ZENITH

Condensed Interim Consolidated Financial Statements

For the three and nine months ended January 31, 2021 and 2020

Condensed Interim Consolidated Statements of Financial Position

As at:

(unaudited)

In thousands of US dollars	Notes	January 31, 2021	April 30, 2020
Assets			
Current assets:			
Cash		$ 186	$ 214
Prepaid expenses and deposits		527	260
Investment tax credit receivable		107	91
Other assets		36	49
Clinical supplies		789	396
Total current assets		1,645	1,010
Non-current assets:			
Property and equipment		387	493
Licensing costs	6	510	510
Intangible assets	10	676	592
Prepaid expenses and deposits		9	485
Deferred financing costs		-	6
Clinical supplies		13	309
Total non-current assets		1,595	2,395
Total assets		$ 3,240	$ 3,405
Liabilities			
Current liabilities:			
Trade and other payables		$ 2,437	$ 4,054
Promissory notes	5	870	589
Unearned deposit		-	884
Due to Resverlogix Corp.		621	856
Warrant liability	9 (d)	33	-
Financing rights	8	201	497
Total current liabilities		4,162	6,880
Non-current liabilities:			
Unearned licensing revenue	6	8,202	7,282
Total liabilities		12,364	14,162
Shareholders' deficiency:			
Share capital	9 (a)	79,975	75,641
Contributed surplus		4,504	3,657
Warrants	9 (e)	2,254	475
Deficit		(95,857)	(90,530)
Total shareholders' deficiency		(9,124)	(10,757)
Total liabilities and shareholders' deficiency		$ 3,240	$ 3,405

Going concern (note 3) Commitments (note 11) Subsequent event (note 12)

Signed on behalf of the Board:

Signed: "Donald McCaffrey" Director

Signed: "Kenneth Zuerblis" Director

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

Condensed Interim Consolidated Statements of Comprehensive Loss

For the three and nine months ended January 31

(unaudited)

		Three months ended January 31,		Nine months ended January 31,	
In thousands of US dollars	Notes	2021	2020	2021	2020
Expenses:					
Research and development	10	$ 1,021	$ 2,166	$ 3,403	$ 6,746
Investment tax credits		(8)	(20)	(8)	(95)
Net research and development		1,013	2,146	3,395	6,651
General and administrative	10	624	724	1,620	1,502
		1,637	2,870	5,015	8,153
Finance costs (income):					
(Gain) loss on change in fair value of financing rights	8	-	(110)	55	(980)
Gain on change in fair value of derivative liability	7	-	-	(3)	-
Loss on change in fair value of warrant liability	9 (d)	9	-	13	-
Financing costs	5	60	100	60	100
Interest and accretion expense	7	6	3	69	10
Foreign exchange loss		37	5	94	17
Net finance costs (income)		112	(2)	288	(853)
Loss before income taxes		1,749	2,868	5,303	7,300
Income taxes		9	8	24	47
Net loss and total comprehensive loss		$ 1,758	$ 2,876	$ 5,327	$ 7,347
Net loss per share *(note 9 (f))*					
Basic and diluted		$ 0.01	$ 0.02	$ 0.04	$ 0.06

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

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
For the nine months ended January 31
(unaudited)

In thousands of US dollars	Share Capital	Contributed Surplus	Warrants	Deficit	Total Shareholders' Equity (Deficiency)
Balance, April 30, 2019	$ 73,752	$ 3,151	$ 225	$ (80,900)	$ (3,772)
Common shares issued in connection with private placements	1,827	-	246	-	2,073
Common shares issued in connection with stock option and long term incentive plans	43	(19)	-	-	24
Share issue costs	(4)	-	-	-	(4)
Share-based payment transactions	-	310	-	-	310
Net loss and total comprehensive loss	-	-	-	(7,347)	(7,347)
Balance, January 31, 2020	$ 75,618	$ 3,442	$ 471	$ (88,247)	$ (8,716)
Balance, April 30, 2020	$ 75,641	$ 3,657	$ 475	$ (90,530)	$ (10,757)
Common shares issued in connection with private placements	5,277	-	27	-	5,304
Common shares issued in connection with debenture conversion and settlement of accrued interest	431	-	84	-	515
Common shares issued in connection with anti-dilution rights	543	-	-	-	543
Common shares issued in connection with stock option plan	15	(6)	-	-	9
Warrants issued in connection with promissory note	-	-	60	-	60
Share issue costs	(1,932)	-	1,608	-	(324)
Share-based payment transactions	-	853	-	-	853
Net loss and total comprehensive loss	-	-	-	(5,327)	(5,327)
Balance, January 31, 2021	$ 79,975	$ 4,504	$ 2,254	$ (95,857)	$ (9,124)

