Condensed Interim Consolidated Financial Statements

For the three months ended July 31, 2014 and 2013

Condensed Interim Consolidated Statements of Financial Position
(unaudited)

In thousands of US dollars	Notes	July 31, 2014	April 30, 2014
Assets			
Current assets:			
Cash		$ 461	$ 590
Prepaid expenses and deposits		223	230
Investment tax credit receivable		22	19
Other assets		161	160
Due from related parties		726	167
Total current assets		1,593	1,166
Non-current assets:			
Property and equipment		935	911
Intangible assets		777	621
Clinical supplies		328	328
Deferred financing costs		31	-
Total non-current assets		2,071	1,860
Total assets		$ 3,664	$ 3,026
Liabilities			
Current liabilities:			
Trade and other payables		$ 1,409	$ 1,571
Accrued interest		1,526	1,099
Warrant liability	7 (d)	3,567	3,103
Total current liabilities		6,502	5,773
Non-current liabilities:			
Long-term debt	5	27,168	26,468
Royalty preferred shares	6	24,000	34,000
Total liabilities		57,670	66,241
Shareholders' equity (deficit):			
Share capital	7	134,537	132,337
Contributed surplus		34,683	34,296
Deficit		(223,226)	(229,848)
Total shareholders' equity (deficit)		(54,006)	(63,215)
Total liabilities and shareholders' equity (deficit)		$ 3,664	$ 3,026

Commitments (note 9)
Subsequent events (note 10)

Signed on behalf of the Board:

Signed: "Dr. Peter Johann" 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

For the three months ended July 31

(unaudited)

In thousands of US dollars	Notes	2014	2013
Expenses:			
Research and development, net of recoveries	8	$ 729	$ 5,872
Investment tax credits		(4)	(67)
Net research and development		725	5,805
General and administrative, net of recoveries	8	1,041	1,265
		1,766	7,070
Finance costs (income):			
Loss (gain) on change in fair value of warrant liability	7 (d)	464	(13,433)
Gain on change in fair value of royalty preferred shares	6	(10,000)	(22,000)
Interest and accretion		966	923
Foreign exchange loss (gain)		146	(307)
Net finance costs (income)		(8,424)	(34,817)
Gain on distribution	2 (a)	-	(13,650)
Income before income taxes		$ (6,658)	(41,397)
Income taxes		36	18
Net and total comprehensive income		$ (6,622)	$ (41,379)

Net earnings per share *(note 7 (e))*	2014	2013
Basic	$ (0.08)	$ (0.55)
Diluted	(0.08)	(0.53)

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

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficit)

For the three months ended July 31

(unaudited)

In thousands of US dollars	Notes	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity (Deficit)
Balance, April 30, 2013		$ 126,119	$ 32,242	$ (187,865)	$ (29,504)
Common shares issued under the Equity Distribution Agreement		1,081	-	-	1,081
Common shares issued in connection with stock option and RSU exercises		47	(23)	-	24
Common shares issued in connection with warrant exercises		190	-	-	190
Distribution	2 (a)	-	-	(97,087)	(97,087)
Share issue costs		(117)	-	-	(117)
Share-based payment transactions		-	487	-	487
Net and total comprehensive income		-	-	41,379	41,379
Balance, July 31, 2013		$ 127,320	$ 32,706	$ (243,573)	$ (83,547)
Balance, April 30, 2014		$ 132,337	$ 34,296	$(229,848)	$ (63,215)
Common shares issued in connection with private placement		2,075	-	-	2,075
Common shares issued in connection with long term incentive plan		131	(131)	-	-
Share issue costs		(6)	-	-	(6)
Share-based payment transactions		-	518	-	518
Net and total comprehensive income		-	-	6,622	6,622
Balance, July 31, 2014		$ 134,537	$ 34,683	$(223,226)	$ (54,006)

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

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended July 31

(unaudited)

