

Consolidated Financial Statements of

RESVERLOGIX CORP.

Years ended April 30, 2009 and 2008



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

Telephone (403) 691-8000
Telefax (403) 691-8008
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Resverlogix Corporation as at April 30, 2009 and 2008 and the consolidated statements of operations and comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2009 and 2008 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 23, 2009

RESVERLOGIX CORP.

Consolidated Balance Sheets

April 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,564,063	\$ 2,349,373
Restricted cash (note 3)	7,163,928	—
Short term investments	204	15,664,215
Prepaid expenses and deposits	1,430,055	1,449,053
	<u>21,158,250</u>	<u>19,462,641</u>
Property and equipment (note 4)	708,498	893,971
Intellectual property and patents (note 5)	703,552	538,050
	<u>\$22,570,300</u>	<u>\$20,894,662</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,577,563	\$ 2,423,962
Accrued interest on debentures	365,238	770,901
Current portion of convertible debentures (note 6)	5,769,228	—
	<u>8,712,029</u>	<u>3,194,863</u>
Convertible debentures (note 6)	—	12,210,272
Shareholders' equity: (note 7)		
Common shares	72,237,124	44,840,422
Convertible debentures equity component	14,952,621	11,229,884
Contributed surplus	16,496,537	13,545,093
Warrants	26,017,371	14,428,170
Deficit	(115,845,382)	(78,554,042)
	<u>13,858,271</u>	<u>5,489,527</u>
Nature of operations (note 1)		
Commitments (notes 5 and 9)		
	<u>\$22,570,300</u>	<u>\$20,894,662</u>

See accompanying notes to the interim consolidated financial statements.

Signed on behalf of the Board:

Signed: “William A. Cochrane” Director

Signed: “Jan Gray” Director

RESVERLOGIX CORP.

Consolidated Statements of Operations and Comprehensive Loss and Deficit

Years ended April 30, 2009 and 2008

	2009	2008
Revenue:		
Interest income	\$ 164,950	\$ 1,073,851
Expenses:		
Research and development	13,615,667	14,730,065
General and administrative	2,969,607	2,911,680
Stock-based compensation	3,134,139	6,934,805
Interest and accretion on convertible debentures	2,493,680	4,582,795
Depreciation and amortization	263,220	461,329
Patent abandonment (note 5)	–	107,114
Foreign exchange loss (gain)	1,181,665	(275,769)
	23,657,978	29,452,019
Gain on settlement of convertible debentures (note 6)	1,881,591	–
Net loss and comprehensive loss	21,611,437	28,378,168
Deficit, beginning of year	78,554,042	33,365,499
Settlement and modification of convertible debentures (note 6)	13,183,480	16,810,375
Amendment of Warrants (note 7)	2,496,423	–
Deficit, end of year	\$ 115,845,382	\$ 78,554,042
Loss per common share – basic and diluted	\$ 0.73	\$ 1.10
Weighted average number of common shares	29,639,077	25,838,838

See accompanying notes to the consolidated financial statements.

RESVERLOGIX CORP.

Consolidated Statements of Cash Flows

Years ended April 30, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net loss	\$(21,611,437)	\$(28,378,168)
Items not involving cash:		
Stock-based compensation	3,134,139	6,934,805
Depreciation and amortization	263,220	461,329
Debenture accretion	824,356	1,541,314
Interest expenses paid in common shares	1,189,565	1,877,806
Accrued interest allocated to convertible debentures	684,507	—
Gain on settlement of convertible debentures	(1,881,591)	—
Unrealized foreign exchange (gain) loss	2,197,259	(1,942,377)
Patent abandonment	—	107,114
	(15,199,982)	(19,398,177)
Changes in non-cash working capital:		
Prepaid expenses and deposits	18,998	(597,731)
Accounts payable and accrued liabilities	68,389	(111,317)
Accrued interest on debentures	(419,857)	285,064
	(15,532,452)	(19,822,161)
Financing:		
Proceeds (redeemed) convertible debentures (net of issue costs)	(5,260,600)	25,405,281
Proceeds from exercise of options and warrants	356,905	253,230
Share issue – Private Placement (net of issue costs)	22,330,687	—
	17,426,992	25,658,511
Investing:		
Restricted cash	(7,163,928)	—
Short term investments	15,664,011	(3,460,796)
Property and equipment additions	(30,495)	(370,761)
Patent additions	(212,754)	(171,017)
Non-cash investing working capital	63,316	(27,585)
	8,320,150	(4,030,159)
Increase in cash and cash equivalents	10,214,690	1,806,191
Cash and cash equivalents, beginning of year	2,349,373	543,182
Cash and cash equivalents, end of year	\$ 12,564,063	\$ 2,349,373

See accompanying notes to the consolidated financial statements.

RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements

Years ended April 30, 2009 and 2008

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

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:

	2009	2008	Cumulative since inception
NexVas PR	\$ 13,552,100	\$ 14,024,249	\$ 42,247,384
NexVas VI / ReVas	33,624	660,108	1,849,027
TGF- β Shield	–	45,708	735,221
NexVas AD	29,943	–	29,943
	<u>\$ 13,615,667</u>	<u>\$ 14,730,065</u>	<u>\$ 44,861,575</u>

The success of the Company is dependent on the continuation of the research and development activities, progressing the core technologies through clinical trials to commercialization and its ability to finance its cash requirements. It is not possible to predict either the outcome of future research and development programs or the Company's ability to fund these programs going forward.

The accompanying financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. The Company has incurred significant losses to date, and with no assumption of revenues, is dependent on its ability to raise additional financial capital by continuing to demonstrate the successful progression of its research and development activities if it is to remain as a going concern. At April 30, 2009, the Company had \$12.6 million of cash and cash equivalents and restricted cash of \$7.2 million.

RESVERLOGIX CORP.

Notes to the Consolidated Financial Statements, page 2

Years ended April 30, 2009 and 2008

1. Nature of operations (continued):

The Company closed a U.S. \$20 million equity financing plan as described in Note 7 of the consolidated financial statements. The closing of this financing combined with other capital generation activities would provide the Company with sufficient resources to manage its commitments beyond April 30, 2010. The Company will continue to explore various alternatives to generate positive cash flow including raising additional equity, product out-licensing in Asia, as well as continuing its partnering discussions for the Company's core NexVasPR technology; however given the large uncertainty in the capital markets and the general business climate in the health care sector for potential business partners, there is no assurance that these initiatives will be successful.

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

2. 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, 2009 and 2008

2. Significant accounting policies (continued):

(c) 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 Corporation becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value and for the purpose of subsequent measurement, financial instruments are allocated into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities.

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

- Cash and cash equivalents, restricted cash and short-term investments are classified as "held-for-trading" and carried at fair value and changes in fair value 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.

Derivative instruments that are included in other financial instruments (the "host instrument") are 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.

(d) Cash and cash equivalents:

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

(e) Short term investments:

Short term investments, consist primarily of high quality, liquid investments that are readily convertible to known amounts of cash, with original maturities of three months or less.

(f) Research and development costs and Intellectual property:

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

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Notes to the Consolidated Financial Statements, page 4

Years ended April 30, 2009 and 2008

2. Significant accounting policies (continued):

(g) Patents:

Costs incurred in obtaining patents, all legal expenses to file, revise and defend patents, and all regulatory body fees relating to the patents are capitalized. Patent costs are amortized on a straight-line basis over the estimated life of the respective patents, being 18 years. On an ongoing basis, management reviews the valuation, taking into consideration circumstances which might have impaired the value.

(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.

(i) Convertible debentures:

The Company's convertible debentures are accounted for as compound financial instruments and are classified as debt with a portion of the proceeds allocated to equity representing the value of the conversion feature. 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 less any related warrants valued as described below and the face value of the convertible debenture is 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.

(j) 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 7 of the financial statements. The value of the warrants has been deducted from the carrying value of the convertible debentures.

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Notes to the Consolidated Financial Statements, page 5

Years ended April 30, 2009 and 2008

2. Significant accounting policies (continued):

(k) 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.

(l) 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 the statement of operations and comprehensive loss 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.

(m) 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.

Changes in accounting policies:

Effective May 1, 2008, the Company adopted the new recommendations of Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, *Financial Instruments – Disclosure*, Section 3863 *Financial Instruments – Presentation*, Section 1535, *Capital Disclosures*, Section, Section 3064, *Goodwill and Intangible Assets* and changes to Section 1400, *General Standards of Financial Statement Presentation*. With the exception of Section 3064, all other sections relate to presentation and disclosure only and the adoption of these handbook sections did not have an impact on the Company's financial results.

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

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Notes to the Consolidated Financial Statements, page 6

Years ended April 30, 2009 and 2008

2. Significant accounting policies (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.

Section 1400 has been amended to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Disclosure is required for material uncertainties related to events or conditions that may cast doubt on the ability to continue as a going concern.

Recent accounting pronouncements

In February 2008, the Accounting Standards Board (AcSB) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards (IFRS) effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, in the first quarter of the 2012 fiscal year with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the mandatory transition date.

The Company's IFRS conversion project consists of three phases: Diagnostic, Solution Development, and Implementation and Execution. The Corporation has commenced the Diagnostic phase, which involved a high-level preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight as to the most significant areas of difference applicable to the Company which includes more extensive presentation and disclosure requirements under IFRS.

The Company is continuing to evaluate the impact of the adoption of IFRS on its consolidated financial statements and is monitoring any changes issued by the AcSB that may impact the Company's current evaluation.

