Condensed Interim Consolidated Financial Statements

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

Condensed Interim Consolidated Statements of Financial Position

(unaudited)
As at:

In thousands of US dollars	Notes	October 31, 2019	April 30, 2019
Assets			
Current assets:			
Cash		$ 556	$ 208
Prepaid expenses and deposits		387	866
Investment tax credit receivable		221	144
Other assets		19	27
Clinical supplies		380	379
Total current assets		1,563	1,624
Non-current assets:			
Property and equipment		563	627
Licensing costs	5	105	-
Intangible assets		513	1,340
Prepaid expenses and deposits		485	-
Deferred financing costs		-	6
Clinical supplies		412	322
Total non-current assets		2,078	2,295
Total assets		$ 3,641	$ 3,919
Liabilities			
Current liabilities:			
Trade and other payables		$ 3,834	$ 4,120
Promissory notes	6	304	-
Unearned deposit		1,338	1,783
Unearned licensing revenue	5	2,940	-
Due to Resverlogix Corp.		1,210	865
Financing rights	7	458	923
Total liabilities		10,084	7,691
Shareholders' (deficit) equity:			
Share capital	8 (a)	75,507	73,752
Contributed surplus		3,055	3,151
Warrants	8 (d)	366	225
Deficit		(85,371)	(80,900)
Total		(6,443)	(3,772)
Total liabilities and shareholders' (deficit) equity		$ 3,641	$ 3,919

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

Signed on behalf of the Board:

Signed: "Donald McCaffrey" Director

Signed: "Kenneth Zuerblis" Director

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

Condensed Interim Consolidated Statements of Comprehensive Loss

For the three and six months ended October 31

(unaudited)

		Three months ended October 31,		Six months ended October 31,	
In thousands of US dollars	Notes	2019	2018	2019	2018
Expenses:					
Research and development	9	2,660	1,898	4,580	3,471
Investment tax credits		(38)	(40)	(75)	(77)
Net research and development		2,622	1,858	4,505	3,394
General and administrative	9	113	592	778	1,169
		2,735	2,450	5,283	4,563
Finance (income) costs:					
Gain on change in fair value of financing rights	7	(12)	-	(870)	-
Interest expense (income)		2	(4)	7	(4)
Foreign exchange loss		-	1	12	2
Net finance income		(10)	(3)	(851)	(2)
Loss before income taxes		2,725	2,447	4,432	4,561
Income taxes		14	13	39	18
Net and total comprehensive loss		$ 2,739	$ 2,460	$ 4,471	$ 4,579
Net loss per share *(note 8 (e))*					
Basic and diluted		$ 0.02	$ 0.02	$ 0.03	$ 0.04

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

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

For the six months ended October 31

(unaudited)

In thousands of US dollars	Share Capital	Contributed Surplus	Warrants	Deficit	Total Shareholders' Equity (Deficit)
Balance, April 30, 2018	$ 69,764	$ 2,062	$ -	$ (69,573)	$ 2,253
Common shares issued in connection with private placements	3,576	-	204	-	3,780
Common shares issued in connection with stock option and long term incentive plans	140	(76)	-	-	64
Share-based payment transactions	-	452	-	-	452
Net and total comprehensive loss	-	-	-	(4,579)	(4,579)
Balance, October 31, 2018	$ 73,480	$ 2,438	$ 204	$ (74,152)	$ 1,970
Balance, April 30, 2019	$ 73,752	$ 3,151	$ 225	$ (80,900)	$ (3,772)
Common shares issued in connection with private placements	1,715	-	141	-	1,856
Common shares issued in connection with stock option and long term incentive plans	43	(20)	-	-	23
Share issue costs	(3)	-	-	-	(3)
Share-based payment transactions	-	(76)	-	-	(76)
Net and total comprehensive loss	-	-	-	(4,471)	(4,471)
Balance, October 31, 2019	$ 75,507	$ 3,055	$ 366	$ (85,371)	$ (6,443)

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

Consolidated Statements of Cash Flows
For the six months ended October 31
(unaudited)

