



***Consolidated Financial Statements
Years Ended April 30, 2010 and 2009***

CORPORATE OFFICE:

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TRADING SYMBOL:

TSX: RVX

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared by management, reviewed by the Audit and Finance Committee and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies which management believes are appropriate for the Company are described in note 2 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial responsibilities. An Audit and Finance Committee of three non-management independent Directors is appointed by the Board.

The Audit and Finance Committee reviews the consolidated financial statements with management and with the external auditors.

KPMG LLP Chartered Accountants, the Company's external auditors, who are appointed by the Company's shareholders, audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out on the following page.

(signed)
Donald J. McCaffrey
President and Chief Executive Officer

(signed)
A. Brad Cann
Chief Financial Officer

July 27, 2010



KPMG LLP
Chartered Accountants
2700 205 – 5th Avenue SW
Calgary AB T2P 4B9

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Resverlogix Corp. as at April 30, 2010 and 2009 and the consolidated statements of net loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
July 27, 2010

RESVERLOGIX CORP.

Consolidated Balance Sheets

April 30, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,562,763	\$ 12,564,267
Restricted cash (note 5)	-	7,163,928
Investment tax credit receivable	531,507	-
Prepaid expenses and deposits	1,275,730	1,430,055
	<u>6,370,000</u>	<u>21,158,250</u>
Property and equipment (note 3)	654,707	708,498
Intellectual property and patents (note 4)	868,325	703,552
Deferred financing costs	574,490	-
	<u>\$ 8,467,522</u>	<u>\$ 22,570,300</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,985,845	\$ 2,577,563
Accrued interest on convertible debentures	-	365,238
Convertible debentures (note 5)	-	5,769,228
	<u>3,985,845</u>	<u>8,712,029</u>

Shareholders' equity (note 6):		
Common shares	91,253,812	72,237,124
Convertible debentures equity component	-	14,952,621
Contributed surplus	19,933,794	16,496,537
Warrants	22,712,022	26,017,371
Deficit	(129,417,951)	(115,845,382)
	<u>4,481,677</u>	<u>13,858,271</u>

\$ 8,467,522 \$ 22,570,300

Future operations (note 1)
Commitments (notes 4 and 8)
Subsequent events (note 11)

See accompanying notes to the consolidated financial statements.

Signed on behalf of the Board:

Signed: "William A. Cochrane" Director

Signed: "Jan Gray" Director

RESVERLOGIX CORP.

Consolidated Statements of Net Loss, Comprehensive Loss and Deficit

Years ended April 30, 2010 and 2009

	2010	2009
Interest income	\$ 2,815	\$ 164,950
Expenses:		
Research and development	15,698,730	13,615,667
Investment tax credits	(531,507)	-
Net research and development	15,167,223	13,615,667
General and administrative	3,282,381	2,969,607
Stock-based compensation	3,481,051	3,134,139
Interest and accretion on convertible debentures	1,203,229	2,493,680
Depreciation and amortization	240,970	263,220
Foreign exchange loss	868,987	1,181,665
(Gain) loss on redemption of convertible debentures (note 5)	3,337,073	(1,881,591)
	27,580,914	21,776,387
Net loss and comprehensive loss	27,578,099	21,611,437
Deficit, beginning of year	115,845,382	78,554,042
Redemption and amendment of convertible debentures (note 5)	(14,005,530)	13,183,480
Amendment of warrants (note 6)	-	2,496,423
Deficit, end of year	129,417,951	115,845,382
Net loss per common share – basic and diluted	\$ 0.67	\$ 0.73
Weighted average number of common shares (note 6)	41,102,236	29,639,077

See accompanying notes to the consolidated financial statements.

RESVERLOGIX CORP.