In thousands of US dollars	2014	2013
Cash provided by (used in):		
Cash flows used in operating activities:		
Net income	$ 6,622	$ 41,379
Items not involving cash:		
Gain on distribution	-	(13,650)
Equity-settled share-based payment transactions	518	487
Depreciation and amortization	48	49
Loss (gain) on change in fair value of warrant liability	464	(13,433)
Gain on change in fair value of royalty preferred shares	(10,000)	(22,000)
Unrealized foreign exchange loss (gain)	163	(575)
Interest and accretion	966	923
Income taxes	36	18
Changes in non-cash working capital:		
Investment tax credit receivable	(3)	(66)
Clinical supplies	-	(103)
Prepaid expenses and deposits	7	330
Other assets	(1)	-
Due from related parties	(559)	(451)
Trade and other payables	59	1,954
	(1,680)	(5,138)
Interest received	-	20
Income tax paid	(73)	(1)
Net cash used in operating activities	(1,753)	(5,119)
Cash flows generated from financing activities:		
Proceeds from the issuance of common shares	2,075	1,081
Share issuance costs	(6)	(117)
Deferred financing costs	(31)	-
Proceeds from exercise of stock options	-	24
Proceeds from exercise of warrants	-	102
Non-cash financing working capital	39	(20)
Net cash generated from financing activities	2,077	1,070
Cash flows used in investing activities:		
Distribution	-	(10,146)
Property and equipment additions	(59)	(4)
Intangible asset additions	(169)	(45)
Non-cash investing working capital	(222)	5
Net cash used in investing activities	(450)	(10,190)
Effect of foreign currency translation on cash	(3)	(274)
Decrease in cash	(129)	(14,513)
Cash, beginning of period	590	17,413
Cash, end of period	$ 461	$ 2,900

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 subsidiaries RVX Therapeutics Inc. (up to the effective date of the Plan of Arrangement described below) and Resverlogix Inc. (together referred to as the "Group"). Resverlogix Corp. and RVX Therapeutics Inc. are 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 Corp. is a clinical stage biotechnology company developing compounds involving ApoA-I production. The Company is developing RVX-208, a small molecule being developed for clinical conditions. RVX-208 is the first Bromodomain and ExtraTerminal domain ("BET") inhibitor in clinical trials. 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.

As discussed in Note 2(a), on June 3, 2013, the Company, Zenith Epigenetics Corp. (a newly incorporated company), and RVX Therapeutics Inc. completed a Plan of Arrangement pursuant to the Business Corporations Act (Alberta).

2. Basis of preparation

(a) Plan of Arrangement

On June 3, 2013, the Company, Zenith Epigenetics Corp. ("Zenith", a newly incorporated company), and RVX Therapeutics Inc. completed a Plan of Arrangement ("the Arrangement") pursuant to the Business Corporations Act (Alberta).

Upon the effective time of the Arrangement, every Resverlogix shareholder received one share in Zenith for every share held in Resverlogix at the effective date. Upon the effective date of the arrangement Zenith owns all of the outstanding shares of RVX Therapeutics Inc.

Every holder of a Resverlogix warrant, stock option and restricted stock unit at the effective date of the Arrangement received one warrant, stock option and restricted stock in Zenith for every warrant, stock option and restricted stock, respectively, held in Resverlogix. The exercise prices of all outstanding warrants and stock options in the Company were reduced by approximately 9.1%, and the exercise price of each warrant and stock option in Zenith was calculated as approximately 9.1% of the exercise price of each corresponding warrant and stock option of the Company at the effective time of the Arrangement, to reflect the fair market value of Zenith.

Pursuant to the Arrangement, Zenith was also issued 75,202,620 royalty preferred shares in the capital of Resverlogix which will provide Zenith with dividends in the amount of 6-12% of Net Apo Revenue (see Note 6), if any. Zenith owns all of the outstanding royalty preferred shares of Resverlogix.

Pursuant to the Arrangement, the Company advanced CAD$10 million to Zenith to provide working capital to Zenith and RVX Therapeutics Inc. The promissory notes and the aggregate advances due from RVX Therapeutics Inc. immediately prior to the effective time of the Arrangement were transferred from the Company to Zenith such that, subsequent to the effective time of the Arrangement, RVX Therapeutics Inc. was indebted to Zenith in respect of these liabilities and no longer indebted to the Company.

