
# Condensed Interim Consolidated Financial Statements

For the three and nine months ended January 31, 2014 and 2013

## Condensed Interim Consolidated Statements of Financial Position
(unaudited)

| *In thousands of US dollars* | Notes | January 31, 2014 | April 30, 2013 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets:** | | | |
| Cash | | $ 469 | $ 17,413 |
| Clinical supplies | | - | 225 |
| Prepaid expenses and deposits | | 301 | 699 |
| Investment tax credit receivable | | 208 | 54 |
| Other assets | | 69 | - |
| Assets held for distribution | 2 (a) | - | 707 |
| Due from related parties | | 276 | - |
| Total current assets | | 1,323 | 19,098 |
| **Non-current assets:** | | | |
| Property and equipment | | 427 | 462 |
| Intangible assets | | 1,059 | 936 |
| Clinical supplies | | 328 | - |
| Total non-current assets | | 1,814 | 1,398 |
| **Total assets** | | $ 3,137 | $ 20,496 |
| **Liabilities** | | | |
| **Current liabilities:** | | | |
| Trade and other payables | | $ 2,006 | $ 3,327 |
| Liabilities held for distribution | 2 (a) | - | 1,416 |
| Accrued interest | | 690 | 873 |
| Warrant liability | 8 (d) | 4,773 | 17,727 |
| Total current liabilities | | 7,469 | 23,343 |
| **Non-current liabilities:** | | | |
| Long-term debt | 6 | 25,586 | 26,657 |
| Royalty preferred shares | 7 | 34,500 | - |
| **Total liabilities** | | 67,555 | 50,000 |
| **Shareholders' equity (deficit):** | | | |
| Share capital | 8 | 132,303 | 126,119 |
| Contributed surplus | | 33,497 | 32,242 |
| Deficit | | (230,218) | (187,865) |
| Total shareholders' equity (deficit) | | (64,418) | (29,504) |
| **Total liabilities and shareholders' equity (deficit)** | | $ 3,137 | $ 20,496 |

Commitments (note 10)
Subsequent event (note 11)

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 Loss (Income)

**For the three and nine months ended January 31**

(unaudited)

| *In thousands of US dollars* | Notes | Three months ended January 31, 2014 | Three months ended January 31, 2013 | Nine months ended January 31, 2014 | Nine months ended January 31, 2013 |
|---|---|---|---|---|---|
| **Expenses:** | | | | | |
| Research and development, net of recoveries | 9 | **$ 1,001** | $ 7,084 | **$ 8,092** | $ 21,614 |
| Investment tax credits | | **(44)** | (87) | **(168)** | (326) |
| Net research and development | | **957** | 6,997 | **7,924** | 21,288 |
| General and administrative | 9 | **909** | 1,348 | **3,188** | 3,944 |
| | | **1,866** | 8,345 | **11,112** | 25,232 |
| **Finance (income) costs:** | | | | | |
| (Gain) loss on change in fair value of warrant liability | 8 (d) | **1,119** | 3,965 | **(13,135)** | 4,783 |
| Gain on change in fair value of royalty preferred shares | 7 | **(17,500)** | - | **(39,500)** | - |
| Interest and accretion | | **938** | 553 | **2,811** | 953 |
| Foreign exchange (gain) loss | | **(1,710)** | (50) | **(2,405)** | 70 |
| Net finance (income) costs | | **(17,153)** | 4,468 | **(52,229)** | 5,806 |
| Gain on distribution | 2 (a) | **-** | - | **(13,650)** | - |
| **Loss (income) before income taxes** | | **(15,287)** | 12,813 | **(54,767)** | 31,038 |
| Income taxes | | **6** | 7 | **33** | 38 |
| **Net and total comprehensive loss (income)** | | **$(15,281)** | $ 12,820 | **$(54,734)** | $ 31,076 |
| **Net loss (earnings) per share *(note 8 (e))*** | | | | | |
| Basic and diluted | | **$ (0.19)** | $ 0.17 | **$ (0.69)** | $ 0.42 |

