

Financial Statements of

RESVERLOGIX CORP.

Years ended April 30, 2007 and 2006

RESVERLOGIX CORP.

Consolidated Balance Sheets

April 30, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 543,182	\$ 3,059,166
Short term investments	12,183,765	4,636,463
Prepaid expenses and deposits	851,322	246,343
	<u>13,578,269</u>	<u>7,941,972</u>
Property and equipment (note 3)	940,526	769,076
Intellectual property and patents (note 4)	518,160	296,506
Deferred financing costs (note 5)	1,574,906	—
	<u>\$16,611,861</u>	<u>\$ 9,007,554</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,564,477	\$ 647,433
Accrued interest on debentures	483,815	—
	<u>3,048,292</u>	<u>647,433</u>
Convertible debentures (note 6)	14,694,289	—
Shareholders' equity:		
Common shares (note 7)	20,540,096	20,313,242
Convertible debentures equity component (note 6)	1,320,428	—
Contributed surplus (note 7)	6,746,518	2,347,073
Warrants (note 7)	3,627,737	83,520
Deficit	(33,365,499)	(14,383,714)
	<u>(1,130,720)</u>	<u>8,360,121</u>
Nature of operations (note 1)		
Commitments (notes 4 and 9)		
	<u>\$16,611,861</u>	<u>\$9,007,554</u>

See accompanying notes to the consolidated financial statements.

Signed on behalf of the Board:

Signed: "William A. Cochrane" Director

Signed: "Whitney O. Ward" Director

RESVERLOGIX CORP.

Consolidated Statements of Operations and Deficit

Years ended April 30, 2007 and 2006

	2007	2006
Revenue:		
Interest income	\$ 320,665	\$ 272,266
Gain on sale of short term investments	514	—
	<u>321,179</u>	<u>272,266</u>
Expenses:		
Research and development	10,598,795	3,387,647
General and administrative	2,318,244	1,829,821
Stock-based compensation	4,425,135	1,912,953
Amortization of financing costs	189,247	—
Interest and accretion on convertible debentures	909,668	—
Depreciation and amortization	386,317	239,462
Patent abandonment (note 4)	129,508	—
Foreign exchange loss (gain)	(305,734)	36,062
	<u>18,651,180</u>	<u>7,405,945</u>
Net loss	18,330,001	7,133,679
Deficit, beginning of year	14,383,714	6,631,806
Share repurchase (note 7)	651,784	618,229
Deficit, end of year	<u>\$33,365,499</u>	<u>\$14,383,714</u>
Net loss per common share – basic and diluted	\$ 0.76	\$ 0.30
Weighted average number of common shares	<u>24,104,348</u>	<u>23,815,621</u>

See accompanying notes to the consolidated financial statements.

RESVERLOGIX CORP.

Consolidated Statements of Cash Flows

Years ended April 30, 2007 and 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Net loss	\$(18,330,001)	\$(7,133,679)
Items not involving cash:		
Stock-based compensation	4,425,135	1,912,953
Depreciation and amortization	386,317	239,462
Debenture accretion and amortization of financing costs	596,887	—
Unrealized foreign exchange gain	(62,538)	(4,375)
Patent abandonment	129,508	—
Cancellation of preferred shares	—	(50,000)
Gain on sale of short term investments	(514)	—
	<u>(12,855,206)</u>	<u>(5,035,639)</u>
Changes in non-cash working capital:		
Accounts receivable	—	79,473
Prepaid expenses and deposits	(604,979)	(216,655)
Accounts payable and accrued liabilities	1,963,211	244,130
Accrued interest on debentures	502,028	—
	<u>(10,994,946)</u>	<u>(4,928,691)</u>
Financing:		
Proceeds on issue of convertible debentures (net of issue costs)	18,164,827	—
Proceeds from exercise of options and warrants	240,866	1,938,777
Share repurchase	(775,006)	(725,519)
Equipment leases	—	(32,930)
Unrealized foreign exchange gain	(694,166)	—
	<u>16,936,521</u>	<u>1,180,328</u>
Investing:		
Short term investments	(7,927,590)	(965,250)
Property and equipment additions	(517,125)	(444,619)
Patent additions	(391,804)	(209,712)
Non-cash investing working capital	(1,842)	(5,127)
Unrealized foreign exchange loss	380,802	7,400
	<u>(8,457,559)</u>	<u>(1,617,308)</u>
Decrease in cash and cash equivalents	(2,515,984)	(5,365,671)
Cash and cash equivalents, beginning of year	3,059,166	8,424,837
Cash and cash equivalents, end of year	<u>\$ 543,182</u>	<u>\$ 3,059,166</u>
Interest paid	<u>\$ —</u>	<u>\$ 1,589</u>

See accompanying notes to the consolidated financial statements.

RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements

Years ended April 30, 2007 and 2006

Resverlogix Corp. and its wholly owned subsidiary, RVX Therapeutics Inc., are incorporated under the laws of Alberta. The Company's primary business activity is the research and development of various drugs to treat cardiovascular disease, Alzheimer's disease, and the treatment of cancer and fibrotic disease.

1. Nature of operations:

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

The Company has the following projects under development:

(a) NexVas™ Plaque Regression (PR):

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

(b) NexVas™ Vascular Inflammation (VI) / ReVas™:

The NexVas™ VI program emphasizes the involvement of chronic inflammation in the formation of atherosclerotic plaques. The focus is to identify novel small molecules that regulate pro-inflammatory mediators of atherosclerosis.

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

(c) NexVas™ Alzheimer's Disease (AD):

The NexVas™ AD program is a discovery stage technology for the development of drugs that enhance ApoA-I for stabilization and regression of Beta Amyloid Plaque.

(d) TGF-β Shield™:

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

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Notes to the Consolidated Financial Statements, page 2

Years ended April 30, 2007 and 2006

1. Nature of operations continued:

Research and development expenditures on these projects are as follows:

	2007	2006	Cumulative since inception
NexVas PR	\$ 9,351,009	\$3,109,445	\$14,671,035
NexVas VI / ReVas	1,048,678	106,617	1,155,295
TGF- β Shield	199,108	176,788	689,513
	<u>\$10,598,795</u>	<u>\$3,392,850</u>	<u>\$16,515,843</u>

As the Company has no established revenue base, it is reliant on equity financing for funding its projects under development. At April 30, 2007, the Company had \$10.5 million of working capital, including \$12.7 million of cash and short term investments. In January 2007, the Company raised U.S. \$17.0 million through convertible debenture financing issued to certain institutional investors. Management continues to pursue financing to ensure that it has sufficient working capital to fund its development and corporate operations beyond April 30, 2008. Should the Company be unable to access adequate funding, adjustments would be necessary to assets and liabilities and revenues and expenses.

2. Significant accounting policies:

(a) 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.

(b) 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 the Consolidated Financial Statements, page 3

Years ended April 30, 2007 and 2006

2. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents consists of balances with the Company's bank.

(d) Short term investments:

Short term investments, consisting primarily of guaranteed investment certificates, commercial papers and bankers' acceptances, are liquid investments that are readily convertible to known amounts of cash, with maturities of less than one year. They are carried at the lower of cost plus accrued interest and market value.

(e) 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.

(f) 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. On an ongoing basis, management reviews the valuation, taking into consideration circumstances which might have impaired the value.

(g) Deferred financing costs:

Costs incurred in obtaining convertible debenture financing, including agency fees, legal costs, and regulatory fees, have been capitalized to deferred financing costs. These costs are amortized on a straight-line basis over the three year term of the debt, beginning on January 4, 2007, when the financing was completed.

(h) 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.

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Notes to the Consolidated Financial Statements, page 4

Years ended April 30, 2007 and 2006

2. Significant accounting policies (continued):

(i) 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. Only dilutive instruments, where market value exceeds the exercise price, impact the calculation.

(j) Stock based compensation plan:

For options or similar instruments granted to employees and non-employees after April 30, 2003, an amount equal to the fair value of the instrument on the date of grant is recorded as a charge to operations over the vesting period. The fair value of options and similar instruments is estimated on the grant date 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 expense recognized in contributed surplus is recorded as an increase in common shares.

3. Property and equipment:

	Cost	Accumulated depreciation and amortization	Net book value
2007			
Laboratory equipment	\$ 1,048,140	\$ 415,826	\$ 632,314
Office furniture and equipment	61,984	34,669	27,315
Computer equipment	173,493	107,080	66,413
Computer software	76,582	63,462	13,120
Leasehold improvements	456,870	255,506	201,364
	\$ 1,817,069	\$ 876,543	\$ 940,526
2006			
Laboratory equipment	\$ 813,325	\$ 293,319	\$ 520,006
Office furniture and equipment	48,581	24,589	23,992
Computer equipment	123,966	69,832	54,134
Computer software	66,900	22,389	44,511
Leasehold improvements	247,172	120,739	126,433
	\$ 1,299,944	\$ 530,868	\$ 769,076