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Notes to the Consolidated Financial Statements, page 7

Years ended April 30, 2009 and 2008

3. Restricted cash:

As at April 30, 2009, cash and cash equivalents includes total restricted cash of \$7,163,928 (2008 - \$nil) that is held in escrow for the convertible debt holders to settle any put notice as amended on April 9, 2009 and further described in Note 7 of the consolidated financial statements. The Company can elect to withdraw funds from the escrow account, that are in excess of the aggregate principal and accrued interest amounts for general business purposes.

In the event the debt holders are entitled to any interest payment or interest on the principal amount that is converted, and the interest obligation can not be settled in common shares, such interest payment will be settled from the escrow account. No portion of the escrow amount can be used by the company to redeem the principal and accrued interest of the notes under the Company's call option provisions of the convertible debt as described in Note 6.

4. Property and equipment:

April 30, 2009	Cost	Accumulated depreciation	Net book value
Laboratory equipment	\$ 1,390,617	\$ 731,694	\$ 658,923
Office furniture and equipment	70,071	53,915	16,156
Computer equipment	216,396	184,550	31,846
Computer software	77,927	76,840	1,087
Leasehold improvements	463,315	462,829	486
	<u>\$ 2,218,326</u>	<u>\$ 1,509,828</u>	<u>\$ 708,498</u>
April 30, 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
	<u>\$ 2,187,830</u>	<u>\$ 1,293,859</u>	<u>\$ 893,971</u>

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Years ended April 30, 2009 and 2008

5. Intellectual property and patents:

April 30, 2009	Cost	Accumulated amortization	Net book value
Acquired property (NexVas™) Patents	\$ 818 834,743	\$ 227 131,782	\$ 591 702,961
	\$ 835,561	\$ 132,009	\$ 703,552
April 30, 2008			
Acquired property (NexVas™) Patents Patent abandonment	\$ 818 743,787 (121,798)	\$ 182 99,259 (14,684)	\$ 636 644,528 (107,114)
	\$ 622,807	\$ 84,757	\$ 538,050

The Company chose to abandon two of its early patent applications in the year ended April 30, 2008, 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.

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.

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Notes to the Consolidated Financial Statements, page 9

Years ended April 30, 2009 and 2008

6. Convertible debentures:

Convertible debentures and its equity components consist of the following:

	U.S. \$17 million Carrying Value	U.S. \$25 million Carrying Value	Total Amount
Balance, April 30 2007	\$ 14,694,289	\$ —	\$ 14,694,289
June, 2007 debenture issuance	—	26,630,000	26,630,000
August, 2007 – 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	519,235	1,022,079	1,541,314
Foreign exchange gain	(1,033,407)	(889,724)	(1,923,131)
Balance, April 30, 2008	\$ 242,654	\$ 11,967,618	\$ 12,210,272
Conversions to common shares	—	(1,928,579)	(1,928,579)
Accretion	2,820	821,536	824,356
Debenture issue costs	—	(40,600)	(40,600)
Retirement/Redemption of debentures	(283,123)	(7,932,561)	(8,215,684)
October 2008 amendment – accrued interest	—	684,507	684,507
October 2008 amendment – January 07 debenture transfer	—	322,867	322,867
Foreign exchange loss	37,649	1,874,440	1,912,089
Balance, April 30, 2009	\$ —	\$ 5,769,228	\$ 5,769,228
Face value as at April 30, 2009	\$ —	\$ 8,352,024	\$ 8,352,024

The Company issued U.S. \$42 million of senior secured convertible debentures in two separate issuances of U.S. \$ 17 million and U.S. \$25 million on January 4, 2007 and June 6, 2007 respectively. The Company amended the U.S. \$25 million issuance of convertible debentures on August 31, 2007 to eliminate certain Interest to Maturity provisions contained in the financing and reduce the then in effect adjusted interest rate of 14% to a 12% fixed rate (see additional details of the amendment under **“U.S. \$ 25 million Convertible Debenture Amendment - August 31, 2007”**).

On October 15, 2008, the Company redeemed U.S. \$10 million of the outstanding remaining combined unconverted debentures of U.S. \$17.3 million from the January and June 2007 issuances and amended the terms of the remaining debt (see additional details under **“U.S. \$10 million Debt Redemption and Amendment – October 15, 2008”**).

On April 9, 2009, the Company amended the terms of the remaining outstanding debt of U.S. \$7.2 million (see additional details under **“Deferral of Put Obligation – Amended April 9, 2009”**).

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Notes to the Consolidated Financial Statements, page 10

Years ended April 30, 2009 and 2008

6. Convertible debentures (continued):

The following headings describe the convertible debenture financings and the amendments described above.