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* | Notes | Share Capital | Contributed Surplus | Deficit | Total Shareholders' Equity (Deficit) |
|---|---|---|---|---|---|
| **Balance, April 30, 2012** | | $ 123,798 | $ 23,453 | $ (144,510) | $ 2,741 |
| Share issue costs recovery | | 140 | - | - | 140 |
| Share-based payment transactions | | - | 1,299 | - | 1,299 |
| Discount on long-term debt | | - | 6,680 | - | 6,680 |
| Net and total comprehensive loss | | - | - | (31,076) | (31,076) |
| **Balance, January 31, 2013** | | $ 123,938 | $ 31,432 | $ (175,586) | $ (20,216) |
| **Balance, April 30, 2013** | | **$ 126,119** | **$ 32,242** | **$(187,865)** | **$ (29,504)** |
| Common shares issued under the Equity Distribution Agreement | | **4,942** | **-** | **-** | **4,942** |
| Common shares issued in connection with private placement | | **1,270** | **-** | **-** | **1,270** |
| Common shares issued in connection with warrant exercises | | **190** | **-** | **-** | **190** |
| Common shares issued in connection with stock option and long term incentive plans | | **123** | **(98)** | **-** | **25** |
| Distribution | 2 (a) | **-** | **-** | **(97,087)** | **(97,087)** |
| Share issue costs | | **(341)** | **-** | **-** | **(341)** |
| Share-based payment transactions | | **-** | **1,353** | **-** | **1,353** |
| Net and total comprehensive income | | **-** | **-** | **54,734** | **54,734** |
| **Balance, January 31, 2014** | | **$ 132,303** | **$ 33,497** | **$(230,218)** | **$ (64,418)** |

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* | January 31 2014 | January 31 2013 |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Cash flows used in operating activities:** | | |
| **Net income (loss)** | $ 54,734 | $ (31,076) |
| **Items not involving cash:** | | |
| Gain on distribution | (13,650) | - |
| Equity-settled share-based payment transactions | 1,353 | 1,299 |
| Depreciation and amortization, net of gain on disposition | 61 | 180 |
| Change in fair value of warrant liability | (13,135) | 4,783 |
| Change in fair value of royalty preferred shares | (39,500) | - |
| Unrealized foreign exchange | (2,655) | (181) |
| Interest and accretion | 2,811 | 953 |
| Income taxes | 33 | 38 |
| **Changes in non-cash working capital:** | | |
| Investment tax credit receivable | (154) | 54 |
| Clinical supplies | (103) | 753 |
| Prepaid expenses and deposits | 534 | 1,032 |
| Other assets | (69) | - |
| Due from related parties | (276) | - |
| Trade and other payables | (1,217) | 762 |
| | (11,233) | (21,403) |
| Interest received | 24 | 70 |
| Income tax paid | (44) | (44) |
| Net cash used in operating activities | (11,253) | (21,377) |
| **Cash flows generated from (used in) financing activities:** | | |
| Proceeds from the issuance of common shares | 6,482 | - |
| Share issuance costs | (383) | (59) |
| Proceeds from exercise of stock options | 25 | - |
| Proceeds from exercise of warrants | 102 | - |
| Deferred financing costs | 24 | - |
| Proceeds from long-term debt | - | 25,273 |
| Interest paid | (1,425) | - |
| Debt issuance costs | (41) | (35) |
| Net cash generated from financing activities | 4,784 | 25,179 |
| **Cash flows used in investing activities:** | | |
| Distribution | (10,146) | - |
| Proceeds from sale of property and equipment | 323 | - |
| Property and equipment additions | (116) | (47) |
| Intangible asset additions | (216) | (221) |
| Net cash used in investing activities | (10,155) | (268) |
| Effect of foreign currency translation on cash | (320) | (174) |
| **(Decrease) increase in cash** | (16,944) | 3,360 |
| **Cash, beginning of period** | 17,413 | 7,562 |
| **Cash, end of period** | $ 469 | $ 10,922 |

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 202, 279 Midpark Way S.E., Calgary, Alberta, T2X 1M2. 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).

The Company will continue to focus on the clinical development of RVX-208, whereas RVX Therapeutics Inc. will focus on drug research and development by leveraging its epigenetics platform in multiple diseases including autoimmune and oncology, excluding ApoA-I and RVX-208 technology.

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; Zenith owns all of the outstanding shares of RVX Therapeutics Inc.; and Zenith owns all of the outstanding royalty preferred shares of Resverlogix.

Every Resverlogix warrant holder at the effective date of the Arrangement received one warrant in Zenith for every warrant held in Resverlogix. The exercise prices of all outstanding warrants in the Company were reduced by approximately 9.1%, and the exercise price of each warrant in Zenith was calculated as approximately 9.1% of the exercise price of each corresponding warrant 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 7), if any.

