RESVERLOGIX

Condensed Interim Consolidated Financial Statements

For the three and six months ended October 31, 2019 and 2018

Condensed Interim Consolidated Statements of Financial Position

As at:
(unaudited)

In thousands of US dollars	Notes	October 31, 2019	April 30, 2019
Assets			
Current assets:			
Cash		$ 170	$ 7,689
Prepaid expenses and deposits		580	604
Investment tax credit receivable		168	113
Other assets		986	213
Clinical supplies		2,444	1,156
Due from related parties		1,210	865
Total current assets		5,558	10,640
Non-current assets:			
Property and equipment		317	350
Right-of-use assets	5	2,022	-
Intangible assets		2,705	2,564
Prepaid expenses and deposits		103	102
Deferred financing costs		-	25
Clinical supplies		2,666	2,606
Total non-current assets		7,813	5,647
Total assets		$ 13,371	$ 16,287
Liabilities			
Current liabilities:			
Trade and other payables		$ 9,511	$ 8,190
Accrued interest		118	120
Promissory notes		235	306
Lease liabilities	5	729	-
Warrant liability	8 (e)	10,772	63,526
Debt	6	10,404	14,467
Derivative liability	6	1,020	-
Total current liabilities		32,789	86,609
Non-current liabilities:			
Lease liabilities	5	1,373	-
Royalty preferred shares	7	61,300	137,400
Total liabilities		95,462	224,009
Shareholders' equity (deficit):			
Share capital	8 (a)	304,539	284,905
Contributed surplus		44,352	43,117
Warrants	8 (f)	1,366	1,229
Deficit		(432,348)	(536,973)
Total shareholders' equity (deficit)		(82,091)	(207,722)
Total liabilities and shareholders' equity (deficit)		$ 13,371	$ 16,287

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

Signed on behalf of the Board:

Signed: "Donald McCaffrey" 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 and six months ended October 31
(unaudited)

		Three months ended October 31,		Six months ended October 31,	
In thousands of US dollars	Notes	2019	2018	2019	2018
Expenses:					
Research and development, net of recoveries	9	$ 6,278	$ 8,939	$ 14,076	$ 15,622
Investment tax credits		(21)	(31)	(53)	(61)
Net research and development		6,257	8,908	14,023	15,561
General and administrative, net of recoveries	9	1,502	2,000	3,074	3,007
		7,759	10,908	17,097	18,568
Finance (income) costs:					
(Gain) loss on change in fair value of warrant liability	8 (e)	(27,785)	14,591	(47,590)	30,969
(Gain) loss on change in fair value of royalty preferred shares	7	(81,400)	12,200	(76,100)	36,100
Loss on change in fair value of derivative liability	6	26	-	26	-
Interest, fees and accretion		666	1,403	1,693	2,898
Financing costs		33	178	219	337
Foreign exchange loss (gain)		25	(81)	12	(182)
Net finance (income) costs		(108,435)	28,291	(121,740)	70,122
(Income) loss before income taxes		(100,676)	39,199	(104,643)	88,690
Income taxes		10	4	18	4
Net and total comprehensive (income) loss		$(100,666)	$ 39,203	$(104,625)	$ 88,694
Net (earnings) loss per share *(note 8 (g))*					
Basic		$ (0.48)	$ 0.21	$ (0.51)	$ 0.49
Diluted		(0.46)	0.21	(0.48)	0.49

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 six months ended October 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 private placement	13,686	-	-	-	13,686
Common shares issued in connection with stock option and long term incentive plans	506	(277)	-	-	229
Share issue cost	(386)	-	-	-	(386)
Common shares issued in connection with warrant exercises	1,713	-	(40)	-	1,673
Share-based payment transactions	-	1,369	-	-	1,369
Net and total comprehensive loss	-	-	-	(88,694)	(88,694)
Balance, October 31, 2018	$ 265,108	$ 40,732	$ 1,229	$ (462,869)	$ (155,800)
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	437	(315)	-	-	122
Share issue cost	(781)	-	-	-	(781)
Common shares issued in connection with exercise of warrants	10,737	-	(2)	-	10,735
Share-based payment transactions	-	1,550	-	-	1,550
Net and total comprehensive income	-	-	-	104,625	104,625
Balance, October 31, 2019	$ 304,539	$ 44,352	$ 1,366	$ (432,348)	$ (82,091)

