



*First Quarter  
Ended July 31, 2005*

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**TRADING SYMBOL:**

TSX: RVX

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**September 8, 2005**

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

This management's discussion and analysis of operations and financial position should be read in conjunction with the Company's July 31, 2005 Quarterly Financial Statements. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

### **OVERVIEW**

*Resverlogix Corp.* is a Canadian biotechnology company engaged in the discovery and development of biopharmaceuticals. Combining expertise with innovation, Resverlogix's NEXVAS™ Program applies advanced medical research to develop therapies that increase high density lipoprotein (HDL), the "good cholesterol," to treat cardiovascular diseases. The TGF-β Shield™ Program utilizes an adoptive immunotherapy approach to target cancers and fibrotic diseases. Resverlogix Corp. 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 Corporation is focused on the primary stages of drug development, leading up to Investigational New Drug (IND) application and early stage clinical studies. This strategy will avoid the significant costs and uncertainty of the final phases of the drug development process (late stage clinical trials) by either licensing or selling its technology. Hence, a major portion of the biotech investment risk should be eliminated.

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

### **HIGHLIGHTS**

During the year, the Company announced a Request For Proposal (RFP) process with seven leading global life science organizations for an exclusive standstill agreement regarding its NEXVAS technology in cardiovascular disease (CVD). Resverlogix is continuing to have discussions with these pharmaceutical firms and will not disqualify any candidate until the Company can conclude the formal agreements. The Company now believes that expanding the breadth of experiments and providing proof-of-principle on higher order animals will enhance the overall value prior to finalization of a preliminary standstill agreement. Therefore, Resverlogix has temporarily delayed the conclusion of these negotiations until such data can be shared with those parties. Resverlogix's goal remains to lock-up a partnership arrangement with the ideal candidate to accelerate the sale of technology by end of 2006.

The Company is encouraged with the scientific development and the potential that ApoA1/HDL-enhancing technologies like NEXVAS has.

In July 2005, Resverlogix announced that it had established a wholly-owned subsidiary called RVX Therapeutics Inc. for business and strategic objectives. Resverlogix Corp. will still hold its primary asset, NEXVAS technology, for cardiovascular applications. The purpose of RVX Therapeutics is to hold non-core assets, such as TGF-β Shield and others, that will develop separately from the NEXVAS technology. An independent third-party valuation group has been hired to provide the appropriate valuation for the transfer of this technology.

In July 2005, the Company completed renovations and moved into its expanded laboratory facilities. The new laboratory has state-of-the-art scientific equipment with which to perform experimentation, and the Company has hired two additional research associates, and is in the process of hiring other scientific staff. Renovations to the facility totaled \$186,000, and equipment additions totaled \$116,000.

In July 2005, the Company announced exciting new research that will expand the NEXVAS commercial opportunity to acute coronary syndrome in addition to current focus on dyslipidemia (also referred to as the "chronic" market). The Company has now validated in an animal model a rapid onset of ApoA1 enhancement that is applicable for the acute market. These findings are novel and will build upon the commercial opportunity of the NEXVAS chronic program.

In August 2005, Resverlogix announced that on behalf of its wholly owned subsidiary, RVX Therapeutics, it has filed a patent application covering a unique and expanded application of its cardiovascular technology. The Company has discovered pharmaceutical compounds which have the potential to be used with medical devices such as drug-eluting stents. It is estimated that by 2010 the drug-eluting device market will generate revenues in excess of \$8.0 billion U.S. annually.

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 for future toxicology testing. The hiring of world renowned experts and a dedicated staff has made a significant contribution to this rapid progression in meeting and exceeding corporate milestones.

## **FINANCING ACTIVITIES**

In June 2005, the Company announced a Normal Course Issuer Bid allowing the Company to repurchase up to 250,000 common shares during the period of June 24, 2005 to June 23, 2006 at the market price at the time of repurchase. All common shares repurchased by the Company will be cancelled. Pursuant to the Normal Course Issuer Bid, the Company has acquired 93,100 of its common shares at an average price of \$5.79 per share. No purchases were undertaken since July 28<sup>th</sup> up to reporting date (September 08, 2005). Total cost of this program including commissions was \$546,879.

In the three months ended July 2005, the Company received \$15,840 from the exercise of 14,400 agent's options issued at \$1.10 per share in connection with the 2003 Short Form Offering Document. The Company also received \$21,750 from the exercise of 17,400 agent's options issued at \$1.25 and \$273,549 from the exercise of 91,183 agent's options issued at \$3.00 per share to the agents in connection with various brokered private placements.