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.

RVX Therapeutics Inc.'s assets and liabilities which were distributed to the Company's shareholders on June 3, 2013 pursuant to the Arrangement were presented as at April 30, 2013 as held for distribution. Assets held for distribution as at April 30, 2013 were comprised of cash of $97, prepaid expenses and deposits of $57, investment tax credit receivable of $343, property and equipment of $103 and intangible assets of $107. Liabilities held for distribution were comprised of trade and other payables of $1,416.

**Distribution**

The Company accounted for the distribution to Zenith of the royalty preferred shares described in Note 7, 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 the assets being distributed to be recognized at fair value. The distribution was charged to deficit.

## 2. Basis of preparation (continued)

### (a) Plan of Arrangement (continued)

The gain on distribution recognized in the nine months ended January 31, 2014 represents the excess of the estimated aggregate fair value of the net assets distributed over their carrying value.

### (b) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting* ("IAS 34"). These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on March 17, 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, 2013 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, the measurement of long-term debt, which is measured initially at fair value and subsequently at amortized cost, and cash, which is carried at fair value. Historical cost is based on the fair value of the consideration given in exchange for assets recorded on the date of the transaction.

### (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, 2013 other than those related to the fair value of the distribution and the fair value of the royalty preferred shares.

*Distribution and royalty preferred shares*

The Company used significant judgments related to the fair value measurement of assets and liabilities distributed pursuant to the Plan of Arrangement, including the royalty preferred shares and the shares of RVX Therapeutics Inc. The estimates required management to exercise judgment concerning valuation approaches and methods, estimates of future cash flows, and discount rates.

## 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. On June 27, 2013, the Company announced that its Phase 2b ASSURE clinical trial evaluating RVX-208 in high-risk cardiovascular patients with low high-density lipoprotein (HDL) did not meet its primary endpoint of a -0.6% change in percent atheroma volume as determined by intravascular ultrasound (IVUS) and the Company would be analyzing the full data set to determine whether continued development of RVX-208 in cardiovascular disease is warranted. On September 3, 2013, the Company announced that in a subgroup analysis those patients taking Rosuvastatin and RVX-208 had a -1.43% change in percent atheroma volume, more than two-fold the primary endpoint, and also surpassed secondary endpoints reflecting regression in coronary atherosclerosis. On November 4, 2013, the Company announced that ASSURE data showed statistically significant improvements in coronary IVUS atheroma measurements and Major Adverse Cardiac Events (MACE) in patients with a high (>2.0 mg/dL) serum high sensitivity C-Reactive Protein (hsCRP); and virtual histology IVUS (VH-IVUS) data showing that the actions of RVX-208 improved the necrotic core to dense calcium (NC/CS) ratio pointing to less vulnerability of the atherosclerotic plaque for rupture.

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 January 31, 2014, the Company had $0.5 million of cash. As at January 31, 2014, the Company was committed to pay $0.5 million for research and development, $0.7 million of lease obligations and $0.7 million for tenant improvements to be completed, net of a tenant improvement allowance, over the next twelve months, as described further in Note 10 "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 $0.4 million for the next twelve months, as well as the cost of tenant improvements (based on either proportionate square footage or specific use), net of a tenant improvement allowance, estimated to be approximately $0.4 million. On March 17, 2014, RVX Therapeutics Inc. paid the Company $2.5 million pursuant to a Waiver Agreement as described in Note 11 "Subsequent event". We believe the Company's cash is not sufficient to fund the Company's contractual commitments and net working capital liability over the next year, and is not sufficient to fund substantially all of the Company's planned business operations over the next year. The Company's equity distribution agreement ("EDA"), expired on November 13, 2013. On October 28, 2013, the Company filed a preliminary short-form base shelf prospectus (for up to an aggregate offering price of CAD$50 million) with the securities commissions in each of the provinces of Canada. However, the Alberta Securities Commission was of the view that a base shelf prospectus is not appropriate given the Company's financial condition as well as the uncertainty and timing of financing. The Company expects to be able to raise additional capital by way of prospectuses and/or private placements. We believe the Company's cash will not be sufficient to fund the Company's contractual commitments and net working capital liability over the next year and will not be sufficient to fund substantially all of the Company's planned business operations over the next year. Therefore, the Company will have to raise additional capital through other sources such as prospectus offerings or private placements. The ASSURE clinical trial results as described above may adversely affect the Company's ability to raise capital. If the Company is not able to raise capital, the Company would have to further reduce its cash requirements by eliminating or deferring spending on research, development and corporate activities and the Company may be forced to cease operations. These conditions result in a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

The Company will also require additional capital to fund its planned 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.

