ZENITH

Condensed Interim Consolidated Financial Statements

For the three and six months ended October 31, 2022 and 2021

Notice of No Auditor Review of Unaudited Condensed Interim Consolidated Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Zenith Capital Corp. (the "Company") as at October 31, 2022 and for the period then ended have been prepared by and are the responsibility of the Company's management. The Company's Audit Committee and Board of Directors have reviewed and approved these unaudited condensed interim consolidated financial statements. In accordance with National Instrument 51 – 102, the Company discloses that its auditors have not reviewed the accompanying unaudited condensed interim consolidated financial statements for the periods ended October 31, 2022 and 2021.

Condensed Interim Consolidated Statements of Financial Position

As at:
(unaudited)

In thousands of US dollars	Notes	October 31, 2022	April 30, 2022
Assets			
Current assets:			
Cash		$ 8	$ 8
Prepaid expenses and deposits		52	516
Investment tax credit receivable		188	158
Other assets		17	13
Clinical supplies		235	305
Total current assets		500	1,000
Non-current assets:			
Property and equipment		158	222
Licensing costs		699	699
Intangible assets		930	882
Deferred financing costs		-	10
Clinical supplies		-	64
Total non-current assets		1,787	1,877
Total assets		$ 2,287	$ 2,877
Liabilities			
Current liabilities:			
Trade and other payables		$ 1,633	$ 1,647
Promissory notes	5	2,898	2,018
Due to Resverlogix Corp.		566	159
Debt	6	-	1,461
Financing rights	7	10	79
Total current liabilities		5,107	5,364
Non-current liabilities:			
Unearned licensing revenue		11,352	11,352
Total liabilities		16,459	16,716
Shareholders' deficiency:			
Share capital	8 (a)	82,838	80,938
Contributed surplus		11,059	9,652
Warrants	8 (e)	701	811
Deficit		(108,770)	(105,240)
Total shareholders' deficiency		(14,172)	(13,839)
Total liabilities and shareholders' deficiency		$ 2,287	$ 2,877

Going concern (note 3) Commitments (note 10) Subsequent event (note 11)

Signed on behalf of the Board:

Signed: "Donald McCaffrey" Director

Signed: "Kenneth Zuerblis" Director

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

Condensed Interim Consolidated Statements of Comprehensive Loss

For the three and six months ended October 31

(unaudited)

In thousands of US dollars	Notes	Three months ended October 31, 2022	2021	Six months ended October 31, 2022	2021
Expenses:					
Research and development	9	$ 1,034	$ 937	$ 1,798	$ 2,213
Investment tax credits		(18)	(26)	(40)	(52)
Net research and development		1,016	911	1,758	2,161
General and administrative	9	1,172	1,009	1,642	1,847
		2,188	1,920	3,400	4,008
Finance costs (income):					
Gain on change in fair value of financing rights	7	-	(33)	-	(32)
Gain on change in fair value of warrant liability	8 (d)	-	(4)	-	(10)
Loss on extinguishment of payables	8 (c)	-	-	-	126
Interest and accretion expense		87	82	130	161
Financing costs	5	81	102	81	102
Foreign exchange (gain) loss		(98)	12	(92)	(6)
Net finance costs		70	159	119	341
Loss before income taxes		2,258	2,079	3,519	4,349
Income taxes		6	8	11	14
Net loss and total comprehensive loss		$ 2,264	$ 2,087	$ 3,530	$ 4,363
Net loss per share *(note 8 (f))*					
Basic and diluted		$ 0.02	$ 0.02	$ 0.03	$ 0.03

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 six months ended October 31

(unaudited)