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

Condensed Interim Consolidated Statements of Cash Flows

For the nine months ended January 31

(unaudited)

In thousands of US dollars	Notes	2021	2020
Cash provided by (used in):			
Cash flows provided by (used in) operating activities:			
Net loss		$ (5,327)	$ (7,347)
Items not involving cash:			
Equity-settled share-based payment transactions	10	853	310
Depreciation and amortization	10	142	170
Impairment of intangible assets	10	68	986
Licensing costs		-	(510)
Change in fair value of financing rights	8	55	(980)
Change in fair value of derivative liability	7	(3)	-
Change in fair value of warrant liability	9 (d)	13	-
Interest and accretion	7	69	10
Income taxes		24	47
Financing costs	5	60	-
Changes in non-cash working capital:			
Prepaid expenses and deposits		209	42
Investment tax credit receivable		(16)	49
Other assets		13	-
Clinical supplies		(97)	(55)
Unearned deposits		(884)	(677)
Unearned licensing revenue		920	7,250
Trade and other payables		(1,532)	(518)
(Decrease) increase in due to Resverlogix Corp.		(235)	94
		(5,668)	(1,129)
Interest received		-	5
Income tax paid		(35)	(33)
Net cash used in operating activities		(5,703)	(1,157)
Cash flows provided by financing activities:			
Proceeds from private placements	9 (a)	5,295	2,461
Share issuance costs	9 (a)	(124)	(4)
Proceeds from convertible debenture	7	500	-
Proceeds from exercise of stock options		9	24
Proceeds from promissory notes		656	1,576
Repayment of promissory notes		(415)	(1,500)
Interest paid on promissory notes		(24)	(16)
Changes in non-cash financing working capital		(5)	(1)
Net cash provided by financing activities		5,892	2,540
Cash flows used in investing activities:			
Property and equipment expenditures		-	(10)
Intangible asset expenditures		(188)	(255)
Changes in non-cash investing working capital		(32)	(94)
Net cash used in investing activities		(220)	(359)
Effect of foreign currency translation on cash		3	-
(Decrease) increase in cash		(28)	1,024
Cash, beginning of period		214	208
Cash, end of period		$ 186	$ 1,232

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

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended January 31, 2021 and 2020

(unaudited)

(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 condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting. These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on April 1, 2021.

(b) Basis of measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for financing rights, warrant liability and derivative liability, 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.

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 introduction of vaccines has led to optimism; however, the situation continues to evolve (including the prevalence of virus variants). 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.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended January 31, 2021 and 2020

(unaudited)

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

2. Background and basis of preparation (continued)

(e) Use of estimates and judgment

The preparation of the condensed interim consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in these condensed interim consolidated financial statements and notes.

Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the condensed interim consolidated financial statements remain unchanged from those described in the Group's consolidated financial statements for the year ended April 30, 2020, other than the estimates that were used in determining the fair value of derivative liability.

Estimates and Judgments Related to Derivative Liability

The Company's unsecured convertible debenture was a hybrid instrument consisting of a financial instrument and an embedded derivative, being the conversion option (refer to Note 7). The embedded derivative was separated from the host contract and accounted for separately as the economic characteristics and risks of the host contract and the embedded derivative were not closely related. The conversion option contained a variable conversion price. As a result, conversion would result in a variable number of units of the Company being issued at conversion; as such, the conversion feature was classified as a derivative liability at fair value through profit or loss. The embedded conversion option was measured at fair value each reporting period and at the conversion date. The methodology required management to make significant judgments about the value of the redemptive feature within the convertible debenture including the appropriate credit spread and volatility of the Company's common shares at each valuation date.

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 consolidated financial statements have been prepared pursuant to IFRS 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 6), is dependent on its ability to raise additional financial capital by continuing to demonstrate the successful progression of its research and development activities if it is to remain as a going concern.