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

Condensed Interim Consolidated Statements of Cash Flows

For the six months ended October 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)	$ 104,625	$ (88,694)
Items not involving cash:		
Equity-settled share-based payment transactions	1,550	1,369
Depreciation and amortization	514	172
Change in fair value of warrant liability	(47,590)	30,969
Change in fair value of royalty preferred shares	(76,100)	36,100
Change in fair value of derivative liability	26	-
Unrealized foreign exchange	39	-
Interest, fees and accretion	1,693	2,898
Net current income taxes	18	4
Financing costs	219	337
Changes in non-cash working capital:		
Prepaid expenses and deposits	23	(39)
Investment tax credit receivable	(55)	(58)
Other assets	(773)	62
Clinical supplies	(1,348)	1,477
Due from related parties	(345)	(132)
Unearned licensing rights fee	-	(153)
Trade and other payables	1,462	(15,169)
	(16,042)	(30,857)
Interest received	23	26
Income tax paid	(14)	(7)
Net cash used in operating activities	(16,033)	(30,838)
Cash flows provided by (used in) financing activities:		
Proceeds from equity units issued in connection with prospectus offering	11,444	-
Proceeds from equity units issued in connection with private placements	-	20,000
Share issuance costs	(579)	(386)
Proceeds from convertible debenture and warrants	12,000	-
Proceeds from debt	-	30,000
Debt issuance costs	(377)	(1,287)
Financing costs	(193)	(236)
Interest and fees paid	(670)	(1,162)
Repayment of debt	(15,137)	(10,313)
Deferred financing costs	(39)	(2)
Repayment of lease liabilities	(373)	-
Proceeds from exercise of stock options	122	228
Proceeds from exercise of warrants	2,843	634
Repayment of promissory note	(75)	(397)
Changes in non-cash financing working capital	(268)	(23)
Net cash provided by financing activities	8,698	37,056
Cash flows used in investing activities:		
Property and equipment additions	(13)	(3)
Intangible asset additions	(273)	(210)
Changes in non-cash investing working capital	38	(188)
Net cash used in investing activities	(248)	(401)
Effect of foreign currency translation on cash	64	(3)
(Decrease) increase in cash	(7,519)	5,814
Cash, beginning of period	7,689	121
Cash, end of period	$ 170	$ 5,935

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 was recently 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 December 16, 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 or a strategic partnership, and its ability to obtain additional financing. 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 to secure a strategic partnership, or the commercialization of products by the Company. To date, the Company has not generated any product revenue.

The condensed interim 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. The Company's Phase 3 trial, BETonMACE, did not meet its primary endpoint but generated encouraging positive results in key secondary endpoints and the Company intends to continue to develop apabetalone once additional funding can be obtained.

3. Future operations (continued)

As at October 31, 2019, the Company had $0.2 million of cash. The Company needs to raise additional capital or it may be forced to cease operations, and to fund research, development and corporate activities over the next year. As at October 31, 2019, the Company was committed to pay $9.5 million of trade and other payables, and $1.3 million for research and development. Furthermore, the Company's $12.0 million debenture with Vision Leader Limited is due on September 26, 2020. In addition, expenditures over the next twelve months under agreements with contract research organizations and central laboratories that conducted the BETonMACE trial were estimated to total up to approximately $2 - 3 million.

