



*First Quarter
Ended July 31, 2009*

CORPORATE OFFICE:

202, 279 Midpark Way SE

Calgary, Alberta, T2X 1M2 Canada

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

www.resverlogix.com

TRADING SYMBOL:

TSX: RVX

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 10, 2009.

signed "Donald J. McCaffrey"
President and CEO

signed "Kelly McNeill"
CFO

RESVERLOGIX CORP.

Interim Consolidated Balance Sheets

| | July 31, 2009 | April 30, 2009 |
|----------------------------------------------------|---------------------|---------------------|
| | (unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,829,820 | \$ 12,564,063 |
| Restricted cash (note 3) | 6,068,433 | 7,163,928 |
| Short term investments | 204 | 204 |
| Prepaid expenses and deposits | 1,374,573 | 1,430,055 |
| | <u>15,273,030</u> | <u>21,158,250</u> |
| Property and equipment (note 4) | 672,102 | 708,498 |
| Intellectual property and patents (note 5) | 773,921 | 703,552 |
| | <u>\$16,719,053</u> | <u>\$22,570,300</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,939,985 | \$ 2,577,563 |
| Accrued interest on debentures | 113,290 | 365,238 |
| Current portion of convertible debentures (note 6) | 5,162,879 | 5,769,228 |
| | <u>7,216,154</u> | <u>8,712,029</u> |
| Shareholders' equity: (note 7) | | |
| Common shares | 73,028,945 | 72,237,124 |
| Convertible debentures equity component | 14,487,494 | 14,952,621 |
| Contributed surplus | 17,262,467 | 16,496,537 |
| Warrants | 26,017,371 | 26,017,371 |
| Deficit | (121,293,378) | (115,845,382) |
| | <u>9,502,899</u> | <u>13,858,271</u> |
| Nature of operations (note 1) | | |
| Commitments (notes 4 and 8) | | |
| | <u>\$16,719,053</u> | <u>\$22,570,300</u> |

See accompanying notes to the interim consolidated financial statements.

RESVERLOGIX CORP.

Interim Consolidated Statements of Operations and Comprehensive Loss

| | Three months ended | |
|--------------------------------------------------|--------------------|---------------|
| | July 31, | |
| | 2009 | 2008 |
| | (unaudited) | |
| Revenue: | | |
| Interest income | \$ 724 | \$ 85,737 |
| Expenses: | | |
| Research and development | 2,917,156 | 3,298,489 |
| General and administrative | 649,486 | 651,240 |
| Stock-based compensation | 765,930 | 364,646 |
| Interest and accretion on convertible debentures | 467,136 | 809,589 |
| Depreciation and amortization | 56,982 | 78,436 |
| Foreign exchange loss | 592,030 | 42,667 |
| | 5,448,720 | 5,245,067 |
| Net loss and comprehensive loss | 5,447,996 | 5,159,330 |
| Deficit, beginning of period | 115,845,382 | 78,554,042 |
| Deficit, end of period | \$121,293,378 | \$ 83,713,372 |
| Net loss per common share – basic and diluted | \$ 0.14 | \$ 0.19 |
| Weighted average number of common shares | 39,321,207 | 27,055,329 |

See accompanying notes to the consolidated interim financial statements.

RESVERLOGIX CORP.

Interim Consolidated Statements of Cash Flows

| | Three months ended | |
|--------------------------------------------------|---------------------|--------------------|
| | July 31, | |
| | 2009 | 2008 |
| | (unaudited) | |
| Cash provided by (used in): | | |
| Operations: | | |
| Loss for the period | \$ (5,447,996) | \$(5,159,330) |
| Items not involving cash: | | |
| Stock-based compensation | 765,930 | 364,646 |
| Depreciation and amortization | 56,982 | 78,436 |
| Debenture accretion | 112,599 | 240,468 |
| Interest expenses paid in common shares | 152,184 | 1,159,358 |
| Unrealized foreign exchange (gain) loss | (630,939) | 118,750 |
| | <u>(4,991,240)</u> | <u>(3,197,672)</u> |
| Changes in non-cash working capital: | | |
| Prepaid expenses and deposits | 55,482 | (324,686) |
| Accounts payable and accrued liabilities | (681,631) | (199,078) |
| Accrued interest on debentures | (247,405) | (586,404) |
| | <u>(5,864,794)</u> | <u>(4,307,840)</u> |
| Financing: | | |
| Proceeds from exercise of stock options | 6,066 | 122,060 |
| | <u>6,066</u> | <u>122,060</u> |
| Investing: | | |
| Restricted cash | 1,095,495 | - |
| Short term investments | - | 4,889,329 |
| Property and equipment additions | (5,537) | (14,630) |
| Patent additions | (85,418) | (72,063) |
| Non-cash investing working capital | 119,945 | (12,637) |
| | <u>1,124,485</u> | <u>4,789,999</u> |
| Increase (decrease) in cash and cash equivalents | (4,734,243) | 604,219 |
| Cash and cash equivalents, beginning of period | 12,564,063 | 2,349,373 |
| Cash and cash equivalents, end of period | <u>\$ 7,829,820</u> | <u>\$2,953,592</u> |

See accompanying notes to the interim consolidated financial statements.