In May 2005, the Company received \$170,260 in total from the exercise of 124,800 options varying in price from \$1.20 to \$1.50.

## RESULTS OF OPERATIONS

Resverlogix incurred a net loss for the three months ended July 31, 2005 of \$1,372,511, or \$0.06 per share. The net loss for the three months ended July 31, 2004 was \$585,713 or \$0.03 per share. The increase in R&D activities, which was up \$505,244 from July 31, 2004, to accelerate the scientific and business progression of the Company was a key contributor for the higher loss in this period as compared to the same period in the prior year. For the three months ended July 31, 2005, \$196,362 was recorded as the amortization cost of stock based compensation as per the CICA guidelines as compared to nil for the same period of the prior year. The average monthly "burn rate", revenues and expenditures excluding non-cash items, for the three months was \$372,000 as compared to \$184,000 for the same period in the prior year.

### *Revenue*

The revenue of the Company consisted of interest earned on funds invested. Interest revenue was \$73,050 for the three months ended July 31, 2005, as compared to \$13,095 for the three months ended July 31, 2004.

### *Research and Development*

For the three months ended July 31, 2005, research and development expenditures totaled \$774,234 with a recovery of \$5,204 for government grants through the National Research Council's IRAP program. For the three months ended July 31, 2004, research and development expenditures totaled \$267,725 with a recovery of \$3,940 for government grants. Key expense items relate to lead optimization of the Company's novel compounds. These expenses include chemical synthesis, pharmacokinetics studies and toxicology testing in preparation for Investigational New Drug application in the near future. Prominent contract research organizations and renowned academics 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 next year when third-party pre-IND costs will be incurred.

### *General and Administrative*

For the three months ended July 31, 2005, general and administrative expenditures totaled \$420,364, compared to \$301,399 for the three months ended July 31, 2004. 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 and consulting fees for \$192,892. The Company also incurred \$81,102 for investor relations and other costs, and \$67,526 for professional fees. The remaining expenditures were general operating costs.

## SUMMARY OF QUARTERLY RESULTS

	For the three month period ended			
	July 31 2005	April 30 2005	Jan. 31 2005	Oct. 31 2004
Revenue	\$73,050	\$113,802	\$61,591	\$32,329
Net loss	(\$1,372,511)	(\$1,197,622)	(\$1,138,161)	(\$657,488)
Net loss per share (basic and fully diluted)	(\$0.06)	(\$0.05)	(\$0.05)	(\$0.04)

	For the three month period ended			
	July 31 2004	April 30 2004	Jan. 31 2004	Oct. 31 2003
Revenue	\$13,095	\$15,323	\$5,629	\$1,725
Net loss	(\$585,713)	(\$1,033,430)	(\$308,632)	(\$193,074)
Net loss per share (basic and fully diluted)	(\$0.03)	(\$0.06)	(\$0.02)	(\$0.01)

The increase in the quarterly losses is a result of the progression of the research & development activity of the Company. Also, in the fourth quarter of the 03/04 fiscal year (quarter ending April 30, 2004), a stock-based compensation expense of \$578,286 was recorded as the Company chose to early adopt the fair value method of accounting for options granted under its Stock Option Plan. The amortization of stock-based compensation is a non-cash expense.

### LIQUIDITY

As at July 31, 2005, cash and near cash investments totaled \$10,745,448 as compared to \$12,103,450 at April 30, 2005. The Company's policy is to invest its cash reserves in low risk investments with a maturity of three months to two years at the time of purchase. The fixed income instrument maturity dates are usually matched to expected cash flow requirements. At July 31, 2005, the Company had working capital of \$10,345,553 compared to \$11,766,876 at April 30, 2005. Given the overall cash burn, the Company believes that it has sufficient cash reserves to operate for two years with the assumption of no revenues.