In thousands of US dollars	Share Capital	Contributed Surplus	Warrants	Deficit	Total Shareholders' Equity (Deficiency)
Balance, April 30, 2021	$ 80,084	$ 4,657	$ 2,305	$ (97,443)	$ (10,397)
Common shares and warrants issued in connection with private placements	144	-	23	-	167
Settlement of accrued bonuses and director fees with restricted stock units	-	1,105	-	-	1,105
Warrants expiries	-	1,811	(1,811)	-	-
Common shares issued in connection with warrant exercises	35	-	(1)	-	34
Warrants issued in connection with promissory note	-	-	102	-	102
Share issue costs	(1)	-	-	-	(1)
Share-based payment transactions	-	1,505	-	-	1,505
Net loss and total comprehensive loss	-	-	-	(4,363)	(4,363)
Balance, October 31, 2021	$ 80,262	$ 9,078	$ 618	$ (101,806)	$ (11,848)
Balance, April 30, 2022	**$ 80,938**	**$ 9,652**	**$ 811**	**$ (105,240)**	**$ (13,839)**
Common shares and warrants issued in connection with private placements	1,412	-	121	-	1,533
Common shares issued in connection with warrant exercises	421	-	(84)	-	337
Common shares issued in connection with anti-dilution rights	79	-	-	-	79
Warrants expiries	-	226	(226)	-	-
Warrants issued in connection with promissory notes	-	-	79	-	79
Share issue costs	(12)	-	-	-	(12)
Share-based payment transactions	-	1,181	-	-	1,181
Net loss and total comprehensive loss	-	-	-	(3,530)	(3,530)
Balance, October 31, 2022	**$ 82,838**	**$ 11,059**	**$ 701**	**$ (108,770)**	**$ (14,172)**

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

Condensed Interim Consolidated Statements of Cash Flows

For the six months ended October 31

(unaudited)

In thousands of US dollars	Notes	2022	2021
Cash provided by (used in):			
Cash flows used in operating activities:			
Net loss		$ (3,530)	$ (4,363)
Items not involving cash:			
Equity-settled share-based payment transactions	9	1,181	1,505
Depreciation and amortization		99	95
Change in fair value of financing rights	7	-	(32)
Change in fair value of warrant liability	8 (d)	-	(10)
Loss on extinguishment of payables	8 (c)	-	126
Interest and accretion expense		130	161
Income taxes		11	14
Financing costs	5	81	102
Changes in non-cash working capital:			
Prepaid expenses and deposits		464	25
Investment tax credit receivable		(30)	52
Other assets		(4)	277
Clinical supplies		134	50
Unearned deposits		-	205
Trade and other payables		(181)	731
Increase in due to Resverlogix Corp.		407	558
		(1,238)	(504)
Income tax paid		-	(5)
Net cash used in operating activities		(1,238)	(509)
Cash flows provided by financing activities:			
Proceeds from private placements		1,543	181
Share issuance costs		(2)	(1)
Repayment of debt		(1,500)	-
Proceeds from exercise of warrants		337	34
Deferred financing costs		(2)	(3)
Proceeds from promissory notes	5	964	665
Repayment of promissory notes		-	(80)
Interest paid on promissory notes		-	(55)
Changes in non-cash financing working capital		(84)	(3)
Net cash provided by financing activities		1,256	738
Cash flows used in investing activities:			
Intangible asset expenditures		(83)	(81)
Changes in non-cash investing working capital		66	(71)
Net cash used in investing activities		(17)	(152)
Effect of foreign currency translation on cash		(1)	-
Increase in cash		-	77
Cash, beginning of period		8	7
Cash, end of period		$ 8	$ 84

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

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended October 31, 2022 and 2021

(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 several 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 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 535 Mission St, 14th Floor, San Francisco, 94105. 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 December 19, 2022.

(b) Basis of measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for financing rights and warrant 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 pandemic on the financial results and condition of the Company.

The global COVID-19 pandemic has caused economic and societal disruptions that continue to evolve and remain fluid and inherently uncertain, and could adversely impact the Company's future operations including but not limited to its ability to conduct its planned business operations including current and planned clinical trials and drug manufacturing; such impacts could result in a material impact on the Company's results of operations and its financial condition. The COVID-19 pandemic may also impact the Company's ability to raise additional capital.

