

Financial Statements of

**RESVERLOGIX CORP.**

Years ended April 30, 2008 and 2007



**KPMG** LLP  
**Chartered Accountants**  
2700-205 5 Avenue SW  
Calgary AB T2P 4B9

Telephone (403) 691-8000  
Telefax (403) 691-8008  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheets of Resverlogix Corporation as at April 30, 2008 and 2007 and the consolidated statements of operations, comprehensive loss 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 audit 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, 2008 and 2007 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 28, 2008

# RESVERLOGIX CORP.

## Consolidated Balance Sheets

April 30, 2008 and 2007

	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,349,373	\$ 543,182
Short term investments	15,664,215	12,183,765
Prepaid expenses and deposits	1,449,053	851,322
	<u>19,462,641</u>	<u>13,578,269</u>
Property and equipment (note 3)	893,971	940,526
Intellectual property and patents (note 4)	538,050	518,160
Deferred financing costs (note 5)	—	1,574,906
	<u>\$20,894,662</u>	<u>\$16,611,861</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,423,962	\$ 2,564,477
Accrued interest on debentures	770,901	483,815
	<u>3,194,863</u>	<u>3,048,292</u>
Convertible debentures (note 5)	12,210,272	14,694,289
Shareholders' equity: (note 6)		
Common shares	44,840,422	20,540,096
Convertible debentures equity component	11,229,884	1,320,428
Contributed surplus	13,545,093	6,746,518
Warrants	14,428,170	3,627,737
Deficit	(78,554,042)	(33,365,499)
	<u>5,489,527</u>	<u>(1,130,720)</u>
Nature of operations (note 1)		
Commitments (notes 4 and 8)		
	<u>\$20,894,662</u>	<u>\$16,611,861</u>

See accompanying notes to the consolidated financial statements.

Signed on behalf of the Board:

Signed: "William A. Cochrane" Director

Signed: "Stella Thompson" Director

# RESVERLOGIX CORP.

## Consolidated Statements of Operations and Comprehensive Loss

Years ended April 30, 2008 and 2007

	2008	2007
Revenue:		
Interest income	\$ 1,073,851	\$ 320,665
Gain on sale of short term investments	–	514
	1,073,851	321,179
Expenses:		
Research and development	14,730,065	10,598,795
General and administrative	2,911,680	2,318,244
Stock-based compensation	6,934,805	4,425,135
Interest and accretion on convertible debentures	4,582,795	909,668
Depreciation and amortization	461,329	386,317
Patent abandonment (note 4)	107,114	129,508
Foreign exchange gain	(275,769)	(305,734)
Amortization of financing costs	–	189,247
	29,452,019	18,651,180
Net loss and comprehensive loss	28,378,168	18,330,001
Net loss per common share – basic and diluted	\$ 1.10	\$ 0.76
Weighted average number of common shares	25,838,838	24,104,348

See accompanying notes to the consolidated financial statements.

# RESVERLOGIX CORP.

## Consolidated Statements of Cash Flows

Years ended April 30, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Net loss	\$(28,378,168)	\$(18,330,001)
Items not involving cash:		
Stock-based compensation	6,934,805	4,425,135
Depreciation and amortization	461,329	386,317
Debenture accretion and amortization of financing costs	1,541,314	596,887
Interest expenses paid in common shares	1,877,806	—
Foreign exchange gain	(1,942,377)	(375,902)
Patent abandonment	107,114	129,508
Gain on sale of short term investments	—	(514)
	(19,398,177)	(13,168,570)
Changes in non-cash working capital:		
Prepaid expenses and deposits	(597,731)	(604,979)
Accounts payable and accrued liabilities	(111,317)	1,963,211
Accrued interest on debentures	285,064	502,028
	(19,822,161)	(11,308,310)
Financing:		
Proceeds on issue of convertible debentures (net of issue costs)	25,405,281	18,164,827
Proceeds from exercise of options and warrants	253,230	240,866
Share repurchase	—	(775,006)
	25,658,511	17,630,687
Investing:		
Short term investments	(3,460,796)	(7,927,590)
Property and equipment additions	(370,761)	(517,125)
Patent additions	(171,017)	(391,804)
Non-cash investing working capital	(27,585)	(1,842)
	(4,030,159)	(8,838,361)
Increase (decrease) in cash and cash equivalents	1,806,191	(2,515,984)
Cash and cash equivalents, beginning of year	543,182	3,059,166
Cash and cash equivalents, end of year	\$ 2,349,373	\$ 543,182

See accompanying notes to the consolidated financial statements.

# RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements

Years ended April 30, 2008 and 2007

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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.

# RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 2

Years ended April 30, 2008 and 2007

## 1. Nature of operations continued:

Research and development expenditures on these projects are as follows:

	2008	2007	Cumulative since inception
NexVas PR	\$14,024,249	\$ 9,351,009	\$28,695,284
NexVas VI / ReVas	660,108	1,048,678	1,815,403
TGF- $\beta$ Shield	45,708	199,108	735,221
	<u>\$14,730,065</u>	<u>\$10,598,795</u>	<u>\$31,245,908</u>

As the Company has no established revenue base, it is reliant on equity financing for funding its projects under development. At April 30, 2008, the Company had \$16.3 million of working capital, including \$18.0 million of cash and short term investments. In June 2007, the Company raised U.S. \$25.0 million through convertible debenture financing issued to certain institutional investors. Management will need to pursue financing within the next year to ensure that it has sufficient working capital to fund its development and corporate operations beyond April 30, 2009. 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, 2008 and 2007

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## 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) 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.

(h) Convertible debentures:

The Company's convertible debentures are accounted for as a compound financial instrument and is classified as debt with a portion of the proceeds allocated to equity representing the value of the conversion feature. The debt component is measured at the issue date as the present value of cash payments of interest and principal due under the terms at a rate which approximates the estimated interest rate of a similar non-convertible financial instrument with comparable terms and risk. The difference between the values as determined in this manner

# RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 4

Years ended April 30, 2008 and 2007

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## 2. Significant accounting policies (continued):

and the face value of the convertible debentures has been allocated to equity. 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 comprehensive loss.

(i) Warrants:

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 6 of the financial statements. The value of the warrants has been deducted from the carrying value of the convertible debentures.

(j) 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.

(k) 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.

(j) Foreign Exchange 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 net in the consolidated statements of operations.

# RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 5

Years ended April 30, 2008 and 2007

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## 2. Changes in accounting policies:

Effective May 1, 2007, the Company adopted new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation, Section 3865, Hedges and Section 1530, Comprehensive Income. In accordance with the transitional provisions of the new standards, prior period financial statements were not restated.

### a) Comprehensive Income:

Section 1530, introduces a new financial statement which shows the change in equity of an enterprise during a period from transaction and other events arising from non-owner sources. The Company has not recognized any adjustment through comprehensive income for the year ended April 30, 2008.

### b) Financial Instruments – recognition and measurement; disclosure and presentation

Sections 3855 and 3861, establish standards for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. The Company is required to designate its financial instruments into one of five categories, which determine the manner of evaluation of each instrument and the presentation of related gains and losses. Depending on the financial instruments' classifications, changes in subsequent measurement are recognized in net income or comprehensive income.

The Company has designated its financial instruments as follows:

- Cash and cash equivalents and short-term investments are classified as “Held-for-Trading” and carried at fair value and changes in fair value of financial assets are marked-to-market and recorded in the statement of operations 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 new standard requires derivative instruments that may be recorded in other financial instruments (the “host instrument”) to be treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument and are to be measured at fair value with subsequent changes recognized in other income. In accordance with CICA Handbook Section 3855, the Company conducted a search for embedded derivatives in all contractual arrangements and did not identify any embedded features that require separate presentation from the host contract.

As a result of adopting Section 3855, deferred financing costs of \$1,574,906 as at April 30, 2007 relating to convertible notes, have been reclassified from deferred financing costs to

# RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 6

Years ended April 30, 2008 and 2007

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## 2. Changes in accounting policies (continued):

convertible debentures on the consolidated balance sheet. These costs will be taken into earnings using the effective interest method over the life of the related debt.

### c) Equity

Section 3251, Equity, describes standards for the presentation of equity and changes in equity for the reporting period as a result of the application of Section 1530, Comprehensive Income. This standard did not have an impact on the Company's financial statements for the year ended April 30, 2008.