### DISCLOSURE OF OUTSTANDING SHARE DATA (as at September 8, 2005)

#### Authorized and Issued Share Capital

Class	Par Value	Authorized	Issued
Common	No par value	Unlimited	23,428,997
Preferred	No par value	Unlimited	2,000,000 (Series A)

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

<b>Security Type</b>	<b>Number</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Options	1,205,000	\$1.60	4/25/08
Options	28,000	\$1.16	7/15/08
Options	167,500	\$1.20	9/5/08
Options	10,000	\$1.25	2/9/06
Options	213,000	\$1.50	3/15/08
Options	67,000	\$2.25	9/28/08
Options	128,000	\$2.25	8/31/07
Options	200,000	\$2.25	9/28/09
Options	75,000	\$2.25	9/28/08
Options	30,000	\$4.50	2/16/09
Options	50,000	\$6.50	4/8/09
Options	20,000	\$7.00	5/6/09
Options	30,000	\$7.00	5/6/10
Options	25,000	\$5.50	6/27/10
Agent's Options	70,886	\$1.25	2/20/06
Agent's Options	161,848	\$3.00	5/23/06
<b>Total</b>	<b>2,481,234</b>	<b>\$1.16 to \$7.00</b>	

### **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).

### **Notice to Reader**

The management of Resverlogix Corp. is responsible for the preparation of the accompanying interim consolidated financial statements. The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

These interim financial statements have not been reviewed by an auditor. These interim consolidated financial statements are unaudited and included all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

Dated September 8, 2005.

signed "Donald J. McCaffrey"  
President and CEO

signed "Hiran Perera"  
CFO

# RESVERLOGIX CORP.

## Interim Consolidated Balance Sheets

	July 31, 2005	April 30, 2005
	(unaudited)	(audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,742,856	\$ 8,424,837
Marketable securities	3,002,592	3,678,613
Accounts receivable	21,405	79,473
Prepaid expenses	41,874	29,688
	<u>10,808,727</u>	<u>12,212,611</u>
Property and equipment (note 3)	722,241	545,412
Intellectual property and patents (note 4)	108,166	105,301
	<u>\$ 11,639,134</u>	<u>\$ 12,863,324</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 438,182	\$ 412,805
Current portion of equipment leases	24,992	32,930
	<u>463,174</u>	<u>445,735</u>
Shareholders' equity: (note 5)		
Common shares	18,243,696	17,619,707
Preferred shares	50,000	50,000
Contributed surplus	1,117,211	1,028,321
Warrants	232,459	351,367
Deficit	(8,467,406)	(6,631,806)
	<u>11,175,960</u>	<u>12,417,589</u>
Commitments (note 6)		
	<u>\$ 11,639,134</u>	<u>\$ 12,863,324</u>

See accompanying notes to the interim consolidated financial statements.

# RESVERLOGIX CORP.

Interim Consolidated Statements of Operations and Deficit

	Three months ended	
	July 31,	
	2005	2004
	(unaudited)	
Revenue:		
Interest income	\$ 73,050	\$ 13,095
Expenses:		
Research and development	774,234	267,725
Research and development cost recoveries	(5,204)	(3,940)
General and administrative	420,364	301,399
Stock based compensation	196,362	—
Depreciation and amortization	46,263	33,624
Foreign exchange loss	13,542	—
	<u>1,445,561</u>	<u>598,808</u>
Loss for the period	<u>1,372,511</u>	<u>585,713</u>
Deficit, beginning of period	6,631,806	3,052,822
Share repurchase (note 5)	463,089	—
Deficit, end of period	<u>\$ 8,467,406</u>	<u>\$ 3,638,535</u>
Loss per common share		
— basic and diluted	\$ 0.06	\$ 0.03
Weighted average number of common shares	<u>23,421,587</u>	<u>18,402,415</u>

See accompanying notes to the consolidated interim financial statements.

# RESVERLOGIX CORP.

## Interim Consolidated Statements of Cash Flows

	Three months ended	
	July 31,	
	2005	2004
	(unaudited)	
Cash provided by (used in):		
Operations:		
Loss for the period	\$(1,372,511)	\$ (585,713)
Items not involving cash:		
Depreciation and amortization	46,263	33,624
Stock based compensation	196,362	—
	<u>(1,129,886)</u>	<u>(552,089)</u>
Changes in non-cash working capital:		
Accounts receivable	58,068	(12,185)
Prepaid expenses	(12,186)	7,013
Accounts payable and accrued liabilities	25,377	88,411
	<u>(1,058,627)</u>	<u>(468,850)</u>
Financing:		
Proceeds from exercise of options and warrants	481,399	96,000
Share repurchase (note 5)	(546,879)	—
Equipment leases	(7,938)	(7,186)
	<u>(73,418)</u>	<u>88,814</u>
Investing:		
Marketable securities	676,021	481,936
Property and equipment additions	(221,481)	(21,768)
Patent additions	(4,476)	(10,945)
	<u>450,064</u>	<u>449,223</u>
Increase (decrease) in cash and cash equivalents	(681,981)	69,187
Cash and cash equivalents, beginning of period	8,424,837	276,447
Cash and cash equivalents, end of period	<u>\$ 7,742,856</u>	<u>\$ 345,634</u>

See accompanying notes to the interim consolidated financial statements.