In thousands of US dollars	Notes	2019	2018
Cash provided by (used in):			
Cash flows provided by (used in) operating activities:			
Net loss		$ (4,471)	$ (4,579)
Items not involving cash:			
Equity-settled share-based payment transactions	9	(76)	452
Depreciation and amortization	9	125	147
Impairment of intangible assets	9	986	-
Licensing costs	5	(105)	-
Change in fair value of financing rights	7	(870)	-
Interest expense		7	(4)
Income taxes		39	18
Changes in non-cash working capital:			
Prepaid expenses and deposits		(6)	(9)
Investment tax credit receivable		(77)	(73)
Other assets		8	10
Clinical supplies		(91)	(50)
Unearned deposits		(445)	-
Unearned licensing revenue		2,940	-
Trade and other payables		(209)	434
Increase in due to Resverlogix Corp.		345	132
		(1,900)	(3,522)
Interest received		4	5
Income tax paid		(26)	(31)
Net cash used in operating activities		(1,922)	(3,548)
Cash flows provided by financing activities:			
Proceeds from the issuance of equity units		2,261	4,495
Share issuance costs		(3)	-
Proceeds from exercise of stock options		24	64
Proceeds from issuance of promissory notes		895	-
Repayment of promissory notes		(591)	-
Interest paid on promissory notes		(11)	-
Changes in non-cash financing working capital		(1)	-
Net cash provided by financing activities		2,574	4,559
Cash flows used in investing activities:			
Property and equipment expenditures		(10)	(2)
Intangible asset expenditures		(210)	(225)
Changes in non-cash investing working capital		(85)	107
Net cash used in investing activities		(305)	(120)
Effect of foreign currency translation on cash		1	(1)
Increase in cash		348	890
Cash, beginning of period		208	1,164
Cash, end of period		$ 556	$ 2,054

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

Notes to the Condensed Interim Consolidated Financial Statements

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

(unaudited)

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

1. General information

Zenith Capital Corp. is a company domiciled in Canada and was incorporated under the *Business Corporations Act* (Alberta) on April 10, 2013. On May 24, 2013, 1741273 Alberta Ltd. changed its name to Zenith Epigenetics Corp. On August 1, 2016, Zenith Epigenetics Corp. changed its name to Zenith Capital Corp. concurrent with an internal corporate reorganization. The reorganization resulted in the transfer of Zenith Capital Corp.'s principal operating assets to Zenith Epigenetics Ltd., a wholly-owned subsidiary, in exchange for additional common shares of Zenith Epigenetics Ltd. Zenith Capital Corp. retained its investment in the royalty preferred shares of Resverlogix Corp. As Zenith Capital Corp. owns all of the securities of Zenith Epigenetics Ltd., the reorganization did not result in a change in the ultimate beneficial ownership of the operating assets.

The consolidated financial statements comprise the Zenith Capital Corp. and its wholly-owned subsidiaries, Zenith Epigenetics Ltd. and Zenith Epigenetics Inc. (together referred to as the "Company", "Zenith" or the "Group"). Zenith Capital Corp. and Zenith Epigenetics Ltd. are incorporated under the laws of Alberta. Zenith Epigenetics Inc. is incorporated under the laws of Delaware. The Company has offices located at Suite 300, 4820 Richard Road S.W., Calgary, Alberta, T3E 6L1, and at Suite 4010, 44 Montgomery Street, San Francisco, 94104. The registered and records office is located at Suite 600, 815 - 8th Avenue S.W., Calgary, Alberta, T2P 3P2.

Zenith Capital Corp. is a biotechnology investment company. Zenith Epigenetics Ltd. is a clinical stage biotechnology company developing best in class bromodomain (BET) inhibitors for the treatment of cancer and other disorders with significant unmet medical need. Zenith's epigenetic platform of innovative biology and chemistry has generated differentiated, potent and selective BET inhibitors. Zenith's goal is to be a leading epigenetic company translating bromodomain biology into impactful therapies.

2. Background and basis of preparation

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting.* These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on January 6, 2020.

(b) Basis of measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for the revaluation of the financing rights, which are measured at fair value each reporting period. Historical cost is based on the fair value of the consideration given in exchange for assets recorded on the date of the transaction. The financial statements have been prepared on a going concern basis (refer to Note 3).

(c) Functional and presentation currency

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

(d) Use of estimates and judgment

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in these condensed interim consolidated financial statements and notes. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the condensed interim consolidated financial statements remain unchanged from those described in the Group's consolidated financial statements for the year ended April 30, 2019, other than the estimates used in determining the existence of a lease (as it relates to the adoption of IFRS 16 – *Leases*), and the estimates used for the unearned licensing revenue.

Estimates and judgements related to revenue contracts

Zenith entered into a License Agreement which provides, among other payments, for upfront license fees in exchange for a regional license to its intellectual property. Management uses its judgment in determining the performance obligations in the License Agreement, and the extent of progress towards completion of the performance obligations. Revenue recognition requires assumptions and estimates regarding the point in time at which the Company's performance obligations under the License Agreement have been fully satisfied.