The Company's cash as at October 31, 2019, in combination with the $1.3 million raised subsequently, is not sufficient to fund the Company's contractual commitments or the Company's planned business operations over the next year and repay the Vision Leader Limited debenture. Therefore, the Company will have to raise additional capital to fund its contractual commitments and its planned business operations. 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 satisfy its financial obligations including indebtedness, fund its contractual commitments, or to continue as a going concern. If the Company is not able to raise capital, the Company 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 October 31, 2019	$ 2,358	$ 2,358
Accumulated depreciation		
Balance at April 30, 2019	$ -	$ -
Depreciation	336	336
Balance at October 31, 2019	$ 336	$ 336
Net book value		
As at October 31, 2019	$ 2,022	$ 2,022

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 and a summary of the discounted cash flows disclosed on the statement of financial position:

	2019
Less than 1 year	$ 755
Between 1 and 5 years	1,597
More than 5 years	-
Total undiscounted lease payments as at October 31, 2019	$ 2,352
Lease liabilities in the statement of financial position at October 31, 2019	$ 2,102
Current	729
Non-current	1,373

During the six months ended October 31, 2019, total interest on lease liabilities recognized in finance costs was $0.1 million.

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

5. Leases (continued)

(b) As a lessor

Resverlogix has a license agreement and a sublease in place with Zenith Capital Corp. ("Zenith") for a laboratory and offices that Resverlogix shares with Zenith. The agreements have been classified 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 associated rent payments and operating costs of an estimated $0.2 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

(a) Third Eye Capital Loan

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

On September 27, 2019, the Company repaid the remaining $11.5 million principal of the Third Eye Capital loan and accrued interest and a $0.6 million exit fee.

On May 4, 2018, the Company closed the US$30.0 million senior secured loan (the "Third Eye Loan") with Third Eye Capital ("Third Eye"). The loan bore 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.

During the six months ended October 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 further amending the loan.

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 was 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)

6. Debt (continued)

(b) Vision Leader Limited Convertible Debenture

	October 31, 2019	April 30, 2019
US$12.0 million (initial principal), 10% due September 26, 2020	$ 12,000	$ -
Unamortized transaction costs, net of accretion	(208)	-
Discount on warrant liability derivative, net of accretion	(480)	-
Discount on conversion option derivative, net of accretion	(908)	-
Carrying value of debt	$ 10,404	$ -

On September 26, 2019, the Company closed a US$12.0 million secured convertible debenture (the "Debenture") with Vision Leader Limited ("Vision Leader"), a wholly-owned subsidiary of ORI Star Fund LP. The Debenture bears interest at 10% per annum, payable on the September 26, 2020 maturity date. The Fund may elect to convert the Debenture into common shares of the Company at a conversion price equal to the lesser of CAD$2.54 per share and the 5-day volume weighted average trading price of the common shares on the date of conversion. The Company granted Vision Leader a security interest in all of its assets, including its patents and other intellectual property, as security for its obligations under the Debenture. In connection with the Debenture, ORI Star Fund LP is entitled to nominate a director to the Company's Board of Directors.

The secured convertible debenture is a hybrid instrument consisting of a financial instrument and an embedded derivative, a conversion option. The embedded derivative is separated from the host contract and accounted for separately as the economic characteristics and risks of the host contract and the embedded derivative is not closely related.

The Company issued also 600,000 warrants to Vision Leader in connection with the Debenture. Each warrant is exercisable at a price of CAD$2.54 per underlying common share with an expiry date of December 31, 2023, as described in Note 8 (e). An exercise of warrants with an exercise price denominated in a foreign currency will result in a variable amount of cash for a fixed number of shares; as such, the warrants are presented as a current liability. On initial recognition, the warrants were valued at $0.525 million; this initial value of the warrant liability is accreted over the term of the Debenture.

The conversion option contains a variable conversion price and the conversion price is denominated in a foreign currency. As a result, conversion will result in a variable number of shares of the Company being issued at conversion; as such, the conversion feature has been classified as a derivative liability at fair value through profit or loss. It was valued at $0.995 million at the date of issuance; this initial value of the conversion option derivative is accreted over the term of the Debenture. The conversion option was revalued at $1.020 million as at October 31, 2019. On initial recognition and on October 31, 2019, the embedded conversion option was measured at fair value by third party valuation experts using an industry standard methodology. Subsequent to initial recognition, any change in fair value is recognized in profit or loss at each reporting date. During the six months ended October 31, 2019, a $0.026 million loss was recognized for revaluing the derivative liability.

