ZENITH

Consolidated Financial Statements

Years Ended April 30, 2020 and 2019

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Zenith Capital Corp. (the "Company") have been approved by the Board of Directors and have been prepared in accordance with International Financial Reporting, which recognize the necessity of relying on some best estimates and informed judgments. The financial information contained in the management's discussion and analysis is consistent with the consolidated financial statements. The Company undertakes steps to ensure the information presented is accurate and conforms to applicable laws and standards, including:

- Management maintains accounting systems and related internal controls and supporting procedures to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, and complete and accurate financial records are maintained to provide reliable information for the preparation of the consolidated financial statements in a timely manner.
- The Board of Directors oversees the management of the business and the affairs for the Company including ensuring management fulfills its responsibility for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.
- The Audit Committee of the Board of Directors, comprised of three members considered to be independent directors, has reviewed the consolidated financial statements with management and the external auditors.

KPMG LLP Chartered Professional Accountants, the Company's external auditors, who are appointed by the Company's shareholders, audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out on the following page.

(signed)
Donald J. McCaffrey
President and Chief Executive Officer

(signed)
A. Brad Cann
Chief Financial Officer

October 9, 2020

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Zenith Capital Corp.

Opinion

We have audited the consolidated financial statements of Zenith Capital Corp. (the "Company"), which comprise:

- the consolidated statements of financial position as at April 30, 2020 and April 30, 2019
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity (deficiency) for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at April 30, 2020 and April 30, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 in the financial statements, which indicates that 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 stated in Note 3 in the financial statements, these events or conditions, along with other matters as set forth in Note 3 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

– the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

The information, other than the consolidated financial statements and the auditors' report thereon, including in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work that we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
– The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
– Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
– Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Richard John Mussenden.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
October 9, 2020

Consolidated Statements of Financial Position

As at:

In thousands of US dollars	Notes	April 30, 2020	April 30, 2019
Assets			
Current assets:			
Cash		$ 214	$ 208
Prepaid expenses and deposits		260	866
Investment tax credit receivable		91	144
Other assets		49	27
Clinical supplies		396	379
Total current assets		1,010	1,624
Non-current assets:			
Property and equipment	7	493	627
Licensing costs	12	510	-
Intangible assets	8	592	1,340
Prepaid expenses and deposits		485	-
Deferred financing costs		6	6
Clinical supplies		309	322
Total non-current assets		2,395	2,295
Total assets		$ 3,405	$ 3,919
Liabilities			
Current liabilities:			
Trade and other payables		$ 4,054	$ 4,120
Promissory notes	10	589	-
Unearned deposit	11	884	1,783
Unearned licensing revenue	12	7,282	-
Due to Resverlogix Corp.	17	856	865
Financing rights	13	497	923
Total liabilities		14,162	7,691
Shareholders' deficiency:			
Share capital	14 (a)	75,641	73,752
Contributed surplus		3,657	3,151
Warrants	14 (d)	475	225
Deficit		(90,530)	(80,900)
Total shareholders' deficiency		(10,757)	(3,772)
Total liabilities and shareholders' deficiency		$ 3,405	$ 3,919

Going concern (note 3)
Commitments (note 16)
Subsequent events (note 19)

Signed on behalf of the Board:

Signed: "Donald McCaffrey" Director

Signed: "Kenneth Zuerblis" Director

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

Consolidated Statements of Comprehensive Loss

For the years ended April 30

In thousands of US dollars	Notes	2020	2019
Expenses:			
Research and development, net of recoveries	11, 15	$ 8,236	$ 8,516
Investment tax credits		(96)	(145)
Net research and development		8,140	8,371
General and administrative	15	2,203	2,787
		10,343	11,158
Finance (income) costs:			
(Gain) loss on change in fair value of financing rights	13	(872)	154
Financing costs		100	-
Interest expense (income)		10	(13)
Foreign exchange (gain) loss		(3)	2
Net finance (income) costs		(765)	143
Loss before income taxes		9,578	11,301
Income taxes	18	52	26
Net loss and total comprehensive loss		$ 9,630	$ 11,327
Net loss per share *(note 14 (e))*			
Basic and diluted		$ 0.07	$ 0.09

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

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the years ended April 30

In thousands of US dollars	Share Capital	Contributed Surplus	Warrants	Deficit	Total Shareholders' Equity (Deficiency)
Balance, April 30, 2018	$ 69,764	$ 2,062	$ -	$ (69,573)	$ 2,253
Common shares issued in connection with private placements	3,846	-	225	-	4,071
Common shares issued in connection with stock option and long term incentive plans	143	(77)	-	-	66
Share issue costs	(1)	-	-	-	(1)
Share-based payment transactions	-	1,166	-	-	1,166
Net and total comprehensive loss	-	-	-	(11,327)	(11,327)
Balance, April 30, 2019	$ 73,752	$ 3,151	$ 225	$ (80,900)	$ (3,772)
Common shares issued in connection with private placements	1,805	-	250	-	2,055
Common shares issued in connection with stock option and long term incentive plans	88	(48)	-	-	40
Share issue costs	(4)	-	-	-	(4)
Share-based payment transactions	-	554	-	-	554
Net loss and total comprehensive loss	-	-	-	(9,630)	(9,630)
Balance, April 30, 2020	$ 75,641	$ 3,657	$ 475	$ (90,530)	$ (10,757)

