



ZENITH
EPIGENETICS

Condensed Interim Consolidated Financial Statements

For the three months ended July 31, 2016 and 2015

Condensed Interim Consolidated Statements of Financial Position

(unaudited)

As at:

| <i>In thousands of US dollars</i> | Notes | July 31 2016 | April 30 2016 |
|---|-------|-----------------|------------------|
| Assets | | | |
| Current assets: | | | |
| Cash | | \$ 15,319 | \$ 15 |
| Clinical supplies | | 137 | 370 |
| Prepaid expenses and deposits | | 107 | 34 |
| Investment tax credit receivable | | 211 | 169 |
| Other assets | | 18 | 24 |
| Total current assets | | 15,792 | 612 |
| Non-current assets: | | | |
| Property and equipment | | 1,088 | 1,124 |
| Intangible assets | | 622 | 605 |
| Prepaid expenses and deposits | | 73 | 73 |
| Clinical supplies | | 239 | 15 |
| Total non-current assets | | 2,022 | 1,817 |
| Total assets | | \$17,814 | \$ 2,429 |
| Liabilities | | | |
| Current liabilities: | | | |
| Trade and other payables | | \$ 813 | \$ 2,527 |
| Unearned deposits | | 181 | 175 |
| Promissory notes | | - | 401 |
| Due to Resverlogix Corp. | | 93 | 5,687 |
| Warrant liability | 7 (d) | 568 | 1,033 |
| Financing rights | 6 | 877 | 1,361 |
| Total liabilities | | 2,532 | 11,184 |
| Shareholders' equity (deficit): | | | |
| Share capital | 7 (a) | 69,164 | 44,119 |
| Contributed surplus | | 1,621 | 1,554 |
| Deficit | | (55,503) | (54,428) |
| Total shareholders' equity (deficit) | | 15,282 | (8,755) |
| Total liabilities and shareholders' equity (deficit) | | \$17,814 | \$ 2,429 |

Future operations (note 3)

Commitments (note 9)

Subsequent events (note 10)

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 months ended July 31

(unaudited)

| <i>In thousands of US dollars</i> | Notes | 2016 | 2015 |
|--|-------|-----------------|-----------------|
| Expenses: | | | |
| Research and development | 8 | \$ 1,344 | \$ 1,644 |
| Investment tax credits | | (48) | (37) |
| Net research and development | | 1,296 | 1,607 |
| General and administrative | 8 | 613 | 521 |
| | | 1,909 | 2,128 |
| Finance income: | | | |
| (Gain) loss on change in fair value of warrant liability | 7 (d) | (341) | 55 |
| Gain on change in fair value of financing rights | 6 | (484) | (156) |
| Foreign exchange (gain) loss | | (17) | 17 |
| Net finance income | | (842) | (84) |
| Loss before income taxes | | 1,067 | 2,044 |
| Income taxes | | 8 | 1 |
| Net and total comprehensive loss | | \$ 1,075 | \$ 2,045 |

Net loss per share (note 7 (e))

| | | |
|-------------------|---------|---------|
| Basic and diluted | \$ 0.01 | \$ 0.02 |
|-------------------|---------|---------|

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

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

For the three months ended July 31

(unaudited)

| <i>In thousands of US dollars</i> | Share Capital | Contributed Surplus | Deficit | Total Shareholders' Equity (Deficit) |
|---|------------------|------------------------|-------------|--|
| Balance, April 30, 2015 | \$ 39,647 | \$ 1,256 | \$ (46,244) | \$ (5,341) |
| Common shares issued in connection with private placements, net of financing rights | 4,226 | - | - | 4,226 |
| Common shares issued in connection with stock option and long term incentive plans | 42 | (21) | - | 21 |
| Share-based payment transactions | - | 105 | - | 105 |
| Net and total comprehensive loss | - | - | (2,045) | (2,045) |
| Balance, July 31, 2015 | \$ 43,915 | \$ 1,340 | \$ (48,289) | \$ (3,034) |
| Balance, April 30, 2016 | \$ 44,119 | \$ 1,554 | \$ (54,428) | \$ (8,755) |
| Common shares issued in connection with private placements, net of financing rights | 24,561 | - | - | 24,561 |
| Common shares issued in connection with warrant exercises | 230 | - | - | 230 |
| Common shares issued in connection with stock option and long term incentive plans | 256 | (161) | - | 95 |
| Share issue costs | (2) | - | - | (2) |
| Share-based payment transactions | - | 228 | - | 228 |
| Net and total comprehensive loss | - | - | (1,075) | (1,075) |
| Balance, July 31, 2016 | \$ 69,164 | \$ 1,621 | \$ (55,503) | \$ 15,282 |