Consolidated Statements of Cash Flows

Years ended April 30, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Net loss	(\$27,578,099)	(\$21,611,437)
Items not involving cash:		
Stock-based compensation	3,481,051	3,134,139
Depreciation and amortization	240,970	263,220
Accretion on convertible debentures	307,610	824,356
Interest paid in common shares	154,926	1,189,565
Services paid in common shares	122,500	-
(Gain) loss on redemption of convertible debentures	3,337,073	(1,881,591)
Unrealized foreign currency loss	981,702	974,961
Changes in non-cash working capital:		
Investment tax credit receivable	(531,507)	-
Prepaid expenses and deposits	154,325	18,998
Accounts payable and accrued liabilities	1,282,310	90,284
Accrued interest on debentures	(365,238)	278,844
	(18,412,377)	(16,718,661)
Financing:		
Proceeds from the issuance of common shares and warrants	12,853,175	24,253,808
Share issuance costs	(462,548)	(1,923,121)
Redemption of convertible debentures	(8,911,274)	(5,260,600)
Proceeds from exercise of options and warrants	2,196,145	356,905
Deferred financing costs	(574,490)	-
Non-cash financing working capital	195,139	-
	5,296,147	17,426,992
Investing:		
Restricted cash	6,373,284	(7,255,060)
Short term investments	-	15,664,215
Property and equipment additions	(109,912)	(30,495)
Patent additions	(242,040)	(212,754)
Non-cash investing working capital	(69,167)	63,316
	5,952,165	8,229,222
Effect of foreign currency translation on cash and cash equivalents	(837,439)	1,277,341
(Decrease) increase in cash and cash equivalents	(8,001,504)	10,214,894
Cash and cash equivalents, beginning of year	12,564,267	2,349,373
Cash and cash equivalents, end of year	\$ 4,562,763	\$12,564,267

See accompanying notes to the consolidated financial statements.

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements

Years ended April 30, 2010 and 2009

Resverlogix Corp. and a wholly owned subsidiary, RVX Therapeutics Inc., are incorporated under the laws of Alberta. Resverlogix Inc., a wholly owned subsidiary of Resverlogix Corp., is incorporated under the laws of Delaware.

1. Future 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:

	2010	2009	Cumulative since inception
NexVas PR	\$ 15,628,141	\$ 13,552,100	\$ 57,875,525
NexVas VI / ReVas	41,626	33,624	1,890,653
TGF- β Shield	—	—	735,221
NexVas AD	28,963	29,943	58,906
	<u>\$ 15,698,730</u>	<u>\$13,615,667</u>	<u>\$60,560,305</u>

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.

As at April 30, 2010, the Company had \$4.6 million of cash and cash equivalents. Subsequent to April 30, 2010, the Company raised \$19.2 million by way of prospectus offerings, as described in Note 11 "Subsequent Events". The Company's cash and cash equivalents, together with the funds generated subsequent to April 30, 2010 from the financings described above and the funds available from the Company's Standby Equity Distribution Agreement as described in Note 6 "Shareholders' Equity", are expected to be sufficient to fund anticipated cash requirements over the next year.

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 2

Years ended April 30, 2010 and 2009

1. Future operations (continued)

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

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

2. Significant accounting policies

(a) Basis of presentation

These consolidated financial statements include the accounts of Resverlogix Corp. and its wholly owned subsidiaries and have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Property and equipment

Property and equipment are recorded at cost and are depreciated on a straight-line or declining balance basis over their estimated useful lives as follows:

Assets	Method	Rate
Laboratory equipment	Declining balance	20%
Office furniture and equipment	Straight-line	5 years
Computer equipment	Straight-line	3 years
Computer software	Straight-line	3 years
Leasehold improvements	Straight-line	term of lease

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 3

Years ended April 30, 2010 and 2009

2. Significant accounting policies (continued)

(d) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities, including derivatives, are recognized on the consolidated balance sheet at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value and for the purpose of subsequent measurement, financial instruments are allocated into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities.

The Company's financial assets and liabilities consist primarily of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities, and convertible debentures. The Company has designated its financial instruments as follows:

Cash and cash equivalents, and restricted cash are classified as "held-for-trading" and carried at fair value with changes in fair value recorded in the statement of net loss, comprehensive loss and deficit at each period end.