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

Consolidated Statements of Cash Flows

For the years ended April 30

In thousands of US dollars	Notes	2020	2019
Cash provided by (used in):			
Cash flows provided by (used in) operating activities:			
Net loss		$ (9,630)	$ (11,327)
Items not involving cash:			
Equity-settled share-based payment transactions	15	554	1,166
Depreciation and amortization	15	217	286
Impairment of intangible assets	15	986	-
Change in fair value of financing rights	13	(872)	154
Interest expense (income)		10	(13)
Income taxes	18	52	26
Changes in non-cash working capital:			
Prepaid expenses and deposits		121	(447)
Investment tax credit receivable		53	1
Other assets		(22)	2
Clinical supplies		(4)	(328)
Licensing costs	12	(510)	-
Unearned deposits		(899)	1,783
Unearned licensing revenue		7,282	-
Trade and other payables		(34)	2,478
(Decrease) increase in due to Resverlogix Corp.		(9)	747
		(2,705)	(5,472)
Interest received		8	14
Income tax paid		(33)	(50)
Net cash used in operating activities		(2,730)	(5,508)
Cash flows provided by financing activities:			
Proceeds from the issuance of equity units		2,501	4,840
Share issuance costs		(4)	-
Proceeds from exercise of stock options		40	66
Proceeds from promissory notes (to related and non-related parties)		2,089	-
Repayment of promissory notes (to related and non-related parties)		(1,500)	-
Interest paid on promissory notes		(18)	-
Net cash provided by financing activities		3,108	4,906
Cash flows used in investing activities:			
Property and equipment expenditures		(13)	(12)
Intangible asset expenditures		(307)	(421)
Changes in non-cash investing working capital		(51)	81
Net cash used in investing activities		(371)	(352)
Effect of foreign currency translation on cash		(1)	(2)
Increase (decrease) in cash		6	(956)
Cash, beginning of year		208	1,164
Cash, end of year		$ 214	$ 208

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

Notes to the Consolidated Financial Statements

For the years ended April 30, 2020 and 2019

(Tabular 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. ("Resverlogix"). Resverlogix and Zenith have a majority of their directors in common, and thus are considered related parties. 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as prescribed by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved and authorized for issue by the Board of Directors on October 9, 2020.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for financing rights, which are measured at fair value each reporting period.

(c) Measurement uncertainty

There is estimation uncertainty with regards to the possible impact of the COVID-19 outbreak on the financial results and condition of the Company over the next twelve months.

The outbreak of the novel strain of coronavirus, SARS-CoV-2, has caused a pandemic identified as "COVID-19" and has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods. The COVID-19 outbreak may impact the Company's ability to raise additional capital and/or impact the Company's ability to continue its clinical trials.

(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.

3. Going concern

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 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 12), 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 April 30, 2020, the Company had $0.2 million of cash and was committed to pay $4.1 million of trade and other payables, $0.9 million due to Resverlogix, $0.6 million of promissory notes and $1.3 million for research and development commitments over the next twelve months as described further in Note 16. 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 $2.1 million.

As described in Note 19, subsequent to April 30, 2020, the Company raised $5.0 million pursuant to a private placement and $0.5 million pursuant to a convertible debenture. The Company's cash as at April 30, 2020, in combination with the $5.5 million raised subsequently to April 30, 2020, is not sufficient to fund the Company's contractual commitments or the Company's planned business operations for the next year. 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.

These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities, and the reported expenses that might be necessary should the Company be unable to continue as a going concern. The COVID-19 outbreak may impact the Company's ability to raise additional capital and/or impact the Company's ability to continue its clinical trials.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated. The accounting policies have been applied consistently by the Company's subsidiaries.

Consolidation

The consolidated financial statements include the accounts of Zenith Capital Corp. and its wholly-owned subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. The Company achieves control when it is exposed to, or has rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The Company considers its voting and contractual rights and all other relevant facts and circumstances in assessing whether it has the power to direct the relevant activities of an entity.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2020 and 2019

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

4. Significant accounting policies (continued)

Financial instruments

Classification and measurement of financial assets and financial liabilities

Financial assets

Financial assets are initially measured at fair value. In the case of a financial asset not at fair value through profit or loss, the financial asset is initially measured at fair value plus or minus transaction costs.

Under IFRS 9 *Financial Instruments* ("IFRS 9"), financial assets are subsequently measured at amortized cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the financial asset's contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The Group's financial assets include cash, investment tax credit receivable, and deposits. The classification and measurement of these financial assets are at amortized cost, as these assets are held within the Group's business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.

