	
Cash and cash equivalents, beginning of period	7,830,024	2,953,592	12,564,267	2,349,373	
Cash and cash equivalents, end of period	\$ 3,769,368	\$ 1,210,345	\$ 3,769,368	\$ 1,210,345	

See accompanying notes to the interim consolidated financial statements.

# RESVERLOGIX CORP.

## Notes to Interim Consolidated Financial Statements

Three and six months ended October 31, 2009 and 2008  
(Unaudited)

The interim consolidated financial statements of Resverlogix Corp. (the "Company") were prepared by management using accounting policies and methods of their application consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended April 30, 2009. The disclosure which follows is incremental to the disclosure included with the annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended April 30, 2009.

### 1. Nature of operations

Resverlogix Corp. is an emerging biopharmaceutical company focused on development of novel therapeutics in cardiovascular disease, and related indications in vascular inflammation and Alzheimer's Disease. The Company also has therapeutics under development for the treatment of fibrotic diseases and cancer. The Company is considered to be in the development stage, as most of its efforts have been devoted to research and development and it has not earned any revenue to date.

Research and development expenditures on these projects are as follows:

	Three months ended		Six months ended		Cumulative since inception
	October 31,		October 31,		
	2009	2008	2009	2008	
NexVas PR	\$3,037,805	\$4,122,371	\$5,950,766	\$7,392,912	\$48,198,149
NexVas VI / ReVas	9,372	-	13,567	27,948	1,862,594
TGF- $\beta$ Shield	-	-	-	-	735,221
NexVas AD	28,963	11,176	28,963	11,176	58,906
	\$3,076,140	\$4,133,547	\$5,993,296	\$7,432,036	\$50,854,870

The success of the Company is dependent on the continuation of the research and development activities, progressing the core technologies through clinical trials to commercialization and its ability to finance its cash requirements. It is not possible to predict either the outcome of future research and development programs or the Company's ability to fund these programs going forward.

The accompanying financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. The Company has incurred significant losses to date, and with no assumption of revenues, is dependent on its ability to raise additional financial capital by continuing to demonstrate the successful progression of its research and development activities if it is to remain as a going concern. At October 31, 2009, the Company had \$3.8 million of cash and cash equivalents and restricted cash of \$6.1 million.

# **RESVERLOGIX CORP.**

Notes to Interim Consolidated Financial Statements, page 2

Three and six months ended October 31, 2009 and 2008  
(Unaudited)

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# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 3

Three and six months ended October 31, 2009 and 2008  
(Unaudited)

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## 1. Nature of operations (continued)

The Company will require additional capital to provide the Company with sufficient resources to manage its planned research, development, corporate activities and its obligations to the debenture holders including the redemptions described in note 6. Notes 7 (g) and 11 describe the Company's current initiatives to raise additional capital.

The Company will continue to explore various alternatives to generate positive cash flow including raising additional equity, product licensing, as well as continuing its partnering discussions concerning the Company's core NexVas™ PR technology; however given the large uncertainty in the capital markets and the general business climate in the healthcare sector for potential business partners, there is no assurance that these initiatives will be successful.

These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities, and the reported revenues and expenses that might be necessary should the company be unable to continue as a going concern.

## 2. Change in accounting policies

### 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, thus mitigating the impact of adopting IFRS at the mandatory transition date.

The Company's IFRS conversion project consists of three phases: Diagnostic, Solution Development, and Implementation and Execution. The Corporation has commenced the Diagnostic phase, which involved a high-level preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight as to the most significant areas of difference applicable to the Company which includes more extensive presentation and disclosure requirements under IFRS.

The Company is continuing to evaluate the impact of the adoption of IFRS on its consolidated financial statements and is monitoring any changes issued by the AcSB that may impact the Company's adoption of IFRS.

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 4

Three and six months ended October 31, 2009 and 2008  
(Unaudited)

### 3. Restricted cash

As at October 31, 2009, cash and cash equivalents includes total restricted cash of \$6.1 million that is held in escrow for the convertible debenture holders to settle any put notice as amended on April 9, 2009 and further described in Note 6 to the interim consolidated financial statements. The Company can elect to withdraw funds in excess of the amount of the aggregate principal and accrued interest from the escrow account for general business purposes.