3. Future operations

The success of the Company is dependent on the continuation of its research and development activities, progressing its 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 (other than the unearned licensing revenue discussed in Note 5), 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 October 31, 2019, the Company had $0.6 million of cash and was committed to pay $3.8 million of trade and other payables, $1.2 million due to a related party, $0.3 million of promissory notes and $1.2 million for research and development commitments over the next twelve months as described further in Note 10. In addition, estimated expenditures over the next twelve months under cancellable agreements with contract research organizations conducting work related to the Company's clinical trials total approximately $2.9 million.

The Company's cash as at October 31, 2019, in combination with the development milestone payment of $5.0 million, less applicable tax withholdings, the Company received subsequent to October 31, 2019 pursuant to the license agreement with Newsoara BioPharma Co., Ltd. ("Newsoara"), as described further in Note 5, will not be sufficient to fund the Company's contractual commitments or the Company's planned business operations for the next year. The Company must raise additional capital. The Company will therefore continue to pursue alternatives to raise additional capital including issuing additional equity and/or debt and/or from other sources such as partnering and/or licensing; however, there is no assurance that these initiatives will be successful. 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.

4. Significant accounting policies

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

New standards and interpretations adopted

IFRS 16 – Leases

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

Zenith adopted IFRS 16 on May 1, 2019, and has selected the modified retrospective transition approach, under which the comparative information has not been restated and continues to be reported under IAS 17. Zenith has also elected to apply the optional exemptions for short-term and low-value leases. Zenith has elected not to separate fixed non-lease components from lease components and instead account for each lease component and associated fixed non-lease components as a single lease component. Zenith did not have any leases to record on transition to IFRS 16 and as such, there was no impact to the Statements of Financial Position on transition to IFRS 16.

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

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

4. Significant accounting policies (continued)

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

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

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

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

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

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

Update to Revenue Recognition Policy, applicable from May 1, 2019

Revenue relates to a long-term contract associated with a License Agreement (the "License Agreement") between the Company and Newsoara, as described further in Note 5. The Company uses the five-step analysis of transactions outlined in IFRS 15 – *Revenues from Contracts with Customers* to determine the nature of the Company's obligations to perform and whether, how much and when revenue is recognized. Proceeds from the contract include non-refundable upfront payments, development and regulatory milestone payments, royalties and sales-based milestone payments. Zenith accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Under the License Agreement, Zenith has granted a regional license (for China, Hong Kong, Taiwan, and Macau) to Zenith's intellectual property related to its lead compound, ZEN-3694. Zenith will recognize revenue related to the upfront license payments at the point in time at which the Company's performance obligations under the License Agreement have been fully satisfied. Management must use judgment in making assumptions and estimates regarding the point in time at which the Company's performance obligations under the License Agreement have been fully satisfied.

The License Agreement with Newsoara also provides for development and regulatory milestone payments. These amounts are contingent on the occurrence of a future event and therefore give rise to variable consideration. Zenith estimates variable consideration at the most likely amount to which it expects to be entitled. Zenith includes estimated amounts in the transaction price when it becomes highly probable that the amount will not be subject to significant reversal when the uncertainty associated with the variable consideration is resolved. Additionally, the License Agreement provides for payments that are dependent on future sales. These proceeds are recognized when the future sales occur.

4. Significant accounting policies (continued)

Zenith's estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of Zenith's anticipated performance and all information (historical, current and forecasted) that is reasonably available to the Company. Based on this information and related analysis, any quarterly adjustments to revenue are recognized as necessary in the period they become known.

Revenue from sales-based royalties, if earned in the future, and the achievement of annual sales volumes will be recognized when the subsequent sales occur, as the license of the intellectual property is the predominant item to which the royalty relates. We consider payments associated with the achievement of annual sales volumes to be, in substance, royalty payments and we will recognize such sales-based payments upon achievement of such sales volumes, provided that collection is reasonably assured.

Unearned licensing revenue - Unearned licensing revenue includes upfront license fees and billings in excess of revenue recognized. Unearned licensing revenue is recognized as revenue as or when Zenith performs under the contract.

Licensing costs – Incremental costs of obtaining a license agreement are capitalized if the costs are expected to be recovered. The licensing costs will be recognized into profit or loss during the period in which the corresponding licensing revenue is recognized.