Distribution

The Company accounted for the distribution to Zenith of the royalty preferred shares described in Note 6, the shares of RVX Therapeutics Inc., the indebtedness from RVX Therapeutics Inc. to the Company, and the cash advanced to Zenith, in accordance with IFRIC 17 – "*Distributions of non-cash assets to owners*" which requires that the assets being distributed pursuant to a non-reciprocal distribution to owners acting in their capacity of owners to be measured and derecognized at their fair value at the date of distribution. The distribution was charged to deficit.

The $13.7 million gain on distribution recognized in the three months ended July 31, 2013 represents the excess of the estimated aggregate fair value ($97.1 million) of the net assets distributed over their carrying value ($83.4 million, comprised of $9.4 million of net working capital and $74.0 million of royalty preferred shares).

2. Basis of preparation (continued)

(b) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting*. These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on September 10, 2014.

Certain information, in particular the accompanying notes normally included in the annual financial statements prepared in accordance with IFRS, has been omitted or condensed. These condensed interim consolidated financial statements do not include all disclosures required under IFRS and, accordingly, should be read in conjunction with the annual financial statements for the year ended April 30, 2014 and the notes thereto prepared in accordance with International Financial Reporting Standards ("IFRS") as prescribed by the International Accounting Standards Board ("IASB").

(c) 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 and liability classified royalty preferred shares, which are measured at fair value each reporting period, and cash which is carried at fair value. Long-term debt is measured initially at fair value and subsequently at amortized cost. Historical cost is based on the fair value of the consideration given in exchange for assets recorded on the date of the transaction.

Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the three months ended July 31, 2014.

(d) 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.

(e) 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, 2014.

3. Future operations

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

The accompanying 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.

As at July 31, 2014, the Company had $0.5 million of cash. As at July 31, 2014, the Company was committed to pay $0.2 million for research and development and $0.6 million of lease obligations as described further in Note 9 "Commitments". Zenith agreed to pay the Company for its proportionate share of operating lease payments and operating costs for office and laboratory premises of an estimated $0.3 million and $0.2 million, respectively, for the next year.

On July 3, 2014, the Company entered into a Second Amended and Restated Loan Agreement with Citibank which provided for the existing loan granted to the Company by Citibank to be increased by CAD$30 million to CAD$68.8 million (the "Second Loan Amendment"). The Second Loan Amendment closed on August 15, 2014. We believe the Company's cash in combination with the proceeds from the Second Loan Amendment, will be sufficient to fund the Company's contractual commitments and net working capital liability for more than the next year, and will be sufficient to fund all of the Company's planned business operations for more than the next year. The Company may raise additional capital through other sources such as prospectus offerings and/or private placements. The ASSURE clinical trial results may adversely affect the Company's ability to raise capital.

The Company may 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 product licensing; however, there is no assurance that these initiatives will be successful.

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, 2014 prepared in accordance with IFRS applicable to those annual consolidated financial statements. Except as disclosed below, 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, 2014.

New standards and interpretations adopted

The Company has adopted the following amendments to standards, with a date of initial application of May 1, 2014:

Offsetting Financial Assets and Liabilities

An amendment to IAS 32 - *Offsetting Financial Assets and Liabilities,* (a) clarifies requirements for the right to set-off for rights that are contingent, and enforceability in default, insolvency or bankruptcy of all parties to a liability and (b) clarifies provisions on net settlement. The amendments to IAS 32 did not have a material impact on the condensed interim consolidated financial statements.