In the event the debenture holders are entitled to any interest payment or interest on the principal amount that is converted, and the interest obligation cannot be settled in common shares, such interest payment will be settled from the escrow account. The July 2009 semi-annual interest obligation of U. S. \$376,508 was settled with escrow funds. No portion of the escrow amount can be used by the Company to redeem the principal and accrued interest of the notes under the Company's call option provisions of the convertible debenture as described in Note 6.

### 4. Property and equipment

October 31, 2009	Cost	Accumulated depreciation	Net book value
Laboratory equipment	\$ 1,390,617	\$ 794,901	\$ 595,716
Office furniture and equipment	70,071	57,775	12,296
Computer equipment	263,584	198,417	65,167
Computer software	77,927	77,460	467
Leasehold improvements	463,315	463,315	-
	\$ 2,265,514	\$ 1,591,868	\$ 673,646

April 30, 2009

Laboratory equipment	\$ 1,390,617	\$ 731,694	\$ 658,923
Office furniture and equipment	70,071	53,915	16,156
Computer equipment	216,396	184,550	31,846
Computer software	77,927	76,840	1,087
Leasehold improvements	463,315	462,829	486
	\$ 2,218,326	\$ 1,509,828	\$ 708,498

### 5. Intellectual property and patents

October 31, 2009	Cost	Accumulated amortization	Net book value
Patents	\$ 971,693	\$ 162,850	\$
	808,843		
Acquired property (NexVas™)	818	250	568
	\$ 972,511	\$ 163,100	\$ 809,411

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 5

Three and six months ended October 31, 2009 and 2008  
(Unaudited)

## 5. Intellectual property and patents (continued)

April 30, 2009	Cost	Accumulated amortization	Net book value
Patents	\$ 834,743	\$ 131,782	\$ 702,961
Acquired property (NexVas™)	818	227	591
	\$ 835,561	\$ 132,009	\$ 703,552

In October 2004, the Company entered into an exclusive license agreement that expands the number of proprietary compounds that the Company can test, manufacture, market, sell or sublicense. The agreement expires on the later of 20 years or the expiration of the last patent covered under the license agreement. As consideration the Company paid an initial license fee of U.S. \$25,000. In addition, the Company is required to make additional payments of U.S. \$50,000 upon the discovery of each nutraceutical which contains a compound protected by the patent which will be used in a commercial context and a payment of U.S. \$300,000 upon the first enrolment of a patient into a regulatory approved Phase 1 Clinical Trial for a pharmaceutical compound protected by the patent.

## 6. Convertible debentures

Convertible debentures and its equity components consist of the following:

	U.S. \$17 million Carrying Value	U.S. \$25 million Carrying Value	Total Amount
Balance, April 30, 2008	\$ 242,654	\$ 11,967,618	\$ 12,210,272
Conversions to common shares	—	(1,928,579)	(1,928,579)
Accretion	2,820	821,536	824,356
Debt issue costs	—	(40,600)	(40,600)
Redemption of debentures	(283,123)	(7,932,561)	(8,215,684)
October 2008 amendment – accrued interest	—	684,507	684,507
October 2008 amendment – January 07 debenture transfer	—	322,867	322,867
Foreign exchange loss	37,649	1,874,440	1,912,089
Balance, April 30, 2009	—	5,769,228	5,769,228
Conversions to common shares	—	(228,706)	(228,706)
Accretion	—	245,811	245,811
Foreign exchange gain	—	(583,068)	(583,068)
Balance, October 31, 2009	\$ —	\$ 5,203,265	\$ 5,203,265
Face value as at October 31, 2009	\$ —	\$ 7,248,298	\$ 7,248,298

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 6

Three and six months ended October 31, 2009 and 2008  
(Unaudited)

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## 6. Convertible debentures (continued)

The Company issued U.S. \$42 million of senior secured convertible debentures in two separate issuances of U.S. \$ 17 million and U.S. \$25 million on January 4, 2007 and June 6, 2007 respectively. The Company amended the U.S. \$25 million issuance of convertible debentures on August 31, 2007 to eliminate certain Interest to Maturity provisions contained in the financing and reduce the then in effect adjusted interest rate of 14% to a 12% fixed rate (see additional details of the amendment under **“U.S. \$ 25 million Convertible Debenture Amendment - August 31, 2007”**).