(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	-	(76,100)
Balance, October 31, 2019	75,202,620	$ 61,300

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 October 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 October 31, 2019 (April 30, 2019 – 42%) reflecting in each case, among other factors, the Company's clinical results, in particular the results of BETonMACE, and communication with the U.S. Food and Drug Administration ("FDA") and other regulatory bodies; a discount rate of 21.8% as at October 31, 2019 (April 30, 2019 – 19.5%); projected commencement of revenue beginning between late 2023 and 2024 (based on projected clinical development paths across various jurisdictions) as at October 31, 2019 (April 30, 2019 – between late 2021 and 2022); and projected apabetalone market share percentages and projected product pricing (both of which were reduced in the current period).

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 $5.2 million decrease in the fair value of the royalty preferred shares; assuming commencement of revenue one year later would result in a $12.4 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 $1.8 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	5,007,125	10,737
Issued in connection with stock option plan	239,100	265
Issued in connection with long term incentive plan	84,702	172
Share issue cost	-	(781)
Balance, October 31, 2019	209,457,782	$ 304,539

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. All of the 3,798,936 warrants issued were listed for trading.

(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 six months ended October 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. 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	(155,700)	0.72
Outstanding, October 31, 2019	1,228,666	$ 1.66

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

Range of Exercise Prices (CAD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)	Number Exercisable
$1.04 - $1.73	950,966	1.44	1.35	944,300
$2.26 - $2.82	227,700	0.52	2.60	227,700
$3.01 - $3.35	50,000	4.36	3.18	-
	1,228,666	1.39	$ 1.66	1,172,000

The number of options exercisable at October 31, 2019 was 1,172,000 (2018 – 1,489,691) with a weighted average exercise price of CAD$1.59 (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 six months ended October 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 six months ended October 31, 2019, 3,019,400 RSUs were granted (2018 – 1,883,600 RSUs). 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	3,019,400	2.04
Exercised	(84,702)	2.03
Outstanding, October 31, 2019	5,344,245	$ 2.14

The number of RSUs exercisable at October 31, 2019 was 1,682,478 (2018 – 435,753).

(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 six months ended October 31, 2019, no DSUs were granted (2018 – 145,648). 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 October 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
Issued in connection with convertible debenture	600,000	2.54	525
Exercised	(5,000,000)	0.75	(7,892)
Revaluation of warrant liability	-	-	(47,590)
Outstanding, October 31, 2019	32,794,422	$ 2.57	$ 10,772

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

Exercise Price (CAD)	Number Outstanding and Exercisable	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)
$1.40 - $1.64	10,209,395	1.85	$ 1.53
$2.00 - $2.67	7,708,164	1.64	2.20
$3.00 - $3.21	11,077,927	2.04	3.09
$4.60	3,798,936	3.60	4.60
	32,794,422	2.07	$ 2.57

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 changes in fair value of the liability-classified warrants were based on several factors including changes in the market price of our shares to CAD$1.19 on October 31, 2019 from CAD$4.01 on April 30, 2019, and to CAD$3.33 on October 31, 2018 from CAD$1.29 on April 30, 2018, the revaluation of 4.4 million new liability classified warrants issued in the current period, 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. Gains and losses resulting from the revaluation of warrant liability are non-cash and do not impact our cash flows.

During the six months ended October 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 October 31, 2019, the fair value of these listed warrants was CAD$0.36 per warrant for a total value of $1.0 million.

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

8. Shareholders' equity (deficit) (continued)

(e) Warrant liability (continued)

In addition, during the six months ended October 31, 2019, 600,000 liability-classified warrants were issued in connection with a convertible debenture (as described in Note 6 (b)) and were valued using the Black-Scholes option pricing with assumptions that are listed in the table below.