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

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended July 31

(unaudited)

In thousands of US dollars

| | 2016 | 2015 |
|--|------------------|-----------------|
| Cash used in: | | |
| Cash flows used in operating activities: | | |
| Net loss | \$ (1,075) | \$ (2,045) |
| Items not involving cash: | | |
| Equity-settled share-based payment transactions | 228 | 105 |
| Depreciation and amortization | 65 | 59 |
| Change in fair value of warrant liability | (341) | 55 |
| Change in fair value of financing rights | (484) | (156) |
| Income taxes | 8 | 1 |
| Changes in non-cash working capital: | | |
| Prepaid expenses and deposits | (74) | (50) |
| Clinical supplies | 9 | - |
| Investment tax credit receivable | (42) | (20) |
| Other assets | 6 | 18 |
| Unearned deposits | 6 | (7) |
| Trade and other payables | (1,620) | (1,361) |
| Due to Resverlogix Corp. | (5,594) | 332 |
| Cash used in operating activities | (8,908) | (3,069) |
| Income tax paid | (9) | (47) |
| Net cash used in operating activities | (8,917) | (3,116) |
| Cash flows generated from financing activities: | | |
| Proceeds from the issuance of common shares | 24,561 | 4,280 |
| Share issuance costs | (2) | - |
| Proceeds from exercise of warrants | 106 | - |
| Proceeds from exercise of stock options | 95 | 21 |
| Deferred financing costs | - | 21 |
| Repayment of promissory notes | (401) | (155) |
| Net cash generated from financing activities | 24,359 | 4,167 |
| Cash flows used in investing activities: | | |
| Property and equipment expenditures | (18) | (5) |
| Intangible asset expenditures | (27) | (51) |
| Changes in non-cash investing working capital | (90) | (35) |
| Net cash used in investing activities | (135) | (91) |
| Effect of foreign currency translation on cash | (3) | (10) |
| Increase in cash | 15,304 | 950 |
| Cash, beginning of period | 15 | 61 |
| Cash, end of period | \$ 15,319 | \$ 1,011 |

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 months ended July 31, 2016 and 2015

(unaudited)

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

1. General information

Zenith Epigenetics Corp. (the “Company” or “Zenith”) 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.

The consolidated financial statements comprise the Company and its wholly-owned subsidiary Zenith Epigenetics Inc. (together referred to as the “Group”). The Company is 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 Epigenetics Corp. 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. Our cutting edge epigenetic platform of innovative biology and chemistry has generated differentiated, potent and selective BET inhibitors. Our 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 September 27, 2016.

Certain information, in particular the accompanying notes normally included in the annual financial statements prepared in accordance with IFRS, has been omitted or condensed. These condensed interim consolidated financial statements do not include all disclosures required under IFRS and, accordingly, should be read in conjunction with the annual financial statements for the year ended April 30, 2016 and the notes thereto prepared in accordance with International Financial Reporting Standards (“IFRS”) as prescribed by the International Accounting Standards Board (“IASB”).

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgment

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

Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the condensed interim consolidated financial statements remain unchanged from those described in the Group’s consolidated financial statements for the year ended April 30, 2016.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended July 31, 2016 and 2015

(unaudited)

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

3. Future Operations

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

The accompanying consolidated financial statements have been prepared pursuant to International Financing Reporting Standards applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. The Company has incurred significant losses to date, and with no assumption of revenues, is dependent on its ability to raise additional financial capital by continuing to demonstrate the successful progression of its research and development activities if it is to remain as a going concern.

As at July 31, 2016, the Company has \$15.3 million of cash and is committed to pay \$0.8 million of trade and other payables, and \$0.1 million due to related parties. In addition, the Company is committed to pay \$1.0 million for research and development commitments and \$0.4 million of lease obligations over the next twelve months, as described further in Note 9. Estimated expenditures over the next twelve months under cancellable agreements with contract research organizations conducting the Company's Phase 1 clinical trial total approximately \$3.7 million. We believe the Company's cash as at July 31, 2016 will be sufficient to fund the Company's contractual commitments for at least the next year and will be sufficient to fund all of the Company's liabilities and planned business operations for at least the next year.