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Notes to the Consolidated Financial Statements, page 5

Years ended April 30, 2007 and 2006

4. Intellectual property and patents:

April 30, 2007	Cost	Accumulated amortization	Net book value
Acquired property (NexVas™)	\$ 818	\$ 136	\$ 682
Patents	712,193	65,207	646,986
Patent abandonment	(139,423)	(9,915)	(129,508)
	<u>\$ 573,588</u>	<u>\$ 55,428</u>	<u>\$ 518,160</u>
April 30, 2006			
Acquired property (NexVas™)	\$ 818	\$ 91	\$ 727
Patents	320,389	24,610	295,779
	<u>\$ 321,207</u>	<u>\$ 24,701</u>	<u>\$ 296,506</u>

The Company has chosen to abandon one of its early patent applications after the Company received the first substantive office actions for the application. The Company chose to abandon these patent applications to pursue other patent applications that are more closely in line with the Company's current scientific objectives and business plan. All costs and amortization incurred to date that are noted in the schedule above were expensed in April 2007.

In October 2004, the Company entered into an exclusive license agreement that expands the number of proprietary compounds that the Company can test, manufacture, market, sell or sublicense. The agreement expires on the later of 20 years or the expiration of the last patent covered under the license agreement. As consideration the Company paid an initial license fee of U.S. \$25,000. In addition, the Company is required to make additional payments of U.S. \$50,000 upon the discovery of each nutraceutical which contains a compound protected by the patent which will be used in a commercial context and a payment of U.S. \$300,000 upon the first enrolment of a patient into a regulatory approved Phase I Clinical Trial for a pharmaceutical compound protected by the patent.

5. Deferred financing costs:

Costs incurred in obtaining convertible debenture financing, including agency fees, legal costs, and regulatory fees, have been capitalized to deferred financing costs. These costs are amortized on a straight-line basis over the three year term of the debenture, beginning on January 4, 2007, when the financing was completed.

RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 6

Years ended April 30, 2007 and 2006

5. Deferred financing costs (continued):

April 30, 2007	Cost	Accumulated amortization	Net book value
Agency fees	\$ 1,569,826	\$ 168,799	\$ 1,401,027
Legal costs	144,912	15,135	129,777
Regulatory fees	49,415	5,313	44,102
	<u>\$ 1,764,153</u>	<u>\$ 189,247</u>	<u>\$ 1,574,906</u>

6. Convertible debentures:

A reconciliation of the convertible debentures and its equity components is provided below:

	Carrying Value	Face Value
January 4, 2007 issuance	\$ 19,928,980	\$ 19,928,980
Warrants issued to debenture holders	(3,627,737)	—
Portion allocated to equity	(1,320,428)	—
Accretion of non-cash interest expense	407,640	—
Foreign exchange translation	(694,166)	(899,600)
<u>Balance April 30, 2007</u>	<u>\$ 14,694,289</u>	<u>\$ 19,029,380</u>

The Company's convertible debentures 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 operations and deficit.

The Company issued \$17.0 million (U.S.) of senior secured convertible debentures on January 4, 2007 that mature on January 4, 2010, and bear a coupon rate of 8% per annum paid semi-annually on July 1 and January 1 of each year. The interest rate may be increased pursuant to certain conditions where trading ranges of Company's share price closes below the conversion price used to value the conversion rights. Where such conditions occur, the debenture's coupon rate can range between 10%-15% per annum and can not be subsequently decreased.

RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 7

Years ended April 30, 2007 and 2006

6. Convertible Debentures (continued):

The holder of the debentures can convert their debentures into 1,634,607 common shares at any time but are subject to trading restrictions as in the last paragraph in this note. The Company at its option may, subject to certain restrictions noted in the next sentence, pay the interest in the form of cash, common shares or some combination thereof. The Company may elect to pay in common shares in whole or in part, only if certain equity conditions are met and trading dollar volumes preceding those payment dates equal or exceed \$250,000 for 20 consecutive trading days unless otherwise waived by the holder ("Equity Conditions").

The debentures are convertible any time at the option of the holders into common shares at a conversion price of \$12.07 per share, subject to certain anti-dilution adjustments which would reduce the price if the Company issues additional common shares or financial instruments that can be converted to common shares below the conversion price. The Company, at its option, can initiate a mandatory conversion of the debentures into common shares 4 months after the issuance of the debentures. The mandatory conversion option allows for equal one-third conversion amounts per annum over the term of the debt when certain stock trading premiums over the conversion price in effect at the time of the conversion are achieved.