Accounts payable, accrued liabilities and convertible debentures are classified as "other liabilities". After initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

The Company is required to identify and measure embedded derivatives that require separation from the related host contract and measure those embedded derivatives at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the statement of income in the period the change occurs. The Company has no contracts which include embedded derivatives that require separate accounting treatment

(e) Cash and cash equivalents

Cash and cash equivalents consist of balances with the Company's bank, comprised primarily of Canadian fund and US fund operating accounts.

(f) Research and development costs and intellectual property

Research and development costs are expensed in the period in which they are incurred. Development costs that meet the criteria specified by Canadian accounting standards are deferred and amortized over the life of the related project. Amounts expended on intellectual property that comprises in-process research and development is charged to operations. To date, no development costs have been deferred.

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 4

Years ended April 30, 2010 and 2009

2. Significant accounting policies (continued)

(g) Patents

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.

(h) Impairment of long-lived assets

The Company reviews long-lived assets such as property and equipment and patents for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When indicators of the impairment of the carrying value of assets exist, and the carrying value is greater than the total undiscounted future cash flow expected from its use and eventual disposition, an impairment loss is recognized to the extent that the fair value is below the carrying value.

(i) Deferred financing costs

Costs related to shares not yet issued are recorded as deferred financing costs. These costs are deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related common shares or charged to operations if the shares are no longer probable of being issued.

(j) Future income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted Canadian tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date.

(k) Convertible debentures

The Company's convertible debentures are accounted for as compound financial instruments and are classified as debt with a portion of the proceeds allocated to equity representing the value of the conversion feature. Upon conversion, a portion of the debt and equity are transferred to share capital. The debt balance associated with convertible debentures accretes over time to the amount owing on maturity and such increases in the debt balance are reflected as non-cash interest expense in the statement of net loss.

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 5

Years ended April 30, 2010 and 2009

2. Significant accounting policies (continued)

(l) Warrants

The Company's warrants have been valued for financial statement presentation using the Black-Scholes option pricing model with assumptions that are further described in Share Capital under note 6(c) of the financial statements. When issued concurrently with common shares or convertible debentures, the value of the warrants has been deducted from the aggregate proceeds of the offering.

(m) Government assistance

Grant amounts resulting from government assistance programs, including investment tax credits for research and development expenditures, are reflected as reductions of the cost of the assets or expenditures to which they relate at the time the assistance becomes receivable.

(n) Stock based compensation

The Company applies the fair value method to expense all stock options. Options granted to employees, officers and directors are recognized as a charge to the statement of net loss over the vesting period. Options granted to consultants are recognized as a charge to the statement of net loss at the earlier of the vesting date or over the period over which the services are performed. The fair value of options is estimated on the grant date, and in the case of consultants, subsequently remeasured until performance is complete, using the Black-Scholes option pricing model. Any consideration received upon exercise of the options and similar instruments together with the amount of non-cash compensation cost recognized in contributed surplus is recorded as an increase in common shares. Forfeitures are reflected in the period they occur.

(o) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the balance sheet dates. Non-monetary assets and liabilities denominated in foreign currencies are translated in Canadian dollars at rates of exchange prevailing on the transaction date. Income and expense items are translated at exchange rates prevailing on the transaction date. Net exchange differences arising from translation are included in the consolidated statements of net loss.

(p) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. In calculating diluted per share amounts, the Company follows the treasury stock method to determine the dilutive effect of stock options and warrants. The

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 6

Years ended April 30, 2010 and 2009

2. Significant accounting policies (continued)

(p) Per share amounts (continued)

dilutive effect is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the year. In calculating diluted per share amounts, the Company also follows the if-converted method to determine the dilutive effect of convertible debentures. The dilutive effect is calculated by assuming that the outstanding convertible debentures were converted. Only dilutive instruments impact the calculation.

(q) Comparative information

Certain comparative information has been reclassified to conform to current year's presentation.

Change in accounting policies

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets", which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. The adoption of this standard did not have any impact on the Company's financial results.

In June 2009, the CICA amended Handbook Section 3862 "Financial Instruments Disclosures". The amendments provide for additional fair value measurements for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements:

Level 1 – observable inputs such as quoted prices in active markets;

Level 2 – inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3 – unobservable inputs for the asset or liability in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The amended standard is effective for fiscal years ended after September 30, 2009. The adoption of this standard did not have a significant impact on the disclosure in the Company's consolidated financial statements.