Financial liabilities

Financial liabilities are initially measured at fair value and are subsequently measured at amortized cost except for financing rights. The Group's financial liabilities are classified and measured as follows:

Financial Liability	Classification	Measurement
Trade and other payables	Other liabilities	Amortized cost
Promissory notes	Other liabilities	Amortized cost
Unearned deposit	Other liabilities	Amortized cost
Due to Resverlogix Corp.	Other liabilities	Amortized cost
Financing rights	FVTPL	Fair value

As at April 30, 2020, the carrying amounts of all of the Group's financial instruments approximate their fair value due to their short-term nature.

Impairment

Under IFRS 9, accounting for impairment losses for financial assets uses a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires that a loss allowance is recorded for ECLs on all financial assets not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

Fair Value Measurement

Fair value is 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. In determining the fair value measurement of the Group's financial instruments, the related inputs used in measuring fair value are prioritized according to the following hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;

Level 3 – Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The fair values of the financing rights are based on level 3 (significant unobservable) inputs.

Impairment

The Group assesses at each reporting date whether there is any indication that an asset or a group of assets is impaired.

Clinical supplies, property and equipment and intangible assets may be impaired when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels (cash-generating units or "CGU") for which there are separately identifiable cash flows that are largely independent of the cash flows of other assets or CGUs. The recoverable amount is the higher of an asset's fair value less costs

4. Significant accounting policies (continued)

Impairment (continued)

to sell and value in use (being the present value of the expected future cash flows of the relevant assets or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Group re-evaluates impairment losses for potential reversals when events or circumstances warrant such consideration. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of any depreciation or amortization, if no impairment loss had been recognized.

Clinical supplies

Clinical supplies are initially capitalized when incurred, and the expense is recognized at a future date when the supplies are used. They are carried at cost, and these costs are recognized as the clinical supplies are consumed in research and development activities in the statement of comprehensive loss or when the clinical supplies are no longer expected to be used in clinical trials.

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. Purchased software that is integral to the functionality of the related computer hardware is capitalized as part of that computer hardware. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are expensed as incurred.

The major categories of property and equipment are depreciated as follows:

Asset	Method	Rate
Laboratory equipment	Straight-line	5-10 years
Office furniture and equipment	Straight-line	5 years
Computer hardware and software	Straight-line	3 years
Tenant improvements	Straight-line	Term of lease

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. Items of property and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component, and are depreciated from the date they are installed and ready for use.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of comprehensive loss.

Intangible assets

(i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are charged as an expense in the period in which they are incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

(ii) Other intangible assets, subsequent expenditures, and amortization

Separately acquired patents and non-integrated software have a finite useful life and are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2020 and 2019

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

4. Significant accounting policies (continued)

Intangible assets (continued)

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The major categories of intangibles assets are depreciated as follows:

Asset	Method	Rate
Patents and intellectual property	Straight-line	20-21 years
Non-integrated software	Straight-line	3 years

Leases

Adoption of IFRS 16 – Leases, with a date of initial application of May 1, 2019:

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:

- 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.

Notes to the Consolidated Financial Statements

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

4. Significant accounting policies (continued)

Leases (continued)

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.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term incentive plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reasonably.

Revenue

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 BioPharma Co., Ltd. ("Newsoara"), as described further in Note 12. 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.

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.

Notes to the Consolidated Financial Statements

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4. Significant accounting policies (continued)

Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees, officers, and directors is recognized as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

The fair value of the Company's share-based payment awards is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Any consideration received upon exercise of the options and similar instruments together with the amount of non-cash compensation cost recognized in contributed surplus is recorded as an increase in common shares. Restricted stock units that are settled net of required tax withholdings are classified entirely as equity-settled transactions.

Government grants

Grants resulting from government assistance programs, including investment tax credits for research and development expenditures, are reflected as reductions of the cost of the assets or expenditures to which they relate at the time the assistance becomes receivable.

Finance income and costs

Finance income and costs is comprised of interest income on funds invested and fair value gains (losses) on financial liabilities at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantially enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the future taxable profits will be available against which they can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Earnings per share

Basic (earnings) loss per share ("EPS") is calculated by dividing the net (earnings) loss for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company uses the treasury stock method to determine the dilutive effect of issued instruments (stock options, restricted stock units and warrants). This method assumes that proceeds received from the exercise of in-the-money instruments are used to repurchase common shares at the average market price for the period.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2020 and 2019

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

4. Significant accounting policies (continued)

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Recent accounting pronouncements

IFRS 3 – Business Combinations

The IASB issued an amended definition of the term 'business' within IFRS 3 – *Business Combinations.* Zenith adopted IFRS 3 for the annual period beginning on May 1, 2020. The Company has analyzed the impact of the change in definition of the term 'business' in IFRS 3 and determined that it will not have a material impact on the consolidated financial statements once adopted.

5. Significant judgments, estimates and assumptions

The preparation of the 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 consolidated financial statements and notes. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant judgments and estimates made by management affecting the consolidated financial statements include:

Unearned licensing revenue

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.

