



***Consolidated Financial Statements  
Years Ended April 30, 2011 and 2010***

**CORPORATE OFFICE:**

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**TRADING SYMBOL:**

TSX: RVX

## Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Resverlogix Corp. (the "Company") have been approved by the Board of Directors and have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The financial information contained in the management's discussion and analysis is consistent with the consolidated financial statements. The Company undertakes steps to ensure the information presented is accurate and conforms to applicable laws and standards, including:

- Management maintains accounting systems and related internal controls and supporting procedures to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, and complete and accurate financial records are maintained to provide reliable information for the preparation of the consolidated financial statements in a timely manner.
- The Board of Directors oversees the management of the business and the affairs for the Company including ensuring management fulfills its responsibility for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.
- The Audit Committee of the Board of Directors, comprised of three members considered to be independent directors, has reviewed the consolidated financial statements with management and 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 19, 2011



**KPMG LLP**  
**Chartered Accountants**  
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## **Independent Auditors' report to the shareholders**

We have audited the accompanying consolidated financial statements of Resverlogix Corp. (the "Entity"), which comprise the consolidated balance sheets as at April 30, 2011 and 2010, the consolidated statements of net loss, comprehensive loss and deficit, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Resverlogix Corp. as at April 30, 2011 and 2010, and its consolidated results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

KPMG LLP  
Chartered Accountants

Calgary, Canada  
July 19, 2011

# RESVERLOGIX CORP.

Consolidated Balance Sheets

April 30, 2011 and 2010

	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,538,980	\$ 4,562,763
Investment tax credit receivable	400,000	531,507
Clinical supplies	942,634	560,824
Prepaid expenses and deposits	155,955	167,795
	<u>6,037,569</u>	<u>5,822,889</u>
Property and equipment (note 3)	643,256	654,707
Intellectual property and patents (note 4)	973,853	868,325
Deferred financing costs	25,306	574,490
Clinical supplies	284,077	547,111
	<u>\$ 7,964,061</u>	<u>\$ 8,467,522</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,900,390	\$ 3,985,845
Shareholders' equity (note 6):		
Common shares	109,697,718	91,253,812
Contributed surplus	22,410,867	19,933,794
Warrants	22,279,634	22,712,022
Deficit	(150,324,548)	(129,417,951)
	<u>4,063,671</u>	<u>4,481,677</u>
	<u>\$ 7,964,061</u>	<u>\$ 8,467,522</u>

Future operations (note 1)  
Commitments (note 8)  
Subsequent event (note 11)

See accompanying notes to the consolidated financial statements.

Signed on behalf of the Board:

Signed: "Dr. Peter Johann" Director

Signed: "Kenneth Zuerblis" Director

# RESVERLOGIX CORP.

Consolidated Statements of Net Loss, Comprehensive Loss and Deficit

Years ended April 30, 2011 and 2010

	2011	2010
Interest income	\$ 78,326	\$ 2,815
Expenses:		
Research and development	13,978,700	15,698,730
Investment tax credits	(354,605)	(531,507)
Net research and development	13,624,095	15,167,223
General and administrative	4,886,358	3,282,381
Stock-based compensation	2,216,891	3,481,051
Interest and accretion on convertible debentures	-	1,203,229
Depreciation and amortization	285,967	240,970
Foreign currency (gain) loss	(28,388)	868,987
Loss on redemption of convertible debentures (note 5)	-	3,337,073
	20,984,923	27,580,914
Net loss and comprehensive loss	20,906,597	27,578,099
Deficit, beginning of period	129,417,951	115,845,382
Redemption and amendment of convertible debentures (note 5)	-	(14,005,530)
Deficit, end of period	150,324,548	129,417,951
Net loss per common share – basic and diluted	\$ 0.41	\$ 0.67
Weighted average number of common shares (note 6)	51,345,496	41,102,236

See accompanying notes to the consolidated financial statements.