# RESVERLOGIX CORP.

## Notes to Interim Consolidated Financial Statements

As at July 31, 2005 and 2004

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, 2005. 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, 2005.

### 1. Nature of operations:

The Company is currently in the development stage and has no established commercial revenue and customer base.

The Company has the following projects under development:

#### (a) NEXVAS™:

The Company's lead technology NEXVAS™ is an ApoA1/high-density lipoprotein (HDL) enhancement program. ApoA1 is the key building block cardio protective protein of HDL (the good cholesterol). ApoA1/HDL enhancement technology focuses on the treatment of numerous cardiovascular diseases including the reversal of atherosclerotic plaque.

#### (b) TGF-β Shield™:

This technology is an approach to suppress the ability of cancers to avoid the immune system's cancer killing activity, and has been re-engineered to treat fibrotic diseases of the eye, liver, lung, heart and kidney. The initial technology was acquired in June 2003. In July 2004, the Company filed a patent application to protect the therapeutic applications of this technology.

Research and development expenditures on these projects are as follows:

	Three months ended		Cumulative since inception
	July 31,		
	2005	2004	
NEXVAS	\$ 726,436	\$ 222,983	\$2,362,954
TGF-β Shield	47,798	40,802	318,959

As the Company has no established revenue base, it is reliant on equity financing for funding its projects under development. At July 31, 2005, the Company has \$10.3 million of working capital including \$10.7 million of cash and marketable securities. Management has concluded that it has sufficient working capital to fund its development and corporate operations beyond July 31, 2006.

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 2

As at July 31, 2005 and 2004

## 2. Significant accounting policies:

Costs incurred in obtaining patents, all legal expenses to file, revise and defend patents, and all regulatory body fees relating to the patents are capitalized. Patent costs are amortized on a straight-line basis over the estimated life of the respective patents, being 18 years. On an ongoing basis, management reviews the valuation, taking into consideration circumstances which might have impaired the value.

## 3. Property and equipment:

July 31, 2005	Cost	Accumulated depreciation	Net book value
Laboratory equipment	\$ 669,548	\$ 212,858	\$ 456,690
Office furniture and equipment	41,733	18,114	23,619
Computer equipment	87,098	46,457	40,641
Computer software	19,930	11,479	8,451
Leasehold improvements	258,498	65,658	192,840
	<u>\$ 1,076,807</u>	<u>\$ 354,566</u>	<u>\$ 722,241</u>
April 30, 2005			
Laboratory equipment	\$ 643,039	\$ 189,987	\$ 453,052
Office furniture and equipment	39,052	16,048	23,004
Computer equipment	81,760	39,633	42,127
Computer software	16,243	9,818	6,425
Leasehold improvements	75,231	54,427	20,804
	<u>\$ 855,325</u>	<u>\$ 309,913</u>	<u>\$ 545,412</u>

## 4. Intellectual property and patents:

July 31, 2005	Cost	Accumulated amortization	Net book value
Acquired property (NEXVAS)	\$ 818	\$ 57	\$ 761
Patents	115,153	7,748	107,405
	<u>\$ 115,971</u>	<u>\$ 7,805</u>	<u>\$ 108,166</u>
April 30, 2005			
Acquired property (NEXVAS)	\$ 818	\$ 45	\$ 773
Patents	110,677	6,149	104,528
	<u>\$ 111,495</u>	<u>\$ 6,194</u>	<u>\$ 105,301</u>