Certain comparative items have been reclassified for presentation purposes.

RESVERLOGIX CORP.

Notes to Interim Consolidated Financial Statements

As at July 31, 2009 and 2008

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 | | Cumulative since inception |
|---------------------|--------------------|--------------|----------------------------------|
| | July 31, | | |
| | 2009 | 2008 | |
| NexVas PR | \$ 2,912,961 | \$ 3,270,541 | \$ 45,160,345 |
| NexVas VI / ReVas | 4,195 | 27,948 | 1,853,222 |
| TGF- β Shield | – | – | 735,221 |
| NexVas AD | – | – | 29,943 |
| | \$ 2,917,156 | \$ 3,298,489 | \$ 47,778,731 |

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 July 31, 2009, the Company had \$7.8 million of cash and cash equivalents and restricted cash of \$6.1 million.

The Company will require additional capital to provide the Company with sufficient resources to manage its planned research, development, corporate activities and its potential obligations to the debenture holders beyond April 30, 2010. The Company will continue to explore various

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As at July 31, 2009 and 2008

1. Nature of operations (continued):

alternatives to generate positive cash flow including raising additional equity, product out-licensing, as well as continuing its partnering discussions for the Company's core NexVasPR technology; however given the large uncertainty in the capital markets and the general business climate in the health care 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 current evaluation.

3. Restricted cash:

As at July 31, 2009, cash and cash equivalents includes total restricted cash of \$6,068,433 that is held in escrow for the convertible debt holders to settle any put notice as amended on April 9, 2009 and further described in Note 6 of the consolidated financial statements. The Company can elect to withdraw funds from the escrow account, that are in excess of the aggregate principal and accrued interest amounts for general business purposes.

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As at July 31, 2009 and 2008

3. Restricted cash (continued):

In the event the debt holders are entitled to any interest payment or interest on the principal amount that is converted, and the interest obligation can not be settled in common shares, such interest payment will be settled from the escrow account. A portion of the semi-annual interest obligation was settled with escrow funds of U.S. \$376,508. 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 debt as described in Note 6.

4. Property and equipment:

| July 31, 2009 | Cost | Accumulated depreciation | Net book value |
|--------------------------------|---------------------|--------------------------|-------------------|
| Laboratory equipment | \$ 1,390,617 | \$ 764,094 | \$ 626,523 |
| Office furniture and equipment | 70,071 | 55,971 | 14,100 |
| Computer equipment | 221,933 | 191,281 | 30,652 |
| Computer software | 77,927 | 77,222 | 705 |
| Leasehold improvements | 463,315 | 463,193 | 122 |
| | <u>\$ 2,223,863</u> | <u>\$ 1,551,761</u> | <u>\$ 672,102</u> |

| April 30, 2009 | Cost | Accumulated depreciation | Net book value |
|--------------------------------|---------------------|--------------------------|-------------------|
| 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 |
| | <u>\$ 2,218,326</u> | <u>\$ 1,509,828</u> | <u>\$ 708,498</u> |

5. Intellectual property and patents:

| July 31, 2009 | Cost | Accumulated amortization | Net book value |
|-----------------------------|-------------------|--------------------------|-------------------|
| Acquired property (NexVas™) | \$ 818 | \$ 238 | \$ 580 |
| Patents | 920,161 | 146,820 | 773,341 |
| | <u>\$ 920,979</u> | <u>\$ 147,058</u> | <u>\$ 773,921</u> |

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As at July 31, 2009 and 2008

5. Intellectual property and patents (continued):

| April 30, 2009 | Cost | Accumulated amortization | Net book value |
|----------------------------------------|-------------------|--------------------------|-------------------|
| Acquired property (NexVas™) Patents | \$ 818 834,743 | \$ 227 131,782 | \$ 591 702,961 |
| | \$ 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 |
| Debenture issue costs | — | (40,600) | (40,600) |
| Retirement/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 | — | (168,444) | (168,444) |
| Accretion | — | 112,599 | 112,599 |
| Foreign exchange gain | — | (550,504) | (550,504) |
| Balance, July 31, 2009 | \$ — | \$ 5,162,879 | \$ 5,162,879 |
| Face value as at July 31, 2009 | \$ — | \$ 7,310,524 | \$ 7,310,524 |

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As at July 31, 2009 and 2008

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 July 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.