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

## 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, 2013 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, 2013.

### New standards and interpretations adopted

The Company has adopted the following new standards and amendments to standards, with a date of initial application of May 1, 2013:

**IFRS 10** - ***Consolidated Financial Statements*** - supersedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The adoption of IFRS 10 did not have a material impact on the condensed interim consolidated financial statements.

**IFRS 11 - *Joint Arrangements* -** divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. IFRS 11 replaces the guidance in IAS 31 *Interest in Joint Ventures*, and essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11, joint ventures must now use the equity method of accounting. The adoption of IFRS 11 did not have a material impact on the condensed interim consolidated financial statements.

**IFRS 12** - ***Disclosure of Interests in Other Entities*** - combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities. The adoption of IFRS 12 did not have a material impact on the condensed interim consolidated financial statements.

**IFRS 13** - ***Fair Value Measurement*** – replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurement to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other. Due to the nature of the Company's financial assets and liabilities, the adoption of IFRS 13 did not have a material impact on the condensed interim consolidated financial statements. The adoption of IFRS 13 resulted in the inclusion of certain fair value disclosures which were previously applicable to annual financial statements only.

**Amendments to IAS 1** – ***Presentation of Financial Instruments*** - requires an entity to present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. As the amendments only required changes in the presentation of items in other comprehensive income, the new standard did not have a material impact on the condensed interim consolidated financial statements.

**Amendments to IFRS 7** – ***Offsetting Financial Assets and Liabilities*** – contains new disclosure requirements for offset financial assets and liabilities and netting arrangements. The amendments to IFRS 7 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. Property and equipment

On November 1, 2013, the Company sold laboratory equipment for $0.3 million and office furniture and equipment for $0.05 million, their respective fair values, to Zenith. The Company recognized a total gain on sale of $0.05 million.

## 6. Long-term debt

| | January 31 2014 | April 30, 2013 |
|---|---|---|
| CAD$38.8 million, 4.4473% due August 28, 2017 | $ 34,897 | $ 38,525 |
| Discount on debt, net of accretion | (7,178) | (9,152) |
| Unamortized transaction costs, net of accretion | (2,133) | (2,716) |
| Carrying value of long-term debt | $ 25,586 | $ 26,657 |

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 an Amended and Restated Loan Agreement 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 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 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. Eastern was acting in the capacity of a shareholder in arranging the Letter of Credit; therefore, the debt discount was 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 8(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 January 31, 2014 was unchanged at 12% and, as such, the carrying value of the long-term debt approximates the fair value.

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

## 7. 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, 2012 and 2013 | - | $ - |
| Issued in connection with Plan of Arrangement | 75,202,620 | 74,000 |
| Revaluation of royalty preferred shares | - | (22,000) |
| Balance, July 31, 2013 and October 31, 2013 | 75,202,620 | $ 52,000 |
| Revaluation of royalty preferred shares | - | (17,500) |
| Balance, January 31, 2014 | 75,202,620 | $ 34,500 |

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 23% and discount rates of 22% as at June 3, 2013 (the date of initial recognition) and 27% as at July 31, 2013, October 31, 2013 and January 31, 2014. The change in the fair market value of the royalty preferred shares was significantly affected by the change in these discount rates. As at January 31, 2014, management changed its estimate of the timing and amount of future cash flows to reflect one additional year of development to achieve commercialization.

*(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, 2012 | 74,210,483 | $ 123,798 |
| Issued under the Equity Distribution Agreement | 165,600 | 472 |
| Issued in connection with warrant exercises | 47,500 | 181 |
| Issued in connection with stock option exercises | 150,000 | 773 |
| Issued in connection with restricted stock unit exercises | 4,700 | 8 |
| Share issue costs recovery, net of tax | - | 887 |
| Balance, April 30, 2013 | 74,578,283 | 126,119 |
| Issued under the Equity Distribution Agreement | 5,053,300 | 4,942 |
| 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 | 81 |
| Share issue costs | - | (341) |
| Balance, January 31, 2014 | 81,729,160 | $ 132,303 |

**Base shelf prospectuses**

On October 13, 2011, the Company filed and obtained a receipt for a final short-form base shelf prospectus with the securities commissions in each of the provinces of Canada. Subject to securities regulatory requirements, the short form base shelf prospectus, which expired on November 13, 2013, allowed us to make offerings of common shares, preferred shares, debt securities, warrants, units, or any combination of such securities up to an aggregate offering price of CAD$125 million during the 25 month period that the base shelf prospectus remained effective.