On October 15, 2008, the Company redeemed U.S. \$10 million of the outstanding remaining combined unconverted debentures of U.S. \$17.3 million from the January and June 2007 issuances and amended the terms of the remaining debt (see additional details under **“U.S. \$10 million Debt Redemption and Amendment – October 15, 2008”**).

On April 9, 2009, the Company amended the terms of the remaining outstanding debt of U.S. \$7.2 million (see additional details under **“Deferral of Put Obligation – Amended April 9, 2009”**).

The following headings describe the convertible debenture financings and the amendments described above.

### **Deferral of Put Obligation – Amended April 9, 2009**

The Company entered into an agreement to amend the October 15, 2008 amendment noted below to defer the convertible debt holders cumulative put rights which became exercisable on March 31, 2009 to October 9, 2009. These cumulative put rights permitted the debt holders to request repayment of the debt plus accrued interest in cash (see “U.S. \$10 million Debt Redemption and Amendment – October 15, 2008” for additional details). In consideration, for the foregoing, the Company agreed to amend the interest rate on the outstanding convertible debentures of U.S. \$7,192,889 from 12% to 18% on a prospective basis. In addition, the Company agreed to defer its call option to redeem the convertible notes as described below for the same six month period. Additionally, as part of the April 15, 2009 share purchase agreement for U.S. \$20 million issuance of common shares, the Company permitted the debt holders to become a party to the escrow agreement under this amending agreement as described in Note 3 of the consolidated financial statements,

The conversion price of the outstanding debentures convertible into common shares remains at \$2.61 per share as amended on October 15, 2008 noted below. Additional terms of the outstanding convertible debentures are further described under the respective amendments.

As of October 31, 2009, the remaining convertible debenture has been reclassified as a current liability for financial statement presentation to provide for the Company’s potential obligation to settle the holder’s cumulative put (“Excess Put”), which would become payable in less than one year from the balance sheet date if the option was exercised.

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 7

Three and six months ended October 31, 2009 and 2008  
(Unaudited)

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## 6. Convertible debentures (continued)

### **U.S. \$10 million Debt Redemption and Amendment - October 15, 2008**

Prior to the April 9, 2009 amendment, the Company redeemed U.S. \$10 million of debt and amended the terms of the combined remaining U.S. \$7.3 million debt from the initial U.S. \$42 million of convertible debentures issued in January and June 2007, respectively. The Company redeemed the debentures with U.S. \$4.5 million in cash and U.S. \$5.5 million with 2,444,445 common shares at a price of \$2.61 per common share. The early redemption and amendment to the terms of the remaining debt included an agreement with the debenture holders to withhold all future put notices until March 31, 2009 (subsequently amended to October 9, 2009 as noted above) to a cash only option from a common share or cash option (see description of the put obligation under "U.S. \$ 25 million Convertible Debenture Amendment – August 31, 2007").

The conversion price for the remaining debt which is convertible into common shares was amended to \$2.61 from \$8.76 and \$12.07 respectively for the remaining August 2007 and January 2007 debentures. In addition, the warrant prices were adjusted to \$3.07 from \$10.25 per common share. The conversion and warrant price is subject to certain anti-dilution adjustments which would reduce the price if the Company issues additional common shares or financial instruments that can be converted to common shares below the conversion price.

The amended principal balance at October 15, 2008 of U.S. \$7,890,280 included the January and June 2007 outstanding convertible debentures of U.S. \$278,334 and U.S. \$7,021,854 respectively and also included accrued interest of U.S. \$590,092 up to the date of the amendment with a maturity date of June 6, 2012.

The effect of the U.S. \$10 million debenture settlement redeemed with cash and shares and the amendment of terms on the remaining debentures was a gain on settlement of convertible debentures of \$1.8 million, a decrease within the liability portion of the convertible debentures of \$7.9 million, a net increase to the convertible debentures equity component of \$6.8 million, an increase to share capital of \$7.4 million, and an increase to the deficit of \$13.1 million. In addition, the amendment to the warrants resulted in a change to the fair value of the warrants giving effect to an increase to the warrants within shareholders' equity of \$1.2 million with a deemed dividend which increased the deficit by the same value. The transfer and change to the terms of remaining January 2007 convertible debentures resulted in a settlement with a gain on settlement of convertible debentures of \$80,000, a decrease within the liability portion of the convertible debentures of \$283,000 and an increase to the deficit of \$120,000.