5. Revenue and unearned licensing revenue

License agreement

In July 2019, Zenith Epigenetics Ltd. entered into a License Agreement with Newsoara for its lead compound, ZEN-3694, in China, Hong Kong, Taiwan, and Macau (the "Territories"). Under the terms of the agreement, Newsoara will have the rights to develop, market, and distribute ZEN-3694 for all indications in the Territories. Pursuant to the License Agreement, Newsoara agreed to pay Zenith Epigenetics Ltd. upfront and near-term development milestone payments totaling $15.0 million. Initial non-refundable upfront payments of $1.0 million and $2.5 million (less applicable tax withholdings) were received in July and September 2019, respectively. The $2.94 million of unearned licensing revenue at October 31, 2019 is comprised of the initial and second upfront amounts (less applicable tax withholdings).

As further described in Note 11, subsequent to October 31, 2019, the Company received a development milestone payment of $5.0 million, less applicable tax withholdings, from Newsoara for completion of the Company's Phase 2 clinical study with ZEN-3694 in metastatic castration-resistant prostate cancer and Newsoara's satisfaction with the study's results and election to continue development.

Pursuant to the License Agreement, Newsoara has also agreed to pay the Company a $6.5 million development milestone payment for/upon completion of either a Phase 3 clinical trial or a clinical study which results in the Company receiving accelerated approval by the US Food and Drug Administration ("FDA") (subject to Newsoara's satisfaction with the study's results). In addition, the Company is eligible to receive tiered royalty payments on sales of products once commercialization commences and Newsoara achieves sales. No amounts have been recognized for these milestone or royalty payments at October 31, 2019.

Licensing costs

The Company paid (and capitalized) $0.1 million in licensing costs in connection with the license agreement. The licensing costs will be recognized into profit or loss during the period in which the corresponding licensing revenue is recognized.

6. Promissory notes

During the six months ended October 31, 2019, a relative of the Chairman of the Company lent a total of CAD$0.8 million to the Company, with CAD$0.5 million being repaid in the period. The remaining outstanding CAD$0.3 million promissory note is payable on demand and bears interest at 8% per annum.

During the six months ended October 31, 2019, the Chairman of the Company and another director of the Company lent CAD$0.3 million and CAD$0.1 million, respectively, to the Company. The CAD$0.3 million promissory note payable to the Chairman of the Company was repaid. The remaining outstanding CAD$0.1 million promissory note is payable on demand and bears interest at 5% per annum.

Notes to the Condensed Interim Consolidated Financial Statements

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

(unaudited)

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

7. Financing rights

Anti-Dilution Rights and Additional Rights

The following table summarizes the changes in the Anti-Dilution Rights outstanding.

	Number of Rights	Liability amount
Outstanding, April 30, 2018	-	$ -
Granted	2,420,000	769
Revaluation of financing rights liability	-	154
Outstanding, April 30, 2019	2,420,000	923
Granted	1,078,000	405
Expired	(2,247,500)	-
Revaluation of financing rights liability	-	(870)
Outstanding, October 31, 2019	1,250,500	$ 458

Pursuant to the terms of certain private placements that the Company closed during the six months ended October 31, 2019 with anti-dilution rights attached, in the event that the Company completes an equity financing within the period of time prescribed by the applicable subscription agreement (specifically, one year from the respective closing dates) and the price per share is below $2.00, the price per share paid by the initial subscriber will be adjusted to the lower price per share and they will, accordingly, receive additional common shares for no additional consideration.

Furthermore, pursuant to the terms of certain private placements that the Company closed during the six months ended October 31, 2019 with additional rights attached, in the event that the Company completes an equity financing within a prescribed period of time of 12 months of the respective closing dates and the Company issues additional securities, contractual rights or other entitlements (“Additional Rights”) to any of the subsequent subscribers, then the Company shall issue the Additional Rights to the initial subscribers that they would have been entitled to pursuant to the terms of the subsequent financing.

Valuation

The determination of the fair value of the anti-dilution rights required management to use judgment, including management’s estimates of various probabilities of future equity offerings at various prices below $2 per share (for the anti-dilution rights granted in the current year) within the respective prescribed timeframes. At the date the financing rights were granted, the Company recorded the anti-dilution rights as liabilities with off-setting reductions to the carrying amount of the common shares, with subsequent changes in fair value recognized in profit or loss. As at October 31, 2019, the fair value reflected management’s estimate of various probabilities of future equity offerings at various prices at or below $2 per share within the respective prescribed timeframes.