### d) Hedges

Section 3865, Hedges specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. This standard did not have an impact on the Company's financial statements for the year ended April 30, 2008.

### Future accounting changes:

In 2006, the CICA announced that accounting standards in Canada will converge with International Financial Reporting Standards (IFRS). The Company will need to begin reporting IFRS in the first quarter of the 2012 fiscal year, with comparative data for the prior year. IFRS uses a conceptual framework similar to GAAP, but there could be differences on recognition, measurement and disclosures that will need to be addressed. The Company is currently assessing the impact of these standards on its financial statements.

In addition, the CICA has issued the following new Handbook Sections, which will become effective on May 1, 2008 for the Company:

- Section 3862 - *Financial Instruments – Disclosures*;
- Section 3863 - *Financial Instruments – Presentation*;
- Section 1535 - *Capital disclosures*;
- Section 3064 - *Goodwill and Intangible Assets*.

These new Sections carry forward unchanged presentation requirements of Section 3861 – *Financial Instruments – Disclosure and Presentation*; and converge with the capital disclosure-related amendments to International Accounting Standards.

Section 3862 places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed and also simplifies the disclosures about concentrations of risk, credit risk, liquidity risk and market risk currently found in Section 3861. Additional requirements include: more extensive disclosures about exposures to liquidity; currency and other price risks and an analysis of the

# RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 7

Years ended April 30, 2008 and 2007

## 2. Future accounting changes (continued):

sensitivity of net income for possible changes thereto; more specific disclosures about collateral; and details of liabilities that are in default or in breach of their terms and conditions.

Section 3863 carries forward, without change, the presentation-related requirements of Section 3861.

Section 1535 requires the disclosure of: an entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and, if it has not complied, the consequences of such non-compliance.

Section 3064 replaces CICA 3062 - *Goodwill and Intangible Assets* and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets, whether separately acquired or internally developed, and provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred.

The Company is in the process of assessing the full impact of these new Sections on its financial statement reporting.

## 3. Property and equipment:

	Cost	Accumulated depreciation and amortization	Net book value
2008			
Laboratory equipment	\$ 1,374,807	\$ 585,526	\$ 789,281
Office furniture and equipment	65,093	45,263	19,830
Computer equipment	206,689	145,664	61,025
Computer software	77,927	71,360	6,567
Leasehold improvements	463,314	446,046	17,268
	\$ 2,187,830	\$ 1,293,859	\$ 893,971
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

# RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 8

Years ended April 30, 2008 and 2007

## 4. Intellectual property and patents:

April 30, 2008	Cost	Accumulated amortization	Net book value
Acquired property (NexVas™)	\$ 818	\$ 182	\$ 636
Patents	743,787	99,259	644,528
Patent abandonment	(121,798)	(14,684)	(107,114)
	<u>\$ 622,807</u>	<u>\$ 84,757</u>	<u>\$ 538,050</u>
April 30, 2007			
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>

The Company has chosen to abandon two 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. The remaining unamortized costs noted in the schedule above were expensed during the years ended April 30, 2008 and 2007 respectively.

In October 2004, the Company entered into an exclusive license agreement that expands the number of proprietary compounds that the Company can test, manufacture, market, sell or sublicense. The agreement expires on the later of 20 years or the expiration of the last patent covered under the license agreement. As consideration the Company paid an initial license fee of U.S. \$25,000. In addition, the Company is required to make additional payments of U.S. \$50,000 upon the discovery of each nutraceutical which contains a compound protected by the patent which will be used in a commercial context and a payment of U.S. \$300,000 upon the first enrolment of a patient into a regulatory approved Phase 1 Clinical Trial for a pharmaceutical compound protected by the patent.

# RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 9

Years ended April 30, 2008 and 2007

## 5. Convertible debentures:

Convertible debentures and its equity components consist of the following:

	U.S. \$17 million Carrying Value	U.S. \$25 million Carrying Value	Total Amount
January, 2007 debenture issuance	\$ 19,928,980	\$ —	\$ 19,928,980
Warrants issued to debenture holders	(3,627,737)	—	(3,627,737)
Portion allocated to equity	(1,320,428)	—	(1,320,428)
Accretion of non-cash effective interest expense	407,640	—	407,640
Foreign exchange translation	(694,166)	—	(694,166)
Balance, April 30, 2007	\$ 14,694,289	\$ —	\$ 14,694,289
June, 2007 debenture issuance	\$ —	\$26,630,000	\$26,630,000
August, 2007 debenture amendment – accrued interest	127,649	655,411	783,060
Debenture issue costs	(1,568,212)	(2,014,474)	(3,582,686)
Warrants issued to debenture holders	—	(7,056,116)	(7,056,116)
Portion allocated to equity	—	(2,202,559)	(2,202,559)
Conversions to common shares	(12,496,900)	(4,176,999)	(16,673,899)
Accretion of non-cash effective interest expense	519,235	1,022,079	1,541,314
Foreign exchange translation	(1,033,407)	(889,724)	(1,923,131)
Balance April 30, 2008	\$ 242,654	\$ 11,967,618	\$ 12,210,272

### U.S. \$17,000,000 Convertible Debenture Financing

The Company issued \$17.0 million (U.S.) of senior secured convertible debentures on January 4, 2007 that mature on January 4, 2010, and carried a coupon rate of 8% per annum at inception 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. As of the year ended April 30, 2008, the remaining debentures carried an interest rate of 12%, a four percent increase from its initial rate.

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 in equal one-third conversion amounts under the following conditions:

(i) Mandatory conversion of equal one-third principal amounts at 130%, 150% and 175% of the conversion price in effect after May 4, 2007 to January 4, 2008, January 5, 2008 to July 4, 2008 and July 5, 2008 to the maturity of the debt respectively.

# RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 10

Years ended April 30, 2008 and 2007

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## 5. Convertible debentures (continued):

(ii) Average daily trading volumes on the trading market are at least 100,000 shares for 20 consecutive trading days.

(iii) Each of the equity conditions has been satisfied during such 20 trading days and through the applicable conversion date.

The Company at its option may, subject to certain restrictions, pay the semi-annual interest in the form of cash, common shares or some combination thereof. If the interest obligation is paid in shares, the number of common shares issued will be based on the interest obligation divided by 90% of the volume weighted average price for the 5 trading days preceding the interest payment date. The Company may elect to pay in common shares in whole or in part, if certain equity conditions are met unless otherwise waived by the debenture holder. The Company elected to pay its July 1, 2007 and January 1, 2008 semi-annual interest obligations of \$532,318 U.S. with 39,515 common shares.

In circumstances where the Company's share price trades at or below the conversion price then in effect for a pre-determined period of time and the holders converts their debentures at such time, the Company is obligated to make additional payments using the interest methodology at defined in the debenture agreement at the then applicable rate on the converted amount commencing on the conversion date through to the end of the maturity date of the debenture ("Interest to Maturity"). The Company, at its election, can pay the interest in cash, common shares or some combination thereof. If the obligation is paid in shares, the formula noted in the previous paragraph will be used to determine the number of shares issued.

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 per share which was subsequently amended to \$10.25 further described below. The exercise price is subject to certain anti-dilution adjustments which would reduce the price if the Company issues additional common shares or financial instruments that can be converted to common shares below the conversion price.

As part of the August 31, 2007 financing amendment (see "**Amended U.S. \$25,000,000 Convertible Debenture Financing**"), the January 2007 debentures have been amended to eliminate the trading volume equity condition of \$250,000 for 20 consecutive trading days preceding payment dates for interest or Interest to Maturity obligations under the original debenture. These original conditions limited the ability of the Company to issue shares in lieu of cash when paying any interest obligation. The Company has amended the January 2007 warrants as noted above in exchange for the waiver of the trading volume related equity condition. The balance of the January 2007 notes and warrants remain unchanged from its original form.

# RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 11

Years ended April 30, 2008 and 2007

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## 5. Convertible debentures (continued):

The effect of the modification to the remaining debt value from the original U.S. \$17 million convertible debenture and its related warrants was not significant to the Company's consolidated financial statements.

