RESVERLOGIX

Condensed Interim Consolidated Financial Statements

For the three months ended July 31, 2019 and 2018

Condensed Interim Consolidated Statements of Financial Position

As at:
(unaudited)

In thousands of US dollars	Notes	July 31, 2019	April 30, 2019
Assets			
Current assets:			
Cash		$ 7,356	$ 7,689
Prepaid expenses and deposits		1,032	604
Investment tax credit receivable		146	113
Other assets		274	213
Clinical supplies		1,369	1,156
Due from related parties		1,088	865
Total current assets		11,265	10,640
Non-current assets:			
Property and equipment		340	350
Right-of-use assets	5	2,190	-
Intangible assets		2,606	2,564
Prepaid expenses and deposits		103	102
Deferred financing costs		-	25
Clinical supplies		3,368	2,606
Total non-current assets		8,607	5,647
Total assets		$ 19,872	$ 16,287
Liabilities			
Current liabilities:			
Trade and other payables		$ 7,832	$ 8,190
Accrued interest		123	120
Promissory notes		235	306
Lease liabilities	5	726	-
Warrant liability	8 (e)	45,924	63,526
Debt	6	15,108	14,467
Total current liabilities		69,948	86,609
Non-current liabilities:			
Lease liabilities	5	1,525	-
Royalty preferred shares	7	142,700	137,400
Total liabilities		214,173	224,009
Shareholders' equity (deficit):			
Share capital	8 (a)	293,661	284,905
Contributed surplus		43,686	43,117
Warrants	8 (f)	1,366	1,229
Deficit		(533,014)	(536,973)
Total shareholders' equity (deficit)		(194,301)	(207,722)
Total liabilities and shareholders' equity (deficit)		$ 19,872	$ 16,287

Future operations (note 3) Commitments (note 10) Subsequent event (note 11)

Signed on behalf of the Board:

Signed: "Dr. Eldon Smith" Director Signed: "Kenneth Zuerblis" Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Comprehensive (Income) Loss
For the three months ended July 31
(unaudited)

In thousands of US dollars	Notes	2019	2018
Expenses:			
Research and development, net of recoveries	9	$ 7,798	$ 6,683
Investment tax credits		(32)	(30)
Net research and development		7,766	6,653
General and administrative, net of recoveries	9	1,572	1,007
		9,338	7,660
Finance (income) costs:			
(Gain) loss on change in fair value of warrant liability	8 (e)	(19,805)	16,378
Loss on change in fair value of royalty preferred shares	7	5,300	23,900
Interest and accretion		1,027	1,495
Financing costs		186	159
Foreign exchange gain		(13)	(101)
Net finance (income) costs		(13,305)	41,831
(Income) loss before income taxes		(3,967)	49,491
Income taxes		8	-
Net and total comprehensive (income) loss		$ (3,959)	$ 49,491
Net (earnings) loss per share *(note 8(g))*			
Basic		$ (0.02)	$ 0.28
Diluted		(0.02)	0.28

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficit)
For the three months ended July 31
(unaudited)

In thousands of US dollars	Share Capital	Contributed Surplus	Warrants	Deficit	Total Shareholders' Deficit
Balance, April 30, 2018	$ 249,589	$ 39,640	$ 1,269	$ (374,175)	$ (83,677)
Common shares issued in connection with stock option and long term incentive plans	484	(259)	-	-	225
Share-based payment transactions	-	51	-	-	51
Net and total comprehensive loss	-	-	-	(49,491)	(49,491)
Balance, July 31, 2018	$ 250,073	$ 39,432	$ 1,269	$ (423,666)	$ (132,892)
Balance, April 30, 2019	$ 284,905	$ 43,117	$ 1,229	$ (536,973)	$ (207,722)
Common shares issued in connection with public offering	9,241	-	139	-	9,380
Common shares issued in connection with stock option and long term incentive plans	283	(161)	-	-	122
Share issue cost	(781)	-	-	-	(781)
Common shares issued in connection with exercise of warrants	13	-	(2)	-	11
Share-based payment transactions	-	730	-	-	730
Net and total comprehensive income	-	-	-	3,959	3,959
Balance, July 31, 2019	$ 293,661	$ 43,686	$ 1,366	$ (533,014)	$ (194,301)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended July 31