In circumstances where the Company's share price trades below the conversion price then in effect for a pre-determined period of time and the holders converts their debentures, the Company is obligated to pay interest at the then applicable rate on the converted amount through the maturity date at the time of conversion. The Company, at its election, can pay the interest in cash, common shares or some combination thereof pursuant to the Equity Conditions.

In the event of default on the convertible debenture or upon a change of control, the holder has the option to require the Company to repurchase all or any portion of the outstanding principal at a price equal to the greater of 125% of (i) the outstanding principal, plus all accrued interest or (ii) the 5 consecutive day average closing price attributed to the underlying shares, plus all accrued interest.

As part of the issuance of the debentures 408,647 accompanying warrants were issued to the holders of the convertible debt at an exercise price of \$15.09 (\$13.00 U.S.) per share, subject to certain anti-dilution adjustments which would reduce the price if the Company issues additional common shares or financial instruments that can be converted to common shares below the conversion price. The 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 7 of the financial statements. The value of the warrants has been deducted from the carrying value of the convertible debentures.

Unless permitted under Canadian securities legislation, the holders of the debentures, warrants and common shares underlying the debentures and warrants will not be able to trade the debentures, warrants or common shares underlying the debentures and warrants until May 5, 2007.

RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 8

Years ended April 30, 2007 and 2006

7. Share capital:

(a) 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.

(b) Issued and outstanding:

Common shares	Number of shares	Amount
Balance, April 30, 2005	23,242,614	\$17,619,707
Issued on exercise of warrants	302,975	698,260
Issued on exercise of stock options	700,300	1,240,517
Transfer from warrants on exercise of warrants		436,937
Transfer from contributed surplus on exercise of options		594,201
Shares repurchased and cancelled	(118,100)	(107,290)
Share issue costs		(169,090)
Balance, April 30, 2006	24,127,789	20,313,242
Issued on exercise of warrants	68,742	206,226
Issued on exercise of stock options	29,000	34,640
Transfer from warrants on exercise of warrants		83,520
Transfer from contributed surplus on exercise of options		25,690
Shares repurchased and cancelled	(127,500)	(123,222)
Balance, April 30, 2007	24,098,031	\$20,540,096

Series A Preferred shares	Number of shares	Amount
Balance, April 30, 2004 and 2005	2,000,000	\$ 50,000
Cancellation and return to treasury	(2,000,000)	(50,000)
Balance, April 30, 2006	—	\$ —

(b) Issued and outstanding (continued):

On November 1, 2005, all issued and outstanding preferred shares were cancelled and returned to treasury.

RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 9

Years ended April 30, 2007 and 2006

7. Share capital continued:

(c) Normal Course Issuer Bid:

On June 16, 2005, the Company announced a Normal Course Issuer Bid allowing the Company to repurchase up to 250,000 common shares during the period of June 24, 2005 to June 23, 2006 at the market price at the time of the repurchase. In 2007, the Company acquired 45,300 of its common shares pursuant to this Normal Course Issuer Bid at an average price of \$6.18 per share, at a total cost of \$284,210 including commissions. Over the full term of the Normal Course Issuer Bid, the Company has acquired 163,400 of its common shares at an average price of \$6.09 per share. The total cost of this program including commissions was \$1,009,729. The excess of the purchase price over the stated capital of the common shares has been charged to the deficit. All common shares repurchased by the Company were cancelled.

On August 11, 2006, the Company announced a second Normal Course Issuer Bid allowing the Company to repurchase up to 150,000 common shares during the period of August 14, 2006 to August 13, 2007 at the market price at the time of the repurchase. Pursuant to the Normal Course Issuer Bid, the Company has acquired 82,200 of its common shares at an average price of \$5.91 per share. The total cost of this program including commissions is \$490,796. The excess of the purchase price over the stated capital of the common shares has been charged to the deficit. All common shares repurchased by the Company were cancelled.

(d) Stock options:

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

The amended plan has been approved as a rolling 10% plan that allows for reservation of a number of Common Shares under the plan equal to 10% of the Company's issued and outstanding Common Shares on an undiluted basis. Additionally, the provisions have been added to make the plan a reloading plan, which allows any options under the plan that expire, are cancelled or are exercised, the number of Common Shares reserved for issuance related to these options automatically become eligible to be reallocated pursuant to stock option based grants. The Company may grant options to its directors, officers, employees and consultants. The majority of options fully vest over two to three years and have a two to five

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Notes to the Consolidated Financial Statements, page 10

Years ended April 30, 2007 and 2006

7. Share capital continued:

(d) Stock options (continued):

year term. The majority of options issued in 2006 vested over three years and have a two to five year term.