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Notes to Interim Consolidated Financial Statements, page 6

As at July 31, 2009 and 2008

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:

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Notes to Interim Consolidated Financial Statements, page 7

As at July 31, 2009 and 2008

6. Convertible debentures (continued):

- (i) Average daily volumes on the trading market are at least 100,000 shares for 20 consecutive trading days.
- (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 January 12, 2009, the Company shall have 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. For the year ended April 30, 2009, the Company has not redeemed any of the outstanding convertible debentures under this provision.

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 \$25 million U.S. issued convertible debentures issued 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 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.

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Notes to Interim Consolidated Financial Statements, page 8

As at July 31, 2009 and 2008

6. Convertible debentures (continued):

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 \$17.0 million (U.S.) 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.

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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

For the three months ended July 31, 2009, U.S. \$210,286 of debt at its face value was converted to 95,491 of common shares at \$2.61 per common share.

During the three months ended July 31, 2009, the Company settled accrued interest obligations of U.S. \$9,848 due on conversion of convertible debentures with the issuance of 4,509 common shares.

The Company paid its July 1, 2009 semi-annual interest obligation of U.S. \$503,884 with the issuance of 55,505 common shares and U.S. \$378,432 in cash.

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).

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.

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As at July 31, 2009 and 2008

7. Shareholders' equity (continued):

(a) Common shares

| 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 | 95,491 | 168,444 |
| Interest costs paid in common shares | 60,014 | 152,184 |
| Share issue costs | | 6,066 |
| Transfer from equity component on conversion of debentures | | 465,127 |
| Balance, July 31, 2009 | 39,358,211 | \$73,028,945 |

(b) Stock options:

On October 27, 2006, the Company amended its existing stock option plan with the approval of security holders in order to comply with new guidance from the Toronto Stock Exchange on Section 613 of the TSX Company Manual and Staff Notice 2006-001 related to security based compensation arrangements. The amended plan provides for detailed amendment procedures pursuant to the Staff Notice 2006-0001, requiring security holder approval prior to certain changes being made to security based compensation plans. Notwithstanding the provisions of the detailed amendment procedures, approval must be obtained from security holders for an amendment to any stock option agreement that would reduce the exercise price or extend the expiry date of options granted to an insider.

The amended 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 provisions have been added to make the plan a reloading plan, which allows any options under the plan that expire,

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As at July 31, 2009 and 2008

7. Shareholders' equity (continued):

(b) Stock options:

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.

| | July 31, 2009 | | April 30, 2009 | |
|---------------------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding at 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 | (95,000) | 14.23 | (1,488,900) | 3.69 |
| Outstanding at end of period | 3,790,000 | \$ 6.63 | 3,725,000 | \$ 6.99 |
| Weighted average remaining contractual life | 2.6 years | | 2.9 years | |

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

| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Life (years) | Weighted Average Exercise Price | Number Exercisable |
|--------------------------|--------------------|-----------------------------------------|---------------------------------|--------------------|
| \$2.25 - \$4.00 | 1,735,000 | 3.1 | \$2.88 | 250,000 |
| \$5.27 - \$7.96 | 1,275,000 | 2.1 | \$7.23 | 1,295,000 |
| \$12.07 - \$12.95 | 330,000 | 2.5 | \$12.47 | 86,250 |
| \$14.16 - \$15.90 | 450,000 | 2.3 | \$15.13 | 400,000 |
| | 3,790,000 | 2.6 | \$6.63 | 2,031,250 |

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As at July 31, 2009 and 2008

7. Shareholders' equity (continued):

(b) Stock options:

During the three months ended July 31, 2009, 160,000 options were issued. Stock options for consultants previously issued were re-valued for the purposes of calculating stock based compensation at \$2.83 per option in accordance using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Three months ended July 31, | |
|-------------------------|--------------------------------|-------------|
| | 2009 | 2008 |
| Risk free interest rate | 2.4% | 4% |
| Expected life | 1 - 2 years | 4 - 5 years |
| Expected volatility | 114% | 92% |

(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 debentures | 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 | 6,357,108 | \$26,017,371 | \$ 2.72 |
| Outstanding, July 31, 2009 | 6,357,108 | \$26,017,371 | \$ 2.72 |

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Notes to Interim Consolidated Financial Statements, page 13

As at July 31, 2009 and 2008

7. Shareholders' equity (continued):

(c) Warrants:

- As part of the issuance of June 2007 convertible debentures, 529,350 accompanying warrants were issued to the holders of the convertible debt at an exercise price of \$20.63 per share. As part of the August 31, 2007 amendment to the convertible debentures as described in Note 6, the warrants issued under the financing and the existing 408,647 warrants issued in January 2007 were cancelled and re-priced to \$10.25 and an additional 529,352 warrants were issued as part of the Amended U.S. \$25,000,000 Convertible Debenture Financing. The effect of the modification was an increase in the warrant value of \$3,744,317.
- 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.
- On March 23, 2009 upon the initial closing of the private placement of common shares at \$2.72, the anti-dilution provisions described above for convertible debenture 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 common share equity offering 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.