(unaudited)

In thousands of US dollars	2019	2018
Cash provided by (used in):		
Cash flows provided by (used in) operating activities:		
Net income (loss)	$ 3,959	$ (49,491)
Items not involving cash:		
Equity-settled share-based payment transactions	730	51
Depreciation and amortization	258	85
Change in fair value of warrant liability	(19,805)	16,378
Change in fair value of royalty preferred shares	5,300	23,900
Unrealized foreign exchange	36	-
Interest, fees and accretion	1,027	1,495
Net current income taxes	8	-
Financing costs	186	159
Changes in non-cash working capital:		
Prepaid expenses and deposits	(429)	(104)
Investment tax credit receivable	(33)	(28)
Other assets	(61)	28
Clinical supplies	(975)	(45)
Due from related parties	(223)	(213)
Promissory note	-	(8)
Unearned licensing rights fee	-	(79)
Trade and other payables	(50)	(13,550)
	(10,072)	(21,422)
Interest received	20	5
Net cash used in operating activities	(10,052)	(21,417)
Cash flows provided by (used in) financing activities:		
Proceeds from equity units issued in connection with prospectus offering	11,444	-
Share issuance costs	(579)	-
Proceeds from debt	-	30,000
Debt issuance costs	-	(1,287)
Financing costs	(160)	(58)
Interest and fees paid	(362)	(1,000)
Deferred financing costs	(39)	-
Repayment of lease liabilities	(186)	-
Proceeds from exercise of stock options	122	225
Proceeds from exercise of warrants	11	-
Proceeds from issuance of promissory notes	-	-
Repayment of promissory note	(75)	-
Changes in non-cash financing working capital	(369)	(517)
Net cash provided by financing activities	9,807	27,363
Cash flows used in investing activities:		
Property and equipment additions	(13)	(3)
Intangible asset additions	(108)	(88)
Changes in non-cash investing working capital	(56)	(210)
Net cash used in investing activities	(177)	(301)
Effect of foreign currency translation on cash	89	(1)
(Decrease) increase in cash	(333)	5,644
Cash, beginning of period	7,689	121
Cash, end of period	$ 7,356	$ 5,765

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1. General information

Resverlogix Corp. (the "Company") is a company domiciled in Canada. The condensed interim consolidated financial statements comprise the Company and its wholly-owned subsidiary Resverlogix Inc. (together referred to as "Resverlogix" or the "Group"). Resverlogix Corp. is incorporated under the laws of Alberta. Resverlogix Inc. is incorporated under the laws of Delaware. The Company's head office is located at Suite 300, 4820 Richard Road S.W., Calgary, Alberta, T3E 6L1. The registered and records office is located at Suite 600, 815 - 8th Avenue S.W., Calgary, Alberta, T2P 3P2.

Resverlogix is developing apabetalone (RVX-208), a first-in-class, small molecule that is a selective BET (bromodomain and extra-terminal) inhibitor. BET bromodomain inhibition is an epigenetic mechanism that can regulate disease-causing genes. Apabetalone is a BET inhibitor selective for the second bromodomain (BD2) within the BET proteins. This selective inhibition of apabetalone on BD2 produces a specific set of biological effects with potentially important benefits for patients with high-risk cardiovascular disease (CVD), diabetes mellitus (DM), chronic kidney disease, end-stage renal disease treated with hemodialysis, neurodegenerative disease, Fabry disease, peripheral artery disease, and, other orphan diseases while maintaining a well described safety profile. Apabetalone is the only selective BET bromodomain inhibitor in human clinical trials. Apabetalone is currently being studied in a Phase 3 trial, BETonMACE, in 13 countries worldwide, in high-risk CVD patients with type 2 DM and low high-density lipoprotein (HDL). 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.

2. Basis of preparation

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting*. These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on September 13, 2019.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of the liability classified warrants and liability classified royalty preferred shares, which are measured at fair value each reporting period.

(c) Functional and presentation currency

The functional currency of all entities within the Group is the US dollar, which is also the presentation currency. All financial information presented in dollars has been rounded to the nearest thousand except for per share amounts.

(d) Use of estimates and judgment

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in these condensed interim consolidated financial statements and notes. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the condensed interim consolidated financial statements remain unchanged from those described in the Group's consolidated financial statements for the year ended April 30, 2019.