(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.

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:

Common shares	Number of shares	Amount
Balance, April 30, 2018	126,561,140	$ 69,764
Issued in connection with private placements	2,420,000	3,846
Issued in connection with stock option plan	242,900	115
Issued in connection with long term incentive plan	124,688	28
Share issue costs	-	(1)
Balance, April 30, 2019	129,348,728	73,752
Issued in connection with private placements	1,130,500	1,715
Issued in connection with stock option plan	70,800	43
Share issue costs	-	(3)
Balance, October 31, 2019	130,550,028	$ 75,507

Private Placements

In July and August 2018, the Company issued 2,247,500 equity units pursuant to private placements at a price of $2.00 per unit for gross proceeds of $4.5 million (including 1.5 million equity units issued to Eastern Capital Limited). In December 2018, the Company issued 32,500 equity units pursuant to a private placement at a price of $2.00 per unit for gross proceeds of $0.1 million. In March 2019, the Company issued 140,000 equity units pursuant to a private placement at a price of $2.00 per unit for gross proceeds of $0.3 million. In each of these private placements, each equity unit consisted of one common share and one-half common share purchase warrant. Each warrant is exercisable at a price of $3.00 per underlying common share for a period of three years from the closing of the private placements.

In May, July, August and October 2019, the Company issued 1,130,500 equity units pursuant to private placements at a price of $2.00 per unit for gross proceeds of $2.3 million. Each equity unit consisted of one common share and one-half common share purchase warrant. Each warrant is exercisable at a price of $3.00 per underlying common share for a period of three years from the closing of the private placements. As described in Note 7 "Financing rights", under certain conditions, the subscribers of the May, July, and August 2019 private placements are entitled to receive additional shares.

(b) Stock options

The Company's 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 vest over zero to three years and have a four to five year term. Certain stock options granted in the year ended April 30, 2015 have performance conditions which are required to be met in order for the options to vest. These stock options have a seven year term. The stock options are settled by way of the issuance of equity instruments of the Company ("equity-settled").

Notes to the Condensed Interim Consolidated Financial Statements

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

(unaudited)

(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, 2018	3,622,900	$ 0.46
Granted	1,067,600	0.64
Exercised	(242,900)	0.35
Expired	(308,000)	0.33
Outstanding, April 30, 2019	4,139,600	0.52
Granted	1,064,300	0.98
Exercised	(70,800)	0.45
Expired	(394,334)	0.47
Forfeited	(133,066)	0.81
Outstanding, October 31, 2019	4,605,700	$ 0.62

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

Range of Exercise Prices (CAD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)	Number Exercisable
$0.28 - $0.29	440,200	0.54	$ 0.28	440,200
$0.45 - $0.48	790,000	1.64	0.46	440,000
$0.50 - $0.59	1,409,800	2.41	0.56	1,306,137
$0.64 - $0.65	968,200	3.57	0.64	429,187
$0.97 - $0.98	997,500	4.56	0.98	-
	4,605,700	2.81	$ 0.62	2,615,524

The number of stock options exercisable at October 31, 2019 was 2,615,524 (2018 – 2,186,739) with a weighted average exercise strike price of CAD$0.51 (2018 – CAD$0.45).

The fair value of each stock option granted is estimated as of the grant date using the Black-Scholes option pricing model and an estimated illiquidity discount. The following weighted average assumptions were used in arriving at the weighted average fair values of $0.51 and $0.30 per stock option associated with stock options granted during the six months ended October 31, 2019 and 2018, respectively:

	2019	2018
Risk-free interest rate	1.5%	2.0%
Expected life	4.3 years	4.3 years
Expected volatility	96%	98%
Share value at grant date	CAD$1.14	CAD$0.64
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 stock option plan. The Company may grant restricted stock units ("RSUs") to directors, officers, employees, and consultants. The majority of RSUs fully vest over zero to three years.

During the six months ended October 31, 2019, the Company granted 313,509 RSUs (2018 – 2,471,297 RSUs). Certain restricted stock units granted in the six months ended October 31, 2018 have performance conditions which are required to be met in order for the RSUs to vest. The corresponding share-based payment cost is recognized over the term that the performance

Notes to the Condensed Interim Consolidated Financial Statements

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

(unaudited)

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

8. Shareholders' equity (deficit) (continued)

(c) Restricted stock units (continued)

criteria is required to be met, based on the number of RSUs expected to vest. During the three months ended October 31, 2019, it was estimated that the performance RSUs would not likely vest within the prescribed period, resulting in the recognition of a $0.7 million recovery of share-based payment transaction costs. The weighted average fair value of the RSUs granted in the six months ended October 31, 2019 was $0.82 per RSU (2018 - $0.45 per RSU). The Company estimates the fair value of RSUs based on the estimated fair value of the underlying stock (net of an estimated illiquidity discount) on the date of grant.