Share-based payment transactions

The Company measures share-based payment transactions by reference to the fair value of the stock options and restricted stock units at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model, including the estimated fair value of the Company's common shares (which has been based in the current year primarily on a market transaction approach, and which has been based in the comparative year primarily on an adjusted net asset value approach based on historical costs of intellectual property, and discounting estimated future cash flows pursuant to the Resverlogix royalty preferred shares held by the Company), and the expected life of the stock options, volatility and dividend yield. The estimation of the fair value of the Company's common shares requires management to exercise judgment concerning valuation approaches and methods, discount rates, and estimates of future cash flows, including the timing and amounts of discounted risk adjusted future cash flows derived from the Resverlogix royalty preferred shares held by the Company. Estimating the fair value of certain granted stock options and restricted stock units requires estimating the probability of performance conditions and illiquidity discounts, which also require management to exercise judgment. The assumptions and model used for estimating fair value for share-based payment transactions are disclosed in Note 14 (b).

Warrants

The Company measures equity-classified warrants by reference to the fair value of the warrants at the date at which they were granted. Estimating fair value for these warrants requires management to determine the most appropriate valuation model. This estimate also requires management to make assumptions about the most appropriate inputs to the valuation model including estimated fair value of the Company's common shares, the expected life of the warrants, volatility and dividend yield.

5. Significant judgments, estimates and assumptions (continued)

Financing rights

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. The Company revalues the financing rights at each reporting date.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Currently, the Company is accumulating tax loss carry forward balances, creating a deferred tax asset. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management's judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

To date the Company has determined that none of the deferred tax assets should be recognized other than the provincial portion of the Investment tax credit receivable. The deferred tax assets are mainly comprised of the net operating losses from prior years, prior year research and development expenses, and investment tax credits. These tax pools relate to entities within the Group that have a history of losses, have varying expiry dates, and may not be used to offset taxable income of other entities within the Group. As well, there are no taxable temporary differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets.

6. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- liquidity risk;
- market risk; and
- credit risk.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework, including the development and monitoring of the Group's risk management policies. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

(a) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's objective in managing liquidity is to ensure, to the greatest extent possible, that it will have sufficient liquidity to meet its liabilities when due.

The future cash requirements of the Group are estimated by preparing a budget annually which is reviewed and approved by the Company's Board of Directors. The budget establishes the approved activities for the upcoming year and estimates the costs associated with these activities. Actual spending relative to budgeted expenditures is monitored regularly by management and reviewed by the Company's Board of Directors quarterly.

The Group's exposure to liquidity risk is dependent on its research and development programs and associated commitments and obligations, and the raising of capital. There are no assurances that funds will be available to the Group when required (see Note 3). The Group holds cash on deposit of which as at April 30, 2020 is not subject to any external restrictions. The Group also continuously monitors actual and projected expenditures and cash flows.

The table below presents a maturity analysis of the Group's financial liabilities on the expected cash flows from April 30, 2020 to the contractual maturity date. The carrying amounts are equivalent to the following contractual undiscounted cash flows.

Notes to the Consolidated Financial Statements

For the years ended April 30, 2020 and 2019

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

6. Financial risk management (continued)

(a) Liquidity risk (continued)

Trade and other payables	April 30, 2020	April 30, 2019
3 months or less	$ 4,054	$ 4,120
3 - 12 months	-	-
Trade and other payables total	4,054	4,120
Unearned deposits		
12 months or less	884	-
More than 12 months	-	-
Unearned deposits total	884	-
Due to Resverlogix Corp. and promissory notes		
3 months or less	1,445	865
3 - 12 months	-	-
Due to Resverlogix Corp. and promissory notes total	1,445	865
Total	$ 6,383	$ 4,985

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures.

Currency risk

The Group is exposed to currency risk on transactions that are denominated in a currency other than the functional currency of the Group. The currency in which these foreign transactions primarily are denominated in is the Canadian dollar. The Group is also exposed to foreign exchange risk on its Canadian dollar denominated cash. The Group manages its exposure to currency fluctuations by holding cash denominated in Canadian dollars sufficient to satisfy current and anticipated Canadian dollar financial liabilities.

The Group had no forward exchange contract to manage its foreign currency risk. As at April 30, 2020, the Group had Canadian dollar denominated assets and liabilities of: cash in the amount of CAD$0.27 million (2019 – CAD$0.04 million), other assets of CAD$0.05 million (2019 – CAD$0.03 million), and accounts payable in the amount of CAD$1.7 million (2019 – CAD$0.7 million). A change of $0.01 in exchange rate as measured on April 30, 2020 would result in a foreign currency gain or loss of $0.01 million (2019 – $0.01 million).

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Group to credit risk consist primarily of cash.

The Group manages its cash in accordance with an investment policy that established guidelines for investment eligibility, credit quality, liquidity and foreign currency exposure. The Company manages its exposure to credit loss by holding cash on deposit with major financial institutions.