3. Future operations

The success of the Company is dependent on the continuation of its research and development activities, progressing the core technologies through clinical trials to commercialization and its ability to finance its cash requirements.

It is not possible to predict the outcome of future research and development programs, the Company's ability to fund these programs in the future, or the commercialization of products by the Company.

The consolidated financial statements have been prepared pursuant to International Financial Reporting Standards 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.

3. Future operations (continued)

As at July 31, 2019, the Company had $7.4 million of cash. The Company needs to fund research, development and corporate activities within the next year. As at July 31, 2019, the Company was committed to pay $7.8 million of trade and other payables, and $7.5 million for research and development. Furthermore, the Company's $11.5 million loan with Third Eye Capital is due on September 27, 2019 (as described in Note 6, subsequent to July 31, 2019, $3.0 million of the Third Eye Loan was repaid). The Company is required to pay a further $0.7 million to Third Eye Capital related to interest and other payments on or before the loan's maturity. In addition, expenditures over the next twelve months under agreements with contract research organizations and central laboratories conducting the BETonMACE trial were estimated to total up to approximately $9 – 12 million.

The Company's cash as at July 31, 2019 is not sufficient to fund the Company's contractual commitments or the Company's planned business operations over the next year and repay the Third Eye Loan or comply with the loan covenants for the entire remaining term of the Third Eye loan. Therefore, the Company will have to raise additional capital to fund its contractual commitments and its planned business operations, and to continue to comply with its loan covenants. The Company continues to pursue and/or examine both non-dilutive and dilutive arrangements, with a preference for non-dilutive alternatives, including co-development, licensing, rights (on indications or potential follow-on compounds) or other partnering arrangements, private placements and/or public offerings (equity and/or debt). However, there is no assurance that any of these measures will be completed.

These conditions result in a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. If the Company is not able to raise capital, the Company will have to reduce its cash requirements by eliminating or deferring spending on research, development and corporate activities, or may be forced to cease operations.

The Company will also require additional capital to fund research, development and corporate activities beyond the next year. The Company will continue to explore alternatives to generate additional cash including raising additional equity and/or debt and/or partnering; however, there is no assurance that these initiatives will be successful.

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

4. Significant accounting policies

The condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended April 30, 2019 prepared in accordance with IFRS applicable to those annual consolidated financial statements. The same accounting policies, presentation and methods of computation have been followed in these condensed interim consolidated financial statements as were applied in the Company's consolidated financial statements for the year ended April 30, 2019, with the exception of the IFRS 16 – *Leases* policy discussed below.

New standards and interpretations adopted

IFRS 16 – Leases

On January 13, 2016, the IASB issued IFRS 16 – *Leases* which replaces IAS 17. The new standard introduces a single lessee accounting model and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease.

Resverlogix adopted IFRS 16 on May 1, 2019, and has selected the modified retrospective transition approach, under which the comparative information has not been restated and continues to be reported under IAS 17. Resverlogix has also elected to apply the optional exemptions for short-term and low-value leases. Resverlogix has elected not to separate fixed non-lease components from lease components and instead account for each lease component and associated fixed non-lease components as a single lease component.

On transition to IFRS 16, Resverlogix recognized $2.4 million of right-of-use assets (consisting of two office spaces) and $2.4 million of corresponding lease liabilities. Lease liabilities have been measured by discounting future lease payments using rates reflective of the assets under lease and the Company's incremental borrowing rate at May 1, 2019 as rates implicit in the leases were not readily determinable. The discount rates applied are between 6.25% and 6.75%.

4. Significant accounting policies (continued)

		Impact of IFRS 16 adoption	
In thousands of US dollars	As reported as at April 30, 2019	Effects of IFRS 16 transition	Subsequent to transition as at May 1, 2019
Right-of-use assets	$ -	$ 2,358	$ 2,358
Other current and non-current assets	16,287	-	16,287
Total assets	16,287	2,358	18,645
Lease liabilities	-	2,367	2,367
Other current and non-current liabilities	224,009	(9)	224,000
Total liabilities	224,009	2,358	226,367
Total shareholders' equity (deficit)	$ (207,722)	$ -	$(207,722)

Update to Leases Accounting Policy, applicable from May 1, 2019

At inception of a contract, the Company assesses whether such a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. A right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying assets or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

The lease liability is initially measured at the present value of the lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in a rate, if there is a change in the Company's estimate or the amount expected to be payable under the residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination period.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of comprehensive (income) loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities separately in the statement of financial position.