As part of the amendment, the Company at its option can initiate a mandatory conversion option which requires the holders to convert all of their debentures to common shares when the Company's share price trades over \$5.22 for 20 consecutive trading days, subject to conditions as follows:

- (i) Average daily volumes on the trading market are at least 100,000 shares for 20 consecutive trading days.

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 8

Three and six months ended October 31, 2009 and 2008  
(Unaudited)

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## 6. Convertible debentures (continued)

- (ii) Each of the equity conditions has been satisfied during such 20 trading days and through the applicable conversion date.

In addition, at any time after October 9, 2009, the Company has had the option to redeem all, or a portion of, the principal (including any accrued and unpaid interest) amount of the convertible debenture then outstanding at 125% of the redemption amount. During the three and six months ended October 31, 2009, the Company did not redeem any of the outstanding convertible debentures under this provision. Subsequent to October 31, 2009, the Company provided notices to debentureholders of its intention to redeem U.S. \$3.0 and U.S. \$3.7 million of its convertible debentures, respectively. See also note 11.

The Company incurred legal costs of \$40,600 as part of the October 15, 2008 amendment. These costs were recorded net of the remaining convertible debentures and are taken into earnings using the effective interest method.

### **U.S. \$25 million Convertible Debenture Amendment – August 31, 2007**

On August 31, 2007, the Company amended the terms of the U.S. \$25 million issued convertible debentures issued in June 2007 to eliminate the Interest to Maturity provisions contained in the financing (as contained and described under the original January 2007 debenture below) and reduce the then in effect adjusted interest rate of 14% to a 12% fixed rate. In exchange for these amendments, the conversion price was amended to \$8.76 (subsequently amended to \$2.61 as noted above) from the original conversion price of \$17.50. In addition, the warrants issued under the June 2007 financing were re-priced to \$10.25 (subsequently amended to \$3.07 as noted above) from \$20.63 and an additional 529,351 warrants were issued at that time for a total issuance of 1,058,702.

The August 31, 2007 amendment provided the holders with a once monthly 5% put option of principal amount at the time of issuance. Prior to the October 15, 2008 amendment noted above, the put option provided the holder with the ability to request a portion of the principal to be repaid for cash, shares or some combination thereof (subsequently changed to a cash only option as described above).

Prior to the October 15, 2008 amendment, the Company had the option to pay the put obligation with shares if the closing bid price for common shares at the time of the put date is greater than \$4.00 and the total dollar value traded on the trading market for no less than 10 of such 20 consecutive Trading Days shall be at least \$250,000 ("Equity Conditions"). If the put was paid in shares, the put price to determine the number of shares was the lesser of the conversion price and the volume weighted average price 5 days preceding the put date. The monthly put options were cumulative, where the previous monthly put options were not exercised, but at no time could the holder request any amount in cash greater than the once monthly put option of 5% of the original principal amount plus accrued interest. The cumulative put in excess of the 5% monthly

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 9

Three and six months ended October 31, 2009 and 2008  
(Unaudited)

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## 6. Convertible debentures (continued)

put option ("Excess Put") could be paid in common shares and was not subject to the Equity Conditions. The first put option was available to the holders after October 31, 2007.

In addition to the terms as described and amended above, the following provisions remain from the original June 2007 convertible debenture:

- The Company at its option could, subject to certain restrictions, pay the semi-annual interest in the form of cash, common shares or some combination thereof. The Company could elect to pay in common shares in whole or in part, only if the Equity Conditions are met, unless otherwise waived by the debenture holder. If the interest obligation was paid in shares, the number of common shares issued would be based on the interest obligation divided by 90% of the volume weighted average price for the 5 trading days preceding the interest payment date.
- In the event of default on the convertible debenture or upon a change of control, the holder has the option to require the Company to repurchase all or any portion of the outstanding principal at a price equal to the greater of 125% of (i) the outstanding principal, plus all accrued interest or (ii) the 5 consecutive day average closing price attributed to the underlying shares, plus all accrued interest. The holders' security interest continues in effect against any and all assets of the Company in the event a default can not be cured under the terms of the senior secured debenture agreement.