During the quarter ended January 31, 2007, the Company revised the exercise price of certain options that were improperly discounted when they were issued. The exercise price of the affected options has been subsequently increased to the corresponding market price at the

time of the stock options were granted. The affected options were granted between March 2004 and March 2006. The overall impact on the weighted average exercise price was not material has been separately disclosed below in the table below.

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	2,896,200	\$ 4.05	2,314,000	\$ 1.82
Options re-priced	—	.70	—	—
Granted at less than market price	—	—	957,500	6.47
Granted at greater than market price	470,000	10.38	400,000	7.60
Exercised	(29,000)	1.19	(700,300)	1.77
Expired	(40,000)	7.25	(75,000)	6.19
Outstanding at end of year	3,297,200	\$ 5.16	2,896,200	\$ 4.05
Weighted average remaining contractual life	2.8 years		3.2 years	

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Notes to the Consolidated Financial Statements, page 11

Years ended April 30, 2007 and 2006

7. Share capital continued:

(d) Stock options (continued):

The following table summarized information about the options outstanding and exercisable at April 30, 2007.

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable
\$1.16 - \$1.60	1,197,700	1.1	\$1.57	1,197,700
\$2.25 - \$2.53	332,000	2.9	\$2.35	295,750
\$5.27 - \$7.96	1,532,500	4.0	\$7.19	640,000
\$14.16	235,000	3.8	\$14.16	0
	3,297,200	2.8	\$5.16	2,133,450

The weighted average fair value of the options granted during the year was \$5.76 for options granted at greater than or equal to market price (2006 - \$4.35, granted at less than market price and \$3.70 for options granted at greater than market price) per option using the Black-Scholes option pricing model with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	4%	4%
Expected life	4 years	2 to 5 years
Expected volatility	58% - 89%	73%

(e) Warrants:

As part of the issuance of convertible debentures 408,647 accompanying warrants were issued to the holders of the convertible debt at an exercise price of \$15.09 (\$13.00 U.S.) per share. Unless permitted under Canadian securities legislation, the holders of the warrants will not be able to exercise and trade the warrants until May 5, 2007.

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Notes to the Consolidated Financial Statements, page 12

Years ended April 30, 2007 and 2006

7. Share capital continued:

(e) Warrants (continued):

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

	Number of warrants	Amount	Weighted average exercise price
Outstanding, April 30, 2005	371,717	\$ 351,367	\$ 2.43
Exercised during period	(302,975)	(267,847)	3.00
Outstanding, April 30, 2006	68,742	83,520	3.00
Granted in connection with convertible debentures	408,647	3,627,737	15.09
Exercised during period	(68,742)	(83,520)	3.00
Outstanding, April 30, 2007	408,647	\$ 3,627,737	\$ 15.09

The estimated fair value of the warrants granted has been recorded net of the convertible debentures. The weighted average fair value of the warrants granted during 2007 was \$8.88 per warrant, using the Black-Scholes option pricing model with the following weighted average assumptions.

	2007
Risk free interest rate	4%
Expected life	4 years
Expected volatility	76%

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Notes to the Consolidated Financial Statements, page 13

Years ended April 30, 2007 and 2006

7. Share capital continued:

(f) Contributed surplus:

The changes in contributed surplus balance are as follows:

	Amount
Balance, April 30, 2005	\$ 1,028,321
Options exercised	(594,201)
Fair value of options granted	1,912,953
Balance, April 30, 2006	2,347,073
Options exercised	(25,690)
Fair value of options granted	4,425,135
Balance, April 30, 2007	\$ 6,746,518

(g) Per share amounts:

The loss per share has been calculated based on the weighted average shares outstanding during the year of 24,104,348 (2006 - 23,815,621). The effect upon the conversion of stock options and warrants is anti-dilutive.