As at January 31, 2021, the Company had $0.2 million of cash and was committed to pay $2.4 million of trade and other payables, $0.6 million due to Resverlogix, $0.9 million of promissory notes, and $1.2 million for research and development commitments over the next twelve months as described further in Note 11. 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 $1.5 million.

As described in Note 12, subsequent to January 31, 2021, the Company entered into a $1.5 million loan agreement. The Company's cash as at January 31, 2021, in combination with the $1.5 million received subsequently to January 31, 2021, 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 condensed interim consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities, and the reported expenses that might be necessary should the Company be unable to continue as a going concern. 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.

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

4. Significant accounting policies

The condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended April 30, 2020 prepared in accordance with IFRS applicable to those annual consolidated financial statements. The same accounting policies, presentation and methods of computation have been followed in these condensed interim consolidated financial statements as were applied in the Company's consolidated financial statements for the year ended April 30, 2020, except as noted below.

New standards and interpretations adopted

The Company has adopted the following new standard, with a date of initial application of May 1, 2020:

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. The amendment did not have an impact on the consolidated financial statements.

Convertible Debenture Financial Instruments Policy

The unsecured convertible debenture (refer to Note 7) was a hybrid instrument consisting of a financial instrument and an embedded derivative, being the conversion option (derivative liability). The embedded derivative was separated from the host contract and accounted for separately as the economic characteristics and risks of the host contract and the embedded derivative were not closely related. The conversion option (derivative liability) contained a variable conversion price. As a result, conversion would result in a variable number of shares of the Company being issued at conversion; as such, the conversion feature was classified as a derivative liability at fair value through profit or loss. The fair value of the derivative liability was based on level 2 (significant observable) and level 3 (unobservable) inputs.

5. Promissory notes

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

	Liability amount
Outstanding, April 30, 2020	$ 589
Additions of promissory notes	656
Repayments of promissory notes	(415)
Revaluation of Canadian dollar denominated promissory notes	40
Outstanding, January 31, 2021	$ 870

During the nine months ended January 31, 2021, the Chief Executive Officer / Chairman of the Company advanced a total of $0.3 million (CAD$0.4 million) to the Company, bearing interest at 5% per annum, and a relative of the Chief Executive Officer / Chairman of the Company advanced $0.4 million to the Company, bearing interest at 11% per annum. During the nine months ended January 31, 2021, a $0.4 million (CAD$0.5 million) promissory note was repaid to a relative of the Chief Executive Officer / Chairman of the Company.

In connection with the $0.4 million promissory note advanced by a relative of the Chief Executive Officer / Chairman of the Company, the Company issued 100,000 warrants. Each warrant granted is exercisable at a price of $1.50 per underlying common share for a period of five years from the date the promissory note was issued. The fair value of the 100,000 warrants was determined to be $0.06 million and was recognized as a financing cost in the nine months ended January 31, 2021.

The total outstanding $0.9 million ($0.4 million and CAD$0.7 million) promissory notes are due to three related party lenders and are unsecured and payable on demand.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended January 31, 2021 and 2020

(unaudited)

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

6. Revenue and unearned licensing revenue

Newsoara 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 $7.7 million of unearned licensing revenue at January 31, 2021 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 January 31, 2021 as the conditions described above have not yet been met. In connection with the private placement with Newsoara during the nine months ended January 31, 2021 (refer to Note 9 (a)), 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.

Beyond Therapeutics License Agreement

In December 2020, Zenith Epigenetics Ltd. entered into an agreement with Beyond Therapeutics Corp. (the “Licensee”) for an outlicense of one of the Company’s compounds (excluding ZEN-3694) worldwide excluding China, Hong Kong, Taiwan and Macau. Within one year of the effective date of the license agreement, the Licensee must select one compound to license, from up to three compounds that it shall select. In connection with the license agreement, the Company received a non-refundable upfront payment of $0.5 million. The $0.5 million received is included in unearned licensing revenue at January 31, 2021.

Licensing Costs

The Company paid (and capitalized) $0.5 million in licensing costs in connection with the Newsoara license agreement. The licensing costs will be recognized into profit or loss during the period in which the corresponding licensing revenue is recognized.

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

7. Convertible debenture and derivative liability

The following table summarizes the changes in debt during the nine months ended January 31, 2021.