# RESVERLOGIX CORP.

## Consolidated Statements Cash Flows

Years ended April 30, 2011 and 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Net loss	\$ (20,906,597)	\$ (27,578,099)
Items not involving cash:		
Stock-based compensation	2,216,891	3,481,051
Depreciation and amortization	285,967	240,970
Accretion on convertible debentures	-	307,610
Interest paid in common shares	-	154,926
Services paid in common shares	-	122,500
Loss on redemption of convertible debentures	-	3,337,073
Unrealized foreign currency loss	-	981,702
	(18,403,739)	(18,952,267)
Changes in non-cash working capital:		
Investment tax credit receivable	131,507	(531,507)
Clinical supplies	18,937	327,434
Prepaid expenses and deposits	11,840	4,002
Accounts payable and accrued liabilities	58,757	1,105,199
Accrued interest on debentures	-	(365,238)
	(18,182,698)	(18,412,377)
Financing:		
Proceeds from the issuance of common shares and warrants	19,240,000	12,853,175
Share issuance costs	(1,515,914)	(462,548)
Redemption of convertible debentures	-	(8,911,274)
Proceeds from Standby Equity Distribution Agreement	200,010	-
Proceeds from exercise of warrants	881,644	2,196,145
Deferred financing costs	15,142	(574,490)
Non-cash financing working capital	(179,999)	195,139
	18,640,883	5,296,147
Investing:		
Property and equipment additions	(190,579)	(109,912)
Patent additions	(189,463)	(242,040)
Non-cash investing working capital	13,951	(69,167)
Restricted cash	-	6,373,284
	(366,091)	5,952,165
Effect of foreign currency translation on cash and cash equivalents	(115,877)	(837,439)
Decrease in cash and cash equivalents	(23,783)	(8,001,504)
Cash and cash equivalents, beginning of period	4,562,763	12,564,267
Cash and cash equivalents, end of period	\$ 4,538,980	\$ 4,562,763

See accompanying notes to the consolidated financial statements.

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements

Years ended April 30, 2011 and 2010

Resverlogix Corp. (the “Company”) and its 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:

	2011	2010	Cumulative since inception
NexVas PR	\$ 13,957,784	\$ 15,628,141	\$ 71,833,309
NexVas VI / ReVas	6,666	41,626	1,897,319
TGF- $\beta$ Shield	-	-	735,221
NexVas AD	14,250	28,963	73,156
	<u>\$ 13,978,700</u>	<u>\$ 15,698,730</u>	<u>\$ 74,539,005</u>

The success of the Company is dependent on the continuation of its 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 the outcome of future research and development programs, the Company’s ability to fund these programs in the future, or the commercialization of products by the Company.

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 April 30, 2011, the Company had \$4.5 million of cash and cash equivalents. Subsequent to April 30, 2011, the Company raised \$12.6 million by way of a prospectus offering, as described in Note 11 “Subsequent event”. The Company is committed to pay \$13.4 million for research and development and \$0.3 million of lease obligations over the year ending April 30, 2012, as described further in Note 8 “Commitments”. The Company’s cash and cash equivalents, together with the funds available from the Company’s Standby Equity Distribution Agreement (“SEDA”), as described in Note 6 “Shareholders’ equity”, are expected to be sufficient to fund planned business operations over the next year. If the Company does not draw on the SEDA, and if it is not otherwise able to raise additional capital, the Company will not have sufficient capital to fund planned business operations over the next year.

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 2

Years ended April 30, 2011 and 2010

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## 1. Future operations (continued)

The Company would have to reduce its cash requirements by eliminating or deferring discretionary spending on research, development and corporate activities. The Company plans to raise additional capital.

The Company will require additional capital to manage its planned research, development and corporate activities. The Company will continue to explore alternatives to generate positive cash flow including raising additional equity and product licensing; however, 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"). Amounts are stated in Canadian dollars unless otherwise indicated. Certain comparative information has been reclassified to conform with the current year's presentation.

### (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

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 3

Years ended April 30, 2011 and 2010

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## 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 and accounts payable and accrued liabilities. The Company has designated its financial instruments as follows:

Cash and cash equivalents 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 and accrued liabilities 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 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 GAAP are deferred and amortized over the life of the related project. To date, no development costs have been capitalized.

### (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.

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 4

Years ended April 30, 2011 and 2010

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## 2. Significant accounting policies (continued)

### (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 future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. A valuation allowance is recorded against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

### (k) Convertible debentures

The Company's convertible debentures were accounted for as compound financial instruments and were 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 were transferred to share capital. The debt balance associated with convertible debentures accreted over time to the amount owing on maturity and such increases in the debt balance were reflected as non-cash interest expense in the statement of net loss.

