



*First Quarter
Ended July 31, 2006*

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TRADING SYMBOL:

TSX: RVX

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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") July 31st, 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 NexVasTM Plaque Reduction (NexVasTM 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". NexVasTM Vascular Inflammation (NexVasTM 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. ReVasTM 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.

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 May 2006, Resverlogix announced the expansion of its research and development program for its lead technology NexVas™ into stroke. The objective of this expansion is to address the crippling disease of stroke and to fully develop the commercial opportunity for the Company's current product pipeline in ApoAI enhancement therapies.

In May 2006, the Company announced that Dr. George Adams had joined its Scientific Advisory Board. Dr. Adams is a leading authority in drug-eluting technology and his knowledge will provide expertise for the development of the Company's drug-eluting technology, ReVas™. Dr. Adams, an expert in thrombosis and vascular biology, has partnered with Baxter Healthcare, World Heart, Dupont, Corvita, Pfizer and Boston Scientific over the last 30 years to develop and commercialize medical devices.

In May 2006, Resverlogix appointed Kelly McNeill as Chief Financial Officer. Mr. McNeill will help lead the Company's financial reporting and regulatory filing requirements, as well as management of corporate tax filings and tax planning strategies. Mr. McNeill is a chartered accountant with 10 years experience in senior management positions.

In June 2006, the Company appointed Theresa Kennedy as Vice President Corporate Communications. Mrs. Kennedy will provide strategic leadership and insight for the Company's communication activities. Mrs. Kennedy has more than 14 years of biotechnology experience, with her most recent role as Vice President of North American Life Sciences at Hill & Knowlton Canada.

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 US\$291,000,000 in combined payments.

Following is the event that occurred subsequent to the Company's first quarter ended, July 31, 2006:

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.

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. In the three months ended July 2006, the Company acquired 45,300 of its common shares pursuant to the Normal Course Issuer Bid at an average price of \$6.18 per share, at a total cost of \$284,210 including commissions. Over the full term of the Normal Course Issuer Bid, the Company has acquired 163,400 of its common shares at an average price of \$6.09 per share. The total cost of this program including commissions was \$1,009,729. All common shares repurchased by the Company were cancelled.

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. Pursuant to the Normal Course Issuer Bid, as of September 12, 2006, the Company has acquired 67,300 of its common shares at an average price of \$5.98 per share. The total cost of this program including commissions is \$406,598. All common shares repurchased by the Company were cancelled.

In the three months ended July 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.

RESULTS OF OPERATIONS

Resverlogix incurred a net loss for the three months ended July 31, 2006 of \$1,996,432, or \$0.08 per share. The net loss for the three months ended July 31, 2005 was \$1,372,511 or \$0.06 per share. For the three months ended July 31, 2006, \$281,574 was recorded as the cost of stock based compensation as per the CICA guidelines as compared to \$196,362 for the same period of the prior year. Options awarded to key new employees as a recruitment and retention inducement and the first granting of options to the directors since their initial election to the Board in April 2003 resulted in the increase of this non-cash entry. The

average monthly “burn rate”, revenues and expenditures excluding non-cash items, for the three months was \$547,000 as compared to \$372,000 for the same period in the prior year. The planned increase in expenditures is a result of continued acceleration of the scientific and business progression of the Company.

Revenue

The revenue of the Company consisted primarily of interest earned on funds invested. Interest revenue was \$56,967 for the three months ended July 31, 2006, as compared to \$73,050 for the three months ended July 31, 2005. A short term investment was sold during the first quarter for a net gain of \$514.

Research and Development

For the three months ended July 31, 2006, research and development expenditures totaled \$1,200,719. 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. 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 IND application 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 next year when third-party IND costs will be incurred.

General and Administrative

For the three months ended July 31, 2006, general and administrative expenditures totaled \$497,242, compared to \$420,364 for the three months ended July 31, 2005. 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 \$233,953. The Company also incurred \$68,634 for shareholder and investor relations expenses, and \$55,998 for professional fees. The remaining expenditures were general operating costs.