	Convertible Debenture
Balance, April 30, 2020	$ -
Issuance of Convertible Debenture	500
Fair value of conversion feature	(5)
Fair value of warrants	(20)
Transaction costs	(6)
	469
Accretion	21
Conversion of full principal amount of Convertible Debenture	(490)
Balance, January 31, 2021	**$ -**

On May 6, 2020, the Company closed a $0.5 million unsecured convertible debenture (the "Debenture") with NGN BioMed Opportunity II, LP and another shareholder. The Debenture bore interest at 10% per annum and was to mature on December 31, 2020. Prior to conversion, as described below, the holders of the Debenture were able to elect to convert the Debenture into units of the Company at a conversion price equal to US$2.00 per unit, where each equity unit consisted of one common share and one common share purchase warrant. In the event that the Company completed an equity financing prior to the repayment or conversion of the Debenture and the price was lower than the conversion price, then the conversion price of the Debenture was to be adjusted to the lower price. In June 2020, the Company closed a private placement at a price of $1.50 per share (refer to Note 9 (a)); therefore, the conversion price for the Debenture was adjusted to $1.50 per unit.

In October 2020, the Debenture was converted in its entirety (including accrued interest) at a conversion price of $1.50 per unit into 348,698 units (each comprised of one common share and one warrant exercisable at a price of $1.50 per underlying share until May 6, 2022). The $0.5 million carrying value of the Debenture, the $2 thousand fair value of the derivative liability, and the $23 thousand value of accrued interest settled were reclassified to equity at the conversion date, with $84 thousand initial value attributed to the 348,698 equity-classified warrants (refer to Note 9(e)) and a net $431,000 attributed to the 348,698 common shares.

The unsecured convertible debenture was a hybrid instrument consisting of a financial instrument and an embedded derivative, being the conversion option. The embedded derivative was bifurcated from the host contract and accounted for separately as the economic characteristics and risks of the host contract and the embedded derivative were not closely related.

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. The exercise price of the warrants granted pursuant to the Debenture is adjusted to equal subsequent equity financing prices that are lower than the exercise price of the warrants. In connection with the June 2020 private placement described in Note 9 (a), the exercise price of the warrants issued pursuant to the Debenture was adjusted to $1.50 per underlying common share. The variable exercise price requires that these warrants are liability-classified and revalued each reporting period. On initial recognition, the warrants were valued at $0.02 million (refer to Note 9 (d)).

The conversion option contained a variable conversion price. As a result, conversion would result in a variable number of units of the Company being issued at conversion; as such, the conversion feature was classified as a derivative liability at fair value through profit or loss. It was valued at $5 thousand at the date of issuance; this initial value of the conversion option derivative was accreted over the term of the Debenture. Subsequent to initial recognition, any change in fair value was recognized in profit or loss at each reporting date.

The following table summarizes the changes in derivative liability during the nine months ended January 31, 2021.

	Derivative liability amount
Balance, April 30, 2020	$ -
Initial fair value of derivative liability, at initial recognition of convertible debenture	5
Change in fair value of derivative liability	(3)
Conversion of full amount of Convertible Debenture	(2)
Balance, January 31, 2021	**$ -**

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended January 31, 2021 and 2020

(unaudited)

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

8. 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, 2020	1,250,500	$ 497
Granted	3,663,334	192
Anti-dilution rights converted into additional shares issued	(1,205,500)	(543)
Expired	(25,000)	-
Revaluation of financing rights liability	-	55
Outstanding, January 31, 2021	3,683,334	$ 201

Pursuant to the terms of certain private placements that the Company closed during the year ended April 30, 2020 and during the nine months ended January 31, 2021 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 and the price per share is below $2.00 (for the anti-dilution rights granted during the year ended April 30, 2020) or below $1.50 (for the anti-dilution rights granted during the nine months ended January 31, 2021), 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 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.