During the six months ended October 31, 2018, 3,500,000 warrants were issued in connection with the Third Eye Loan (as described in Note 6 (a)) and 5,201,608 warrants were issued in connection with the August 2018 private placement.

The weighted average fair value of the warrants issued during the six months ended October 31, 2019 (excluding the listed warrants described above) was $0.88 per warrant (2018 – $0.89 per warrant), using the Black-Scholes option pricing model and the following assumptions for the separate issuances:

	2019	2018	2018
	Issued in connection with debenture	Issued in connection with Third Eye loan	Issued in connection with private placement
Number of warrants issued	600,000	3,500,000	5,201,608
Risk-free interest rate	1.7%	2.1%	2.2%
Expected life	4.3 years	3.0 years	3.0 years
Expected volatility	80%	69%	73%
Share price at grant date (CAD)	$2.30	$1.33	$3.12

(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, October 31, 2019	1,870,268	$ 2.06	$ 1,366

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

Exercise Price (CAD)	Number Outstanding and Exercisable	Weighted Average Remaining Life (years)
$1.62	1,342,593	2.09
$2.67	331,750	0.72
$4.00	195,925	1.60
	1,870,268	1.79

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

8. Shareholders' equity (deficit) (continued)

(f) Equity-classified warrants (continued)

There were no equity-classified warrants issued during the six months ended October 31, 2018. The weighted average fair value of the equity-classified warrants issued during the six months ended October 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%

(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 October 31,		Six months ended October 31,	
	2019	2018	2019	2018
Weighted average common shares outstanding - basic	208,816,954	185,185,837	205,755,795	181,225,692
Effect of warrants, stock options, RSUs, and DSUs	11,934,902	-	11,934,902	-
Weighted average common shares outstanding - diluted	220,751,856	185,185,837	217,690,697	181,225,692

The effect of any potential exercise of warrants, stock options, restricted stock units, and deferred share units 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 October 31,		Six months ended October 31,	
	2019	2018	2019	2018
Included in research and development expenses:				
Share-based payment transaction costs	$ 296	$ 307	$ 562	$ 320
Amortization and depreciation	185	62	371	123
Impairment of clinical supplies	346	-	346	-
Included in general and administrative expenses:				
Share-based payment transaction costs	$ 524	$ 1,011	$ 988	$ 1,049
Amortization and depreciation	71	25	143	49

10. Commitments

As at October 31, 2019, the Group is committed to expenditures over the next twelve months of $1.3 million (2018 – $7.2 million) under various research and development contracts. In addition, expenditures over the next twelve months under agreements with contract research organizations and central laboratories that conducted the BETonMACE trial were estimated to total up to approximately $2 - 3 million.

11. Subsequent events

Private placement

Subsequent to October 31, 2019, the Company closed a private placement and issued 1.3 million units at a price of CAD$1.33 per unit for gross proceeds of $1.3 million (CAD$1.7 million). Each unit was comprised of one common share and one-half of a common share purchase warrant. Each warrant is exercisable at a price of CAD$1.40 per share for a period of three years from the closing of the private placement.

Warrant exercise incentive program

Subsequent to October 31, 2019, the Company announced a warrant exercise incentive program designed to encourage the early exercise of 15,593,428 warrants to purchase common shares of the Company (which excludes warrants held by insiders of the Company and warrants that are listed for trading). The warrants included in the incentive program, which are exercisable at prices ranging from CAD$1.40 to CAD$4.00 per share and expire between April 12, 2020 and December 31, 2023, have been amended to permit the exercise of the warrants at a price of CAD$1.33 per share commencing on December 10, 2019 and ending at the close of business on January 10, 2020. Following January 10, 2020, unexercised warrants will remain outstanding and continue to be exercisable for common shares of the Company on their original terms. To date, no warrants have been exercised under the incentive program.