(d) Functional and presentation currency

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

(e) Use of estimates and judgment

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in these condensed interim consolidated financial statements and notes. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the condensed interim consolidated financial statements remain unchanged from those described in the Group's consolidated financial statements for the year ended April 30, 2022.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended October 31, 2022 and 2021

(unaudited)

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

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), is dependent on its ability to raise additional financial capital by continuing to demonstrate the successful progression of its research and development activities if it is to remain as a going concern.

As at October 31, 2022, the Company had $8 thousand of cash and was committed to pay $1.6 million of trade and other payables, $0.6 million due to Resverlogix, and $2.9 million of promissory notes. The Company is also committed to pay $0.8 million for research and development commitments and an estimated $0.7 million for National Cancer Institute funding (for studies to develop ZEN-3694) over the next twelve months as described further in Note 10. In addition, estimated expenditures over the next twelve months under cancellable agreements with contract research organizations conducting work related to the Company's clinical trials total approximately $0.1 million.

The Company's cash as at October 31, 2022, in combination with the remainder of the $10 million of expenditures to be made by Newsoara BioPharma Co., Ltd. ("Newsoara") (as described further under "Investment from Newsoara" in Note 8 (a)), 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 pandemic 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 condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended April 30, 2022 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, 2022, with the exception of a new joint arrangements accounting policy.

IFRS 11 – Joint Arrangements

A joint arrangement is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control of an economic activity. IFRS 11 *Joint Arrangements* establishes two types of joint arrangements. The classification of a joint arrangement as a joint venture or a joint operation determines the parties' accounting. A party in a joint venture must account for its interest using the equity method. A party in a joint operation accounts for its share of assets, liabilities, revenues, and expenses based on its direct rights and obligations in accordance with the relevant guidance applicable to the specific assets, liabilities, revenues, and expenses. If the arrangement is not structured through a separate vehicle, it is a joint operation. Each party in a joint operation usually uses its own resources and carries out its own part of a joint operation separate from the activities of the other party or parties. Each party incurs its own expenses.

The arrangement between the Company and Newsoara, whereby Newsoara agreed to complete $10 million of certain ZEN-3694 development program activities, is classified as a joint operation. Therefore, the expenditures that Newsoara is incurring related to the development program activities are not reflected in the Company's assets or expenses. The Company expects that Newsoara will spend a total of $10 million on the agreed upon development program activities by the first half of Calendar 2023.

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

5. Promissory notes

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

	Liability amount
Outstanding, April 30, 2022	$ 2,018
Additions of promissory notes	964
Revaluation of Canadian dollar denominated promissory notes	(84)
Outstanding, October 31, 2022	$ 2,898

During the six months ended October 31, 2022, the Chief Executive Officer / Chairman of the Company lent an additional CAD$0.7 million, and a relative of the Chief Executive Officer / Chairman of the Company lent an additional CAD$0.6 million. As at October 31, 2022, promissory notes totaling $2.9 million are due to the following four related party lenders:

- the Chief Executive Officer / Chairman of the Company – the outstanding $1.2 million (CAD$1.7 million) promissory note bears interest at 5% per annum, is payable on demand and is secured by a security interest in all of the Company's assets;
- another director of the Company – the outstanding $0.3 million (CAD$0.4 million) promissory note bears interest at 5% per annum, is payable on demand and is unsecured;
- a relative of the Chief Executive Officer / Chairman of the Company – the outstanding $1.4 million (USD$1.0 million and CAD$0.6 million) promissory note bears interest at 11% per annum, is payable on demand and is secured by a security interest in all of the Company's assets; and
- the Chief Financial Officer – the outstanding CAD$10 thousand promissory note bears interest at 8% per annum, is payable on demand and unsecured.