SUMMARY OF QUARTERLY RESULTS

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

	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)

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 July 31, 2006, cash and near cash investments totaled \$5,607,218 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 July 31, 2006, the Company had working capital of \$5,286,639 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.

CONTRACTUAL OBLIGATIONS

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

Contractual Obligations	2007	2008	2009	2010
Research contracts	\$3,015,000	\$1,620,000	\$135,000	
Operating leases	\$173,860	\$158,006	\$66,036	\$11,006

The Company has entered into various research contracts. The initial deposits required upon acceptance of the contracts total \$286,734 and have been appropriately accrued in the financial statements.

DISCLOSURE OF OUTSTANDING SHARE DATA (as at September 12, 2006)

Authorized and Issued Share Capital

There were 24,083,931 common shares issued and outstanding for a total of \$20,404,242 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 (1)	400,000	\$7.60	2/28/13
Options (1)	197,500	\$7.25	3/7/11
Options (1)	105,000	\$6.80	6/8/10
Options (1)	130,000	\$6.44	6/28/10
Total	3,091,200	\$1.16 to \$7.60	

Notes:

1) The option grant is subject to availability under the Stock Option Plan, and upon vesting may require shareholder approval.

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.

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 12, 2006.

signed "Donald J. McCaffrey"
President and CEO

signed "Kelly McNeill"
CFO

RESVERLOGIX CORP.

Interim Consolidated Balance Sheets

	July 31, 2006 (unaudited)	April 30, 2006 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,439,284	\$ 3,059,166
Short term investments	4,167,934	4,636,463
Prepaid expenses and deposits	317,602	246,343
	<u>5,924,820</u>	<u>7,941,972</u>
Property and equipment (note 3)	859,453	769,076
Intellectual property and patents (note 4)	421,187	296,506
	<u>\$ 7,205,460</u>	<u>\$ 9,007,554</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 638,181	\$ 647,433
Shareholders' equity: (note 5)		
Common shares	20,559,500	20,313,242
Contributed surplus	2,628,647	2,347,073
Warrants	—	83,520
Deficit	(16,620,868)	(14,383,714)
	<u>6,567,279</u>	<u>8,360,121</u>
Nature of operations (note 1)		
Commitments (note 6)		
Subsequent event (note 8)		
	<u>\$ 7,205,460</u>	<u>\$ 9,007,554</u>

See accompanying notes to the interim consolidated financial statements.

RESVERLOGIX CORP.

Interim Consolidated Statements of Operations and Deficit

	Three months ended	
	July 31,	
	2006	2005
	(unaudited)	
Revenue:		
Interest income	\$ 56,967	\$ 73,050
Gain on sale of short term investments	514	–
	57,481	73,050
Expenses:		
Research and development	1,200,719	774,234
Research and development cost recoveries	–	(5,204)
General and administrative	497,242	420,364
Stock-based compensation	281,574	196,362
Depreciation and amortization	65,694	46,263
Foreign exchange loss	8,684	13,542
	2,053,913	1,445,561
Loss for the period	1,996,432	1,372,511
Deficit, beginning of period	14,383,714	6,631,806
Share repurchase (note 5)	240,722	463,089
Deficit, end of period	\$16,620,868	\$ 8,467,406
Loss per common share		
– basic and diluted	\$ 0.08	\$ 0.06
Weighted average number of common shares	24,166,331	23,421,587

See accompanying notes to the consolidated interim financial statements.

RESVERLOGIX CORP.