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

5. Long-term debt

	July 31, 2014	April 30, 2014
CAD$38.8 million, 4.4473% due August 28, 2017	$ 35,630	$ 35,413
Discount on debt, net of accretion	(6,523)	(6,896)
Unamortized transaction costs, net of accretion	(1,939)	(2,049)
Carrying value of long-term debt	$ 27,168	$ 26,468

On August 27, 2012, the Company entered into a CAD$25 million Loan Agreement with Citibank, N.A. ("Citibank"). The Company received the CAD$25 million on August 30, 2012. On March 8, 2013, the Company entered into a Loan Amendment with Citibank to increase the loan from CAD$25 million to CAD$38.8 million, all other existing terms and conditions remained unchanged. The Company received the additional CAD$13.8 million upon closing of the loan on March 11, 2013.

The entire loan is repayable upon maturity on August 28, 2017 and may be repaid in whole or in part without penalty. Effective August 27, 2013, the annual interest rate was reset from 4.5% to 4.4473%. Interest on the loan is payable annually in arrears and the interest rate is reset annually to a rate equal to Canadian one-year LIBOR swap rate plus 3.14%. The loan is secured by an irrevocable CAD$38.8 million Standby Letter of Credit (the "Letter of Credit") in favour of Citibank arranged by Eastern Capital Limited ("Eastern") which will be maintained until maturity of the loan.

In connection with the irrevocable Standby Letter of Credit, on August 27, 2012 the Company issued 1,320,000 share purchase warrants exercisable at a price of CAD$1.58 (subsequently adjusted to CAD$1.44) for a period of five years to Eastern, and on March 8, 2013 the Company issued an additional 728,640 share purchase warrants exercisable at a price of CAD$2.38 (subsequently adjusted to CAD$2.16) for a period of five years to Eastern. The Company will pay a guarantee fee to Eastern in the amount of 0.03% per annum on the average daily aggregate principal amount of the issued and undrawn Letter of Credit, and pledged its issued letters patent to Eastern.

The Company determined the fair value of the initial CAD$25 million long-term debt to be $18.6 million which is net of a $6.7 million debt discount, and determined the fair value of the subsequent CAD$13.8 million long-term debt to be $10.2 million which is net of a $3.3 million debt discount. Management's estimate of the market interest rate for the debt was 12%, and attributed the loan's lower interest rate to the Letter of Credit arranged by Eastern. The Company used significant judgment in determining whether

Eastern was acting in the capacity of a shareholder or a provider of service. Based on discussions with Eastern, consideration of the terms of the arrangements between Eastern, Citibank and Resverlogix whereby Eastern provided its assets as collateral to Citibank in connection with a loan from Citibank to Resverlogix, and the risks and rewards associated therewith, management determined that Eastern was acting in the capacity of a shareholder in arranging the Letter of Credit; therefore, the debt discounts were recognized as contributed surplus. The combined debt discount is to be amortized over the term of the long-term debt. The determination of the fair value of the long term debt required management to use judgment, including management's estimate of a market interest rate for the debt of 12%. In addition, the Company determined the fair value of the 1,320,000 warrants and the 728,640 warrants to be $1.5 million and $1.4 million, respectively. The Company recorded the warrants as a liability (see Note 7(d)) with an off-setting reduction to the carrying amount of the debt to be amortized as interest and accretion expense over the term of the long-term debt. Management's estimate of the market interest rate for the debt as at July 31, 2014 was unchanged at 12% and, as such, the carrying value of the long-term debt approximates the fair value.

As described in Note 10 "Subsequent events", on July 3, 2014, the Company entered into a Second Loan Amendment with Citibank which provided for the existing loan granted to the Company by Citibank to be increased by CAD$30 million to CAD$68.8 million. The Second Loan Amendment closed on August 15, 2014. Effective August 27, 2014, the annual interest rate was reset from 4.4473% to 4.4410%.

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

6. Royalty preferred shares

(i) Authorized:

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

(ii) Issued and outstanding:

Preferred shares	Number of shares	Amount
Balance, April 30, 2013	-	$ -
Issued in connection with Plan of Arrangement	75,202,620	74,000
Revaluation of royalty preferred shares	-	(40,000)
Balance, April 30, 2014	75,202,620	$ 34,000
Revaluation of royalty preferred shares	-	(10,000)
Balance, July 31, 2014	75,202,620	$ 24,000

Pursuant to the Plan of Arrangement described in Note 2(a), on June 3, 2013 the Company issued 75,202,620 royalty preferred shares to Zenith Epigenetics Corp.