(amounts in thousands of US dollars, except for number of shares)

4. Significant accounting policies (continued)

As a Lessor

When the Company acts as a lessor, it determines at inception whether each lease is a finance lease or an operating lease.

The Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incremental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If the contract contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

The accounting policies applicable to the Company as a lessor in the comparative periods were not different from IFRS 16.

5. Leases

(a) As a lessee

(i) Right-of-use asset

	Office leases	Total
Cost		
Balance at April 30, 2019	$ -	$ -
Impact of IFRS 16 adoption	2,358	2,358
Balance at July 31, 2019	$ 2,358	$ 2,358
Accumulated depreciation		
Balance at April 30, 2019	$ -	$ -
Depreciation	168	168
Balance at July 31, 2019	$ 168	$ 168
Net book value		
As at July 31, 2019	$ 2,190	$ 2,190

The right-of-use asset recognized at May 1, 2019 includes a provision of $43 thousand for the potential removal of certain leasehold improvements at the end of the lease (November 2023). The corresponding liability is disclosed as part of non-current lease liabilities.

(ii) Lease liabilities

The following is the Group's maturity analysis for office and laboratory premises contractual undiscounted cash flows:

	2019
Less than 1 year	$ 752
Between 1 and 5 years	1,783
More than 5 years	-
Total undiscounted lease payments as at July 31, 2019	$ 2,535

Lease liabilities in the statement of financial position at July 31, 2019	$ 2,251
Current	726
Non-current	1,525

During the three months ended July 31, 2019, total interest on lease liabilities recognized in finance costs were $0.04 million.

(amounts in thousands of US dollars, except for number of shares)

5. Leases (continued)

(b) As a lessor

Resverlogix has subleases in place with Zenith Capital Corp. ("Zenith") for a laboratory and offices that Resverlogix shares with Zenith. The subleases have been assessed as operating leases as Zenith does not have substantially all of the risks and rewards of the underlying assets. Zenith agreed to pay Resverlogix for its proportionate share of lease payments and operating costs of an estimated $0.3 million and $0.1 million, respectively, for the next twelve months. The cost recovery on rent payments has been recognized as recoveries to research and development and general and administrative expenses.

6. Debt

	July 31, 2019	April 30, 2019
US$30.0 million (initial principal), 10% due September 27, 2019	$ 14,537	$ 14,537
Unamortized transaction costs, net of accretion	(25)	(587)
Exit fee, net of accretion	596	517
Carrying value of debt	$ 15,108	$ 14,467

Third Eye Capital Loan

On May 4, 2018 the Company closed a US$30.0 million senior secured loan (the "Third Eye Loan") with Third Eye Capital ("Third Eye"). The loan bears interest at 10% per annum, calculated and payable monthly in arrears. On April 30, 2019, the Company entered into a loan amendment to extend the maturity date of the loan from May 4, 2019 to August 4, 2019. The amendment was accounted as a debt modification. The change in timing and amount of the estimated cash flows related to the loan resulted in an adjustment to the carrying value of the loan, and a modification gain $0.5 million was recognized at the April 30, 2019 amendment date (disclosed as part of accretion expense). A $0.2 million amendment fee was incurred on amending the loan on April 30, 2019; by recognizing the $0.2 million amendment fee as part of the carrying value of the loan, the effective interest rate of the loan increased from 22.7% to 28.2% for the remaining term of the loan.

Subsequent to July 31, 2019, the Company entered into second and third loan amendments to extend the maturity date of the loan from August 4, 2019 to September 16, 2019, and from September 16, 2019 to September 27, 2019, respectively. In connection with the second loan amendment, the Company repaid $3.0 million of the Third Eye Loan on August 2, 2019. Amendment fees of $0.15 million were incurred on amending the loan.