Notes to the Consolidated Financial Statements
For the years ended April 30, 2020 and 2019
(Tabular amounts in thousands of US dollars, except for number of shares)

7. Property and equipment

	Laboratory equipment	Office furniture and equipment	Computer hardware and software	Tenant improvements	Total
Cost					
Balance at April 30, 2018	$ 514	$ 139	$ 61	$ 1,028	$ 1,742
Additions	10	-	2	-	12
Disposals	(49)	-	(4)	-	(53)
Balance at April 30, 2019	475	139	59	1,028	1,701
Additions	-	-	14	-	14
Disposals	(25)	-	(2)	-	(27)
Balance at April 30, 2020	$ 450	$ 139	$ 71	$ 1,028	$ 1,688
Accumulated depreciation					
Balance at April 30, 2018	$ 330	$ 119	$ 48	$ 429	$ 926
Depreciation	65	20	9	107	201
Disposals	(49)	-	(4)	-	(53)
Balance at April 30, 2019	346	139	53	536	1,074
Depreciation	32	-	8	108	148
Disposals	(25)	-	(2)	-	(27)
Balance at April 30, 2020	$ 353	$ 139	$ 59	$ 644	$ 1,195
Net book value					
As at April 30, 2019	$ 129	$ -	$ 6	$ 492	$ 627
As at April 30, 2020	97	-	12	384	493

Notes to the Consolidated Financial Statements

For the years ended April 30, 2020 and 2019

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

8. Intangible assets

	Patents and intellectual property	Non-integrated software	Total
Cost			
Balance at April 30, 2018	$ 1,116	$ 40	$ 1,156
Additions	421	-	421
Balance at April 30, 2019	1,537	40	1,577
Additions	307	-	307
Disposals	(1,159)	-	(1,159)
Balance at April 30, 2020	$ 685	$ 40	$ 725
Accumulated amortization			
Balance at April 30, 2018	$ 124	$ 28	$ 152
Amortization	76	9	85
Balance at April 30, 2019	200	37	237
Amortization	66	3	69
Impairment	986	-	986
Disposals	(1,159)	-	(1,159)
Balance at April 30, 2020	$ 93	$ 40	$ 133
Net book value			
As at April 30, 2019	$ 1,337	$ 3	$ 1,340
As at April 30, 2020	592	-	592

During the year ended April 30, 2020, the Company made the determination that it no longer intended to perform further research or commercialize the technology relating to certain intangible assets, thus the Company recognized a $1.0 million impairment loss on intellectual property (included in research and development on the statement of comprehensive loss) specifically related to this technology.

9. Royalty preferred shares

As at April 30, 2020, the Company holds 75,202,620 royalty preferred shares of Resverlogix. The Company, the sole holder of the royalty preferred shares of Resverlogix, is entitled to dividends in the amount of 6-12% of Resverlogix's Net Revenue, if any. Net Revenue is defined as the aggregate of the following amounts: (i) amounts received by Resverlogix or its affiliates (as defined in the Arrangement) from any person who is not Resverlogix 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 Resverlogix's products and/or 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 Resverlogix, any licensee or their respective affiliates from the sale of any product (other than consideration received by Resverlogix, any licensee or their respective affiliates from a licensee of such 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); (E) rebates and chargebacks or retroactive price reductions made to federal, state or local governments (or their agencies), or any third party payor, administrator or contractor, including managed health organizations; and (F) commissions related to import, distribution or promotion of any product paid to third parties (specifically excluding any commissions paid to sales personnel, sales representatives and sales agents who are employees or consultants of, or members of a contract sales force engaged by or on behalf of, Resverlogix, any licensee or their respective affiliates), and (iii) amounts received from a third party by Resverlogix or its affiliates in consideration for the sale of any intellectual property right.

The holder of the preferred shares does 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 Resverlogix's residual net assets other than an amount equal to the greater of (i) $1.00 divided by the number of outstanding royalty preferred shares; and (ii) the amount of any accrued, but unpaid royalty dividend payment and additional royalty dividend payment.

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

9. Royalty preferred shares (continued)

The royalty preferred shares have not been recognized in the statement of financial position. The Company has not recognized the royalty preferred shares for accounting purposes because assets that were acquired through the distribution in connection with the Plan of Arrangement with Resverlogix (completed on June 3, 2013) were accounted for at Resverlogix's historical carrying values and such assets were not previously recognized in Resverlogix's financial statements. The Company will recognize a royalty receivable when royalties are reasonably determinable and the economic benefits are probable to flow to the Company.

10. Promissory notes

The following table summarizes the changes in promissory notes outstanding that are due to related parties.

	Liability amount
Outstanding, April 30, 2018 and 2019	$ -
Additions of promissory notes	2,084
Repayments of promissory notes	(1,500)
Revaluation of CAD denominated promissory notes	5
Outstanding, April 30, 2020	$ 589

During the year ended April 30, 2020:

- a relative of the Chairman of the Company lent a total of CAD$1.3 million to the Company, bearing interest at 8% per annum, with CAD$0.8 million being repaid in the period (the outstanding $0.4 million (CAD$0.5 million) promissory note is unsecured and payable on demand);
- the Chairman of the Company lent a total of CAD$0.6 million to the Company, bearing interest at 5% per annum, with CAD$0.4 million being repaid in the period (the outstanding $0.2 million (CAD$0.2 million) promissory note is unsecured and payable on demand);
- another director of the Company lent a total of CAD$0.2 million to the Company, bearing interest at 5% per annum, with CAD$0.1 million being repaid in the period (the outstanding $0.1 million (CAD$0.1 million) promissory note is unsecured and payable on demand); and
- an unrelated party lent a total of $0.5 million to the Company, with the entire $0.5 million being repaid in the period. The promissory note was unsecured and non-interest bearing. The Company paid $0.1 million of fees in connection with the loan.