Shares Issued Pursuant to Anti-Dilution Rights

Pursuant to anti-dilution rights granted in connection with various previous private placements, various subscribers were entitled to receive additional shares (for no additional consideration) on the adjustment dates which were one year following the respective closings; following the adjustment dates, the subscribers are no longer entitled to receive additional shares. Accordingly, during the nine months ended January 31, 2021, the Company issued 401,833 shares to various subscribers, reflecting an adjusted subscription price of $1.50 per share, compared to the original subscription price of $2.00 per unit, in connection with 1,205,500 anti-dilution rights associated with $2.4 million of private placements that closed in July, August and October 2019 and January 2020. The fair value of the anti-dilution rights settled with additional shares was $0.5 million. As at January 31, 2021, a remaining 20,000 anti-dilution rights associated with $0.04 million of private placements that closed in March 2020 at a price of $2.00 per unit are outstanding, and the subscribers will be issued additional shares on the respective adjustment date.

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 $1.50 per share (for the anti-dilution rights granted in the current period) 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 January 31, 2021, the fair value reflected management’s estimate of various probabilities of future equity offerings at various prices at or below $1.50 per share within the respective prescribed timeframes.

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

9. 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, 2020	130,763,362	$ 75,641
Issued in connection with private placements	3,530,001	5,084
Issued in connection with private placements in settlement of fees	133,333	193
Issued in connection with Debenture conversion and settlement of accrued interest	348,698	431
Issued in connection with anti-dilution rights	401,833	543
Issued in connection with stock option plan	43,600	15
Share issue costs	-	(1,932)
Balance, January 31, 2021	135,220,827	$ 79,975

Private Placements and Amendment to License Agreement

In June 2020, the Company entered into a private placement with Newsoara to issue 3,333,334 common shares to Newsoara in tranches at a price of $1.50 per share for gross proceeds of $5.0 million. During the nine months ended January 31, 2021, all of the tranches closed.

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 (refer to Note 6). 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 (refer to Note 8).

In December 2020 and January 2021, the Company issued a total of 196,667 equity units pursuant to private placements at a price of $1.50 per unit for gross proceeds of $0.3 million. Each equity unit consisted of one common share and one-half common share purchase warrant. Each warrant granted in December 2020 is exercisable at a price of $2.00 per underlying common share for a period of two years from the closing of the private placement. Each warrant granted in January 2021 is exercisable at a price of $1.50 per underlying common share for a period of one year from the closing of the private placement. As described in Note 8 "Financing rights", under certain conditions, the subscribers of the December 2020 and January 2021 private placements are entitled to receive additional shares.

Debenture Conversion

In October 2020, the full principal amount of the $0.5 million Debenture and $0.02 million of accrued interest was converted into 348,698 equity units. Each equity unit consisted of one common share and one common share purchase warrant. The $0.5 million carrying value of the Debenture, the $2 thousand fair value of the derivative liability, and the $23 thousand value of accrued interest settled were reclassified to equity at the conversion date, with $84 thousand initial value attributed to the 348,698 equity-classified warrants (refer to Note 9(e)) and a net $431,000 attributed to the 348,698 common shares. Each warrant is exercisable at a price of $1.50 per underlying share until May 6, 2022.

Shares Issued Pursuant to Anti-Dilution Rights

During the nine months ended January 31, 2021, the Company issued 401,833 shares to various subscribers, reflecting an adjusted subscription price of $1.50 per share, compared to the original subscription price of $2.00 per unit, in connection with 1,205,500 anti-dilution rights associated with $2.4 million of private placements that closed in July, August and October 2019 and January 2020, as described in Note 8. The fair value of the anti-dilution rights settled with additional shares was $0.5 million.

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

9. Shareholders' equity (deficiency) (continued)

(a) Common shares (continued)

Share Issue Costs

In connection with the June 2020 private placement, during the nine months ended January 31, 2021, the Company paid $0.1 million of fees, and issued 133,333 shares (valued at $0.2 million) and 5,000,000 warrants. The 5,000,000 warrants have an exercise price of USD$1.50 per warrant and expire on October 31, 2021. The 5,000,000 warrants were initially set to expire on January 31, 2021 and had an initial fair value of $0.6 million. Prior to the January 31, 2021 expiry, the expiry date for the 5,000,000 warrants was extended to October 31, 2021. The fair value of the 5,000,000 warrants was determined to have increased by $1.0 million. The total fair value of the 5,000,000 warrants included in share issue costs is $1.6 million.

(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, 2020	4,525,700	$ 0.63
Granted	1,078,400	1.05
Exercised	(43,600)	0.28
Expired	(436,600)	0.33
Outstanding, January 31, 2021	5,123,900	$ 0.75

The following table summarizes information about the stock options outstanding and exercisable at January 31, 2021.