On October 28, 2013, the Company filed a preliminary short-form base shelf prospectus (for up to an aggregate offering price of CAD$50 million) with the securities commissions in each of the provinces of Canada; however, approval was not received.

## 8. Shareholders' equity (deficit) (continued)

### (a) Common shares (continued)

**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 nine months ended January 31, 2014, the Company issued a total of 5,053,300 (2012 – nil) common shares under the EDA at an average price of CAD$1.02 (2012 – $nil) per share for gross proceeds of $4.9 million (CAD$5.2 million) (2012 – $nil).

**Private Placement**

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 $0.2 million using a Black-Scholes option pricing model; the residual $1.3 million of proceeds was assigned to share capital.

**Share issue costs (recovery)**

During the nine months ended January 31, 2014, the Company recognized total share issue costs of $0.3 million (2012 – $nil) and total share issue costs recovery of nil (2012 – $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").

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

## 8. Shareholders' equity (deficit) (continued)

### (b) Stock options (continued)

| | Number of options | Weighted average exercise price (CAD) |
|---|---|---|
| Outstanding, April 30, 2012 | 4,828,800 | $ 3.72 |
| Granted | 853,700 | 1.68 |
| Exercised | (150,000) | 2.92 |
| Expired | (865,000) | 8.10 |
| Outstanding, April 30, 2013 | 4,667,500 | 2.56 |
| Granted | 772,300 | 3.09 |
| Exercised | (16,730) | 1.54 |
| Expired | (1,218,550) | 2.74 |
| Forfeited | (64,550) | 2.21 |
| Outstanding, January 31, 2014 | 4,139,970 | $ 2.36 |

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

| Range of Exercise Prices (CAD) | Number Outstanding | Weighted Average Remaining Life (years) | Weighted Average Exercise Price (CAD) | Number Exercisable |
|---|---|---|---|---|
| $1.06 - $1.82 | 2,053,470 | 2.69 | $ 1.43 | 1,566,392 |
| $2.09 - $2.96 | 1,146,900 | 2.11 | 2.65 | 731,898 |
| $3.19 - $3.97 | 592,600 | 3.64 | 3.42 | 150,000 |
| $5.08 | 347,000 | 1.14 | 5.08 | 347,000 |
| | 4,139,970 | 2.54 | $ 2.36 | 2,795,290 |

The number of options exercisable at January 31, 2014 was 2,795,290 (2013 – 3,614,390) with a weighted average exercise strike price of CAD$2.32 (2013 – CAD$3.52). 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 has not been 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 $1.88 per option and $0.99 per option associated with stock options granted during the nine months ended January 31, 2014 and 2013, respectively:

| | 2014 | 2013 |
|---|---|---|
| Risk-free interest rate | 1.2% | 1.6% |
| Expected life | 4.2 years | 4.2 years |
| Expected volatility | 82% | 94% |
| Share price at grant date | CAD$3.17 | CAD$1.48 |
| Expected dividends | Nil | Nil |

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

## 8. Shareholders' equity (deficit) (continued)

### (c) Restricted stock units

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

During the nine months ended January 31, 2014, the Company granted 379,100 (2013 – 334,100) 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 nine months ended January 31, 2014 was $1.98 per RSU (2013 - $1.34 per RSU). 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, 2012 | 244,500 | $ 1.68 |
| Granted | 334,100 | 1.34 |
| Exercised | (4,700) | 1.68 |
| Outstanding, April 30, 2013 | 573,900 | $ 1.48 |
| Granted | 379,100 | 1.98 |
| Exercised | (53,332) | 1.52 |
| Forfeited | (42,033) | 2.29 |
| Outstanding, January 31, 2014 | 857,635 | $ 1.66 |