The Company will require additional capital to fund its planned research, development and corporate activities beyond the next year. The Company continues to explore alternatives to generate positive cash flow including raising additional equity and/or debt and/or partnering; however, there is no assurance that these initiatives will be successful.

4. Significant accounting policies

The condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended April 30, 2016 prepared in accordance with IFRS applicable to those annual consolidated financial statements. Except as disclosed below, the same accounting policies, presentation and methods of computation have been followed in these condensed interim consolidated financial statements as were applied in the Company's consolidated financial statements for the year ended April 30, 2016.

New standards and interpretations adopted

The Company has adopted the following new standards and amendments to standards, with a date of initial application of May 1, 2016:

Annual Improvements

The IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements released on September 24, 2014 to be implemented for periods beginning on or after January 1, 2016. These included a clarification on IAS 34 *Interim Financial Reporting* that the disclosures required under the standard are to be included within the notes to the financial statements, or to be incorporated there by cross-reference, and is to be applied retrospectively. The amendments did not have a material impact on our financial statements.

Disclosure Initiative

On December 18, 2014, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to be implemented for periods beginning on or after January 1, 2016. The amendments made changes to clarify the objectives of disaggregation, materiality, and the ordering of notes in order to ensure that entities are able to use judgement when reporting financial results. The amendments did not have a material impact on our financial statements.

Share-based Payment

On June 20, 2016 the IASB issued amendments to IFRS 2 *Share-based Payment* to be implemented prospectively for periods beginning on or after January 1, 2018. The Company early adopted the amendments. The amendments made changes to the classification of share-based payment transactions with net settlement features. The amendments did not have a material impact on our financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended July 31, 2016 and 2015

(unaudited)

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

5. Royalty preferred shares

As at July 31, 2016, the Company holds 75,202,620 royalty preferred shares of Resverlogix. On July 2, 2015, Resverlogix's articles were amended to make certain changes to the dividend entitlement of holders of royalty preferred shares. As a result of the amendment, the dividend amount in a prescribed dividend payment period may not exceed the aggregate of all amounts received by Resverlogix or its affiliates in respect of and including Net Apo Revenue (as described below) in such period.

The holder of the royalty preferred shares is entitled to dividends in the amount of 6-12% of net Apo Revenue, if any. Net Apo Revenue is defined as the aggregate of the following amounts: (i) amounts received by 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 the Apo products and/or Apo intellectual property rights or amounts received under the terms of such license or other right that are granted to the third party; (ii) the gross consideration received from a third party by Resverlogix, any licensee or their respective affiliates from the sale of any Apo product (other than consideration received by Resverlogix, any licensee or their respective affiliates from a licensee of such Apo product or its affiliate); less (A) credits or allowances, if any, actually granted; (B) discounts actually allowed; (C) freight, postage, and insurance charges and additional special packaging charges; and (D) customs duties, and excise sales taxes, duties or other taxes imposed upon and paid with respect to such sales (excluding what is commonly known as income taxes); (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 Apo 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, the Company, 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 Apo 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.

The royalty preferred shares have not been recognized. The Company will recognize a royalty receivable when royalties are reasonably determinable and the economic benefits are probable to flow to the Company.

6. Financing rights

Anti-Dilution, Transaction and Additional Rights

The following table summarizes the changes in the Company's Anti-Dilution Rights.

| | Number of Rights | Liability Amount |
|---|---------------------|---------------------|
| Outstanding, April 30, 2015 | 15,267,800 | \$ 1,790 |
| Granted in connection with private placements | 4,468,730 | 59 |
| Expired | (7,167,500) | (38) |
| Revaluation | - | (450) |
| Outstanding, April 30, 2016 | 12,569,030 | 1,361 |
| Granted in connection with private placements | 24,560,500 | - |
| Expired | (75,000) | - |
| Revaluation | - | (484) |
| Outstanding, July 31, 2016 | 37,054,530 | \$ 877 |

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended July 31, 2016 and 2015

(unaudited)

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

6. Financing rights (continued)

Anti-Dilution, Transaction and Additional Rights (continued)