Future accounting pronouncements

In January 2009, the CICA issued Handbook Section 1582 "Business Combinations". This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. This section replaces Section 1581 "Business Combinations, and harmonizes Canadian standards with International Financial Reporting Standards.

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 7

Years ended April 30, 2010 and 2009

3. Property and equipment

April 30, 2010	Cost	Accumulated depreciation	Net book value
Laboratory equipment	\$ 1,410,073	\$ 853,188	\$ 556,885
Office furniture and equipment	72,986	59,545	13,441
Computer equipment	261,757	178,013	83,744
Computer software	69,872	69,235	637
Leasehold improvements	463,315	463,315	-
	<u>\$ 2,278,003</u>	<u>\$ 1,632,296</u>	<u>\$ 654,707</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>

4. Intellectual property and patents

April 30, 2010	Cost	Accumulated amortization	Net book value
Patents	\$ 1,076,784	\$ 209,004	\$ 867,780
Intellectual property	818	273	545
	<u>\$ 1,077,602</u>	<u>\$ 209,277</u>	<u>\$ 868,325</u>

April 30, 2009	Cost	Accumulated amortization	Net book value
Patents	\$ 834,743	\$ 131,782	\$ 702,961
Intellectual property	818	227	591
	<u>\$ 835,561</u>	<u>\$ 132,009</u>	<u>\$ 703,552</u>

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 US\$25,000. In addition, the Company is required to make additional payments of US\$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 US\$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.

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 8

Years ended April 30, 2010 and 2009

5. Convertible debentures

Convertible debentures and its equity components consist of the following:

(Canadian dollars)	US\$17 million Face Value	US\$25 million Face Value	Total
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)
Redemption of debentures	(283,123)	(7,932,561)	(8,215,684)
October 2008 amendment – accrued interest	-	684,507	684,507
October 2008 amendment – January 2007 debenture transfer	-	322,867	322,867
Foreign currency loss	37,649	1,874,440	1,912,089
Balance, April 30, 2009	-	5,769,228	5,769,228
Conversions to common shares	-	(211,864)	(211,864)
Accretion	-	307,610	307,610
Foreign currency gain	-	(646,381)	(646,381)
Redemption of debentures	-	(5,218,593)	(5,218,593)
Balance, April 30, 2010	\$ -	\$ -	\$ -

The Company issued US\$42 million of senior secured convertible debentures in two separate issuances of US\$17 million and US\$25 million on January 4, 2007 and June 6, 2007, respectively. On August 31, 2007, the Company amended the US\$25 million issuance of convertible debentures to eliminate certain Interest to Maturity provisions contained in the financing and reduce the then in effect adjusted interest rate of 14% to a fixed rate of 12% per annum.

On October 15, 2008, the Company redeemed US\$10 million of the US\$17.3 million outstanding January and June 2007 debentures and amended the terms of the remaining debt. The Company redeemed the debentures with \$5.3 million (US\$4.5 million) in cash and \$6.4 million (US\$5.5 million) by way of issuance of 2,444,445 common shares at a price of \$2.61 per share. As a result of the US\$10 million debenture redemption and amendment of the terms of the remaining debentures, the Company recognized a \$1.9 million gain on redemption of convertible debentures, a \$8.2 million decrease in the liability component of the convertible debentures, a \$6.8 million net increase in the convertible debenture equity component, a \$7.5 million increase to share capital and a \$13.2 million increase to deficit. In addition, the amendment to the warrants resulted in a change to the fair value of the warrants, increasing warrants, included in shareholders' equity, by \$1.2 million; a deemed dividend resulted in a corresponding \$1.2 million increase in deficit. The transfer and amendment to the terms of the remaining January 2007 debentures resulted in a settlement and an \$80,000 gain on settlement of convertible debentures, a \$283,000 decrease in the liability component of the convertible debenture, and a \$120,000 increase in deficit.