### **U.S. \$17,000,000 Convertible Debenture Financing – Issued January 2007**

The Company issued U.S. \$17.0 million of senior secured convertible debentures on January 4, 2007 with a maturity on January 4, 2010. As of October 14, 2008, the remaining debenture carried an interest rate of 15% per annum, an increase of seven percent from its initial coupon rate due to provisions in the debt instrument that altered the rate if certain trading conditions occurred where the Company's share price closes below the conversion price of the debenture.

The Company completed an amendment to the financing on October 15, 2008 which transferred the remaining face value of U.S. \$278,000 of unconverted debentures under the original note to an amended convertible debenture. The amendment resulted in a 3% percent decrease in the interest rate to a 12% fixed rate, eliminated the interest to maturity interest obligations of the original note described below and extends the maturity of the outstanding balance to June 6, 2012.

As part of the October 15, 2008 amendment, the conversion price of the remaining debentures which are convertible into common shares was amended from \$12.07 per share to \$2.61 per share.

The January 2007 debenture included identical provisions as the June 2007 debenture to pay its interest obligations as noted above.

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 10

Three and six months ended October 31, 2009 and 2008  
(Unaudited)

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## 6. Convertible debentures (continued)

In addition, prior to the October 15, 2008 amendment, the terms of the January 2007 debenture contained a provision where the Company was obligated to make additional payments using the interest methodology as defined in the debenture agreement at the then applicable rate on the converted amount commencing on the conversion date through to the end of the maturity date of the debenture ("Interest to Maturity"). This would occur in circumstances where the Company's share price trades at or below the conversion price then in effect for a pre-determined period of time and the holders convert their debentures at such time. The Company, at its election, could pay the interest in cash, common shares or some combination thereof.

### Settlement of Interest and Debt Conversion Obligations

During the three months ended October 31, 2009, U.S. \$57,126 of debt at face value was converted to 23,879 of common shares at \$2.61 per common share. During the six months ended October 31, 2009, U. S. \$267,413 of debt at face value was converted into 119,370 shares at \$2.61 per common share.

During the three and six months ended October 31, 2009, the Company settled accrued interest obligations of U.S. \$2,599 and U.S. \$9,848, respectively, due on conversion of convertible debentures with the issuance of 1,050 and 5,559 common shares, respectively.

## 7. Shareholders' equity

### (a) Common shares

#### (i) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares issuable in series with rights as determined by the Board of Directors at the time of issue.

#### (ii) Issued and outstanding:

On March 23, 2009, April 6, 2009 and April 15, 2009 the Company issued a total of \$24.3 million in common shares as part of a private placement at a price of \$2.72 per common share and included 0.4 warrants for each common share as well as broker warrants, all priced at \$2.72. The warrants and the broker warrants were valued at \$9.1 million using a Black-Scholes option pricing model and are further described in Note 7(c).

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## 7. Shareholders' equity (continued)

Share issue costs of \$1.9 million included legal costs of \$547,000, broker and agent commissions of \$1.3 million, and listing fees of \$41,000.

Common shares	Number of shares	Amount
Balance, April 30, 2008	26,900,160	\$ 44,840,422
Conversion of debentures	660,990	1,928,579
Interest costs paid in common shares	124,966	1,189,565
Issued on exercise of stock options	155,300	539,600
Redemption of convertible debentures	2,444,445	7,452,765
Issued on private placement financing	8,916,845	24,253,808
Warrants issued on private placement		(9,092,778)
Share issue costs		(1,923,121)
Transfer from equity component on conversion of debentures		3,048,284
Balance, April 30, 2009	39,202,706	\$ 72,237,124
Conversion of debentures	119,370	228,706
Interest costs paid in common shares	61,064	154,926
Issued in exchange for services	35,000	122,500
Share issue costs		6,179
Transfer from equity component on conversion of debentures		591,482
Balance, October 31, 2009	39,418,140	\$ 73,340,917

### (b) Stock options

The Company's amended stock option plan has been approved as a rolling 10% plan that allows for reservation of a number of Common Shares under the plan equal to 10% of the Company's issued and outstanding Common Shares on an undiluted basis. Additionally, the plan is a reloading plan, which allows any options under the plan that expire, are cancelled or are exercised, the number of Common Shares reserved for issuance related to these options automatically become eligible to be reallocated pursuant to stock option based grants. The Company may grant options to its directors, officers, employees and consultants. The majority of options fully vest over two to three years and have a two to five year term.