8. Income taxes:

The provision for income taxes differs from the amount which would be obtained by applying the combined 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:

	2007	2006
Expected tax recovery – 32.1% (2006 – 33.5%)	\$ 5,883,900	\$ 2,389,800
Stock-based compensation	(1,420,500)	(640,900)
Tax rate reduction	(1,037,900)	--
Other	(358,000)	695,800
Increase in valuation allowance	(3,067,500)	(2,444,700)
	\$ --	\$ --

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8. Income taxes (continued):

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

	2007	2006
Non-capital losses	\$ 4,206,800	\$ 2,150,200
Scientific research and experimental development expenditures	3,643,100	2,368,800
Share issue costs	208,200	505,700
Other	(182,500)	(216,600)
Less: Valuation allowance	(7,875,600)	(4,808,100)
	\$ -	\$ -

The Company has non-capital losses of approximately \$14.5 million (2006 - \$6.4 million) available to reduce future years' taxable income expiring from time to time up to 2027. The Company also has \$12.6 million of scientific research and experimental development tax deductions which do not expire. Not reflected above are \$2.5 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 2027.

9. Commitments:

The Company has entered into various research contracts. The initial deposits required upon acceptance of the contracts total \$772,943 and have been appropriately accrued in the financial statements. In addition, the Company is committed to pay \$5,002,000 for completion of the studies. Payments are as follows:

2008	\$ 4,813,000
2009	189,000

As at April 30, 2007, the Company was committed to operating lease payments for office and laboratory premises as follows:

2008	\$ 169,246
2009	74,658
2010	27,515

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10. Financial instruments:

The fair value of monetary assets and liabilities, except the Company's short term investments, approximate their carrying values, due to the short-term nature of these instruments. The market value of the short term investments at April 30, 2007 was approximately \$12.2 million (2006 - \$4.7 million).

The Company is exposed to fixed rates of interest on its convertible debentures that may be adjusted pursuant to certain conditions where trading ranges of Company's share price closes below the conversion price used to value the conversion rights as described in Note 6 of the Consolidated Financial Statements. Where such conditions occur, the debenture's coupon rate can range between 10%-15% per annum and can not be subsequently decreased.

11. Payment to related party:

In 2007, the Company paid consulting fees of \$30,000 (2006 - \$30,000) to an entity controlled by a director of the Company. The transactions were recorded at the amounts agreed to by the related parties.

12. Subsequent event:

On June 7, 2007, the Company sold and issued U.S. \$25 million of senior secured convertible debentures due June 6, 2012 ("Debentures") and accompanying warrants to purchase, in the aggregate, 529,000 common shares of the Company ("Warrants"). Interest on the Debentures is payable semi-annually in arrears at a rate of 8% per annum, subject to upward adjustments between 10%-15% based on decreases in the trading price of the common shares below the conversion price then in effect and subject to subsequent downward readjustments based on increases in the trading price of the common shares, but in no event shall the interest rate be less than 8%. Interest is payable on the first day of July and January of each year. The first interest payment shall be due January 2008. The Company at its option may pay the interest in the form of cash, common shares or some combination thereof. If there is an election to pay in common shares in whole or in part, certain equity conditions must be met and trading dollar volumes preceding those payment dates equal or exceed \$250,000 for 20 consecutive trading days unless otherwise waived by the holder ("Equity Conditions").

The Debentures are convertible into 1,512,000 common shares at a conversion price of CAD \$17.50 per share, subject to certain anti-dilution adjustments which would reduce the price if the Company issues additional common shares or financial instruments that can be converted to common shares below the conversion price. The holder of the Debentures can convert their debentures in common shares at any time but are subject to trading restrictions as in the last paragraph in this note. The Company, at its option, can initiate a mandatory conversion of the Debentures into common shares 4 months after the issuance of the Debentures. The mandatory conversion option allows for equal one-third conversion amounts per annum over the term of the

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Years ended April 30, 2007 and 2006

12. Subsequent event (continued):

debt when certain stock trading premiums over the conversion price in effect at the time of the conversion are achieved.

In circumstances where the Company's share price trades below the conversion price then in effect for a pre-determined period of time and the holders converts their Debentures, the Company is obligated to pay interest at the then applicable rate on the converted amount through the maturity date at the time of conversion. The Company, at its election, can pay the interest in cash, common shares or some combination thereof pursuant to the Equity Conditions.

The Warrants have an exercise price of CAD \$20.63 per share, and subject to the same anti-dilution adjustments as the debt.

Unless permitted under Canadian securities legislation, the holders of the Debentures, Warrants and common shares underlying the Debentures and Warrants will not be able to trade the Debt, Warrants or common shares underlying the Debentures and Warrants until October 8, 2007.

13. Comparative financial statements

The Comparative financial statements have been reclassified from statements previously presented to conform to the 2007 financial statement presentation.