A portion of director's fees are paid by way of the issuance of RSUs in lieu of payment in cash.

	Number of restricted stock units	Weighted average grant date fair value (USD)
Outstanding, April 30, 2018	3,558,315	$ 0.32
Granted	2,532,791	0.45
Exercised	(124,688)	0.23
Outstanding, April 30, 2019	5,966,418	0.38
Granted	313,509	0.82
Forfeited	(48,533)	0.55
Outstanding, October 31, 2019	6,231,394	$ 0.40

(d) Equity-classified warrants

As described in Note 8 (a), during the six months ended October 31, 2019, the Company issued 565,250 warrants pursuant to private placements. Each warrant has an exercise price of USD$3.00 per warrant and expires three years from the grant dates. Due to the equity classification, the warrants issued in the current period will not be revalued each reporting period.

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

	Number of warrants	Weighted average exercise price (USD)	Equity amount
Outstanding, April 30, 2018	-	$ -	$ -
Issued in connection with private placements	1,210,000	3.00	225
Outstanding, April 30, 2019	1,210,000	3.00	225
Issued in connection with private placements	565,250	3.00	141
Outstanding, October 31, 2019	1,775,250	$ 3.00	$ 366

The weighted average fair value of the warrants issued during the six months ended October 31, 2019 was $0.25 per warrant (2018 – $0.18 per warrant), using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019	2018
Risk-free interest rate	1.5%	2.1%
Expected life	3.0 years	3.0 years
Expected volatility	99%	102%
Share value at grant date	USD$0.91	USD$0.71

Notes to the Condensed Interim Consolidated Financial Statements

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

(unaudited)

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

8. Shareholders' equity (deficit) (continued)

(d) Equity-classified warrants (continued)

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

Exercise Price (USD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (USD)
$3.00	1,775,250	2.12	$ 3.00
	1,775,250	2.12	$ 3.00

(e) Per share amounts

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

	Three months ended October 31,		Six months ended October 31,	
	2019	2018	2019	2018
Weighted average common shares outstanding - basic and diluted	130,488,088	128,714,921	130,039,016	127,719,347

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 on the condensed interim consolidated statements of comprehensive loss 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. Research and development and general and administrative expenses also include personnel costs and expenses paid to third parties, including the service fees paid to Resverlogix.

	Three months ended October 31,		Six months ended October 31,	
	2019	2018	2019	2018
Included in research and development expenses:				
Share-based payment transaction costs (recovery)	$ (69)	$ 95	$ 64	$ 181
Amortization and depreciation	57	68	113	134
Impairment of intangible assets	986	-	986	-
Included in general and administrative expenses:				
Share-based payment transaction costs (recovery)	$ (375)	$ 144	$ (140)	$ 271
Amortization and depreciation	5	7	12	13

During the six months ended October 31, 2019, the Company made the determination that it no longer intended to perform further research or commercialize the technology relating to certain intangible assets, thus a $1.0 million impairment of intangible assets was recognized.

10. Commitments

As at October 31, 2019, the Group is party to cancellable agreements with contract research organizations conducting work related to our clinical trials. Corresponding estimated aggregate expenditures over the next twelve months total approximately $2.9 million (2018 – $1.7 million).

Notes to the Condensed Interim Consolidated Financial Statements

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

(unaudited)

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

10. Commitments (continued)

As at October 31, 2019, the Group is committed to expenditures over the next twelve months of $1.2 million (2018 – $1.5 million), pursuant to various research and development contracts.

Zenith agreed to pay Resverlogix for its proportionate share of rental payments and operating costs (for a laboratory and offices that Resverlogix shares with Zenith) of an estimated $0.2 million and $0.1 million, respectively, for the next twelve months.

11. Subsequent event

Subsequent to October 31, 2019, the Company received a development milestone payment of $5.0 million, less applicable tax withholdings, from Newsoara for completion of the Company's Phase 2 clinical study with ZEN-3694 in metastatic castration-resistant prostate cancer and Newsoara's satisfaction with the study's results and election to continue development.