Range of Exercise Prices (CAD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)	Number Exercisable
$0.45 - $0.48	670,000	0.48	$ 0.46	320,000
$0.50 - $0.59	1,409,800	1.16	0.56	1,409,800
$0.64 - $0.65	968,200	2.32	0.64	858,370
$0.97 - $0.98	997,500	3.30	0.98	437,020
$1.05	1,078,400	4.35	1.05	-
	5,123,900	2.38	$ 0.75	3,025,190

The number of stock options exercisable at January 31, 2021 was 3,025,190 (2020 – 2,615,524) with a weighted average exercise strike price of CAD$0.63 (2020 – CAD$0.51).

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 $0.76 and $0.84 per stock option associated with stock options granted during the nine months ended January 31, 2021 and 2020, respectively:

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

9. Shareholders' equity (deficiency) (continued)

(b) Stock options (continued)

	2021	2020
Risk-free interest rate	0.5%	1.5%
Expected life	4.3 years	4.3 years
Expected volatility	109%	96%
Share value at grant date	CAD$1.55	CAD$1.75
Expected dividends	Nil	Nil

(c) Restricted stock units

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

During the nine months ended January 31, 2021, the Company granted 282,285 RSUs (2020 – 381,606 RSUs). 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 and during the nine months ended January 31, 2021, 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 January 31, 2021, 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 nine months ended January 31, 2021 was $1.02 per RSU (2020 - $0.97 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, 2020	6,342,597	$ 0.48
Granted	282,285	1.02
Outstanding, January 31, 2021	6,624,882	$ 0.50

(d) Warrant liability

As described in Note 7, during the nine months ended January 31, 2021, the Company issued 100,000 warrants pursuant to the Debenture, with an exercise price of $2.00 per underlying common share and expire two years from the grant date. The exercise price of the warrants granted pursuant to the Debenture is adjusted to equal subsequent equity financing prices that are lower than the exercise price of the warrants. In connection with the June 2020 private placement described in Note 9 (a), the exercise price of the warrants issued pursuant to the Debenture was adjusted to $1.50 per underlying common share. The variable exercise price requires that these warrants are liability-classified and revalued each reporting period.

The following table summarizes the changes in liability-classified warrants outstanding.

	Number of warrants	Weighted average exercise price (USD)	Liability amount
Outstanding, April 30, 2020	-	$ -	$ -
Issued in connection with Debenture	100,000	2.00	20
Revaluation of warrant liability	-	-	13
Outstanding, January 31, 2021	100,000	$ 1.50	$ 33

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

9. Shareholders' equity (deficiency) (continued)

(d) Warrant liability (continued)

The weighted average fair value of the warrants issued during the nine months ended January 31, 2021 was $0.20 per warrant (2020 – Nil), using the Black-Scholes option pricing model with the following weighted average assumptions:

	2020
Risk-free interest rate	0.3%
Expected life	2.0 years
Expected volatility	75%
Share value at grant date	USD$1.13

The following table summarizes information about the liability-classified warrants outstanding and exercisable at January 31, 2021.

Exercise Price (USD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (USD)
$1.50	100,000	1.26	$ 1.50
	100,000	1.26	$ 1.50

(e) Equity-classified warrants

As described in Note 9 (a), during the nine months ended January 31, 2021, the Company issued 5,000,000 warrants pursuant to the June 2020 private placement, which have an exercise price of $1.50 per underlying common share and expire on October 31, 2021, and issued 348,698 warrants pursuant to the Debenture conversion, which have an exercise price of $1.50 per underlying common share and expire May 6, 2022. In connection with the December 2020 and January 2021 private placements, the Company issued 98,334 warrants. Each warrant granted in December 2020 is exercisable at a price of $2.00 per underlying common share for a period of two years from the closing of the private placement. Each warrant granted in January 2021 is exercisable at a price of $1.50 per underlying common share for a period of one year from the closing of the private placement. Due to the equity classification, the warrants issued in the current period will not be revalued each reporting period.