Deferral of Put Obligation – Amended April 9, 2009

The Company entered into an agreement to amend the October 15, 2008 amendment noted below to defer the convertible debt holders cumulative put rights as which became exercisable on March 31, 2009 to October 9, 2009. These cumulative put rights permitted the debt holders to request repayment of the debt plus accrued interest in cash (see “U.S. \$10 million Debt Redemption and Amendment – October 15, 2008” for additional details). In consideration, for the foregoing, the Company agreed to amend the interest rate on the outstanding convertible debentures of U.S. \$7,192,889 from 12% to 18% on a prospective basis. In addition, the Company agreed to defer its call option to redeem the convertible notes as described below for the same six month period. Additionally, as part of the April 15, 2009 share purchase agreement for U.S. \$20 million issuance of common shares, the Company permitted the debt holders to become a party to the escrow agreement under this amending agreement as described in Note 3 of the consolidated financial statements,

The conversion price of the outstanding debentures convertible into common shares remains at \$2.61 per share as amended on October 15, 2008 noted below. Additional terms of the outstanding convertible debentures are further described under the respective amendments.

As of April 30, 2009, the remaining convertible debenture has been reclassified as a current liability for financial statement presentation to provide for the Company’s potential obligation to settle the holder’s cumulative put (“Excess Put”), which would become payable in less than one year from the balance sheet date if the option was exercised.

U.S. \$10 million Debt Redemption and Amendment - October 15, 2008

Prior to the April 9, 2009 amendment, the Company redeemed U.S. \$10 million of debt and amended the terms of the combined remaining U.S. \$7.3 million debt from the initial U.S. \$42 million of convertible debentures issued in January and June 2007 respectively. The Company redeemed the debentures with U.S. \$4.5 million in cash and U.S. \$5.5 million with 2,444,445 common shares at a price of \$2.61 per common share. The early redemption and amendment to the terms of the remaining debt included an agreement with the debenture holders to withhold all future put notices until March 31, 2009 (subsequently amended to October 9, 2009 as noted above) to a cash only option from a common share or cash option (see description of the put obligation under “U.S. \$ 25 million Convertible Debenture Amendment – August 31, 2007”).

The conversion price for the remaining debt which is convertible into common shares was amended to \$2.61 from \$8.76 and \$12.07 respectively for the remaining August 2007 and January

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Years ended April 30, 2009 and 2008

6. Convertible debentures (continued):

2007 debentures. In addition, the warrant prices were adjusted to \$3.07 from \$10.25 per common share. The conversion and warrant price is subject to certain anti-dilution adjustments which would reduce the price if the Company issues additional common shares or financial instruments that can be converted to common shares below the conversion price.

The amended principal balance at October 15, 2008 of U.S. \$7,890,280 included the January and June 2007 outstanding convertible debentures of U.S. \$278,334 and U.S. \$7,021,854 respectively and also included accrued interest of U.S. \$590,092 up to the date of the amendment with a maturity date of June 6, 2012.

The effect of the U.S. \$10 million debenture settlement redeemed with cash and shares and the amendment of terms on the remaining debentures was a gain on settlement of convertible debentures of \$1.8 million, a decrease within the liability portion of the convertible debentures of \$7.9 million, a net increase to the convertible debentures equity component of \$6.8 million, an increase to share capital of \$7.4 million, and an increase to the deficit of \$13.1 million. In addition, the amendment to the warrants resulted in a change to the fair value of the warrants giving effect to an increase to the warrants within shareholders' equity of \$1.2 million with a deemed dividend which increased the deficit by the same value. The transfer and change to the terms of remaining January 2007 convertible debentures resulted in a settlement with a gain on settlement of convertible debentures of \$80,000, a decrease within the liability portion of the convertible debentures of \$283,000 and an increase to the deficit of \$120,000.

As part of the amendment, the Company at its option can initiate a mandatory conversion option which requires the holders to convert all of their debentures to common shares when the Company's share price trades over \$5.22 for 20 consecutive trading days, subject to conditions as follows:

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

In addition, at any time after January 12, 2009, the Company shall have the option to redeem all, or a portion of, the principal (including any accrued and unpaid interest) amount of the convertible debenture then outstanding at 125% of the redemption amount. For the year ended April 30, 2009, the Company has not redeemed any of the outstanding convertible debentures under this provision.

The Company incurred legal costs of \$40,600 as part of the October 15, 2008 amendment. These costs were recorded net of the remaining convertible debentures and are taken into earnings using the effective interest method.

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6. Convertible debentures (continued):

U.S. \$25 million Convertible Debenture Amendment – August 31, 2007

On August 31, 2007, the Company amended the terms of the \$25 million U.S. issued convertible debentures issued June 2007 to eliminate the Interest to Maturity provisions contained in the financing (as contained and described under the original January 2007 debenture below) and reduce the then in effect adjusted interest rate of 14% to a 12% fixed rate. In exchange for these amendments, the conversion price was amended to \$8.76 (subsequently amended to \$2.61 as noted above) from the original conversion price of \$17.50. In addition, the warrants issued under the June 2007 financing were re-priced to \$10.25 (subsequently amended to \$3.07 as noted above) from \$20.63 and an additional 529,351 warrants were issued at that time for a total issuance of 1,058,702.