Pursuant to the loan amendment, the borrower covenants the Company must comply with include: maintaining a cash balance greater than US$3 million, a current ratio greater than 1:1 (with the current ratio calculation excluding warrant liability, unearned licensing rights fee and debt from the current liabilities denominator), and a market capitalization greater than CAD$150 million (as of the last trading day of each month), as well as other customary covenants. The Third Eye Loan is subject to mandatory prepayment provisions requiring at least 50% of the net cash proceeds of asset dispositions, licensing, distribution or partnership agreements, royalties, debt or equity issuances, grants and tax refunds to be applied to repayment of the Third Eye Loan (unless waived by Third Eye). The Company is in compliance with the Third Eye Loan debt covenants as at July 31, 2019.

Interest for approximately the first four months of the term ($1.0 million of non-refundable interest) was prepaid in advance at closing pursuant to the terms of the Third Eye Loan. The Company paid to Third Eye a one-time commitment fee of $0.9 million and is obligated to pay a $0.6 million exit fee upon full and final repayment or termination of the Third Eye Loan.

The Company issued 3.5 million warrants to Third Eye in connection with the Third Eye Loan. Each warrant is exercisable at a price of CAD$1.40 per underlying common share for a period of three years from the closing of the Third Eye Loan, as described in Note 8 (e).

(amounts in thousands of US dollars, except for number of shares)

7. Royalty preferred shares

(i) Authorized:

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

(ii) Issued and outstanding:

Preferred shares	Number of shares	Amount
Balance, April 30, 2018	75,202,620	$ 54,000
Revaluation of royalty preferred shares	-	83,400
Balance, April 30, 2019	75,202,620	137,400
Revaluation of royalty preferred shares	-	5,300
Balance, July 31, 2019	75,202,620	$ 142,700

The holder of the royalty preferred shares is entitled to dividends in the amount of 6-12% of the Company's Net Revenue, as defined in the Company's articles. As at July 31, 2019, the Company had 75,202,620 royalty preferred shares outstanding, all of which were held by Zenith Capital Corp. ("Zenith"). For fair value measurement purposes, the royalty preferred shares liability has been categorized within level 3 of the fair value measurement hierarchy. The fair value of the royalty preferred shares is based on management's judgments, estimates and assumptions which include significant unobservable inputs including the timing and amounts of the Company's discounted risk adjusted future net cash flows. The estimate incorporates the following assumptions: a cumulative probability rate of generating forecasted future cash flows of 42% as at July 31, 2019 (April 30, 2019 – 42%) reflecting in each case, among other factors, the Company's clinical results and communication with regulatory bodies; a discount rate of 19.6% as at July 31, 2019 (April 30, 2019 – 19.5%); commencement of revenue beginning between late 2021 and 2022 (based on clinical development paths across various jurisdictions) as at July 31, 2019 (April 30, 2019 – between late 2021 and 2022); apabetalone market share percentages; and product pricing. On June 14, 2018 the Company announced that it had received confirmation from the U.S. Food and Drug Administration ("FDA") that the Company's on-going Phase 3 study, if successful, is likely to support the filing and approval of a New Drug Application ("NDA").

The fair value of the royalty preferred shares is subject to significant volatility. Small changes in the aforementioned assumptions may have a significant impact on the fair value of the royalty preferred shares. For instance, holding all other assumptions constant: a 1% increase in the discount rate would result in a $11.2 million decrease in the fair value of the royalty preferred shares; assuming commencement of revenue one year later would result in a $32.8 million decrease in the fair value of the royalty preferred shares; and a 1% increase in the probability rate of generating forecasted future cash flows would result in a $4.3 million increase in the fair value of the royalty preferred shares.

(amounts in thousands of US dollars, except for number of shares)

8. Shareholders' equity (deficit)

(a) Common shares

(i) Authorized:

Unlimited number of common shares

(ii) Issued and outstanding:

Common shares	Number of shares	Amount
Balance, April 30, 2018	177,185,992	$ 249,589
Issued in connection with private placements	22,155,851	33,509
Issued in connection with warrant exercises	701,241	1,713
Issued in connection with stock option plan	229,268	476
Issued in connection with long term incentive plan	55,567	76
Share issue cost	-	(458)
Balance, April 30, 2019	200,327,919	284,905
Issued in connection with public offering	3,798,936	9,241
Issued in connection with warrant exercises	7,125	13
Issued in connection with stock option plan	239,100	265
Issued in connection with long term incentive plan	15,233	18
Share issue cost	-	(781)
Balance, July 31, 2019	204,388,313	$ 293,661

Private placements and prospectus offering

In August 2018, the Company issued 10,403,216 equity units at CAD$2.50 per unit pursuant to a private placement for gross proceeds of $20.0 million (CAD$26.0 million). Each unit consisted of one common share and one-half of a common share purchase warrant. Each warrant is exercisable at a price of CAD$3.00 per underlying common share for a period of three years from the closing of the private placement.