### (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, 2012 | 10,047,871 | $ 2.86 | $ 6,350 |
| Issued in connection with long-term debt | 2,048,640 | 1.86 | 2,819 |
| Exercised | (47,500) | 2.25 | (76) |
| Expired | (342,979) | 2.72 | - |
| Revaluation of warrant liability | - | - | 8,634 |
| 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 | (936,528) | 2.47 | - |
| Revaluation of warrant liability | - | - | (13,135) |
| Outstanding, January 31, 2014 | 11,228,346 | $ 2.37 | $ 4,773 |

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

## 8. Shareholders' equity (deficit) (continued)

### (d) Warrant liability (continued)

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

| Exercise Price (CAD) | Number Outstanding | Weighted Average Remaining Life (years) | Weighted Average Exercise Price (CAD) |
|---|---|---|---|
| $0.90 | 529,592 | 4.54 | $ 0.90 |
| $1.44 | 1,320,000 | 3.57 | 1.44 |
| $2.05 - $2.16 | 4,173,640 | 2.67 | 2.07 |
| $2.47 | 2,847,124 | 0.19 | 2.47 |
| $3.64 | 2,357,990 | 0.37 | 3.64 |
| | 11,228,346 | 1.75 | $ 2.37 |

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

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 accounted for through profit or loss. The fair value of these warrants is determined using the Black Scholes option pricing model. All of the Company's warrants meet this 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 6, 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.

As described in Note 8(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.

The weighted average fair value of the warrants granted during the nine month period ended January 31, 2014 and 2013 was $0.51 and $1.10 per warrant, respectively, using the Black-Scholes option pricing model with the following weighted average assumptions:

| | 2014 | 2013 |
|---|---|---|
| Risk-free interest rate | 1.7% | 1.3% |
| Expected life | 5 years | 5 years |
| Expected volatility | 157% | 90% |

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

## 8. Shareholders' equity (deficit) (continued)

### (e) Per share amounts

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

| | Three months ended January 31, | | Nine months ended January 31, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Weighted average common shares outstanding - basic | **81,708,502** | 74,210,483 | **78,775,289** | 74,210,483 |
| Effect of stock options, restricted stock units and warrants | **857,635** | - | **973,546** | - |
| Weighted average common shares outstanding - diluted | **82,566,137** | 74,210,483 | **79,748,835** | 74,210,483 |

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.

## 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, | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **Included in research and development expenses:** | | | | |
| Share-based payment transaction costs | **$ 228** | $ 178 | **$ 671** | $ 582 |
| Amortization and depreciation | **22** | 53 | **106** | 152 |
| **Included in general and administrative expenses:** | | | | |
| Share-based payment transaction costs | **$ 237** | $ 244 | **$ 682** | $ 717 |
| Amortization and depreciation | **4** | 7 | **16** | 28 |

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

## 10. Commitments

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

| | 2014 | 2013 |
|---|---|---|
| Less than 1 year | $ 482 | $ 10,878 |
| Between 1 and 5 years | - | - |
| More than 5 years | - | - |
| | $ 482 | $ 10,878 |

A portion of the Group's research and development contracts are cancellable subject to termination provisions.

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

| | 2014 | 2013 |
|---|---|---|
| Less than 1 year | $ 712 | $ 395 |
| Between 1 and 5 years | 1,908 | 547 |
| More than 5 years | 2,191 | - |
| | $ 4,811 | $ 942 |

As at January 31, 2014, the Company was committed to pay $0.7 million for tenant improvements to be completed, net of a tenant improvement allowance. 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 $0.4 million for the next twelve months, as well as the cost of tenant improvements (based on either proportionate square footage or specific use), net of a tenant improvement allowance, estimated to be approximately $0.4 million.

## 11. Subsequent event

**Waiver Agreement**

On March 17, 2014, the Company and RVX Therapeutics Inc. entered into a Waiver Agreement whereby the Company agreed to waive its right under the Amended and Restated License Agreement dated June 3, 2013 (the "License Agreement") to license any method or pharmaceutical agent within the scope of certain Licensee Patents owned or controlled by RVX Therapeutics Inc. that may be determined to come within the ApoA-I Therapeutic Field (as defined in the License Agreement), and RVX Therapeutics Inc. agreed not to develop any patents for any indication within the ApoA-I Therapeutic Field for a period of five years and granted to the Company a right of first refusal for a period of three years thereafter in respect of the license or sale of such patents and or compounds that are determined to come within the ApoA-I Therapeutic Field. In consideration for this waiver, RVX Therapeutics Inc. agreed to pay the Company $2.5 million in cash.