### **Amended U.S. \$25,000,000 Convertible Debenture Financing**

On June 7, 2007, the Company issued \$25 million U.S. of convertible debentures. Effective August 31, 2007, the Company amended the terms of the \$25 million U.S. June 2007 convertible debentures to eliminate the Interest to Maturity provisions which were equivalent to the January 2007 financing noted above and reduce the then in effect adjusted interest rate of 14% to a 12% fixed rate. In exchange for these amendments, the conversion price has been amended to \$8.76 from the original conversion price of \$17.50. In addition, the warrants issued under the June 2007 financing have been re-priced to \$10.25 from \$20.63 and an additional 529,351 warrants have been issued for a total issuance of 1,058,702.

The debentures are convertible any time at the option of the holders into common shares at a conversion price of \$8.76 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' exercise price of \$10.25 is also subject to the same anti-dilution adjustments as described above.

The amended agreement also provides the holders with a once monthly 5% put option of the principal amount at issuance. The put option provides the holder with the ability to request a portion of the principal to be repaid for cash, shares or some combination thereof. The Company has the option to pay the put obligation with shares if the closing bid price for common shares at the time of the put date is greater than \$4.00 and the total dollar value traded on the trading market for no less than 10 of such 20 consecutive Trading Days shall be at least \$250,000 ("Equity Conditions"). The monthly put options are cumulative, where the previous monthly put options are not exercised, but at no time can the holder request any amount in cash greater than the once monthly put option of 5% of the original principal amount plus accrued interest. The cumulative put in excess of the 5% monthly put option ("Excess put") can be paid in common shares and is not subject to the Equity Conditions. The first put option was available to the holders after October 31, 2007. As of the year ended April 30, 2008, no put options have been exercised by the debenture holders.

The Company at its option may, subject to certain restrictions, pay the semi-annual interest in the form of cash, common shares or some combination thereof. If the interest obligation is paid in shares, the number of common shares issued will be based on the interest obligation divided by 90% of the volume weighted average price for the 5 trading days preceding the interest payment date. The Company may elect to pay in common shares in whole or in part, only if the Equity Conditions are met, unless otherwise waived by the debenture holder. The Company elected to pay its January 1, 2008 semi-annual interest obligation of \$873,826 U.S. with 58,934 common shares and \$42,018 U.S. in cash.

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Years ended April 30, 2008 and 2007

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## 5. Convertible debentures (continued):

The Company at its option can initiate a mandatory conversion option after June 30, 2008 which requires the holders to convert all of their debentures to common shares when the Company's share price trades over \$18.00 for 20 consecutive trading days, subject to conditions as follows:

- (i) Average daily volumes on the trading market are at least 100,000 shares for 20 consecutive trading days.
- (ii) Each of the equity conditions has been satisfied during such 20 trading days and through the applicable conversion date.

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

The effect of the modification to the U.S. \$25 million convertible debentures and the related warrants on August 31, 2007 was an increase to the convertible debentures equity component of \$13.1 million, an increase to the related warrants of \$3.7 million and a corresponding increase to deficit of \$16.8 million within Shareholders' Equity. The modification had no significant impact of the liability portion of the convertible debentures.

The amended principal balance at August 31, 2007 for the January and June 2007 outstanding convertible debentures is U.S. \$7,407,302 and U.S. \$25,603,736 respectively, which includes accrued interest of U.S. \$120,834 and U.S. \$620,270 up to the date of the amendment.

Interest to Maturity obligations during the year were settled with 374,920 common shares which had a carrying a value of \$3,092,000 U.S. The shares issued to settle this obligation are treated as an equity instrument as part of the conversion rights for financial statement presentation purposes and therefore are a discount to the corresponding debt conversion price with no corresponding carrying value in the financial statements.

Issue costs incurred in connection with the issuance of the January 2007 convertible debentures were \$1,764,153 and were classified as of April 30, 2007 as deferred financing charges that were amortized over the life of the debt. As of May 1, 2007 the net book value of \$1,568,212 has been reclassified from deferred financing costs to the convertible debentures as a result of adopting the new accounting standard. These costs will be taken into earnings using the effective interest method over the life of the related debt.

Issue costs incurred in connection with the issuance of the June 2007 convertible debentures were \$1,988,019. Additional costs of \$26,455 for the incurred to amend the financing during the quarter. These costs were recorded net of the convertible debentures and will receive similar accounting treatment as a result of adopting the new accounting standard.