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 9

Years ended April 30, 2010 and 2009

5. Convertible debentures (continued)

On April 9, 2009, the Company amended the terms of the outstanding US\$7.2 million of convertible debentures to: (1) amend the interest rate thereon from 12% to 18% per annum; (2) defer the convertible debenture holders' cumulative put rights permitting the holders to request repayment of principal and accrued interest in cash, which became exercisable on March 31, 2009 to October 9, 2009; (3) defer the Company's call option permitting it to redeem the debentures which became exercisable on March 31, 2009 to October 9, 2009; and (4) permit the debenture holders to become party to an escrow agreement.

In December 2009 and January 2010, the Company redeemed the outstanding face value of US\$6.7 million of convertible debentures at 125% of par value, or \$8.9 million (US\$8.4 million), plus accrued interest of \$0.3 million. The consideration was allocated between: (1) the liability component of \$8.6 million, and (2) the equity component of \$0.4 million. This resulted in: (1) the recognition of a \$3.3 million loss on redemption of the liability component, included in the statement of net loss; and (2) the recognition of a \$14.0 million discount on redemption of the equity component, decreasing the Company's deficit.

During the year ended April 30, 2010, \$0.8 million (US\$0.7 million) was paid from restricted cash to pay interest on convertible debentures and the remaining \$5.6 million (US\$5.3 million) was released from escrow.

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 10

Years ended April 30, 2010 and 2009

6. 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:

In December 2009 and January 2010, the Company issued a total of 5,141,270 units, representing 5,141,270 common shares and 1,785,318 warrants, at \$2.50 per unit for gross proceeds of \$12.9 million pursuant to a private placement. 1,285,318 of the warrants have an exercise price of \$2.50 per common share; the remaining 500,000 warrants have an exercise price of and \$2.88 per common share; and the warrants expire on December 18, 2011. The warrants were valued at \$2.2 million using a Black-Scholes option pricing model and are further described in Note 6(c). Share issue costs of \$0.7 million include agent commissions of \$0.6 million and legal costs of \$0.1 million.

In March and April 2009, the Company issued a total of 8,916,845 units, representing 8,916,845 common shares and 3,566,738 warrants, at \$2.72 per unit for gross proceeds of \$24.3 million pursuant to a private placement. The warrants, as well as 608,491 broker warrants, have an exercise price of \$2.72 per common share and expire on April 16, 2014. The warrants and broker warrants were valued at \$7.8 million and \$1.3 million, respectively, using a Black-Scholes option pricing model and are further described in Note 6(c). Share issue costs of \$3.2 million included legal costs of \$0.6 million and broker and agent commissions of \$2.6 million (including \$1.3 million of broker warrants).

In March 2010, the Company entered into a Standby Equity Distribution Agreement ("SEDA") entitling the Company to issue a maximum of \$25 million of the Company's common shares to the investor over a maximum of 24 months. Subsequent to April 30, 2010, the Company issued a total of 51,290 common shares pursuant to the SEDA, for gross proceeds of \$200,010, as described in Note 11 "Subsequent Events".

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 11

Years ended April 30, 2010 and 2009

6. Shareholders' equity (continued)

(a) Common shares (continued)

Common shares	Number of shares	Amount
Balance, April 30, 2008	26,900,160	\$ 44,840,422
Issued in connection with private placement	8,916,845	16,486,661
Share issue costs		(3,248,752)
Issued in connection with redemption of debentures	2,444,445	7,452,765
Issued in connection with conversion of debentures	660,990	1,928,579
Reclassification from equity component in connection with conversion of debentures		3,048,284
Interest paid in common shares	124,966	1,189,565
Issued in connection with exercise of options	155,300	539,600
Balance, April 30, 2009	39,202,706	72,237,124
Issued in connection with private placement	5,141,270	10,614,691
Share issue costs		(712,548)
Standby Equity Distribution Agreement commitment fee paid in common shares (note 5)	43,877	250,000
Issued in connection with exercise of warrants and options	1,270,787	7,783,773
Issued in connection with conversion of debentures	119,370	211,864
Reclassification from equity component in connection with conversion of debentures		591,482
Interest paid in common shares	61,064	154,926
Issued in exchange for services	35,000	122,500
Balance, April 30, 2010	45,874,074	\$ 91,253,812

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 12

Years ended April 30, 2010 and 2009

6. Shareholders' equity (continued)

(b) Stock options

The Company's amended stock option plan has been approved as a rolling 10% plan that allows for reservation of a number of Common Shares under the plan equal to 10% of the Company's issued and outstanding Common Shares on an undiluted basis. Additionally, the plan is a reloading plan, which allows for the number of Common Shares reserved for issuance related to the options under the plan to automatically become eligible to be reallocated pursuant to stock option based grants upon option expiry, cancellation or exercise. 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.