### (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.

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 5

Years ended April 30, 2011 and 2010

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## 2. Significant accounting policies (continued)

### (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 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) International Financial Reporting Standards ("IFRS")

Accounting standards in Canada have converged with IFRS and accordingly, the Company will begin reporting, with comparative data, under IFRS for fiscal years beginning on or after January 1, 2011. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosure. The implementation of IFRS will apply to the Company's interim and annual financial statements for

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 6

Years ended April 30, 2011 and 2010

## 2. Significant accounting policies (continued)

(q) International Financial Reporting Standards (“IFRS”) (continued)

the fiscal year beginning May 1, 2011, including the presentation of comparative amounts for the 2011 fiscal year.

## 3. Property and equipment

April 30, 2011	Cost	Accumulated depreciation	Net book value
Laboratory equipment	\$ 1,339,392	\$ 818,821	\$ 520,571
Office furniture and equipment	76,413	65,770	10,643
Computer equipment	289,816	221,919	67,897
Computer software	126,166	82,021	44,145
	\$ 1,831,787	\$ 1,188,531	\$ 643,256

  

April 30, 2010			
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	-
	\$ 2,278,003	\$ 1,623,296	\$ 654,707

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 7

Years ended April 30, 2011 and 2010

## 4. Intellectual property and patents

April 30, 2011	Cost	Accumulated amortization	Net book value
Patents	\$ 1,266,247	\$ 292,394	\$ 973,853
Intellectual property	818	818	-
	<u>\$ 1,267,065</u>	<u>\$ 293,212</u>	<u>\$ 973,853</u>

  

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>

## 5. Convertible debentures

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.

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.

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 8

Years ended April 30, 2011 and 2010

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## 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:

Subsequent to April 30, 2011, the Company raised \$12.6 million by way of a prospectus offering, as described in Note 11 "Subsequent event".

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 on June 22, 2014. The warrants were valued at \$1.9 million using a Black-Scholes option pricing model and are further described in Note 6(c). Share issue costs of \$0.7 million included broker and agent commissions of \$0.6 million.

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. The warrants were valued at \$1.9 million using a Black-Scholes option pricing model and are further described in Note 6(c). Share issue costs of \$0.8 million included legal costs of \$0.1 million and broker and agent commissions of \$0.7 million.

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. 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 \$0.2 million.

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 \$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.

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 9

Years ended April 30, 2011 and 2010

## 6. Shareholders' equity (continued)

### (a) Common shares (continued)

Common shares	Number of shares	Amount
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	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
Issued in connection with prospectus offerings	5,895,975	15,459,128
Issued in connection with Standby Equity Distribution Agreement	51,290	200,010
Share issue costs	-	(2,049,955)
Issued in connection with warrant exercises	456,568	4,834,723
Balance, April 30, 2011	52,277,907	\$ 109,697,718

### (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.

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 10

Years ended April 30, 2011 and 2010

## 6. Shareholders' equity (continued)

### (b) Stock options (continued)

	April 30, 2011		April 30, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	4,542,000	\$ 6.11	3,725,000	\$ 6.99
Granted	562,400	3.10	1,082,000	4.08
Exercised	-	-	(20,000)	2.92
Expired	(1,253,500)	7.47	(245,000)	10.83
Outstanding, end of year	3,850,900	\$ 5.22	4,542,000	\$ 6.11

The following table summarizes information about the options outstanding and exercisable at April 30, 2011.

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable
\$2.30 - \$3.26	2,268,900	2.6	\$ 2.88	1,601,329
\$4.00 - \$4.37	200,000	3.8	4.28	50,000
\$5.59 - \$7.60	872,000	3.0	6.51	594,832
\$12.07 - \$12.95	310,000	0.6	12.50	310,000
\$15.90	200,000	1.0	15.90	200,000
	3,850,900	2.5	\$ 5.22	2,756,161

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 11

Years ended April 30, 2011 and 2010

## 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 weighted average fair values of \$2.04 per option and \$2.73 per option associated with stock options granted during the years ended April 30, 2011 and 2010, respectively:

	2011	2010
Risk-free interest rate	2.0%	2.4%
Expected life	4.9 years	4.6 years
Expected volatility	86%	85%

### (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, 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
Issued on prospectus offerings	2,358,390	3,780,872	4.00
Exercised for common shares	(575,398)	(3,953,078)	2.71
Expired	(33,970)	(260,182)	2.72
Outstanding, April 30, 2011	8,308,189	\$ 22,279,634	\$ 3.06

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Years ended April 30, 2011 and 2010

## 6. Shareholders' equity (continued)

### (c) Warrants (continued)

The weighted average fair value of the warrants granted during the years ended April 30, 2011 and 2010 was \$1.60 and \$1.25 per warrant, respectively, using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Risk-free interest rate	2.3%	2.5%
Expected life	4 years	2 years
Expected volatility	92%	92%

As at April 30, 2011, the Company had 8,308,189 outstanding warrants with a weighted average price of \$3.06 and a weighted average remaining life of 2.3 years.