Interim Consolidated Statements of Cash Flows

	Three months ended	
	July 31,	
	2006	2005
	(unaudited)	
Cash provided by (used in):		
Operations:		
Loss for the period	\$(1,996,432)	\$(1,372,511)
Items not involving cash:		
Stock-based compensation	281,574	196,362
Depreciation and amortization	65,694	46,263
Gain on sale of short term investments	(514)	—
	<u>(1,649,678)</u>	<u>(1,129,886)</u>
Changes in non-cash working capital:		
Accounts receivable	—	58,068
Prepaid expenses and deposits	(71,259)	(12,186)
Accounts payable and accrued liabilities	(9,252)	25,377
	<u>(1,730,189)</u>	<u>(1,058,627)</u>
Financing:		
Proceeds from exercise of options and warrants	206,226	481,399
Share repurchase (note 5)	(284,210)	(546,879)
Equipment leases	—	(7,938)
	<u>(77,984)</u>	<u>(73,418)</u>
Investing:		
Short term investments	469,043	676,021
Property and equipment additions	(149,386)	(221,481)
Patent additions	(131,366)	(4,476)
	<u>188,291</u>	<u>450,064</u>
Increase (decrease) in cash and cash equivalents	<u>(1,619,882)</u>	<u>(681,981)</u>
Cash and cash equivalents, beginning of period	3,059,166	8,424,837
Cash and cash equivalents, end of period	<u>\$ 1,439,284</u>	<u>\$ 7,742,856</u>

See accompanying notes to the interim consolidated financial statements.

RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements

As at July 31, 2006 and 2005

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, 2006. 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, 2006.

1. Nature of operations:

The Company is moving through the research and development stages of biopharmaceutical development. Early drug development stages such as discovery, preclinical, and lead optimization can take several years to complete. The environment of drug development is a long process, and as such the Company has not generated any commercial revenue or a 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) ReVas™:

This technology is dedicated to the research and development of therapeutic compounds to be used with medical devices and biomaterials for the local non-systemic treatment of cardiovascular disease, in particular restenosis.

(c) 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,		
	2006	2005	
NexVas	\$1,156,154	\$ 726,436	\$6,476,180
ReVas	—	—	106,617
TGF-β Shield	44,565	47,798	534,970
	\$1,200,719	\$ 774,234	\$7,117,767

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Notes to Interim Consolidated Financial Statements, page 2

As at July 31, 2006 and 2005

1. Nature of operations continued:

As the Company has no established revenue base, it is reliant on equity financing for funding its projects under development. At July 31, 2006, the Company has \$5.3 million of working capital including \$5.6 million of cash and marketable securities. Management intends to carry out financing in this fiscal year to ensure it has sufficient working capital to fund its development and corporate operations beyond July 31, 2007.

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, 2006	Cost	Accumulated depreciation	Net book value
Laboratory equipment	\$ 914,090	\$ 321,826	\$ 592,264
Office furniture and equipment	51,750	26,856	24,894
Computer equipment	145,340	77,376	67,964
Computer software	74,073	27,212	46,861
Leasehold improvements	264,077	136,607	127,470
	\$ 1,449,330	\$ 589,877	\$ 859,453

April 30, 2006

Laboratory equipment	\$ 813,325	\$ 293,319	\$ 520,006
Office furniture and equipment	48,581	24,589	23,992
Computer equipment	123,966	69,832	54,134
Computer software	66,900	22,389	44,511
Leasehold improvements	247,172	120,739	126,433
	\$ 1,299,944	\$ 530,868	\$ 769,076

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Notes to Interim Consolidated Financial Statements, page 3

As at July 31, 2006 and 2005

4. Intellectual property and patents:

July 31, 2006	Cost	Accumulated amortization	Net book value
Acquired property (NexVas) Patents	\$ 818 451,755	\$ 102 31,284	\$ 716 420,471
	\$ 452,573	\$ 31,386	\$ 421,187
April 30, 2006			
Acquired property (NexVas) Patents	\$ 818 320,389	\$ 91 24,610	\$ 727 295,779
	\$ 321,207	\$ 24,701	\$ 296,506

5. Share capital:

(a) Issued and outstanding:

Common shares	Number of shares	Amount
Balance, April 30, 2005	23,242,614	\$17,619,707
Issued on exercise of warrants	302,975	698,260
Issued on exercise of stock options	700,300	1,240,517
Transfer from warrants on exercise of warrants		436,937
Transfer from contributed surplus on exercise of options		594,201
Shares repurchased and cancelled	(118,100)	(107,290)
Share issue costs		(169,090)
Balance, April 30, 2006	24,127,789	20,313,242
Issued on exercise of warrants	68,742	206,226
Transfer from warrants on exercise of warrants		83,520
Shares repurchased and cancelled	(45,300)	(43,488)
Balance, July 31, 2006	24,151,231	\$20,559,500

RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements, page 4

As at July 31, 2006 and 2005

5. Share capital (continued):

(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. In the three months ended July 31, 2006, the Company acquired 45,300 of its common shares pursuant to the Normal Course Issuer Bid at an average price of \$6.18 per share, at a total cost of \$284,210 including commissions. Over the full term of the Normal Course Issuer Bid, the Company has acquired 163,400 of its common shares at an average price of \$6.09 per share. The total cost of this program including commissions was \$1,009,729. The excess of the purchase price over the stated capital of the common shares has been charged to the deficit. All common shares repurchased by the Company were cancelled.

(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 fully vest over two to three years and have a two to five year term.

	July 31, 2006		April 30, 2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of period	2,896,200	\$ 4.05	2,314,000	\$ 1.82
Granted at less than market price	—	—	957,500	6.47
Granted at greater than or equal to market price	235,000	6.60	400,000	7.60
Exercised	—	—	(700,300)	1.77
Expired	(40,000)	7.25	(75,000)	6.19
Outstanding at end of period	3,091,200	\$ 4.20	2,896,200	\$ 4.05
Weighted average remaining contractual life	3.0 years		3.2 years	

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Notes to Interim Consolidated Financial Statements, page 5

As at July 31, 2006 and 2005

5. Share capital (continued):

(c) Stock options (continued):

The weighted average fair value of the options granted during the three months ending July 31, 2006 was \$3.19 per option using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk free interest rate	4%
Expected life	4 years
Expected volatility	58%

(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, 2005	371,717	\$ 351,367	\$ 2.43
Exercised during period	(302,975)	(267,847)	3.00
Outstanding, April 30, 2006	68,742	83,520	3.00
Exercised during period	(68,742)	(83,520)	3.00
Outstanding, July 31, 2006	–	\$ –	\$ –

(e) Contributed surplus:

The changes in contributed surplus balance are as follows:

	Amount
Balance, April 30, 2005	\$ 1,028,321
Options exercised	(594,201)
Fair value of options granted	1,912,953
Balance, April 30, 2006	2,347,073
Fair value of options granted	281,574
Balance, July 31, 2006	\$ 2,628,647

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Notes to Interim Consolidated Financial Statements, page 6

As at July 31, 2006 and 2005

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:

The Company has entered into various research contracts. The initial deposits required upon acceptance of the contracts total \$286,734 and have been appropriately accrued in the financial statements. In addition, the Company is committed to pay \$4,770,000 for completion of the studies. Payments are as follows:

2007	\$ 3,015,000
2008	1,620,000
2009	135,000

As at July 31, 2006, the Company was committed to operating lease payments for office and laboratory premises as follows:

2007	\$ 173,860
2008	158,006
2009	66,036
2010	11,006

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, up to a maximum of \$5 million, 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 short term investments, approximate their carrying values, due to the short-term nature of these instruments. The market value of the short term investments at July 31, 2006 was approximately \$4.2 million (April 30, 2006 - \$4.7 million).

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As at July 31, 2006 and 2005

8. Subsequent event:

On August 11, 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 the repurchase. Pursuant to the Normal Course Issuer Bid, the Company has acquired 67,300 of its common shares at an average price of \$5.98 per share. The total cost of this program including commissions is \$406,598. The excess of the purchase price over the stated capital of the common shares has been charged to the deficit. All common shares repurchased by the Company were cancelled.