The effect of the modification to the consolidated financial statements for the prior year ended April 30, 2008 on the U.S. \$25 million convertible debentures and the related warrants 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 August 31, 2007 amendment provided the holders with a once monthly 5% put option of principal amount at the time of issuance. Prior to the October 15, 2008 amendment noted above, the put option provided the holder with the ability to request a portion of the principal to be repaid for cash, shares or some combination thereof (subsequently changed to a cash only option as described above).

Prior to the October 15, 2008 amendment, the Company had the option to pay the put obligation with shares if the closing bid price for common shares at the time of the put date is greater than \$4.00 and the total dollar value traded on the trading market for no less than 10 of such 20 consecutive Trading Days shall be at least \$250,000 ("Equity Conditions"). If the put was paid in shares, the put price to determine the number of shares was the lesser of the conversion price and the volume weighted average price 5 days preceding the put date. The monthly put options were cumulative, where the previous monthly put options were not exercised, but at no time could the holder request any amount in cash greater than the once monthly put option of 5% of the original principal amount plus accrued interest. The cumulative put in excess of the 5% monthly put option ("Excess Put") could be paid in common shares and was not subject to the Equity Conditions. The first put option was available to the holders after October 31, 2007.

In addition to the terms as described and amended above, the following provisions remain from the original June 2007 convertible debenture:

- the Company at its option could, subject to certain restrictions, pay the semi-annual interest in the form of cash, common shares or some combination thereof. The Company could elect to pay in common shares in whole or in part, only if the Equity Conditions are

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Years ended April 30, 2009 and 2008

6. Convertible debentures (continued):

met, unless otherwise waived by the debenture holder. If the interest obligation was paid in shares, the number of common shares issued would be based on the interest obligation divided by 90% of the volume weighted average price for the 5 trading days preceding the interest payment date.

- In the event of default on the convertible debenture or upon a change of control, the holder has the option to require the Company to repurchase all or any portion of the outstanding principal at a price equal to the greater of 125% of (i) the outstanding principal, plus all accrued interest or (ii) the 5 consecutive day average closing price attributed to the underlying shares, plus all accrued interest. The holders' security interest continues in effect against any and all assets of the Company in the event a default can not be cured under the terms of the senior secured debenture agreement.

U.S. \$17,000,000 Convertible Debenture Financing – Issued January 2007

The Company issued \$17.0 million (U.S.) of senior secured convertible debentures on January 4, 2007 with a maturity on January 4, 2010. As of October 14, 2008, the remaining debenture carried an interest rate of 15% per annum, an increase of seven percent from its initial coupon rate due to provisions in the debt instrument that altered the rate if certain trading conditions occurred where the Company's share price closes below the conversion price of the debenture.

The Company completed an amendment to the financing on October 15, 2008 which transferred the remaining face value of U.S. \$278,000 of unconverted debentures under the original note to an amended convertible debenture. The amendment resulted in a 3% percent decrease in the interest rate to a 12% fixed rate, eliminated the interest to maturity interest obligations of the original note described below and extends the maturity of the outstanding balance to June 6, 2012.

As part of the October 15, 2008 amendment, the conversion price of the remaining debentures which are convertible into common shares was amended from \$12.07 per share to \$2.61 per share.

The January 2007 debenture included identical provisions as the June 2007 debenture to pay its interest obligations as noted above.

In addition, prior to the October 15, 2008 amendment, the terms of the January 2007 debenture contained a provision where the Company was obligated to make additional payments using the interest methodology as defined in the debenture agreement at the then applicable rate on the converted amount commencing on the conversion date through to the end of the maturity date of the debenture ("Interest to Maturity"). This would occur in circumstances where the Company's share price trades at or below the conversion price then in effect for a pre-determined period of time and the holders convert their debentures at such time. The Company, at its election, could pay the interest in cash, common shares or some combination thereof.

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6. Convertible debentures (continued):

Settlement of Interest and Debt Conversion Obligations

For the year ended April 30, 2009, U.S. \$2,686,251 of debt at its face value, exclusive of the October 15, 2008 redemption, was converted to 660,990 of common shares at conversion prices ranging from \$2.61 to \$8.76 per common share.

During the year ended April 30, 2009, the Company settled accrued interest obligations of U.S. \$70,722 due on conversion of convertible debentures exclusive of the October 15, 2008 redemption with the issuance of 11,573 common shares and U.S. \$3,990 in cash.

The Company paid its January 1, 2009 semi-annual interest obligation of U.S. \$202,971 with cash.

The Company elected to pay its July 1, 2008 semi-annual interest obligation on the August 2007 convertible debentures of U.S. \$1,088,355 with 111,660 common shares. The Company elected to pay its July 1, 2008 semi-annual interest obligations on the January 2007 convertible debentures of U.S. \$16,886 with 1,733 common shares.

For the year ended April 30, 2009, no Interest to Maturity obligations was incurred and such provisions were eliminated under the October 15, 2008 amendment. For the year ended April 30, 2008, Interest to Maturity obligations were settled with 374,920 common shares which had a carrying value of U.S. \$3,092,000. The shares issued to settle this obligation were 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.