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## 7. Shareholders' equity (continued)

### (b) Stock options (continued)

	October 31, 2009		April 30, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	3,725,000	\$ 6.99	3,994,200	\$ 6.96
Granted	160,000	2.92	1,375,000	2.97
Exercised	-	-	(155,300)	2.30
Expired	(145,000)	10.33	(1,488,900)	3.69
Outstanding, end of period	3,740,000	\$ 6.68	3,725,000	\$ 6.99
Weighted average remaining contractual life	2.4 years		2.9 years	

The following table summarized information about the options outstanding and exercisable at October 31, 2009.

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable
\$2.25 - \$4.00	1,685,000	3.0	\$2.88	495,000
\$5.27 - \$7.96	1,275,000	1.8	\$7.23	1,275,000
\$12.07 - \$12.95	330,000	2.2	\$12.47	171,250
\$14.16 - \$15.90	450,000	1.9	\$15.13	325,000
	3,740,000	2.4	\$6.68	2,341,250

During the six months ended October 31, 2009, 160,000 options were issued. In accordance with Canadian generally accepted accounting principles, for the purposes of calculating stock based compensation, the value of options previously issued to consultants was remeasured as \$2.42 per option, using the Black-Scholes option pricing model, and the following assumptions:

	Six months ended October 31	
	2009	2008
Risk free interest rate	2.4%	2.1%
Expected life	2- 3 years	4 years
Expected volatility	88%	99%

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## 7. Shareholders' equity (continued)

### (c) Warrants

The following table summarizes the changes in common share purchase warrants outstanding:

	Number of warrants	Amount	Weighted average exercise price
Outstanding, April 30, 2008	1,467,349	\$ 14,428,170	\$ 10.25
Cancelled	(1,467,349)	(14,428,170)	10.25
Amended in connection with convertible debenture amendment	1,268,191	13,715,325	3.07
Amended in connection with anti-dilution provisions	913,688	3,209,268	2.98
Issued on private placement	4,175,229	9,092,778	2.72
Outstanding, April 30, 2009 and October 31, 2009	6,357,108	\$ 26,017,371	\$ 2.72

- On October 15, 2008, 1,268,191 of the 1,467,349 outstanding warrants that were re-priced in August 2007 were cancelled and amended to \$3.07 from \$10.25 as part of the U.S. \$10 million debt redemption and amendment as described in Note 6. The expiry date of the warrants was extended to October 14, 2013 from its original dates of January 4, 2011 and June 6, 2012. The effect of the modification was an increase in the warrant value of \$1,245,439. The warrants carry anti-dilution provisions which would reduce the then in effect exercise price if the Company issues additional common shares or financial instruments that can be converted to common shares below the exercise price. In addition, if such an adjustment occurs, the number of warrant shares will be adjusted proportionately so the number of warrant shares will have the same aggregate exercise value in effect prior to such adjustment.
- In December 2008, the remaining 199,158 warrants not amended on October 15, 2008 were cancelled and amended on the issuance of stock options which triggered the anti-dilution provisions as described above. As a result, these warrants were adjusted to \$3.07 from \$10.25 and an additional 465,783 warrants were issued to proportionately provide the same aggregate exercise value under the provisions of the warrants. The effect of the modification was an increase in the warrant value of \$625,006.

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Notes to Interim Consolidated Financial Statements, page 15

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## 7. Shareholders' equity (continued)

### (c) Warrants (continued)

- On March 23, 2009, upon the initial closing of the private placement of common shares and warrants at \$2.72 per unit, the anti-dilution provisions described above for warrants resulted in a further adjustment. The warrants were amended to \$2.72 from \$3.07 and an additional 248,747 warrants were issued to proportionately provide the same aggregate exercise value under the provisions of the warrants. The effect of the modification was an increase in the warrant value of \$625,978.
- As part of the offering of common shares and warrants that closed on April 15, 2009, the Company issued 4,175,229 accompanying warrants at an exercise price of \$2.72 per share. Included in these warrants were 608,491 broker warrants which were issued in conjunction with the financing. The warrants carry a 5 year expiry and contain anti-dilution provisions which would reduce the exercise price then in effect on a weighted average basis if any common shares or securities exchangeable to common shares were issued or sold at a price below the exercise price.