The holder of the royalty preferred shares is entitled to dividends in the amount of 6-12% of net Apo Revenue, if any. Net Apo revenue is defined as the aggregate of the following amounts: (i) amounts received by the Company or its affiliates (as defined in the Arrangement) from any person who is not the Company or its affiliate (a “third party”) in consideration for granting a license or other rights to the third party which entitle the third party to research, develop, make, manufacture, modify, administer, offer to sell, sell or distribute one or more of the Apo products and/or Apo intellectual property rights or amounts received under the terms of such license or other right that are granted to the third party; (ii) the gross consideration received from a third party by the Company, any licensee or their respective affiliates from the sale of any Apo product (other than consideration received by the Company, any licensee or their respective affiliates from a licensee of such Apo product or its affiliate); less (A) credits or allowances, if any, actually granted; (B) discounts actually allowed; (C) freight, postage, and insurance charges and additional special packaging charges; and (D) customs duties, and excise sales taxes, duties or other taxes imposed upon and paid with respect to such sales (excluding what is commonly known as income taxes); and (iii) amounts received from a third party by the Company or its affiliates in consideration for the sale of any Apo intellectual property right.

The holder of the preferred shares do not have the right to participate in any additional dividends declared, if any, to common shareholders nor do they carry the right to vote. The holder of the preferred shares does not have any claim on the Company’s residual net assets.

As these preferred shares contain a non-discretionary royalty dividend they represent a contractual obligation to deliver cash. IFRS requires that the substance of the instrument takes precedence over the legal form and thus the preferred shares have been classified as a financial liability. The liability is required to be re-measured to its fair value at each reporting period end with changes in fair value recognized in the statement of comprehensive loss (income).

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 discounted risk adjusted future net cash flows derived from the Apo-A-I applications rights, which incorporate: a cumulative probability rate of generating forecasted future cash flows of 21% as at April 30, 2014 and July 31, 2014 (reflecting, among other factors, the Company’s clinical results including those of the ASSURE trial); a discount rate of 25% as at April 30, 2014 and July 31, 2014; commencement of revenue in 2020 as at April 30, 2014 and in 2022 as at July 31, 2014; RVX-208 market shares percentages; and product pricing. During the year ended April 30, 2014, management changed its estimate of the discount rate from 22% as at June 3, 2013 (the date of initial recognition) to 25% as at April 30, 2014 to reflect the additional uncertainty of the future cash flows. As well, at April 30, 2014, the timing and amount of future cash flows were revised to reflect two additional years of development to achieve commercialization (from 2018 to 2020). During the three months ended July 31, 2014, management further updated its estimate of the timing and amount of future cash flows to reflect an additional two years of development to achieve commercialization (from 2020 to 2022).

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

6. Royalty preferred shares (continued)

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 $2 million decrease in the fair value of the royalty preferred shares. Assuming commencement of revenue in 2021 (as opposed to 2022) would result in a $6 million increase in the fair value of the royalty preferred shares.

7. 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, 2013	74,578,283	$ 126,119
Issued under the Equity Distribution Agreement	5,053,300	4,973
Issued in connection with private placement	1,765,307	1,270
Issued in connection with warrant exercises	48,775	190
Issued in connection with stock option plan	16,730	42
Issued in connection with long term incentive plan	266,765	85
Share issue costs recovery	-	(342)
Balance, April 30, 2014	81,729,160	132,337
Issued in connection with private placement	3,485,137	2,075
Issued in connection with long term incentive plan	74,950	131
Share issue costs	-	(6)
Balance, July 31, 2014	85,289,247	$ 134,537