7. Shareholders' equity:

(a) Common shares

(i) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares issuable in series with rights as determined by the Board of Directors at the time of issue.

(ii) Issued and outstanding:

On March 23, 2009, April 6, 2009 and April 15, 2009 the Company issued a total of \$24.3 million in common shares as part of a private placement at a price of \$2.72 per common share and included 0.4 warrants for each common share as well as broker warrants, all priced at \$2.72. The warrants and the broker warrants were valued at \$9.1 million using a Black-Scholes option pricing model and are further described in Note 7(c).

Share issue costs of \$1.9 million included legal costs of \$547,000, broker and agent commissions of \$1.3 million, and listing fees of \$41,000.

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7. Shareholders' equity (continued):

(a) Common shares:

Common shares	Number of shares	Amount
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
Conversion of debentures	660,990	1,928,579
Interest costs paid in common shares	124,966	1,189,565
Issued on exercise of stock options	155,300	539,600
Redemption of convertible debentures	2,444,445	7,452,765
Issued on private placement financing	8,916,845	24,253,808
Warrants issued on private placement		(9,092,778)
Share issue costs		(1,923,121)
Transfer from equity component on conversion of debentures		3,048,284
Balance, April 30, 2009	39,202,706	\$ 72,237,124

(b) Stock options:

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

The amended plan has been approved as a rolling 10% plan that allows for reservation of a number of Common Shares under the plan equal to 10% of the Company's issued and outstanding Common Shares on an undiluted basis. Additionally, the provisions have been added to make the plan a reloading plan, which allows any options under the plan that expire, 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.

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Years ended April 30, 2009 and 2008

7. Shareholders' equity (continued):

(b) Stock options:

The Company may grant options to its directors, officers, employees and consultants. The majority of options fully vest over two to three years and have a two to five year term.

	April 30, 2009		April 30, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of period	3,994,200	\$ 6.96	3,297,200	\$ 5.16
Granted	1,375,000	2.97	790,000	14.42
Exercised	(155,300)	2.30	(43,000)	5.89
Expired	(1,488,900)	3.69	(50,000)	6.97
Outstanding at end of period	3,725,000	\$ 6.99	3,994,200	\$ 6.96
Weighted average remaining contractual life	2.91 years		2.3 years	

The following table summarized information about the options outstanding and exercisable at April 30, 2009.

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable
\$2.25 - \$4.00	1,575,000	3.6	\$2.88	250,000
\$5.27 - \$7.96	1,295,000	2.3	\$7.24	1,295,000
\$12.07 - \$12.95	330,000	2.7	\$12.47	86,250
\$14.16 - \$15.90	525,000	2.7	\$15.24	400,000
	3,725,000	2.9	\$6.99	2,031,250

The weighted average fair value of the options granted during the year was \$2.07 per option for options granted (2008 - \$9.22 per option) using the Black-Scholes option pricing model with the following weighted average assumptions:

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Years ended April 30, 2009 and 2008

7. Shareholders' equity (continued):

(b) Stock options:

	2009	2008
Risk free interest rate	1.6% - 1.8%	3% - 4%
Expected life	0.6 to 4 years	4 to 5 years
Expected volatility	107% - 113%	71% - 95%

(c) Warrants:

	Number of warrants	Amount	Weighted average exercise price
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
Cancelled	(1,467,349)	(14,428,170)	10.25
Amended in connection with convertible debentures	1,268,191	13,715,325	3.07
Amended in connection with Anti-dilution provisions	913,688	3,209,268	2.98
Issued on Private Placement	4,175,229	9,092,778	2.72
Outstanding, April 30, 2009	6,357,108	\$26,017,371	\$ 2.72

- As part of the issuance of June 2007 convertible debentures, 529,350 accompanying warrants were issued to the holders of the convertible debt at an exercise price of \$20.63 per share. As part of the August 31, 2007 amendment to the convertible debentures as described in Note 6, the warrants issued under the financing and the existing 408,647 warrants issued in January 2007 were cancelled and re-priced to \$10.25 and an additional

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7. Shareholders' equity (continued):

(c) Warrants:

529,352 warrants were issued as part of the Amended U.S. \$25,000,000 Convertible Debenture Financing. The effect of the modification was an increase in the warrant value of \$3,744,317.