The estimated fair value of the warrants granted in January and June 2007 has been recorded net of the convertible debentures. The weighted average fair value of the warrants granted for the amended August 2007 and the amended October 15, 2008 convertible debentures was \$1.14 and \$2.19 per warrant respectively, using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009	2008
Risk-free interest rate	1.6%-3.3%	4%
Expected life	5 years	4-5 years
Expected volatility	69%-113%	92%

The following table summarized information about the warrants outstanding at October 31, 2009.

Exercise Price	Number Outstanding	Average Remaining Life (years)
\$2.72	6,357,108	4.5

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## 7. Shareholders' equity (continued)

### (d) Contributed surplus

The changes in contributed surplus balance are as follows:

	Amount
Balance, April 30, 2008	\$13,545,093
Options exercised	(182,695)
Fair value of options granted	3,134,139
Balance, April 30, 2009	\$16,496,537
Fair value of options granted	940,464
Balance, October 31, 2009	\$17,437,001

### (e) Convertible debentures equity component

The changes in convertible debentures equity component balance are as follows:

	Amount
Balance, April 30, 2008	\$11,229,884
October 15, 2008 financing amendment and share redemption	9,454,566
October 15, 2008 cash redemption of equity component	(2,683,545)
Reclassified to common shares on conversions of debentures	(3,048,284)
Balance, April 30, 2009	\$14,952,621
Reclassified to common shares on conversions of debentures	(591,482)
Balance, October 31, 2009	\$14,361,139

On October 15, 2008, the Company modified and redeemed the remaining U.S. \$17.3 million convertible debentures resulting in a net increase of \$9.5 million. These non-cash amounts are transferred to common shares as the debentures are converted on a pro-rata basis.

### (f) Per share amounts

The loss per share has been calculated based on the weighted average shares outstanding during the three and six months ended October 31, 2009 and 2008 of 39,388,025 (2008 – 28,006,163) and 39,349,766 (2008 – 27,587,268), respectively. The effect upon the conversion of stock options and warrants is anti-dilutive.

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# RESVERLOGIX CORP.

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(g) The Company has entered into a non-binding Standby Equity Distribution Agreement ("SEDA"). The SEDA would entitle the Company to issue a maximum of \$25 million of the Company's common shares to the investor over a maximum of 24 months. The SEDA is subject to regulatory approval. Subsequent to October 31, 2009, the Company has also entered into agency agreements in connection with financings.

## 8. Commitments

The Company has entered into various research contracts. The Company is committed to pay \$3,101,520 for completion of the research, and all payments are anticipated to May 2010 as follows:

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2010	\$ 3,101,520
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As at October 31, 2009, the Company was committed to operating lease payments for office and laboratory premises as follows:

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2010	\$ 150,332
2011	155,150
2012	94,439

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## 9. Financial instruments risks

The Company's financial instruments consist of cash and cash equivalents, restricted cash accounts payable and accrued liabilities and convertible debentures. As at October 31, 2009, there was no significant difference between the carrying values of these amounts and their estimated fair values due to their short term nature, except the convertible debentures. The company manages its cash and cash equivalents and restricted cash in accordance with an investment policy that established guidelines for investment eligibility, credit quality, liquidity and foreign currency exposure.

### (a) Credit Risk

Financial instruments that potentially subject the company to credit risk consist primarily of cash and cash equivalents and restricted. The Company manages its exposure to credit loss by placing its cash with major financial institutions and investing in high-quality government and corporate issuers with low credit risk. The Company invests in commercial paper with a Dominion Bond Rating Service (DBRS) rating of R-1 Low or higher, or equivalent Standard &

# RESVERLOGIX CORP.

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## 9. Financial instruments risks (continued)

Poor's (S&P) or Moody's Investor Service (Moody's) rating. The Company invests in government and corporate bonds with a DBRS rating of A- or higher or equivalent S&P or Moody's rating. At October 31, 2009, the Company does not hold any asset-backed commercial paper. The Company has U.S. \$5.6 million of restricted cash held in escrow which are restricted to only U.S. treasury bills as defined in the escrow agreement. All other cash and cash equivalents held by the Company are not subject to any external restrictions.