11. Unearned deposit

Clinical Trial Collaboration with Pfizer Inc.

On November 20, 2018, the Company announced that it had entered into a clinical trial collaboration with Pfizer Inc. to evaluate the safety and efficacy of a novel anti-cancer combination of Zenith's investigational bromodomain and extra-terminal domain inhibitor ("BETi"), ZEN-3694, and Pfizer's poly ADP ribose polymerase inhibitor ("PARPi"), talazoparib, in patients with locally advanced or metastatic triple negative breast cancer ("TNBC"). Under the terms of the agreement, Zenith and Pfizer are collaborating on a Phase 1b/2 TNBC clinical study. Pfizer is providing talazoparib, Zenith is providing ZEN-3694, and both parties are funding the study with Pfizer funding up to $2.9 million, or approximately 50%, of the shared study costs. During the year ended April 30, 2019, the Company received $2.1 million of the $2.9 million funding upfront from Pfizer. Research and development expenses on the consolidated statements of comprehensive loss for the year ended April 30, 2020 include recoveries of $0.9 million (2019 – $0.3 million) related to the TNBC trial. The cost recoveries were applied to the $2.1 million of upfront collaboration funding received; as at April 30, 2020, an unearned deposit amount of $0.9 million remains (2019 – $1.8 million remained).

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12. 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. If the results from ZEN-3694 are not satisfactory to Newsoara, Newsoara is entitled to replace ZEN-3694 with a new compound from the Company to which the License Agreement will apply, however we would not necessarily develop, market and/or distribute the replacement compound (outside 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. In December 2019, the Company received a development milestone payment of $5.0 million, less applicable tax withholdings, from Newsoara upon completion of the Company’s Phase 2 clinical study with ZEN-3694 in metastatic castration-resistant prostate cancer to Newsoara’s satisfaction and election to continue development. The $7.3 million of unearned licensing revenue at April 30, 2020 is comprised of the upfront payments and development milestone payments (less applicable tax withholdings).

Pursuant to the License Agreement, Newsoara 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 April 30, 2020 as the conditions described above have not yet been met. As described in Note 19, subsequent to April 30, 2020, the Company and Newsoara amended the License Agreement, removing the $6.5 million milestone payment.

Licensing costs

The Company paid (and capitalized) $0.5 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.

13. 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	1,250,500	446
Expired	(2,420,000)	-
Revaluation of financing rights liability	-	(872)
Outstanding, April 30, 2020	1,250,500	$ 497

Pursuant to the terms of certain private placements that the Company closed during the years ended April 30, 2020 and 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 year ended April 30, 2020 and 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. Refer to Note 19 – Subsequent events.

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13. Financing rights (continued)

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 $2.00 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 April 30, 2020, the fair value reflected management's estimate of various probabilities of future equity offerings at various prices at or below $2.00 per share within the respective prescribed timeframes.

14. Shareholders' equity (deficiency)

(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	1,250,500	1,805
Issued in connection with stock option plan	150,800	71
Issued in connection with long term incentive plan	13,334	17
Share issue costs	-	(4)
Balance, April 30, 2020	130,763,362	$ 75,641

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 and January and March 2020, the Company issued a total of 1,250,500 equity units pursuant to private placements at a price of $2.00 per unit for gross proceeds of $2.5 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 13 "Financing rights", under certain conditions, the subscribers of the May, July, August and October 2019 and January and March 2020 private placements are entitled to receive additional shares.

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

14. Shareholders' equity (deficiency) (continued)

(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").

	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	(150,800)	0.36
Expired	(394,334)	0.47
Forfeited	(133,066)	0.81
Outstanding, April 30, 2020	4,525,700	$ 0.63

The following table summarizes information about the stock options outstanding and exercisable at April 30, 2020.

Range of Exercise Prices (CAD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)	Number Exercisable
$0.28 - $0.29	360,200	0.05	$ 0.28	360,200
$0.45 - $0.48	790,000	1.14	0.46	440,000
$0.50 - $0.59	1,409,800	1.91	0.56	1,306,137
$0.64 - $0.65	968,200	3.07	0.64	429,187
$0.97 - $0.98	997,500	4.06	0.98	-
	4,525,700	2.35	$ 0.63	2,535,524

The number of stock options exercisable at April 30, 2020 was 2,535,524 (2019 – 2,136,139) with a weighted average exercise strike price of CAD$0.52 (2019 – 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 $0.84 and $0.30 per stock option associated with stock options granted during the years ended April 30, 2020 and 2019, respectively:

	2020	2019
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$1.75	CAD$0.64
Expected dividends	Nil	Nil