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 3

As at July 31, 2005 and 2004

## 5. Share capital:

### (a) Issued and outstanding:

Common shares	Number of shares	Amount
Balance, April 30, 2004	18,382,415	\$ 5,197,767
Issued for cash in private placements	3,854,666	11,404,198
Issued on exercise of warrants	936,533	1,410,136
Issued on exercise of stock options	69,000	90,420
Transfer from warrants on exercise of warrants		714,145
Transfer from contributed surplus on exercise of options		64,830
Share issue costs		(1,261,789)
Balance, April 30, 2005	23,242,614	17,619,707
Issued on exercise of warrants	122,983	311,139
Issued on exercise of stock options	124,800	170,260
Transfer from warrants on exercise of warrants		118,908
Transfer from contributed surplus on exercise of options		107,472
Shares repurchased and cancelled	(93,100)	(83,790)
Balance, July 31, 2005	23,397,297	\$18,243,696

  

Series A Preferred shares	Number of shares	Amount
Balance, April 30, 2005	2,000,000	\$ 50,000
Balance, July 31, 2005	2,000,000	\$ 50,000

### (b) Normal Course Issuer Bid:

On June 16, 2005, the Company announced a Normal Course Issuer Bid allowing the Company to repurchase up to 250,000 common shares during the period of June 24, 2005 to June 23, 2006 at the market price at the time of the repurchase. All common shares repurchased by the Company will be cancelled. Pursuant to the Normal Course Issuer Bid, the Company has acquired 93,100 of its common shares at an average price of \$5.79 per share. The excess of the purchase price over the stated capital of the common shares has been charged to the deficit.

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 4

As at July 31, 2005 and 2004

## 5. Share capital (continued):

### (c) Stock options:

The Company has a stock option program whereby the Company may grant options to its directors, officers, employees and consultants for up to 10% of the issued and outstanding common shares. The majority of options vest immediately and have a one to five year term.

	July 31, 2005		April 30, 2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of period	2,314,000	\$ 1.82	1,830,000	\$ 1.51
Granted	75,000	6.50	553,000	2.76
Exercised	(124,800)	1.36	(69,000)	1.31
Outstanding at end of period	2,264,200	\$ 2.00	2,314,000	\$ 1.82
Weighted average remaining contractual life	3.0 years		3.1 years	

The weighted average fair value of the options granted during the three months ending July 31, 2005 was \$3.97 per option using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk free interest rate	4%
Expected life	4 to 5 years
Expected volatility (calculated once a year)	73%

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 5

As at July 31, 2005 and 2004

## 5. Share capital (continued):

### (d) Warrants:

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

	Number of warrants	Amount	Weighted average exercise price
Outstanding, April 30, 2004	1,051,586	\$ 785,748	\$ 1.47
Granted in connection with private placement	256,664	279,764	3.00
Exercised during period	(936,533)	(714,145)	1.50
Outstanding, April 30, 2005	371,717	351,367	2.43
Exercised during period	(122,983)	(118,908)	2.53
Outstanding, July 31, 2005	248,734	\$ 232,459	\$ 2.39

The following table summarizes information about the common share purchase warrants outstanding and exercisable at July 31, 2005.

Outstanding	Exercise price	Expiry
5,368	\$ 1.10	January 23, 2006
81,518	\$ 1.25	February 20, 2006
161,848	\$ 3.00	May 23, 2006
248,734		

### (e) Contributed surplus:

The changes in contributed surplus balance are as follows:

	Amount
Balance, April 30, 2004	\$ 582,650
Options exercised	(64,830)
Fair value of options granted	510,501
Balance, April 30, 2005	1,028,321
Options exercised	(107,472)
Fair value of options granted	196,362

# RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 6

As at July 31, 2005 and 2004

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Balance, July 31, 2005	\$ 1,117,211
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## 5. Share capital (continued):

(f) Per share amounts:

The loss per share has been calculated based on the weighted average shares outstanding during the period. The effect upon the conversion of stock options and warrants is anti-dilutive.

## 6. Commitments:

As at July 31, 2005, the Company was committed to operating lease payments for office and laboratory premises as follows:

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2006	\$ 117,348
2007	117,348
2008	105,724
2009	47,604
2010	7,934

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The Company has an outstanding letter of credit for \$60,000 from a Canadian chartered bank. The letter of credit is secured by a short-term investment.

A special bonus is payable to directors, officers and employees conditional on the sale of the Nexvas technology on or before April 30, 2007. The special bonus is subject to final approval by the Board of Directors.

## 7. Financial instruments:

The fair value of monetary assets and liabilities, except the Company's marketable securities, approximate their carrying values, due to the short-term nature of these instruments. The market value of the marketable securities at July 31, 2005 was approximately \$3.0 million (April 30, 2005 - \$3.7 million).