The 5,000,000 warrants issued pursuant to the June 2020 private placement were initially set to expire on January 31, 2021 and had an initial fair value of $0.6 million. Prior to the January 31, 2021 expiry, the expiry date for the 5,000,000 warrants was extended to October 31, 2021. The fair value of the 5,000,000 warrants was determined to have increased by $1.0 million. The total fair value of the 5,000,000 warrants added to equity-classified warrants in the nine months ended January 31, 2021 is $1.6 million.

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

	Number of warrants	Weighted average exercise price (USD)	Equity amount
Outstanding, April 30, 2020	1,835,250	3.00	$ 475
Issued in connection with private placements	5,098,334	1.50	1,635
Issued in connection with Debenture conversion	348,698	1.50	84
Issued in connection with promissory note	100,000	1.50	60
Outstanding, January 31, 2021	7,382,282	$ 1.87	$ 2,254

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended January 31, 2021 and 2020

(unaudited)

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

9. Shareholders' equity (deficiency) (continued)

(e) Equity-classified warrants (continued)

The weighted average fair value of the warrants issued during the nine months ended January 31, 2021 was $0.14 per warrant (2020 – $0.40 per warrant), using the Black-Scholes option pricing model with the following weighted average assumptions:

	2021	2020
Risk-free interest rate	0.2%	1.5%
Expected life	0.7 years	3.0 years
Expected volatility	85%	99%
Share value at grant date	USD$1.13	USD$1.30

The following table summarizes information about the equity-classified warrants outstanding and exercisable at January 31, 2021.

Exercise Price (USD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (USD)
$1.50	5,532,032	0.86	$ 1.50
$2.00	15,000	1.87	2.00
$3.00	1,835,250	0.90	3.00
	7,382,282	0.87	$ 1.87

(f) Per share amounts

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

	Three months ended January 31,		Nine months ended January 31,	
	2021	2020	2021	2020
Weighted average common shares outstanding - basic and diluted	135,034,776	130,570,907	133,595,406	130,216,237

The effect of any potential exercise of warrants, stock options and restricted stock units outstanding is excluded from the calculation of diluted loss per share in periods where the effect would be anti-dilutive.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended January 31, 2021 and 2020

(unaudited)

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

10. 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.

	Three months ended January 31, 2021	2020	Nine months ended January 31, 2021	2020
Research and development expenses:				
Operating expenses	$ 542	$ 1,648	$ 1,822	$ 4,182
Personnel costs (short-term employee benefits)	432	340	1,199	1,224
Government assistance (COVID-19 payroll subsidy)	(102)	-	(147)	-
Impairment of intangible assets	-	-	68	986
Share-based payment transaction costs	108	137	334	200
Amortization and depreciation	41	41	127	154
Total research and development expenses	$ 1,021	$ 2,166	$ 3,403	$ 6,746
General and administrative expenses:				
General expenses	$ 293	$ 332	$ 651	$ 972
Personnel costs (short-term employee benefits)	158	138	435	404
Share-based payment transaction costs	168	250	519	110
Amortization and depreciation	5	4	15	16
Total general and administrative expenses	$ 624	$ 724	$ 1,620	$ 1,502

During the nine months ended January 31, 2021, the Company received $0.1 million (CAD$0.2 million) of COVID-19 payroll subsidy government assistance from the Government of Canada (through the Industrial Research Assistance Program). There are no unfulfilled conditions attached to this government assistance.

In connection with the private placement with Newsoara during the nine months ended January 31, 2021 (refer to Note 9(a)), 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. The assignment of certain patents in the Territories resulted in an intangible assets impairment of $0.1 million (included in research and development on the statement of comprehensive loss), as the Company no longer has ownership of the reassigned patents.

During the nine months ended January 31, 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.

11. Commitments

As at January 31, 2021, 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 $1.5 million (April 30, 2020 – $2.1 million).

As at January 31, 2021, the Group is committed to expenditures over the next twelve months of $1.2 million (April 30, 2020 – $1.3 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.

12. Subsequent event

Newsoara Loan

Subsequent to January 31, 2021, the Company closed a $1.5 million loan with Newsoara. The loan is non-interest bearing, unsecured and has a maturity date of March 5, 2022. In connection with the loan, the Company canceled the reversionary right in the Newsoara license agreement that previously entitled Zenith, for no additional consideration, to re-acquire ownership of patents in the Territories previously assigned to Newsoara.