Notes to the Consolidated Financial Statements

For the years ended April 30, 2020 and 2019

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

14. Shareholders' equity (deficiency) (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 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 year ended April 30, 2020, the Company granted 2,288,046 RSUs (2019 – 2,532,791 RSUs). Certain restricted stock units granted in the year ended April 30, 2019 had performance conditions which were required to be met in order for the RSUs to vest. The corresponding share-based compensation is recognized over the term that the performance criteria is required to be met, based on the number of RSUs expected to vest. During the year ended April 30, 2020, it was estimated that the performance RSUs granted in the year ended April 30, 2019 would not likely vest within the prescribed period, resulting in the recognition of a $0.7 million recovery of share-based compensation. The performance RSUs did not vest (as the performance conditions were not met) and were forfeited.

Certain restricted stock units granted in the year ended April 30, 2020 had performance conditions which were required to be met in order for the RSUs to vest. The corresponding share-based compensation is recognized over the term that the performance criteria is required to be met, based on the number of RSUs expected to vest. During the year ended April 30, 2020, it was estimated that the performance RSUs granted in the year ended April 30, 2020 would not likely vest within the prescribed period; therefore, as at April 30, 2020, none of the corresponding share-based compensation has been recognized on these performance RSUs.

The weighted average fair value of the RSUs granted in the year ended April 30, 2020 was $0.72 per RSU (2019 - $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	2,288,046	0.72
Exercised	(13,334)	1.30
Forfeited	(1,898,533)	0.45
Outstanding, April 30, 2020	6,342,597	$ 0.48

(d) Equity-classified warrants

As described in Note 14 (a), during the year ended April 30, 2020, the Company issued 625,250 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	625,250	3.00	250
Outstanding, April 30, 2020	1,835,250	$ 3.00	$ 475

Notes to the Consolidated Financial Statements

For the years ended April 30, 2020 and 2019

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

14. Shareholders' equity (deficiency) (continued)

(d) Equity-classified warrants (continued)

The weighted average fair value of the warrants issued during the year ended April 30, 2020 was $0.40 per warrant (2019 – $0.19 per warrant), using the Black-Scholes option pricing model with the following weighted average assumptions:

	2020	2019
Risk-free interest rate	1.5%	2.1%
Expected life	3.0 years	3.0 years
Expected volatility	99%	103%
Share value at grant date	USD$1.30	USD$0.71

The following table summarizes information about the equity-classified warrants outstanding and exercisable at April 30, 2020.

Exercise Price (USD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (USD)
$3.00	1,835,250	1.66	$ 3.00
	1,835,250	1.66	$ 3.00

(e) Per share amounts

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

	2020	2019
Weighted average common shares outstanding - basic and diluted	130,328,982	128,467,546

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.

15. Expenses by nature

Presentation of expenses is based on the function of each expense. The following details provides a breakdown of the components of the research and development and general and administrative expenses classified by nature.

	2020	2019
Research and development expenses:		
Operating expenses	$ 4,948	$ 5,853
Personnel costs (short-term employee benefits)	1,814	2,017
Share-based payment transaction costs	292	386
Amortization and depreciation	196	260
Impairment of intangible assets	986	-
Total research and development expenses	$ 8,236	$ 8,516
General and administrative expenses:		
General expenses	$ 1,259	$ 1,352
Personnel costs (short-term employee benefits)	661	629
Share-based payment transaction costs	262	780
Amortization and depreciation	21	26
Total general and administrative expenses	$ 2,203	$ 2,787

During the year ended April 30, 2020, 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.

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

16. Commitments

As at April 30, 2020, 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 $2.1 million (2019 – $3.9 million).

As at April 30, 2020, the Group is committed to expenditures over the next twelve months of $1.3 million (2019 – $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.

17. Related party transactions

Balances and transactions between the Company and its wholly owned subsidiary have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties consist of key management personnel compensation and transactions, as well as transactions with Resverlogix.

Key management personnel

Key management personnel of the Group consist of its executive management and Board of Directors. Compensation expenses, including salaries and fees, incurred directly by the Company or pursuant to the Assignment and Services Agreement with regards to key management personnel were as follows:

		2020		2019
Short-term employee benefits	$	777	$	791
Equity-settled shared-based payments		698		1,201
Key management personnel compensation	$	1,475	$	1,992

As at April 30, 2020, $0.4 million (2019 - $0.2 million) of outstanding compensation is payable with regards to key management personnel.

Related party transactions with Resverlogix

Resverlogix and Zenith have a majority of their directors in common, and thus are considered related parties. Resverlogix provides management and administrative services to Zenith pursuant to a Management Services Agreement dated June 3, 2013. The purpose of the agreement is to allow Zenith to utilize Resverlogix's resources on a cost-effective basis and enable Resverlogix to achieve greater utilization of its resources. As consideration for the services, Zenith pays Resverlogix a service fee, consisting of salary and other compensation costs attributable to the services and reimbursable expenses incurred by Resverlogix in connection with the services.