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Years ended April 30, 2008 and 2007

## 5. Convertible debentures (continued):

During the year ended April 30, 2008, the Company settled accrued interest obligations of \$1,928,000 U.S. due on conversion of convertible debentures with the issuance of 42,926 common shares and \$89,000 U.S. in cash.

## 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:

Common shares	Number of shares	Amount
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
Conversion of debentures	2,617,754	16,673,899
Interest costs paid in common shares	141,375	1,877,806
Issued on exercise of stock options	43,000	389,460
Transfer from equity component on conversion of debentures		5,359,161
Balance, April 30, 2008	26,900,160	\$44,840,422

### (b) Normal Course Issuer Bid:

On June 16, 2005, the Company announced a Normal Course Issuer Bid allowing the Company to repurchase up to 250,000 common shares during the period from June 24, 2005 to June 23, 2006 at the market price at the time of the repurchase. During the year ended April 30, 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

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Years ended April 30, 2008 and 2007

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## 6. Shareholders' equity (continued):

### (b) Normal Course Issuer Bid (continued):

commissions. Over the full term of the Normal Course Issuer Bid, the Company has acquired 163,400 of its common shares at an average price of \$6.09 per share. The total cost of this program including commissions was \$1,009,729. All common shares repurchased by the Company were cancelled.

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 from August 14, 2006 to August 13, 2007 at the market price at the time of the repurchase. During the year ended April 30, 2008, the Company acquired nil (2007: 82,200) of its common shares at an average price of \$5.91 per share. The total cost of this program including commissions was \$490,796. All common shares repurchased by the Company were cancelled.

### (c) 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 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.

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Years ended April 30, 2008 and 2007

## 6. Shareholders' equity (continued):

(c) Stock options (continued):

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	3,297,200	\$ 5.16	2,896,200	\$ 4.05
Options re-priced	—	—	—	.70
Granted at greater than or equal to market price	790,000	14.42	470,000	10.38
Exercised	(43,000)	5.89	(29,000)	1.19
Expired	(50,000)	6.97	(40,000)	7.25
Outstanding at end of year	3,994,200	\$ 6.96	3,297,200	\$ 5.16
Weighted average remaining contractual life	2.3 years		2.8 years	

The following table summarized information about the options outstanding and exercisable at April 30, 2008.

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable
\$1.16 - \$1.60	1,189,700	0.2	\$1.57	1,189,700
\$2.25 - \$2.53	332,000	1.7	\$2.35	332,000
\$5.27 - \$7.96	1,447,500	3.1	\$7.20	1,210,000
\$12.07 - \$12.95	340,000	3.7	\$12.46	0
\$14.16 - \$15.90	685,000	3.7	\$15.30	117,500
	3,994,200	2.3	\$6.96	2,849,200

The weighted average fair value of the options granted during the year was \$9.22 per option for options granted (2007 - \$5.76 per option) using the Black-Scholes option pricing model with the following weighted average assumptions:

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Years ended April 30, 2008 and 2007

## 6. Shareholders' equity (continued):

(c) Stock options (continued):

	2008	2007
Risk-free interest rate	3 - 4%	4%
Expected life	4 to 5 years	4 years
Expected volatility	71% - 95%	58% - 89%

(d) Warrants:

As part of the issuance of convertible debentures 529,350 accompanying warrants were issued to the holders of the convertible debt at an exercise price of \$20.63 per share. In August 2007, the warrants issued under the financing were re-priced to \$10.25 and an additional 529,352 warrants were issued as part of the Amended U.S. \$25,000,000 Convertible Debenture Financing. The effect of the modification was an increase in the warrant value of \$3,744,317.

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

	Number of warrants	Amount	Weighted average exercise price
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
Granted in connection with convertible debentures	529,350	7,056,116	20.63
Cancelled	(937,997)	(10,683,853)	18.22
Amended in connection with convertible debentures	1,467,349	14,428,170	10.25
Outstanding, April 30, 2008	1,467,349	\$14,428,170	\$ 10.25

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Years ended April 30, 2008 and 2007

## 6. Shareholders' equity (continued):

### (d) Warrants (continued):

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 2008 was \$9.83 (2007 was \$8.88) per warrant, using the Black-Scholes option pricing model with the following weighted average assumptions.