In November 2018, the Company issued 4,500,000 equity units at CAD$3.00 per unit pursuant to a private placement for gross proceeds of $10.3 million (CAD$13.5 million). Each unit consisted of one common share and one-half of a common share purchase warrant. Each warrant is exercisable at a price of CAD$3.10 per underlying common share for a period of three years from the closing of the private placement.

In January 2019, the Company issued 2,213,398 equity units to Hepalink at CAD$3.00 per unit pursuant to a private placement for gross proceeds of $5.1 million (CAD$6.6 million). Each unit consisted of one common share and one-half of a common share purchase warrant. Each warrant is exercisable at a price of CAD$3.21 per underlying common share for a period of three years from the closing of the private placement.

In March 2019, the Company issued 4,479,793 equity units to Hepalink at CAD$3.00 per unit pursuant to a private placement for gross proceeds of $10.1 million (CAD$13.4 million). In addition, during the three months ended April 30, 2019, the Company issued 559,444 units at CAD$3.00 per unit pursuant to additional private placements to other subscribers for gross proceeds of $1.3 million (CAD$1.7 million). Each unit consisted of one common share and one-half of a common share purchase warrant. Each warrant is exercisable at a price of CAD$3.21 per underlying common share for a period of three years from the closing of the private placements.

In June 2019, the Company issued 3,798,936 equity units at CAD$4.00 per unit pursuant to a prospectus offering for gross proceeds of $11.4 million (CAD$15.2 million). Each equity unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable at a price of CAD$4.60 per underlying common share for a period of four years from the closing of the offering.

(amounts in thousands of US dollars, except for number of shares)

8. Shareholders' equity (deficit) (continued)

(a) Common shares (continued)

Share issue costs

During the three months ended July 31, 2019, the Company recognized total share issue costs of $0.8 million, including $0.1 million associated with warrants issued to the financial advisors involved with the June 2019 public offering, as described in Note 8 (f). During the year ended April 30, 2019, the Company recognized total share issue costs of $0.5 million.

(b) Stock options

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

The majority of options fully vest over one to three years and have a five year term. Certain stock options have performance conditions which must be satisfied in order for the options to vest. The options are settled by way of the issuance of equity instruments of the Company ("equity-settled").

	Number of options	Weighted average exercise price (CAD)
Outstanding, April 30, 2018	2,811,600	$ 1.83
Granted	50,000	3.18
Exercised	(229,268)	1.38
Expired	(977,934)	2.68
Forfeited	(30,932)	1.52
Outstanding, April 30, 2019	1,623,466	1.42
Exercised	(239,100)	0.68
Expired	(5,700)	0.65
Outstanding, July 31, 2019	1,378,666	$ 1.56

The following table summarizes information about the options outstanding and exercisable at July 31, 2019.

Range of Exercise Prices (CAD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)	Number Exercisable
$0.72	150,000	0.19	$ 0.72	150,000
$1.04 - $1.73	950,966	1.69	1.35	944,300
$2.26 - $2.82	227,700	0.77	2.60	227,700
$3.01 - $3.35	50,000	4.61	3.18	-
	1,378,666	1.48	$ 1.56	1,322,000

The number of options exercisable at July 31, 2019 was 1,322,000 (2018 – 1,492,941) with a weighted average exercise price of CAD$1.49 (2018 – CAD$1.35).

The fair value of each option granted is estimated as of the grant date using the Black-Scholes option pricing model. During the three months ended July 31, 2019 and 2018, no stock options were granted.

(amounts in thousands of US dollars, except for number of shares)

8. Shareholders' equity (deficit) (continued)

(c) Restricted stock units

The Company's long term incentive plan allows for the reservation of a number of common shares not to exceed 10% of the Company's issued and outstanding common shares on an undiluted basis less the number of common shares reserved under the Company's amended stock option plan. The Company may grant restricted stock units ("RSUs") to directors, officers, employees, and consultants.

