RESVERLOGIX

Condensed Interim Consolidated Financial Statements

For the three and nine months ended January 31, 2020 and 2019

Condensed Interim Consolidated Statements of Financial Position

As at:

(unaudited)

In thousands of US dollars	Notes	January 31, 2020	April 30, 2019
Assets			
Current assets:			
Cash		$ 169	$ 7,689
Prepaid expenses and deposits		236	604
Investment tax credit receivable		191	113
Other assets		374	213
Clinical supplies		3,033	1,156
Due from related parties		959	865
Total current assets		4,962	10,640
Non-current assets:			
Property and equipment		295	350
Right-of-use assets	5	1,854	-
Intangible assets		2,736	2,564
Prepaid expenses and deposits		103	102
Deferred financing costs		-	25
Clinical supplies		2,179	2,606
Total non-current assets		7,167	5,647
Total assets		$ 12,129	$ 16,287
Liabilities			
Current liabilities:			
Trade and other payables		$ 8,995	$ 8,190
Accrued interest		421	120
Promissory notes		234	306
Lease liabilities	5	729	-
Warrant liability	8 (e)	10,414	63,526
Debt	6	10,795	14,467
Derivative liability	6	1,161	-
Total current liabilities		32,749	86,609
Non-current liabilities:			
Lease liabilities	5	1,210	-
Royalty preferred shares	7	53,000	137,400
Total liabilities		86,959	224,009
Shareholders' equity (deficit):			
Share capital	8 (a)	304,908	284,905
Contributed surplus		46,441	43,117
Warrants	8 (f)	1,490	1,229
Deficit		(427,669)	(536,973)
Total shareholders' equity (deficit)		(74,830)	(207,722)
Total liabilities and shareholders' equity (deficit)		$ 12,129	$ 16,287

Future operations (note 3)   Commitments (note 10)

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 nine months ended January 31

(unaudited)

		Three months ended January 31,		Nine months ended January 31,	
In thousands of US dollars	Notes	2020	2019	2020	2019
Expenses:					
Research and development, net of recoveries	9	$ 1,779	$ 7,809	$ 15,855	$ 23,431
Investment tax credits		(24)	(25)	(77)	(86)
Net research and development		1,755	7,784	15,778	23,345
General and administrative, net of recoveries	9	2,103	1,579	5,177	4,586
		3,858	9,363	20,955	27,931
Finance (income) costs:					
(Gain) loss on change in fair value of warrant liability	8 (e)	(1,254)	(4,126)	(48,844)	26,843
(Gain) loss on change in fair value of royalty preferred shares	7	(8,300)	6,600	(84,400)	42,700
Loss on change in fair value of derivative liability	6	140	-	166	-
Interest, fees and accretion		746	1,218	2,439	4,116
Financing costs		148	269	367	606
Foreign exchange (gain) loss		(19)	77	(7)	(105)
Net finance (income) costs		(8,539)	4,038	(130,279)	74,160
(Income) loss before income taxes		(4,681)	13,401	(109,324)	102,091
Income taxes		2	5	20	9
Net and total comprehensive (income) loss		$ (4,679)	$ 13,406	$(109,304)	$ 102,100
Net (earnings) loss per share *(note 8 (g))*					
Basic		$ (0.02)	$ 0.07	$ (0.53)	$ 0.55
Diluted		(0.02)	0.07	(0.50)	0.55

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 nine months ended January 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	25,216	-	-	-	25,216
Common shares issued in connection with stock option and long term incentive plans	508	(279)	-	-	229
Share issue cost	(433)	-	-	-	(433)
Common shares issued in connection with warrant exercises	1,713	-	(40)	-	1,673
Share-based payment transactions	-	2,634	-	-	2,634
Net and total comprehensive loss	-	-	-	(102,100)	(102,100)
Balance, January 31, 2019	$ 276,593	$ 41,995	$ 1,229	$ (476,275)	$ (156,458)
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 private placement	356	-	-	-	356
Common shares issued in connection with stock option and long term incentive plans	453	(331)	-	-	122
Share issue cost	(784)	-	-	-	(784)
Common shares issued in connection with exercise of warrants	10,737	-	(2)	-	10,735
Revaluation of warrants for temporary exercise price adjustment	-	-	124	-	124
Share-based payment transactions	-	3,655	-	-	3,655
Net and total comprehensive income	-	-	-	109,304	109,304
Balance, January 31, 2020	$ 304,908	$ 46,441	$ 1,490	$ (427,669)	$ (74,830)