The following table summarizes the changes in the Company's Transaction Rights.

| | Number of Rights | Liability Amount |
|-----------------------------|------------------|------------------|
| Outstanding, April 30, 2015 | 10,595,300 | \$ 321 |
| Revaluation | - | (321) |
| Outstanding, April 30, 2016 | 10,595,300 | - |
| Expired | (10,595,300) | - |
| Outstanding, July 31, 2016 | - | \$ - |

The following table summarizes the Company's Anti-Dilution and Additional Rights outstanding as at July 31, 2016.

| Private Placement | Number of Shares | Anti-Dilution Rights Expiry | Additional Rights Expiry |
|-----------------------|------------------|-----------------------------|--------------------------|
| March 2014 | 8,000,000 | December 2017 | December 2017 |
| July 2014 | 1,500,000 | December 2017 | Not applicable |
| October 2014 | 1,995,300 | December 2017 | December 2017 |
| December 2014 | 600,000 | December 2017 | December 2017 |
| February - April 2015 | 300,000 | August - October 2016 | Not applicable |
| March - April 2016 | 98,730 | September - October 2016 | Not applicable |
| May 2016 | 24,560,500 | November 2016 | November 2016 |
| | 37,054,530 | | |

Pursuant to the terms of the private placements that the Company closed 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 US\$1.00, 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.

Additionally, pursuant to the terms of the private placements that the Company closed with transaction rights attached, in the event that the Company receives gross proceeds from equity financings of less than US\$25 million and grants a license to a third party (excluding Resverlogix) ("third party"), sells intellectual property rights to a third party, or greater than 66 2/3% of the Company's common shares are sold to a third party, the initial subscriber shall receive, for no additional consideration, additional common shares equal to the number originally subscribed for by each party as described above.

As described in Note 7 (a), in May 2016 the Company closed a private placement for \$24.6 million. Therefore all the transaction rights outstanding at the time of the private placement expired (as \$25 million in cumulative gross proceeds from equity financings was reached prior to the occurrence of a triggering event as described above).

Furthermore, pursuant to the terms of the private placements that the Company closed with additional rights attached, in the event that the Company completes an equity financing within a prescribed period of time of either 180 days, 18 months or 36 months of the respective closing dates and the Company issues or grants additional securities, contractual rights or other entitlements ("Additional Rights") to any of the subsequent subscribers, then the Company shall issue or grant the Additional Rights to the initial subscribers that they would have been entitled to pursuant to the terms of the subsequent financing.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended July 31, 2016 and 2015

(unaudited)

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

6. 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 \$1 per share within the respective prescribed periods of time. Prior to their expiry, the determination of the fair value of the transaction rights required management to use judgment, including management's estimates of: (1) the probability of a transaction occurring prior to the Company raising an additional \$25 million in equity, and (2) the fair value of the Company. On the date the financing rights were granted, the Company recorded the anti-dilution and transaction 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 July 31, 2016, the fair value reflected management's estimate of various probabilities of future equity offerings at various prices at or below \$1 per share within the respective prescribed periods of time. Management's assumptions used to estimate the fair value of the anti-dilution rights as at July 31, 2016 were otherwise materially unchanged.

7. Shareholders' equity (deficit)

(a) Common shares

(i) Authorized:

Unlimited number of common shares.

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

(ii) Issued and outstanding:

| | Number of shares | Amount |
|--|---------------------|-----------|
| Common shares | | |
| Balance, April 30, 2015 | 94,465,379 | \$ 39,647 |
| Issued in connection with private placements | 4,468,730 | 4,410 |
| Issued in connection with stock option plan | 206,666 | 65 |
| Issued in connection with long term incentive plan | - | 2 |
| Share issue costs | - | (5) |
| Balance, April 30, 2016 | 99,140,775 | 44,119 |
| Issued in connection with private placements | 24,560,500 | 24,561 |
| Issued in connection with warrant exercises | 690,550 | 230 |
| Issued in connection with stock option plan | 815,867 | 256 |
| Share issue costs | - | (2) |
| Balance, July 31, 2016 | 125,207,692 | \$ 69,164 |

Private Placements

In May 2016, the Company issued 24,560,500 common shares at a price of \$1.00 per share for gross proceeds of \$24.6 million with Eastern Capital Limited ("Eastern").