Equity distribution agreements

On January 19, 2012, the Company entered into an EDA with an agent to sell up to 15 million (up to a maximum of $11.0 million) "at the market" ("ATM") common shares of the Company ("ATM Shares"), solely at the Company's discretion, from time to time at the market prices prevailing at the time of the sales, without discount, during the period that the EDA remained effective. The number of ATM Shares sold on any trading day could not exceed 25% of the total trading volume of the common shares on that trading day. Pursuant to the EDA, the Company also appointed US agents to sell up to an additional 10 million common shares of the Company, solely at the Company's discretion, from time to time at a fixed price, determined at that time, to subscribers in certain jurisdictions outside Canada during the period that the EDA remained effective. The EDA expired on November 13, 2013. The ATM Shares were sold by way of transactions that are "at-the-market distributions", including sales on the Toronto Stock Exchange ("TSX") and other existing trading markets in Canada. The timing of any sale of ATM Shares and the number of ATM Shares sold were at the Company's discretion.

During the three months ended July 31, 2014, the Company issued a total of nil (2013 – 307,800) common shares under the EDA at an average price of $nil (2013 – CAD$3.58) per share for gross proceeds of $nil (2013 – $1.1 million (CAD$1.1 million)).

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

7. Shareholders' equity (deficit) (continued)

(a) Common shares (continued)

Private Placements

On August 14, 2013, the Company issued a total of 1,765,307 units, representing 1,765,307 common shares and 529,592 warrants, at CAD$0.90 per unit pursuant to a private placement for gross proceeds of $1.6 million (CAD$1.6 million). The warrants have an exercise price of CAD$0.90 per common share and expire on August 14, 2018. The warrants were valued at $0.3 million using a Black-Scholes option pricing model; the residual $1.3 million of proceeds was assigned to share capital.

On June 10, 2014, the Company issued 3,485,137 common shares at a price of CAD$0.65 per common share for gross proceeds of $2.1 million (CAD$2.3 million). NGN BioMed Opportunity II, L.P. ("NGN"), an entity under the control or direction of the Chairman of Resverlogix, subscribed for 1,230,769 common shares. Directors and officers of the Company subscribed for a total of 1,080,522 common shares. The shares are subject to a four month hold period. After giving effect to the private placement, NGN held 8,000,108 common shares of the Company, representing approximately 9.4% of the Company's issued and outstanding common shares, and 350,000 common share purchase warrants of the Company.

Share issue costs (recovery)

During the three months ended July 31, 2014, the Company recognized total share issue costs of $6 thousand (2013 – $0.1 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 two to three years and have a two to 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, 2013	4,667,500	$ 2.56
Granted	772,300	3.09
Exercised	(16,730)	1.54
Expired	(1,498,550)	2.73
Forfeited	(64,550)	2.21
Outstanding, April 30, 2014	3,859,970	2.34
Granted	304,200	0.67
Forfeited	(5,933)	0.65
Outstanding, July 31, 2014	4,158,237	$ 2.22

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

7. Shareholders' equity (deficit) (continued)

(b) Stock options (continued)

The following table summarizes information about the options outstanding and exercisable at July 31, 2014.

Range of Exercise Prices (CAD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)	Number Exercisable
$0.65 - $0.75	298,267	4.82	$ 0.68	136,594
$1.06 - $1.82	2,053,470	2.19	1.43	1,962,325
$2.09 - $2.96	866,900	2.28	2.64	653,565
$3.19 - $3.97	592,600	3.14	3.42	355,558
$5.08	347,000	0.64	5.08	347,000
	4,158,237	2.41	$ 2.22	3,455,042

The number of options exercisable at July 31, 2014 was 3,455,042 (2013 – 3,957,174) with a weighted average exercise strike price of CAD$2.20 (2013 – CAD$2.46). On June 3, 2013, pursuant to the Plan of Arrangement, the exercise prices of all outstanding stock options were reduced by approximately 9.1%. As the change in exercise price was carried out in accordance with the terms of the original stock option agreements modification accounting was not applied. Therefore the original grant date fair values continue to be expensed over the original vesting periods.