During the three months ended July 31, 2019, 334,400 RSUs were granted (2018 – Nil). The RSUs vest over a period of six months to three years. The Company estimates the fair value of RSUs based on the market price of the underlying stock on the date of grant.

	Number of restricted stock units	Weighted average grant date fair value (USD)
Outstanding, April 30, 2018	528,580	$ 1.19
Granted	1,946,100	2.52
Exercised	(55,567)	1.36
Forfeited	(9,566)	0.98
Outstanding, April 30, 2019	2,409,547	2.26
Granted	334,400	2.21
Exercised	(15,233)	1.20
Outstanding, July 31, 2019	2,728,714	$ 2.26

The number of RSUs exercisable at July 31, 2019 was 1,689,447 (2018 – 450,286).

(d) Deferred share units

The Company's deferred share unit plan limits the maximum number of Common Shares issuable pursuant to outstanding deferred share units ("DSUs") at any time to 5% of the aggregate number of issued and outstanding Common Shares, provided that the combined maximum number of Common Shares issuable by the Company pursuant to outstanding DSUs and all of its other security based compensation arrangements may not exceed 10% of the Common Shares outstanding from time to time. The Company may grant DSUs to directors.

During the three months ended July 31, 2019, no DSUs were granted (2018 – Nil). The DSUs fully vest at grant date. The Company estimates the fair value of DSUs based on the market price of the underlying stock on the date of grant.

	Number of deferred share units	Weighted average grant date fair value (USD)
Outstanding and exercisable, April 30, 2018	-	$ -
Granted	155,001	2.52
Outstanding and exercisable, April 30, 2019 and July 31, 2019	155,001	$ 2.52

(amounts in thousands of US dollars, except for number of shares)

8. Shareholders' equity (deficit) (continued)

(e) Warrant liability

The following table summarizes the changes in liability-classified common share purchase warrants outstanding.

	Number of warrants	Weighted average exercise price (CAD)	Liability amount
Outstanding, April 30, 2018	19,347,251	$ 1.57	$ 8,813
Issued in connection with Third Eye loan	3,500,000	1.40	1,419
Issued in connection with private placements	11,077,927	3.09	13,180
Exercised	(529,692)	0.90	(1,039)
Revaluation of warrant liability	-	-	41,153
Outstanding, April 30, 2019	33,395,486	2.07	63,526
Issued in connection with public offering	3,798,936	4.60	2,203
Revaluation of warrant liability	-	-	(19,805)
Outstanding, July 31, 2019	37,194,422	$ 2.33	$ 45,924

The following table summarizes information about liability-classified warrants outstanding and exercisable at July 31, 2019.

Exercise Price (CAD)	Number Outstanding and Exercisable	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)
$0.75	5,000,000	0.04	$ 0.75
$1.40 - $1.64	10,209,395	2.10	1.53
$2.00 - $2.67	7,108,164	1.68	2.17
$3.00 - $3.21	11,077,927	2.29	3.09
$4.60	3,798,936	3.85	4.60
	37,194,422	1.98	$ 2.33

The initial fair value of these warrants is determined using the Black Scholes option pricing model, unless the warrants are listed (in which case the initial trading value is used).

The Company's warrants are presented as a current liability on the consolidated statements of financial position. Each full warrant entitles the holder to purchase one common share of the Company. As these warrants are exercised, the fair value of the recorded warrant liability on date of exercise is included in share capital along with the proceeds from the exercise. If these warrants expire, the related decrease in warrant liability is recognized in profit or loss, as part of the change in fair value of warrant liability.

The fair value of the remaining warrants not listed is determined using the Black Scholes option pricing model at initial issue date and at each reporting period, except as discussed below.

The change in fair value of the liability-classified warrants is based on several factors including changes in the market price of our shares, as well as decreases in the remaining terms of the various series of warrants, and changes in estimated future volatility of our common shares, which represents a level 3 input in the fair value hierarchy. The fair value of the warrants is subject to significant volatility.

During the three months ended July 31, 2019, 3,798,936 liability-classified warrants were issued (and listed for trading) in connection with the prospectus offering discussed in Note 8 (a). The market value of these listed warrants represents a Level 1 input in the fair value hierarchy, and is used to value these warrants at each reporting period. As at July 31, 2019, the fair value of these June 2019 listed warrants was CAD$0.99 per warrant for a total value of $2.8 million.