In May 2015, the Company issued 4,280,000 common shares at a price of \$1.00 per share for gross proceeds of \$4.3 million. Eastern subscribed for 4,000,000 of the 4,280,000 common shares.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended July 31, 2016 and 2015

(unaudited)

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

7. Shareholders' equity (deficit) (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 three to five year term. Certain stock options have performance conditions which are required to be met in order for the options to vest, these have a term of up to seven years. 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, 2015 | 3,860,638 | \$ 0.27 |
| Granted | 603,800 | 0.32 |
| Exercised | (206,666) | 0.21 |
| Expired | (275,805) | 0.32 |
| Forfeited | (5,199) | 0.33 |
| Outstanding, April 30, 2016 | 3,976,768 | 0.27 |
| Granted | 598,400 | 0.49 |
| Exercised | (815,867) | 0.15 |
| Expired | (382,701) | 0.15 |
| Outstanding, July 31, 2016 | 3,376,600 | \$ 0.36 |

The following table summarizes the Company's stock options outstanding and exercisable as at July 31, 2016.

| Range of Exercise Prices (CAD) | Number Outstanding | Weighted Average Remaining Life (years) | Weighted Average Exercise Price (CAD) | Number Exercisable |
|--------------------------------|--------------------|---|---------------------------------------|--------------------|
| \$0.13 - \$0.18 | 607,400 | 0.88 | \$ 0.14 | 607,400 |
| \$0.28 - \$0.29 | 558,800 | 3.51 | 0.28 | 289,437 |
| \$0.32 - \$0.33 | 472,200 | 1.91 | 0.32 | 447,200 |
| \$0.45 - \$0.50 | 1,738,200 | 4.26 | 0.47 | 669,800 |
| | 3,376,600 | 3.20 | \$ 0.36 | 2,013,837 |

As at July 31, 2016, 2,013,837 stock options were exercisable (2015 - 3,169,778) with a weighted average exercise strike price of CAD\$0.30 (2015 - CAD\$0.25).

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended July 31, 2016 and 2015

(unaudited)

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

7. Shareholders' equity (deficit) (continued)

(b) Stock options (continued)

The fair value of each stock option granted is estimated as of the grant date using the Black-Scholes option pricing model. The following weighted average assumptions were used in arriving at the weighted average fair values of \$0.32 per stock option and \$0.15 per stock option granted during the three months ended July 31, 2016 and 2015, respectively:

| | 2016 | 2015 |
|---------------------------|-----------|-----------|
| Risk-free interest rate | 0.8% | 0.8% |
| Expected life | 4.2 years | 4.3 years |
| Expected volatility | 131% | 104% |
| Share price at grant date | CAD\$0.50 | CAD\$0.25 |
| Expected dividends | Nil | Nil |

(c) Restricted stock units

The Company's long term incentive plan allows for the Company to reserve 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 three months ended July 31, 2016, the Company granted 844,680 (2015 - 872,048) RSUs. The weighted average fair value of the RSUs granted during the three months ended July 31, 2016 was \$0.39 per RSU (2015 - \$0.21). The Company estimates the fair value of RSUs based on the market price of the underlying stock (net of an estimated illiquidity discount) on the date of grant.

Between November 1, 2014 and April 30, 2016, director's fees were paid by way of the issuance of RSUs in lieu of payment in cash. As of May 1, 2016, director's fees have been paid by way of a combination of RSUs and cash.

| | Number of restricted stock units | Weighted average grant date fair value (USD) |
|-----------------------------|-------------------------------------|---|
| Outstanding, April 30, 2015 | 1,302,952 | \$ 0.28 |
| Granted | 1,493,568 | 0.23 |
| Exercised | (9,150) | 0.30 |
| Forfeited | (252,566) | 0.23 |
| Outstanding, April 30, 2016 | 2,534,804 | 0.26 |
| Granted | 844,680 | 0.39 |
| Outstanding, July 31, 2016 | 3,379,484 | \$ 0.29 |

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended July 31, 2016 and 2015

(unaudited)