	2008	2007
Risk-free interest rate	4%	4%
Expected life	4 to 5 years	4 years
Expected volatility	92%	76%

### (e) Contributed surplus:

The changes in contributed surplus balance are as follows:

	Amount
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
Options exercised	(136,230)
Fair value of options granted	6,934,805
Balance, April 30, 2008	\$13,545,093

### (f) Convertible debentures equity component:

The changes in convertible debentures equity component balance are as follows:

	Amount
Balance, April 30, 2007	\$ 1,320,428
June 2007 financing equity component	2,202,559
August 31, 2007 financing amendment	13,066,058
Reclassified to common shares capital on conversion of debentures	(5,359,161)
Balance, April 30, 2008	\$11,229,884

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Years ended April 30, 2008 and 2007

## 6. Shareholders' equity (continued):

### (f) Convertible debentures equity component (continued):

On August 31, 2007, the Company modified the U.S. \$25 million convertible debentures, resulting in an increase to the equity component. This non-cash amount is transferred to common shares as the debentures are converted on a pro-rata basis and is further described under Note 2(h).

### (g) Deficit

The changes in deficit are as follows:

	Amount
Balance, April 30, 2006	\$14,383,714
Share repurchase	651,784
Net loss and comprehensive loss	18,330,001
Balance, April 30, 2007	33,365,499
Modification of convertible debentures	16,810,375
Net loss and comprehensive loss	28,378,168
Balance, April 30, 2008	\$78,554,042

(i) The share repurchase value is the result of the normal course issuer bid as described under Note 6(b). The excess of the purchase price over the stated capital of the common shares has been charged to the deficit.

(ii) The modification of convertible debentures is the result of the amendment to the U.S. \$25 million convertible debentures and the related warrants on August 31, 2007 as described under Note 5. The result of the modification was a charge to the deficit within Shareholders' Equity.

### (h) Per share amounts:

The loss per share has been calculated based on the weighted average shares outstanding during the year of 25,838,838 (2007 - 24,104,348). The effect upon the conversion of stock options and warrants is anti-dilutive.

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Years ended April 30, 2008 and 2007

## 7. 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:

	2008	2007
Expected tax recovery – 30.5% (2007 – 32.1%)	\$ 8,655,300	\$ 5,883,900
Stock-based compensation	(2,115,100)	(1,420,500)
Tax rate reduction	(2,287,000)	(1,037,900)
Other	(50,200)	(358,000)
Increase in valuation allowance	(4,203,000)	(3,067,500)
	\$ –	\$ –

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

	2008	2007
Non-capital losses	\$ 8,015,200	\$ 4,206,800
Scientific research and experimental development expenditures	4,358,600	3,643,100
Share issue costs	340,800	208,200
Other	(147,100)	(182,500)
Less: Valuation allowance	(12,567,500)	(7,875,600)
	\$ –	\$ –

The Company has non-capital losses of approximately \$32.1 million (2007 - \$14.5 million) available to reduce future years' taxable income expiring from time to time up to 2028. The Company also has \$17.4 million of scientific research and experimental development tax deductions which do not expire. Not reflected above are \$3.5 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 2028.

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Years ended April 30, 2008 and 2007

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## 8. Commitments:

The Company has entered into various research contracts. The initial deposits required upon acceptance of the contracts total \$15,950 and have been appropriately accrued in the financial statements. In addition, the Company is committed to pay \$807,500 for completion of the research, and all payments are anticipated in the next year.

As at April 30, 2008, the Company was committed to operating lease payments for office and laboratory premises as follows:

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2009	\$	201,862
2010		176,883
2011		150,332
2012		160,932
2013		13,491

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## 9. 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, 2008 was approximately \$15.6 million (2007 - \$12.2 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 5 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.

The Company is exposed to foreign currency risk on certain of its short-term investments, accounts payable, accrued liabilities, accrued interest on convertible debentures and its convertible debentures. The Company had no forward exchange contract to manage its foreign currency risk.

## 10. Payment to related party:

In 2008, the Company paid consulting fees of \$20,000 (2007 - \$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.