- On October 15, 2008, 1,268,191 of the 1,467,349 outstanding warrants that were re-priced in August 2007 were cancelled and amended to \$3.07 from \$10.25 as part of the U.S. \$10 million debt redemption and amendment as described in Note 6. The expiry date of the warrants was extended to October 14, 2013 from its original dates of January 4, 2011 and June 6, 2012. The effect of the modification was an increase in the warrant value of \$1,245,439. The warrants carry anti-dilution provisions which would reduce the then in effect exercise price if the Company issues additional common shares or financial instruments that can be converted to common shares below the exercise price. In addition, if such an adjustment occurs, the number of warrant shares will be adjusted proportionately so the number of warrant shares will have the same aggregate exercise value in effect prior to such adjustment.
- In December 2008, the remaining 199,158 warrants not amended on October 15, 2008 were cancelled and amended on the issuance of stock options which triggered the anti-dilution provisions as described above. As a result, these warrants were adjusted to \$3.07 from \$10.25 and an additional 465,783 warrants were issued to proportionately provide the same aggregate exercise value under the provisions of the warrants. The effect of the modification was an increase in the warrant value of \$625,006.
- On March 23, 2009 upon the initial closing of the private placement of common shares at \$2.72, the anti-dilution provisions described above for convertible debenture warrants resulted in a further adjustment. The warrants were amended to \$2.72 from \$3.07 and an additional 248,747 warrants were issued to proportionately provide the same aggregate exercise value under the provisions of the warrants. The effect of the modification was an increase in the warrant value of \$625,978.
- As part of the common share equity offering that closed on April 15, 2009, the Company issued 4,175,229 accompanying warrants at an exercise price of \$2.72 per share. Included in these warrants were 608,491 broker warrants which were issued in conjunction with the financing. The warrants carry a 5 year expiry and contain anti-dilution provisions which would reduce the exercise price then in effect on a weighted average basis if any common shares or securities exchangeable to common shares were issued or sold at a price below the exercise price.

The estimated fair value of the warrants granted in January and June 2007 has been recorded net of the convertible debentures. The weighted average fair value of the warrants granted for the amended August 2007 and the amended October 15, 2008 convertible debentures was \$1.14 and \$2.19 per warrant respectively, using the Black-Scholes option pricing model with the following weighted average assumptions:

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Years ended April 30, 2009 and 2008

7. Shareholders' equity (continued):

(c) Warrants:

	2009	2008
Risk-free interest rate	1.6%-3.3%	4%
Expected life	5 years	4-5 years
Expected volatility	69%-113%	92%

The following table summarized information about the warrants outstanding at April 30, 2009.

Exercise Price	Number Outstanding	Average Remaining Life (years)
\$2.72	6,357,108	4.85

(d) Contributed surplus:

The changes in contributed surplus balance are as follows:

	Amount
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
Options exercised	(182,695)
Fair value of options granted	3,134,139
Balance, April 30, 2009	\$16,496,537

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Years ended April 30, 2009 and 2008

7. Shareholders' equity (continued):

(e) Convertible debentures equity component:

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

	Amount
Balance, April 30, 2007	\$ 1,320,428
June 2007 financing equity component	2,202,559
August 31, 2007 financing amendment	13,066,058
Reclassified to common shares on conversion of debentures	(5,359,161)
Balance, April 30, 2008	\$11,229,884
October 15, 2008 financing amendment and share redemption	9,454,566
October 15, 2008 cash redemption of equity component	(2,683,545)
Reclassified to common shares on conversions of debentures	(3,048,284)
Balance, April 30, 2009	\$14,952,621

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

On October 15, 2008, the Company modified and redeemed the remaining U.S. 17.3 million convertible debentures resulting in a net increase of \$9.5 million. These non-cash amounts are transferred to common shares as the debentures are converted on a pro-rata basis and is further described under Note 2(i).

(f) Per share amounts:

The loss per share has been calculated based on the weighted average shares outstanding during the year of 29,639,077 (2008 – 25,838,838). The effect upon the conversion of stock options and warrants is anti-dilutive.

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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:

	2009	2008
Expected tax recovery – 29.3% (2008 – 30.5%)	\$ 6,332,200	\$ 8,655,300
Stock-based compensation	(918,300)	(2,115,100)
Tax rate reduction	(676,900)	(2,287,000)
Gain on settlement of convertible debentures	551,300	–
Other	(238,500)	(50,200)
Increase in valuation allowance	(5,049,800)	(4,203,000)
	\$ –	\$ –

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

	2009	2008
Non-capital losses	\$11,765,900	\$ 8,015,200
Scientific research and experimental development expenditures	5,270,400	4,358,600
Share issue costs	717,900	340,800
Other	(136,900)	(147,100)
Less: Valuation allowance	(17,617,300)	(12,567,500)
	\$ –	\$ –

The Company has non-capital losses of approximately \$47.1 million (2008 - \$32.1 million) available to reduce future years' taxable income expiring from time to time up to 2029. The Company also has \$21.1 million of scientific research and experimental development tax deductions which do not expire. Not reflected above are \$4.2 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 2029.

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Years ended April 30, 2009 and 2008

9. Commitments:

The Company has entered into various research contracts. The Company is committed to pay \$2,507,892 for completion of the research, and all payments are anticipated to May 2010 as follows:

2010	\$ 2,458,309
2011	49,583

As at April 30, 2009, the Company was committed to operating lease payments for office and laboratory premises as follows:

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

10. Financial instruments risks:

Financial instruments of the company consist of cash and cash equivalents, restricted cash, short term investments, accounts payable and accrued liabilities and convertible debentures. As at April 30, 2009, there was no significant difference between the carrying values of these amounts and their estimated fair values due to their short term nature, except as to the convertible debentures. The company manages its cash and cash equivalents, restricted cash and short term investments in accordance with an investment policy that established guidelines for investment eligibility, credit quality, liquidity and foreign currency exposure.