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

Condensed Interim Consolidated Statements of Cash Flows

For the nine months ended January 31

(unaudited)

In thousands of US dollars	2020	2019
Cash provided by (used in):		
Cash flows provided by (used in) operating activities:		
Net income (loss)	$ 109,304	$ (102,100)
Items not involving cash:		
Equity-settled share-based payment transactions	3,655	2,634
Depreciation and amortization	769	261
Impairment of clinical supplies	(346)	-
Change in fair value of warrant liability	(48,844)	26,843
Change in fair value of royalty preferred shares	(84,400)	42,700
Change in fair value of derivative liability	166	-
Unrealized foreign exchange	31	-
Interest, fees and accretion	2,439	4,116
Net current income taxes	20	9
Financing costs	367	606
Changes in non-cash working capital:		
Prepaid expenses and deposits	367	(76)
Investment tax credit receivable	(78)	12
Other assets	(161)	(238)
Clinical supplies	(1,104)	809
Due from related parties	(94)	(393)
Unearned licensing rights fee	-	(140)
Trade and other payables	1,180	(14,768)
	(16,729)	(39,725)
Interest received	24	50
Income tax paid	(20)	(9)
Net cash used in operating activities	(16,725)	(39,684)
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	1,252	35,360
Share issuance costs	(621)	(433)
Proceeds from convertible debenture and warrants	12,000	-
Proceeds from debt	-	30,000
Debt issuance costs	(396)	(1,287)
Financing costs	(217)	(505)
Interest and fees paid	(670)	(1,579)
Repayment of debt	(15,137)	(15,463)
Repayment of lease liabilities	(561)	-
Proceeds from exercise of stock options	122	229
Proceeds from exercise of warrants	2,843	634
Repayment of promissory note	(75)	(396)
Changes in non-cash financing working capital	(337)	(18)
Net cash provided by financing activities	9,647	46,542
Cash flows used in investing activities:		
Property and equipment additions	(13)	(5)
Intangible asset additions	(369)	(345)
Changes in non-cash investing working capital	(124)	(142)
Net cash used in investing activities	(506)	(492)
Effect of foreign currency translation on cash	64	(2)
(Decrease) increase in cash	(7,520)	6,364
Cash, beginning of period	7,689	121
Cash, end of period	$ 169	$ 6,485

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 March 11, 2020.

(b) Basis of measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for the revaluation of the liability classified warrants, liability classified royalty preferred shares and derivative liability, 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

3. Future operations (continued)

its primary endpoint but generated encouraging positive results in key secondary endpoints and the Company intends to continue the development of apabetalone if the requisite funding can be secured.

As at January 31, 2020, the Company had $0.2 million of cash. The Company needs to raise additional capital to fund research, development and corporate activities over the next year and needs to raise a portion of the additional capital prior to the Company's fiscal year end, April 30, 2020, or it may be forced to cease operations. As at January 31, 2020, the Company was committed to pay $9.0 million of trade and other payables, and $0.8 million for research and development. Furthermore, the Company's $12.0 million debenture with Vision Leader Limited is due on September 26, 2020.

The Company's cash as at January 31, 2020 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, including co-development, licensing, rights 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 condensed interim consolidated 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 January 31, 2020	$ 2,358	$ 2,358
Accumulated depreciation		
Balance at April 30, 2019	$ -	$ -
Depreciation	504	504
Balance at January 31, 2020	$ 504	$ 504
Net book value		
As at January 31, 2020	$ 1,854	$ 1,854

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:

	2020
Less than 1 year	$ 755
Between 1 and 5 years	1,401
More than 5 years	-
Total undiscounted lease payments as at January 31, 2020	$ 2,156
Lease liabilities in the statement of financial position at January 31, 2020	$ 1,939
Current	729
Non-current	1,210

During the nine months ended January 31, 2020, 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

	January 31, 2020	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 of $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 nine months ended January 31, 2020, 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 these amendments.