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 $0.59 per option and $1.88 per option associated with stock options granted during the three months ended July 31, 2014 and 2013, respectively:

	2014	2013
Risk-free interest rate	1.4%	1.2%
Expected life	4.2 years	4.2 years
Expected volatility	164%	82%
Share price at grant date	CAD$0.70	CAD$3.17
Expected dividends	Nil	Nil

(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. The majority of restricted stock units fully vest over two or three years.

During the three months ended July 31, 2014, the Company granted 354,400 (2013 – 179,100) RSUs to employees. The RSUs vest over a period of two or three years. The weighted average fair value of the RSUs granted in the three months ended July 31, 2014 was $0.63 per RSU (2013 - $3.54 per RSU). The Company estimates the fair value of RSUs 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)

7. Shareholders' equity (deficit) (continued)

(c) Restricted stock units (continued)

	Number of restricted stock units	Weighted average grant date fair value (USD)
Outstanding, April 30, 2013	573,900	$ 1.48
Granted	379,100	1.98
Exercised	(55,732)	1.52
Forfeited	(42,033)	2.29
Outstanding, April 30, 2014	855,235	$ 1.66
Granted	354,400	0.63
Exercised	(74,950)	1.75
Forfeited	(13,333)	0.63
Outstanding, July 31, 2014	1,121,352	$ 1.34

(d) Warrant liability

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

	Number of warrants	Weighted average exercise price (CAD)	Liability amount
Outstanding, April 30, 2013	11,706,032	$ 2.69	$ 17,727
Issued in connection with private placement	529,592	0.90	269
Exercised	(70,750)	2.63	(88)
Expired	(3,783,652)	2.47	-
Revaluation of warrant liability	-	-	(14,805)
Outstanding, April 30, 2014	8,381,222	2.34	3,103
Expired	(2,357,990)	3.64	-
Revaluation of warrant liability	-	-	464
Outstanding, July 31, 2014	6,023,232	$ 1.83	$ 3,567

The following table summarizes information about the warrants outstanding and exercisable at July 31, 2014.

Exercise Price (CAD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)
$0.90	529,592	4.04	$ 0.90
$1.44	1,320,000	3.08	1.44
$2.05 - $2.16	4,173,640	2.18	2.07
	6,023,232	2.54	$ 1.83

On June 3, 2013, pursuant to the Plan of Arrangement, the exercise prices of all outstanding warrants were reduced by approximately 9.1%.

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

7. Shareholders' equity (deficit) (continued)

(d) Warrant liability (continued)

Under IFRS, the prescribed accounting treatment for warrants issued as part of an equity financing unit or as part of a debt financing, with an exercise price denominated in a foreign currency, is to treat these warrants as a liability measured at fair value with subsequent changes in fair value each reporting period accounted for through profit or loss. The fair value of these warrants is determined using the Black Scholes option pricing model. The fair value of the warrants is subject to significant volatility. Small changes in certain Black Scholes model inputs, including the market price of the Company's common shares and estimated volatility may have a significant impact on the fair value of the warrants.

All of the Company's warrants meet liability classification requirement and are exercisable at any time and thus the value of these warrants are presented as a current liability on the condensed interim consolidated statement of financial position. 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. There is no cash flow impact as a result of this accounting treatment.

As described in Note 5, the Company issued 1,320,000 share purchase warrants on August 27, 2012 and 728,640 share purchase warrants on March 8, 2013 to Eastern in connection with the irrevocable Standby Letter of Credit. Each warrant issued on August 27, 2012 is exercisable at a price of CAD$1.58 for a period of five years and each warrant issued on March 8, 2013 is exercisable at a price of CAD$2.38 for a period of five years. On June 3, 2013, the warrants were repriced to CAD$1.44 and CAD$2.16, respectively. The Company used significant judgment in determining whether Eastern was acting in the capacity of a shareholder or a provider of service. Based on discussions with Eastern, consideration of the terms of the arrangements between Eastern, Citibank and Resverlogix whereby Eastern provided its assets as collateral to Citibank in connection with a loan from Citibank to Resverlogix, and the risks and rewards associated therewith, management determined the warrants were issued to Eastern (when providing the Letter of Credit to support the loan) in their capacity as a shareholder and thus were not in scope of IFRS 2 – *"Share-based payment"* and should be accounted for under IAS 32 – *"Financial instruments: presentation"*. Thus, the common share purchase warrants have been recognized as a financial liability with the fair value of the common share purchase warrants being treated as a transaction cost.