(a) Credit Risk

Financial instruments that potentially subject the company to credit risk consist primarily of cash and cash equivalents, restricted cash and short term investments. The Company manages its exposure to credit loss by placing its cash with major financial institutions and investing in high-quality government and corporate issuers with low credit risk. The Company invests in commercial paper with a Dominion Bond Rating Service (DBRS) rating of R-1 Low or higher, or equivalent Standard & Poor's (S&P) or Moody's Investor Service (Moody's) rating. The Company invests in government and corporate bonds with a DBRS rating of A- or higher or equivalent S&P or Moody's rating. At April 30, 2009, the Company does not hold any asset-backed commercial paper. The Company has U.S. \$6 million of restricted cash held in escrow which are restricted from all investment other than U.S. treasury bills as further defined in the escrow agreement. All other cash and cash equivalents held by the Company are not subject to any external restrictions.

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10. Financial instruments risks (continued):

(b) Liquidity Risk

The Company's exposure to liquidity risk is dependent on purchasing commitments and obligations or the raising of funds to meet commitments and sustain operations. The Company is a development stage company and is reliant on external fundraising to support its operations. Once funds have been raised, the company manages its liquidity risk by investing in highly liquid corporate and government bonds with staggered maturities to provide regular cash flow for current operations. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions not in the ordinary course of business. The majority of the Company's accounts payable and accrued liabilities have maturities of less than three months. In addition, due to the monthly 5% put option provided for under the convertible debenture financing as described in note 6 of the consolidated financial statements and its cumulative effect, the Company is exposed to potential cash repayments of the debenture after October 9, 2009 related to the put feature. These repayments if exercised on October 10, 2009 would approximate U.S. \$6.8 million plus accrued interest. The Company currently has U.S. \$6 million in escrow that can be used to satisfy these put obligations but the total obligation including accrued interest exceeds the escrow funds. No portion of the escrow funds can be released to the Company for general corporate purposes unless the escrow funds exceed total debt obligation including accrued interest. Given these circumstances and the uncertainty that the debtholders would convert their debt to common shares, the Company could need to defer or cancel certain planned research, development and corporate activities if it did not have access to these escrowed funds.

(c) Market Risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash and cash equivalents, restricted cash, its short-term investments and its convertible debentures. Fluctuations in market interest rates on interest bearing cash and cash equivalents, restricted cash and short-term investments rates do not have a significant impact on the Company's results of operations due to their short-term nature. In addition, the adjusting interest rates from 10%-15% that existed for the January 2007 convertible debentures, were amended to a fixed 12% rate as part of the October 15, 2008 amendment and then amended to a fixed 18% as described under Note 6 to these financial statements. A change of 1% in interest rates can lead to an increase or decrease of monthly interest income by \$16,400 for its cash and short-term investments as measured on April 30, 2009.

The Company is also exposed to foreign exchange risk on its US dollar denominated convertible debentures and its cash and cash equivalents, restricted cash and short-term investments. The Company manages its exposure to currency fluctuations by holding cash and cash equivalents and short-term investments denominated in U.S. dollars in a certain

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10. Financial instruments risks (continued):

(c) Market Risk

ratio equivalent to current and long term U.S. dollar financial liabilities. As the convertible debentures are denominated in U.S. dollars, the Company is exposed to foreign exchange risk if the reduction of the debt through conversions to common shares does not occur at the same rate the U.S. cash and short-term securities is drawn down for funding operations. The Company had no forward exchange contract to manage its foreign currency risk. As at April 30, 2009, the Company had U.S. denominated assets and liabilities of: cash and cash equivalents and short-term investments in the amount of U.S. \$6,563,000; restricted cash of U.S. \$6,000,000; accounts payable, accrued interest and liabilities of U.S. \$1,554,215; and convertible debentures with a face value of U.S. \$6,995,000 for a net asset exposure of U.S. \$4.0 million. A change of \$0.01 in exchange rate as measured on April 30, 2009 can result in a foreign currency gain or loss of \$57,000.

11. Management of Capital:

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

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

The Company is exposed to certain covenants related to the convertible debenture financing as described in Note 6 of the consolidated financial statements. The Company was required to have at all times available cash of at least (i) \$20,000,000 as of December 31, 2007; (ii) \$15,000,000 as of March 30, 2008; (iii) \$10,000,000 as of June 30, 2008; and (iv) \$10,000,000 as of September 30, 2008, unless the outstanding principal and accrued interest related to the convertible is less than these values. For year ended April 30, 2009, the Company met its available cash covenants and its required interest obligations.