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

	January 31, 2020	April 30, 2019
US$12.0 million (initial principal), 10% due September 26, 2020	$ 12,000	$ -
Unamortized transaction costs, net of accretion	(169)	-
Discount on warrant liability derivative, net of accretion	(358)	-
Discount on conversion option derivative, net of accretion	(678)	-
Carrying value of debt	$ 10,795	$ -

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 ("ORI"). The Debenture bears interest at 10% per annum, payable on the September 26, 2020 maturity date. ORI 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 is entitled to nominate a director to the Company's Board of Directors; on December 20, 2019, ORI nominated a director.

The secured convertible debenture is a hybrid instrument consisting of a financial instrument and an embedded derivative, being the 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 are not closely related.

The Company also issued 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 $1.161 million as at January 31, 2020. On initial recognition and on January 31, 2020, the embedded conversion option was measured at fair value by third party valuation specialists 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 nine months ended January 31, 2020, a $0.166 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	-	(84,400)
Balance, January 31, 2020	75,202,620	$ 53,000

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 January 31, 2020, 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 January 31, 2020 (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 21.7% as at January 31, 2020 (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 January 31, 2020 (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 nine month 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 $4.3 million decrease in the fair value of the royalty preferred shares; assuming commencement of revenue one year later would result in a $11.3 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 $1.5 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 private placement	1,252,006	356
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	91,368	188
Share issue cost	-	(784)
Balance, January 31, 2020	210,716,454	$ 304,908

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)

In November 2019, the Company issued 1,252,006 equity units at CAD$1.33 per unit pursuant to a private placement for gross proceeds of $1.3 million (CAD$1.7 million). Each equity unit consisted of one common share and one common share purchase warrant. 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 private placement.

Share issue costs

During the nine months ended January 31, 2020, 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
Granted	250,000	1.52
Exercised	(239,100)	0.68
Expired	(212,000)	0.81
Outstanding, January 31, 2020	1,422,366	$ 1.66

The fair value of each option granted is estimated as of the grant date using the Black-Scholes option pricing model. The following weighted average assumptions were used in arriving at the weighted average fair values of $0.69 per option associated with stock options granted during the nine months ended January 31, 2020. During the nine months ended January 31, 2019, no stock options were granted.

	2020
Risk-free interest rate	1.5%
Expected life	4.3 years
Expected volatility	97%
Share price at grant date	CAD$1.35
Expected dividends	Nil

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

8. Shareholders' equity (deficit) (continued)

(b) Stock options (continued)

The following table summarizes information about the options outstanding and exercisable at January 31, 2020.

Range of Exercise Prices (CAD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)	Number Exercisable
$1.04 - $1.73	1,145,366	2.03	1.40	895,366
$2.26 - $2.82	227,000	0.27	2.61	227,000
$3.01 - $3.35	50,000	4.10	3.18	-
	1,422,366	1.82	$ 1.66	1,122,366

The number of options exercisable at January 31, 2020 was 1,122,366 (2019 – 1,545,057) with a weighted average exercise price of CAD$1.62 (2019 – CAD$1.37).

(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 nine months ended January 31, 2020, 3,019,400 RSUs were granted (2019 – 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	(91,368)	2.06
Forfeited	(119,299)	2.27
Outstanding, January 31, 2020	5,218,280	$ 2.14

The number of RSUs exercisable at January 31, 2020 was 1,901,496 (2019 – 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 nine months ended January 31, 2020, 83,544 DSUs were granted (2019 – 155,001). 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.

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

8. Shareholders' equity (deficit) (continued)

(d) Deferred share units (continued)

	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	155,001	2.52
Granted	83,544	0.98
Outstanding and exercisable, January 31, 2020	238,545	$ 1.98

(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 private placement	1,252,006	1.40	896
Issued in connection with convertible debenture	600,000	2.54	525
Exercised	(5,000,000)	0.75	(7,892)
Revaluation of warrant liability	-	-	(48,844)
Outstanding, January 31, 2020	34,046,428	$ 2.53	$ 10,414

The following table summarizes information about liability-classified warrants outstanding and exercisable at January 31, 2020.