As described in Note 7(a), on August 14, 2013 the Company issued 529,592 warrants to Eastern pursuant to a private placement. Each warrant has an exercise price of CAD$0.90 per common share and expire on August 14, 2018.

There were no warrants granted during the three months ended July 31, 2014 and 2013.

As described in Note 10 "Subsequent events", on July 3, 2014, the Company entered into a Second Loan Amendment with Citibank which provided for the existing loan granted to the Company by Citibank to be increased by CAD$30 million to CAD$68.8 million. The Company issued an additional 5,000,000 share purchase warrants to Eastern in connection with the loan increase. Each warrant is exercisable at CAD$0.75 per share and is exercisable for a period of five years.

(e) Per share amounts

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

	Three months ended July 31,	
	2014	2013
Weighted average common shares outstanding - basic	83,695,354	75,150,572
Effect of stock options, restricted stock units and warrants	1,145,820	2,325,002
Weighted average common shares outstanding - diluted	84,841,174	77,475,574

The effect of any potential exercise of stock options, restricted stock units and warrants 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)

8. Expenses by nature

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

	Three months ended July 31,	
	2014	2013
Included in research and development expenses:		
Share-based payment transaction costs	$ 252	$ 261
Amortization and depreciation	17	43
Included in general and administrative expenses:		
Share-based payment transaction costs	$ 266	$ 226
Amortization and depreciation	31	6

9. Commitments

As at July 31, 2014, the Group is committed under various research and development (primarily clinical) contracts as follows:

	2014	2013
Less than 1 year	$ 229	$ 1,552
Between 1 and 5 years	-	-
More than 5 years	-	-
	$ 229	$ 1,552

As at July 31, 2014, the Group is committed to operating lease payments for office and laboratory premises as follows:

	2014	2013
Less than 1 year	$ 641	$ 698
Between 1 and 5 years	1,860	2,151
More than 5 years	2,006	2,599
	$ 4,507	$ 5,448

Zenith agreed to pay the Company for its proportionate share of operating lease payments and operating costs for office and laboratory premises of an estimated $0.3 million and $0.2 million, respectively, for the next twelve months.

10. Subsequent events

Loan Amendment

On July 3, 2014, the Company entered into a Second Loan Amendment with Citibank which provided for the existing loan granted to the Company by Citibank to be increased by CAD$30 million to CAD$68.8 million. The Second Loan Amendment closed on August 15, 2014. The loan will be repayable upon maturity on August 28, 2017 and may be prepaid in whole or in part without penalty. Effective August 15, 2014, the annual interest rate was 4.4473%. Interest on the loan will be payable annually in arrears at a rate equal to the per annum Canadian one-year LIBOR swap rate plus 3.14%, to be reset annually. The loan will be secured by an irrevocable CAD$68.8 million the Letter of Credit arranged by Eastern which will be maintained until maturity of the loan.

In connection with the Letter of Credit, the Company has agreed to indemnify Eastern for all liabilities, costs and expenses arising from any payments made to Citibank under the Letter of Credit and, as with the previous Citibank loans, the Company pledged its patents and certain tax losses and pools to Eastern as security for its obligations under the indemnity. The Company also issued an additional 5,000,000 share purchase warrants to Eastern in connection with the loan increase and will pay a guarantee fee to Eastern in the amount of 0.03% per annum on the average daily aggregate principal amount of the issued and undrawn Letter of Credit. Each warrant is exercisable at CAD$0.75 per share and is exercisable for a period of five years. Eastern holds 14,965,307 shares of the Company which represents 17.55% of the 85,289,247 common shares outstanding before giving effect to any outstanding warrants. Eastern currently holds 2,578,232 common share purchase warrants of the Company.