	April 30, 2010		April 30, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	3,725,000	\$ 6.99	3,994,200	\$ 6.96
Granted	1,082,000	4.08	1,375,000	2.97
Exercised	(20,000)	2.92	(155,300)	2.30
Expired	(245,000)	10.83	(1,488,900)	3.69
Outstanding, end of year	4,542,000	\$ 6.11	3,725,000	\$ 6.99

The following table summarizes information about the options outstanding and exercisable at April 30, 2010.

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable
\$2.25 - \$3.07	2,065,000	2.9	\$ 2.86	433,750
\$4.00	50,000	1.6	4.00	50,000
\$5.59 - \$7.96	1,697,000	2.3	6.77	1,225,000
\$12.07 - \$12.95	330,000	1.7	12.47	196,250
\$14.16 - \$15.90	400,000	1.4	15.03	400,000
	4,542,000	2.4	\$ 6.11	2,305,000

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 13

Years ended April 30, 2010 and 2009

6. Shareholders' equity (continued)

(b) Stock options (continued)

The fair value of each option granted is estimated as of the grant date using the Black-Scholes option pricing model. The following weighted average assumptions were used in arriving at the fair values of \$2.73 per option and \$2.07 per option associated with stock options granted during the years ended April 30, 2010 and 2009, respectively:

	2010	2009
Risk free interest rate	2.2% - 2.4%	1.6 - 1.8%
Expected life	2.3 years	2.9 years
Expected volatility	72% - 114%	107% - 113%

(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 amendment of convertible debenture	1,268,191	13,715,325	3.07
Amended in connection with anti-dilution provisions	913,688	3,209,268	2.98
Issued in connection with private placement	4,175,229	9,092,778	2.72
Outstanding, April 30, 2009	6,357,108	26,017,371	2.72
Issued on private placement	1,785,318	2,238,484	2.61
Exercised for common shares	(1,583,259)	(5,543,833)	2.72
Outstanding, April 30, 2010	6,559,167	\$ 22,712,022	\$ 2.69

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 14

Years ended April 30, 2010 and 2009

6. Shareholders' equity (continued)

(c) Warrants (continued)

On October 15, 2008, 1,268,191 of the 1,467,349 outstanding warrants that were re-priced in August 2007 were cancelled and the exercise price was amended to \$3.07 from \$10.25 as part of the US\$10 million debt redemption and amendment as described in Note 5. The expiry date of the warrants was also extended to October 14, 2013 from the original expiry dates of January 4, 2011 and June 6, 2012. The effect of the modification was a \$1.2 million increase in the carrying value of warrants. The warrants carry anti-dilution provisions which would, subject to regulatory or shareholder approval, reduce the then in effect exercise price in the event the Company issues additional common shares, or securities exchangeable into common shares, at a price below the exercise price of the warrants. In addition, if such an adjustment occurs, the number of warrants shall be adjusted proportionately so the number of warrants will have the same aggregate exercise value in effect prior to such adjustment.

In December 2008, the issuance of stock options triggered the anti-dilution provisions described above and the remaining 199,158 warrants not amended on October 15, 2008 were cancelled and amended. The exercise price of the warrants was adjusted to \$3.07 per share 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 a \$625,006 increase in the carrying value of warrants.

On March 23, 2009, upon the initial closing of the private placement of common shares and warrants at \$2.72 per unit, the anti-dilution provisions described above for warrants resulted in a further adjustment. The exercise price of the warrants was 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 a \$625,978 increase in the carrying value of warrants.