(amounts in thousands of US dollars, except for number of shares)

8. Shareholders' equity (deficit) (continued)

(e) Warrant liability (continued)

During the three months ended July 31, 2018, 3,500,000 warrants were issued in connection with the Third Eye Loan. The weighted average fair value of the warrants issued during the three months ended July 31, 2019 was $0.41 per warrant, using the Black-Scholes option pricing model and the following assumptions:

	Issued in connection with Third Eye loan
Number of warrants issued	3,500,000
Risk-free interest rate	2.1%
Expected life	3.0 years
Expected volatility	69%
Share price at grant date (CAD)	$1.33

(f) Equity-classified warrants

On June 7, 2019, the Company issued 195,925 warrants to financial advisors involved with the June 7, 2019 prospectus offering described in Note 8 (a). These warrants are classified as an equity instrument and accounted for under IFRS 2 – *Share-Based Payments* as they are a form of compensation for services rendered. Due to the equity classification, the warrants will not be revalued each reporting period. Each warrant issued on June 7, 2019 is exercisable at a price of CAD$4.00 for a period of two years.

The following table summarizes the changes in equity classified warrants outstanding.

	Number of warrants	Weighted average exercise price (CAD)	Equity amount
Outstanding, April 30, 2018	1,853,017	$ 1.85	$ 1,269
Exercised	(171,549)	2.05	(40)
Outstanding, April 30, 2019	1,681,468	1.83	1,229
Issued in connection with prospectus offering	195,925	4.00	139
Exercised	(7,125)	2.05	(2)
Outstanding, July 31, 2019	1,870,268	$ 2.06	$ 1,366

The following table summarizes information about the equity classified warrants outstanding and exercisable at July 31, 2019.

Exercise Price (CAD)	Number Outstanding and Exercisable	Weighted Average Remaining Life (years)
$1.62	1,342,593	2.34
$2.67	331,750	0.97
$4.00	195,925	1.85
	1,870,268	2.05

There were no equity-classified warrants issued during the three months ended July 31, 2018. The weighted average fair value of the warrants issued during the three months ended July 31, 2019 was $0.71 per warrant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019
Risk-free interest rate	1.5%
Expected life	2.0 years
Expected volatility	75%

(amounts in thousands of US dollars, except for number of shares)

8. Shareholders' equity (deficit) (continued)

(g) Per share amounts

The basic and diluted earnings (loss) per share have been calculated based on the weighted average shares outstanding:

	Three months ended July 31,	
	2019	2018
Weighted average common shares outstanding - basic	202,709,664	177,266,421
Effect of stock options, RSUs, DSUs and warrants	15,499,737	-
Weighted average common shares outstanding - diluted	218,209,401	177,266,421

The effect of any potential exercise of stock options, restricted stock units, deferred share units and warrants outstanding is excluded from the calculation of diluted loss per share in periods where the effect would be anti-dilutive.

9. Expenses by nature

Presentation of expenses is based on the function of each expense. The following details highlight certain components of the research and development and general and administrative expenses classified by nature. Remaining research and development and general and administrative expenses include personnel costs and expenses paid to third parties.

	Three months ended July 31,	
	2019	2018
Included in research and development expenses:		
Share-based payment transaction costs	$ 266	$ 13
Amortization and depreciation	186	61
Included in general and administrative expenses:		
Share-based payment transaction costs	$ 464	$ 38
Amortization and depreciation	72	24

10. Commitments

As at July 31, 2019, the Group is committed to expenditures over the next twelve months of $7.5 million (2018 – $8.1 million) under various research and development contracts. In addition, expenditures over the next twelve months under agreements with contract research organizations and central laboratories conducting the BETonMACE trial were estimated to total up to approximately $9 – 12 million.

11. Subsequent event

Third Eye Capital Loan Extensions

Subsequent to July 31, 2019, the Company entered into second and third loan amendments to extend the maturity date of the Third Eye Loan from August 4, 2019 to September 16, 2019, and from September 16, 2019 to September 27, 2019, respectively. In connection with the second loan amendment, the Company repaid $3.0 million of the Third Eye Loan on August 2, 2019. Amendment fees of $0.15 million were incurred on amending the loan.