Exercise Price (CAD)	Number Outstanding and Exercisable	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)
$1.40 - $1.64	11,461,401	1.73	$ 1.52
$2.00 - $2.67	7,708,164	1.39	2.20
$3.00 - $3.21	11,077,927	1.79	3.09
$4.60	3,798,936	3.35	4.60
	34,046,428	1.85	$ 2.53

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 warrants not listed is determined using the Black Scholes option pricing model at initial issue date and at each reporting period, unless the warrants are listed, in which case the initial trading value is used.

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

8. Shareholders' equity (deficit) (continued)

(e) Warrant liability (continued)

The changes in fair value of the unlisted liability-classified warrants were based on several factors including changes in the market price of our shares to CAD$1.19 on January 31, 2020 from CAD$4.01 on April 30, 2019, and to CAD$3.19 on January 31, 2019 from CAD$1.29 on April 30, 2018, the revaluation of 5.7 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 nine months ended January 31, 2020, 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 January 31 2020, the fair value of these listed warrants was CAD$0.30 per warrant for a total value of $0.9 million.

The weighted average fair value of the warrants issued during the nine months ended January 31, 2020 (excluding the listed warrants described above) was $0.81 per warrant (2019 – $0.96 per warrant), using the Black-Scholes option pricing model and the following assumptions for the separate issuances:

	2020	2020	2019	2019
	Issued in connection with private placement	Issued in connection with debenture (Note 6 (b))	Issued in connection with Third Eye loan	Issued in connection with private placements (Note 6 (a))
Number of warrants issued	1,252,006	600,000	3,500,000	8,558,307
Risk-free interest rate	1.6%	1.7%	2.1%	2.1%
Expected life	3.0 years	4.3 years	3.0 years	3.0 years
Expected volatility	106%	80%	69%	73%
Share price at grant date (CAD)	$1.45	$2.30	$1.33	$3.15

(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)
Revaluation of warrants for temporary exercise price adjustment	-	-	124
Outstanding, January 31, 2020	1,870,268	$ 2.06	$ 1,490

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

8. Shareholders' equity (deficit) (continued)

(f) Equity-classified warrants (continued)

Warrant exercise incentive program

In December 2019, the Company implemented a warrant exercise incentive program designed to encourage the early exercise of 15,593,428 warrants (13,723,160 liability-classified and 1,870,268 equity-classified) to purchase common shares of the Company (which excluded warrants held by insiders of the Company and warrants that are listed for trading). The warrants included in the incentive program were 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 remained outstanding and continued to be exercisable for common shares of the Company on their original terms. No warrants were exercised under the incentive program. The fair value of the 1,870,268 equity-classified warrants was determined to have increased by $0.1 million as a result of the temporary exercise price adjustment; this change in fair value was recognized as a financing cost in the three and nine months ended April 30, 2020.

The following table summarizes information about the equity classified warrants outstanding and exercisable at January 31, 2020.

Exercise Price (CAD)	Number Outstanding and Exercisable	Weighted Average Remaining Life (years)
$1.62	1,342,593	1.83
$2.67	331,750	0.47
$4.00	195,925	1.35
	1,870,268	1.54

There were no equity-classified warrants issued during the nine months ended January 31, 2019. The weighted average fair value of the equity-classified warrants issued during the nine months ended January 31, 2020 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 January 31,		Nine months ended January 31,	
	2020	2019	2020	2019
Weighted average common shares outstanding - basic	210,381,045	192,952,569	207,299,794	185,134,651
Effect of convertible debenture, warrants, stock options, RSUs, and DSUs	3,091,288	-	15,536,619	-
Weighted average common shares outstanding - diluted	213,472,333	192,952,569	222,836,413	185,134,651

The effect of any potential exercise of convertible debenture, 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.

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

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 January 31,		Nine months ended January 31,	
	2020	2019	2020	2019
Included in research and development expenses:				
Share-based payment transaction costs	$ 724	$ 455	$ 1,286	$ 775
Amortization and depreciation	185	66	556	189
Impairment of clinical supplies	-	-	346	-
Included in general and administrative expenses:				
Share-based payment transaction costs	$ 1,381	$ 809	$ 2,369	$ 1,859
Amortization and depreciation	70	23	213	72

10. Commitments

As at January 31, 2020, the Group is committed to expenditures over the next twelve months of $0.8 million (2019 – $8.3 million) under various research and development contracts.