In connection with the closing of an offering of units representing common shares and warrants on April 15, 2009, the Company issued 4,175,229 warrants with an exercise price of \$2.72 per share, and including 608,491 broker warrants. The warrants expire on April 16, 2014 and contain anti-dilution provisions which reduce the exercise price then in effect on a weighted average basis if any common shares, or securities exchangeable to common shares, are issued or sold at a price below the exercise price of the warrants.

In connection with the closing of an offering of units representing common shares and warrants on December 2009 and January 2010, the Company issued 1,785,318 warrants with an exercise price of \$2.50 per share. The warrants expire on December 19, 2011.

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 15

Years ended April 30, 2010 and 2009

6. Shareholders' equity (continued)

(c) Warrants (continued)

The weighted average fair value of the warrants granted during the years ended April 30, 2010 and 2009 was \$1.25 and \$2.19 per warrant, respectively, using the Black-Scholes option pricing model with the following weighted average assumptions:

	2010	2009
Risk-free interest rate	2.5%	1.6%-3.3%
Expected life	2 years	5 years
Expected volatility	92%	69%-113%

The following table summarized information about the warrants outstanding at April 30, 2010.

Weighted Average Price	Number Outstanding	Weighted Average Remaining Life (years)
\$2.69	6,559,168	3

(d) Contributed surplus

The changes in contributed surplus balance are as follows:

	Amount
Balance, April 30, 2008	\$13,545,093
Options exercised	(182,695)
Stock-based compensation expense	3,134,139
Balance, April 30, 2009	16,496,537
Options exercised	(43,794)
Stock-based compensation expense	3,481,051
Balance, April 30, 2010	\$19,933,794

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 16

Years ended April 30, 2010 and 2009

6. 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 amendment and share-for-debenture redemption (note 5)	9,454,566
October 15, 2008 cash redemption (note 5)	(2,683,545)
Reclassified to common shares upon conversions of debentures (note 6(a))	(3,048,284)
Balance, April 30, 2009	14,952,621
Reclassified to common shares upon conversions of debentures (note 6(a))	(591,482)
Redemption of convertible debentures (note 5)	(14,361,139)
Balance, April 30, 2010	\$ -

(f) Per share amounts

The loss per share has been calculated based on the weighted average shares outstanding during the year ended April 30, 2010 and 2009 of 41,102,236 (2009 - 29,639,077). The exercise of stock options and warrants and conversion of the convertible debentures are anti-dilutive.

7. Income taxes

The provision for income taxes differs from the amount which would be obtained by applying the combined statutory federal and provincial income tax rate to the net loss in the year. A reconciliation of the expected tax and the actual provision for income taxes is as follows:

	2010	2009
Expected tax recovery – 28.7% (2009 – 29.3%)	\$ 7,671,900	\$ 6,332,200
Stock-based compensation	(764,100)	(918,300)
Tax rate reduction	(699,000)	(676,900)
Gain (loss) on redemption of convertible debentures	(956,600)	551,300
Other	196,500	(238,500)
Increase in valuation allowance	(5,448,700)	(5,049,800)
	\$ -	\$ -

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 17

Years ended April 30, 2010 and 2009

7. Income taxes (continued)

The components of the net future income asset are as follows:

	2010	2009
Non-capital losses	\$16,531,600	\$11,765,900
Scientific research and experimental development expenditures	6,139,300	5,270,400
Share issue costs	553,800	717,900
Other	(158,700)	(136,900)
Less: Valuation allowance	(23,066,000)	(17,617,300)
	\$ -	\$ -

The Company has non-capital losses of approximately \$60.6 million (2009 - \$47.1 million) available to reduce future years' taxable income expiring from time to time up to 2029.

The Company also has \$25.8 million of scientific research and experimental development tax deductions which do not expire. \$5.3 million of investment tax credits available to reduce future years' income tax, subject to approval by Canada Revenue Agency and expiring from time to time up to 2030, are not reflected above.