### (d) Contributed surplus

The changes in contributed surplus balance are as follows:

	Amount
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
Stock-based compensation expense	2,216,891
Warrants expired	260,182
Balance, April 30, 2011	\$ 22,410,867

### (e) Per share amounts

The loss per share has been calculated based on the basic and diluted weighted average shares outstanding during the year ended April 30, 2011 and 2010 of 51,345,496 (2010 – 41,102,236). The exercise of stock options and warrants and conversion of the convertible debentures are anti-dilutive.

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Years ended April 30, 2011 and 2010

## 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:

	2011	2010
Expected tax recovery - 27.5% (2010 - 28.7%)	\$ 5,749,300	\$ 7,671,900
Stock-based compensation	(609,600)	(764,100)
Tax rate reduction	(427,000)	(699,000)
Loss on redemption of convertible debentures	-	(956,600)
Other	202,300	196,500
Increase in valuation allowance	(4,915,000)	(5,448,700)
	\$ -	\$ -

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

	2011	2010
Non-capital losses	\$ 20,181,500	\$ 16,531,600
Capital losses	126,100	-
Scientific research and experimental development expenditures	7,179,200	6,139,300
Share issue costs	686,000	553,800
Other	(191,800)	(158,700)
Less: valuation allowance	(27,981,000)	(23,066,000)
	\$ -	\$ -

The Company has non-capital losses of approximately \$80.9 million (2010 - \$60.6 million) available to reduce future years' taxable income expiring at various times until 2031.

The Company also has \$28.7 million of scientific research and experimental development tax deductions which do not expire. \$5.7 million of investment tax credits available to reduce future years' income tax, subject to approval by Canada Revenue Agency and expiring at various times until 2031, are not reflected above.

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Notes to Consolidated Financial Statements, page 14

Years ended April 30, 2011 and 2010

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## 8. Commitments

The Company has entered into various research contracts. The Company is committed to pay \$16,470,270 for completion of the research (primarily clinical trials) as follows:

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2012	\$ 13,377,485
2013	2,686,482
2014	406,303
2015	-
2016	-

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As at April 30, 2011, the Company was committed to operating lease payments for office and laboratory premises as follows:

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2012	\$ 295,599
2013	99,188
2014	85,697
2015	35,707
2016	-

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## 9. Financial instruments and financial risk management

As at April 30, 2011, 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.

Canadian GAAP establishes a hierarchy for which financial assets and liabilities are valued, 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, 2011 and 2010 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, 2011 and 2010, 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.

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 15

Years ended April 30, 2011 and 2010

## 9. Financial instruments and financial risk management (continued)

### (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, 2011, the Company's cash and cash equivalents are not subject to any external restrictions.

### (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, 2011 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	\$3,900,390	\$3,900,390	\$3,900,390

### (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 annual interest income on its cash and cash equivalents as measured at April 30, 2011.

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 has no forward exchange contracts to manage its foreign currency risk. As at April 30, 2011, the Company had US denominated assets and liabilities of: cash and cash

# RESVERLOGIX CORP.

Notes to Consolidated Financial Statements, page 16

Years ended April 30, 2011 and 2010

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## 9. Financial instruments and financial risk management (continued)

### (c) Market Risk (continued)

equivalents in the amount of US\$1.7 million and accounts payable in the amount of US\$2.9 million. A change of \$0.01 in the US/Canadian dollar exchange rate as measured on April 30, 2011 would result in a foreign currency gain or loss of US\$13,000.

## 10. Management of capital

The Company's objectives when managing capital (cash, cash equivalents, and marketable securities) 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 business 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, common share purchase warrants, and stock options. 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 event

On June 14, 2011, the Company issued a total of 7,000,000 units, representing 7,000,000 common shares and 3,500,000 warrants, at \$1.80 per unit pursuant to a prospectus offering for gross proceeds of \$12.6 million. The warrants have an exercise price of \$2.25 per common share and expire on June 14, 2016.