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

7. Shareholders' equity (deficit) (continued)

(d) Warrant liability

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

| | Number of warrants | Weighted average exercise price (CAD) | Liability amount |
|----------------------------------|--------------------|---------------------------------------|------------------|
| Outstanding, April 30, 2015 | 5,479,440 | \$ 0.19 | \$ 512 |
| Revaluation of warrant liability | - | - | 521 |
| Outstanding, April 30, 2016 | 5,479,440 | 0.19 | 1,033 |
| Exercised | (690,550) | 0.20 | (124) |
| Expired | (2,740,250) | 0.20 | - |
| Revaluation of warrant liability | - | - | (341) |
| Outstanding, July 31, 2016 | 2,048,640 | \$ 0.17 | \$ 568 |

The following table summarizes information about the warrants outstanding and exercisable at July 31, 2016.

| Exercise Price (CAD) | Number Outstanding | Weighted Average Remaining Life (years) | Weighted Average Exercise Price (CAD) |
|----------------------|--------------------|---|---------------------------------------|
| \$0.14 | 1,320,000 | 1.07 | \$ 0.14 |
| \$0.22 | 728,640 | 1.60 | 0.22 |
| | 2,048,640 | 1.26 | \$ 0.17 |

No warrants were issued during the three months ended July 31, 2016 and 2015.

Under IFRS, the prescribed accounting treatment for warrants issued with an exercise price denominated in a foreign currency is to treat these warrants as a liability measured at fair value with subsequent changes in fair value accounted for through profit or loss. The fair value of these warrants is determined using the Black Scholes option pricing model. All of the Company's warrants meet this liability classification requirement and thus the value of these warrants are presented as a current liability on the consolidated statement of financial position. As these warrants are exercised, the fair value of the recorded warrant liability on date of exercise is included in share capital along with the proceeds from the exercise.

If these warrants expire, the related decrease in warrant liability is recognized in profit or loss, as part of the change in fair value of warrant liability. There is no cash flow impact as a result of this accounting treatment.

The determination of the fair value of the warrants required management to use judgement, including management's estimate of the fair value of the Company's shares of \$0.42 per share as at July 31, 2016 and \$0.37 per share as at April 30, 2016.

(e) Per share amounts

The loss per share has been calculated using net loss for the year and the basic and diluted weighted average shares outstanding during the three months ended July 31, 2016 of 120,586,172 (2015 - 97,871,358). The effect of any potential exercise of stock options, restricted stock units and warrants outstanding during the year has been excluded from the calculation of diluted loss per share, as it would be anti-dilutive.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended July 31, 2016 and 2015

(unaudited)

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

8. Expenses by nature

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

| | 2016 | 2015 |
|---|--------|-------|
| Included in research and development expenses: | | |
| Share-based payment transaction costs | \$ 52 | \$ 34 |
| Amortization and depreciation | 60 | 55 |
| Included in general and administrative expenses: | | |
| Share-based payment transaction costs | \$ 176 | \$ 71 |
| Amortization and depreciation | 5 | 4 |

9. Commitments

As at July 31, 2016, the Group is party to cancellable agreements with contract research organizations conducting the initial work for our Phase 1 clinical trial. Corresponding estimated aggregate expenditures over the next twelve months total approximately \$3.7 million (2015 - nil).

As at July 31, 2016, the Group is committed to expenditures over the next twelve months of \$1.0 million (2015 - \$1.5 million) pursuant to various research and development contracts.

As at July 31, 2016, Resverlogix is committed to operating lease payments for office and laboratory premises, for which the Company is allocated, as follows:

| | 2016 | 2015 |
|-----------------------|----------|----------|
| Less than 1 year | \$ 367 | \$ 307 |
| Between 1 and 5 years | 705 | 705 |
| More than 5 years | 423 | 432 |
| | \$ 1,495 | \$ 1,444 |

The Company has agreed to pay Resverlogix for its proportionate share of operating lease payments and operating costs for office and laboratory premises of an estimated \$0.4 million and \$0.1 million, respectively, for the next twelve months. The operating lease payments are included in the figures above.

10. Subsequent events

Reorganization

Effective August 1, 2016, the Company changed its name to Zenith Capital Corp. concurrent with an internal corporate reorganization. The reorganization resulted in the transfer of the Company's principal operating assets to Zenith Epigenetics Ltd., a wholly-owned subsidiary of the Company, in exchange for additional common shares of Zenith Epigenetics Ltd.

The Company retained its investment in the royalty preferred shares of Resverlogix. As the Company owns all of the securities of Zenith Epigenetics Ltd., there is no immediate change in the ultimate beneficial ownership of the operating assets.