8. Commitments

The Company has entered into various research contracts. The Company is committed to pay \$4,053,944 for completion of the research, and all payments are anticipated to be incurred by April 2011 as follows:

2011	\$ 4,053,944
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As at April 30, 2010, the Company was committed to operating lease payments for office and laboratory premises as follows:

2011	\$ 236,029
2012	246,629
2013	99,188
2014	85,697
2015	35,707

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 18

Years ended April 30, 2010 and 2009

9. Financial instruments and financial risk management

As at April 30, 2010, the fair value of the Company's financial instruments consisting of cash and cash equivalents and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term nature.

Fair value of financial assets and financial liabilities. Section 3862, Financial Instruments - Disclosures, requires an explanation about how fair value is determined for assets and liabilities measured in the financial statements at fair value and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of input as follows:

Level 1 – observable inputs such as quoted prices in active markets;

Level 2 – inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

Level 3 – unobservable inputs for the asset or liability in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Cash and cash equivalents as shown in the consolidated balance sheet as at April 30, 2010 and 2009 are measured using level 1 inputs. The Company does not have any financial instruments measured using level 2 or level 3 inputs.

During the years ended April 30, 2010 and 2009, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

The Company manages its cash and cash equivalents 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. The Company manages its exposure to credit loss by depositing its cash with major financial institutions and investing in guaranteed investment certificates. The Company may also invest 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 may invest in government and corporate bonds with a DBRS rating of A- or higher or equivalent S&P or Moody's rating. As at April 30, 2010, the Company's cash and cash equivalents are not subject to any external restrictions.

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 19

Years ended April 30, 2010 and 2009

9. Financial instruments and financial risk management (continued)

(b) Liquidity Risk

The Company's exposure to liquidity risk is dependent on purchasing commitments and obligations and the raising of funds to satisfy commitments and fund continued operations. The Company is a development stage company, and relies on external financing 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 maturities which provide cash flow for current operations. The Company 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 table below presents a maturity analysis of the Company's financial liabilities on the expected cash flows from April 30, 2010 to the contractual maturity date. The amounts are the contractual undiscounted cash flows.

	Carrying Amount	Contractual Cash Flows	Within 1 Year
Accounts payable and accrued liabilities	\$3,985,845	\$3,985,845	\$3,985,845

(c) Market Risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash and cash equivalents. Fluctuations in market interest rates on interest bearing cash and cash equivalents rates do not have a significant impact on the Company's results of operations. A change of 1% in interest rates would result in \$45,000 change in interest income on its cash and cash equivalents as measured at April 30, 2010.

The Company is also exposed to foreign exchange risk on its US dollar denominated cash and cash equivalents. The Company manages its exposure to currency fluctuations by holding cash and cash equivalents denominated in US dollars in a certain ratio equivalent to current and anticipated U.S. dollar financial liabilities.

The Company had no forward exchange contract to manage its foreign currency risk. As at April 30, 2010, the Company had US denominated assets and liabilities of: cash and cash equivalents in the amount of US\$2.7 million and accounts payable in the amount of US\$3.3 million. A change of \$0.01 in exchange rate as measured on April 30, 2010 would result in a foreign currency gain or loss of US\$7,000.

RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 20

Years ended April 30, 2010 and 2009

10. Management of capital

The Company's objectives when managing capital is to ensure there are sufficient funds available to carry out its research, development and commercialization programs. To date, the programs have been funded primarily through the sale of common shares and convertible debentures and the exercise of common share purchase warrants and stock options. The Company also sources funding by accessing grants, government assistance, and through partnerships with corporations and research institutions.

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

11. Subsequent events

On June 8, 2010, the Company issued a total of 2,800,000 units, representing 2,800,000 common shares and 1,120,000 warrants, at \$3.30 per unit pursuant to a prospectus offering for gross proceeds of \$9.2 million. The warrants have an exercise price of \$4.00 per common share and expire on June 8, 2014.

On June 11, 2010, the Company issued a total of 51,290 common shares pursuant to a prospectus offering, under its SEDA, for gross proceeds of \$200,010.

On June 22, 2010, the Company issued a total of 3,095,975 units, representing 3,095,975 common shares and 1,238,390 warrants, at \$3.23 per unit pursuant to a prospectus offering for gross proceeds of \$10.0 million. The warrants have an exercise price of \$4.00 per common share and expire of June 22, 2014.