### (b) Liquidity Risk

The Company's exposure to liquidity risk is dependent on purchasing commitments and obligations or the raising of funds to meet commitments and sustain operations. The Company is a development stage company and is reliant on external fundraising to support its operations. Once funds have been raised, the company manages its liquidity risk by investing in highly liquid corporate and government bonds with staggered maturities to provide regular cash flow for current operations. It 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. Due to the monthly 5% put option provided for under the convertible debenture financing as described in note 6 of the consolidated financial statements and its cumulative effect, the Company is exposed to potential cash repayments of the debenture after October 9, 2009 related to the put feature. These repayments if exercised on October 31, 2009 would approximate U.S. \$6.7 million plus accrued interest. The Company currently has U.S. \$5.6 million in escrow that can be used to satisfy these put obligation but the total obligation including accrued interest exceeds the escrow funds. No portion of the escrow funds can be released to the Company for general corporate purposes unless the escrow funds exceed total debt obligation including accrued interest. Given these circumstances and the uncertainty that the debt holders would convert their debt to common shares, the Company could need to defer or cancel certain planned research, development and corporate activities if it did not have access to these escrowed funds.

### (c) Market Risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash and cash equivalents, restricted cash and convertible debentures. Fluctuations in market interest rates on interest bearing cash and cash equivalents and restricted cash rates do not have a significant impact on the Company's results of operations due to their short-term nature. A change of 1% in interest rates can lead to an increase or decrease of monthly interest income by \$8,000 for its cash and cash equivalents and restricted cash as measured on October 31, 2009. The Company's convertible debentures bear a fixed 18% per annum interest rate as described under Note 6 to these financial statements.

# RESVERLOGIX CORP.

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## 9. Financial instruments risks (continued)

### (c) Market Risk

The Company is also exposed to foreign exchange risk on its U.S. dollar denominated convertible debentures and its cash and cash equivalents and restricted cash. The Company manages its exposure to currency fluctuations by holding cash and cash equivalents denominated in U.S. dollars in a certain ratio equivalent to current and anticipated U.S. dollar financial liabilities. As the convertible debentures are denominated in U.S. dollars, the Company is exposed to foreign exchange risk if the reduction of the debt through conversions to common shares does not occur at the same rate the U.S. cash and short-term securities is drawn down for funding operations. The Company had no forward exchange contract to manage its foreign currency risk. As at October 31, 2009, the Company had U.S. denominated assets and liabilities of: cash and cash equivalents in the amount of U.S. \$1,992,000; restricted cash of U.S. \$5,625,000; accounts payable, accrued interest and liabilities of U.S. \$1,468,000; and convertible debentures with a face value of U.S. \$6,728,000 for a net asset exposure of U.S. \$579,000 million. A change of \$0.01 in exchange rate as measured on October 31, 2009 can result in a foreign currency gain or loss of \$5,790.

## 10. Management of 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. To date, the programs have been funded primarily through the sale of common shares and convertible debentures and the exercise of common share purchase warrants, and stock options. The Company also sources funding by accessing grants, government assistance, and through partnerships with corporations and research institutions.

In managing capital, the Company estimates its future cash requirements by preparing a budget and a multi-year plan annually for review and approval by the Company's Board of Directors. The budget establishes the approved activities for the upcoming year and estimates the costs associated with these activities. The multi-year plan estimates future activity along with the potential cash requirements and is based on the Company's assessment of its current clinical trial progress along with the expected results from the coming year's activity. Budget to actual variances are prepared quarterly and reviewed by the Company's management and the Board of Directors. Historically, funding for the Company's plan is primarily managed through the issuance of additional common shares, convertible debt and common share purchase warrants. Management regularly monitors the capital markets, attempting to balance the timing of issuing additional equity with the Company's progress through its clinical trial program, general market conditions, and the availability of capital. There are no assurances that funds will be available to the Company when required.

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## **10. Management of capital** (continued)

The Company is exposed to covenants related to its convertible debenture as described in Note 6 of the consolidated financial statements. During the three and six months ended and as at October 31, 2009, the Company satisfied its debt covenants and associated financial obligations.

## **11. Subsequent events**

Subsequent to October 31, 2009, the Company has entered into agency agreements in connection with financings.

On November 22 and 27, 2009, the Company provided notices to debentureholders of its intention to redeem U.S. \$3.0 and U.S. \$3.7 million of its convertible debentures, respectively.