During the year ended April 30, 2020, Zenith incurred an aggregate of $1.0 million (2019 - $1.1 million) of service fees and reimbursable expenses, comprised of $0.6 million (2019 - $0.7 million) for management and administrative services provided by Resverlogix, and $0.5 million (2019 - $0.5 million) of reimbursable expenses, net of $0.1 million (2019 - $0.1 million) for services provided to Resverlogix by Zenith. The reimbursable expenses include proportionate share of rental payments and operating costs (for a laboratory and offices that Resverlogix shares with Zenith) pursuant to agreements that Resverlogix has in place with Zenith. As at April 30, 2020, Zenith owes Resverlogix $0.9 million (2019 - $0.9 million). This balance is unsecured, payable on demand and non-interest bearing.

Effective January 1, 2015, Zenith entered into a Services Agreement with Resverlogix whereby Zenith supplies research services to Resverlogix. The purpose of the agreement is to enable Resverlogix to obtain access to specialized research services on a more cost-effective basis than other alternatives. During the year ended April 30, 2020, Zenith provided $0.1 million of research services (2019 - $0.1 million). As at April 30, 2020, Resverlogix owes Zenith $0.1 million related to work performed under the agreement (2019 - $0.2 million).

Related party transactions with Eastern Capital Limited

During the year ended April 30, 2019, the Company completed a private placement with Eastern Capital Limited totaling $3.0 million for 1,500,000 shares and 750,000 warrants. As at April 30, 2020, Eastern Capital Limited held 38.2% (2019 – 38.6%) of the Company's outstanding common shares and is therefore considered to have significant influence over the Company, notwithstanding that Eastern Capital Limited does not have representation on the Company's board of directors.

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

18. Income taxes

The provision for income taxes differs from the amount which would be obtained by applying the combined statutory federal and provincial income tax rate to the net loss in the year. A reconciliation of the expected tax and the actual provision for income taxes is as follows:

	2020	2019
Expected tax recovery expense - 25.8% (2019 - 27%)	$ (2,474)	$ (3,051)
Revaluation of financing rights	(225)	42
Share-based payments	143	315
Change in enacted rates	976	-
Other	48	78
Current year losses and other for which no deferred tax asset is recognized	1,584	2,642
Income tax expense	$ 52	$ 26

Deferred tax assets are recognized, to the extent that it is probable that taxable income will be available, against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. The components of the unrecognized net deferred income tax asset are as follows:

	2020	2019
Non-capital losses	$ 20,414	$ 18,925
Scientific research and experimental development expenditures	3,328	3,312
Undepreciated capital cost and other	425	346
Unrecognized deferred tax	$ 24,167	$ 22,583

As at April 30, 2020, the Company has non-capital losses of approximately $79.0 million (2019 - $70.1 million) available to reduce future years' taxable income expiring at various times until 2040. The Company has non-refundable federal investment tax credits of approximately $2.5 million (2019 - $2.4 million) which are available to reduce future taxes payable, subject to approval by Canada Revenue Agency and expiring at various times until 2040. The Company has unclaimed scientific research and development expenditures available to reduce future years' taxable income of approximately $12.9 million (2019 - $12.3 million) over an indefinite future period. The Company has undepreciated capital cost pools of approximately $2.7 million (2019 - $3.2 million). The potential benefits of these tax pools have not been recorded in the financial statements.

19. Subsequent events

Private Placement and Amendment to License Agreement

Subsequent to April 30, 2020, the Company issued 3,333,334 common shares to Newsoara in tranches at a price of $1.50 per share for gross proceeds of $5.0 million. In connection with the private placement, the License Agreement between Newsoara and the Company was amended to remove the potential $6.5 million future clinical development milestone payment and to assign certain patents in the Territories to Newsoara. Pursuant to the Private Placement, in the event that the Company completes an equity financing within fifteen months of June 9, 2020 and the price per share is lower than $1.50, the price paid by Newsoara will be adjusted to the lower price per share and Newsoara will, accordingly, receive additional common shares for no additional consideration.

Convertible Debenture

In May 2020, the Company closed a $0.5 million unsecured convertible debenture (the "Debenture") with NGN BioMed Opportunity II LP and another shareholder. The Debenture bears interest at 10% per annum and matures on December 31, 2020. The holders of the Debenture may elect to convert the Debenture into common shares of the Company at a conversion price equal to US$2.00 per share. In the event that the Company completes an equity financing prior to the repayment or conversion of the Debenture and the price is lower than $2.00 per share, the conversion price of the Debenture will be adjusted to the lower price per share. In connection with the Debenture, 100,000 warrants were issued to the Debenture holders. Each warrant is exercisable at a price of $2.00 per underlying common share for a period of two years from the closing of the Debenture.

19. Subsequent events (continued)

Shares Issued Pursuant to Anti-dilution Rights

Subsequent to April 30, 2020, the Company issued 351,000 shares for no additional consideration to various subscribers, reflecting an adjusted subscription price of $1.50 per share, compared to the original subscription price of $2.00 per share, in connection with anti-dilution rights associated with $2.1 million of private placements that closed in July and August 2019, as described in Note 13.