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As at July 31, 2009 and 2008

7. Shareholders' equity (continued):

(c) Warrants:

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 July 31, 2009.

| Exercise Price | Number Outstanding | Average Remaining Life (years) |
|----------------|--------------------|--------------------------------|
| \$2.72 | 6,357,108 | 4.6 |

(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 | 765,930 |
| Balance, July 31, 2009 | \$17,262,467 |

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As at July 31, 2009 and 2008

7. Shareholders' equity (continued):

(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 | (465,127) |
| Balance, July 31, 2009 | \$14,487,494 |

On August 31, 2007, the Company modified the U.S. \$25 million convertible debentures, resulting in an increase to the equity component of \$13.1 million.

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 year of 39,321,207 (2008 – 27,055,329). The effect upon the conversion of stock options and warrants is anti-dilutive.

8. Commitments:

The Company has entered into various research contracts. The Company is committed to pay \$1,217,905 for completion of the research, and all payments are anticipated to May 2010 as follows:

| | |
|------|--------------|
| 2010 | \$ 1,168,322 |
| 2011 | 49,583 |

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As at July 31, 2009 and 2008

8. Commitments (continued):

As at July 31, 2009, the Company was committed to operating lease payments for office and laboratory premises as follows:

| | |
|------|------------|
| 2010 | \$ 161,338 |
| 2011 | 152,259 |
| 2012 | 134,913 |

9. Financial instruments risks:

Financial instruments of the company consist of cash and cash equivalents, restricted cash, short term investments, accounts payable and accrued liabilities and convertible debentures. As at July 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 as to the convertible debentures. The company manages its cash and cash equivalents, restricted cash and short term investments 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, restricted cash and short term investments. 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 & 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 July 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 from all investment other than U.S. treasury bills as further 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

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As at July 31, 2009 and 2008

9. Financial instruments risks (continued):

(b) Liquidity Risk

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. The majority of the Company's accounts payable and accrued liabilities have maturities of less than three months. In addition, 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 10, 2009 would approximate U.S. \$6.8 million plus accrued interest. The Company currently has U.S. \$5.6 million in escrow that can be used to satisfy these put obligations 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 debtholders 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, its short-term investments and its convertible debentures. Fluctuations in market interest rates on interest bearing cash and cash equivalents, restricted cash and short-term investments rates do not have a significant impact on the Company's results of operations due to their short-term nature. In addition, the adjusting interest rates from 10%-15% that existed for the January 2007 convertible debentures, were amended to a fixed 12% rate as part of the October 15, 2008 amendment and then amended to a fixed 18% as described under Note 6 to these financial statements. A change of 1% in interest rates can lead to an increase or decrease of monthly interest income by \$12,000 for its cash and short-term investments and restricted cash as measured on July 31, 2009.

The Company is also exposed to foreign exchange risk on its US dollar denominated convertible debentures and its cash and cash equivalents, restricted cash and short-term investments. The Company manages its exposure to currency fluctuations by holding cash and cash equivalents and short-term investments denominated in U.S. dollars in a certain ratio equivalent to current and long term 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 July 31, 2009, the Company had U.S. denominated assets and liabilities of: cash and cash

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As at July 31, 2009 and 2008

9. Financial instruments risks (continued):

(c) Market Risk

equivalents and short-term investments in the amount of U.S. \$4,666,000; restricted cash of U.S. \$5,624,000; accounts payable, accrued interest and liabilities of U.S. \$1,692,000; and convertible debentures with a face value of U.S. \$6,785,000 for a net asset exposure of U.S. \$1.8 million. A change of \$0.01 in exchange rate as measured on July 31, 2009 can result in a foreign currency gain or loss of \$39,000.

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 equity and convertible debt securities and the conversion of common share purchase warrants, and stock options. The Company also sources non-dilutive 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. 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 that upon exercise are converted to common shares. 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 made available to the Company when required.

The Company is exposed to certain covenants related to the convertible debenture financing as described in Note 6 of the consolidated financial statements. For three months ended July 31, 2009, the Company has met its required interest obligations.