In connection with the additional CAD$0.6 million advanced by a relative of the Chief Executive Officer / Chairman of the Company (comprised of CAD$0.4 million and CAD$0.2 million, both advanced in October 2022), the Company issued a total of 250,000 warrants. Each warrant is exercisable at a price of $0.75 per underlying common share for a period of five years from the respective grant dates. The combined fair value of the 250,000 warrants was determined to be $0.1 million and was recognized as a financing cost during the six months ended October 31, 2022.

6. Debt

In March 2021, the Company closed a $1.5 million loan with Newsoara. The loan is non-interest bearing and unsecured. 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. Recognizing the loan initially at fair value resulted in a $0.2 million gain within financing costs in the year ended April 20, 2021.

In March 2022, the maturity date of the $1.5 million loan was amended from March 5, 2022 to June 30, 2022. In June 2022, the maturity date of the $1.5 million loan was further amended from June 30, 2022 to September 30, 2022. The additional amendment was accounted for as a debt modification. A modification gain of $0.1 million, related to the further extension of the maturity date, was recognized within accretion on the statement of comprehensive loss. In September 2022, the Company repaid the $1.5 million loan.

The following table summarizes the changes in the Newsoara loan during the six months ended October 31, 2022.

	Debt
Balance, April 30, 2022	$ 1,461
Accretion of transaction costs, prior to maturity date extension	39
Modification gain for maturity date extension	(58)
Accretion	58
Repayment of debt	(1,500)
Balance, October 31, 2022	$ -

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

7. Financing rights

Anti-Dilution Rights and Additional Rights

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

	Number of Rights	Liability amount
Outstanding, April 30, 2022	120,334	$ 79
Granted	56,985	10
Anti-dilution rights converted into additional shares issued	(120,334)	(79)
Outstanding, October 31, 2022	56,985	$ 10

Pursuant to the terms of certain private placements that the Company closed during the year ended April 30, 2022 and the six months ended October 31, 2022 with anti-dilution rights attached, in the event that the Company completed an equity financing within the period of time prescribed by the applicable subscription agreement and the price per share was below $1.50 (for the anti-dilution rights granted during the year ended April 30, 2022) and below $0.75 (for the anti-dilution rights granted during the six months ended October 31, 2022), the price per share paid by the initial subscriber would be adjusted to the lower price per share and they would, 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, 2022 and the six months ended October 31, 2022 with additional rights attached, in the event that the Company completed 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 six months ended October 31, 2022, the Company issued 120,334 shares to various subscribers, reflecting an adjusted subscription price of $0.75 per share, compared to the original subscription price of $1.50 per unit, in connection with 120,334 anti-dilution rights associated with $0.2 million of private placements that closed in June, July and August 2021. The fair value of the anti-dilution rights settled with additional shares was $0.1 million.

Valuation

The determination of the fair value of the anti-dilution rights required management to use judgement, including management's estimates of various probabilities of future equity offerings at various prices below $0.75 per share within the respective prescribed timeframes. At the date the financing rights were granted, the Company recorded the anti-dilution rights as liabilities with off-setting reductions to the carrying amount of the common shares, with subsequent changes in fair value recognized in profit or loss. As at October 31, 2022, the fair value reflected management's estimate of various probabilities of future equity offerings at various prices at or below $0.75 per share within the respective prescribed timeframes.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended October 31, 2022 and 2021

(unaudited)

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

8. 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, 2022	136,514,414	$ 80,938
Issued in connection with private placements	1,556,985	1,412
Issued in connection with warrant exercises	448,698	421
Issued in connection with anti-dilution rights	120,334	79
Share issue costs	-	(12)
Balance, October 31, 2022	138,640,431	$ 82,838

Investment from Newsoara

In November 2021, Zenith Epigenetics Ltd. entered into a licensing agreement with Newsoara for Zenith Epigenetics' lead compound, ZEN-3694, in Asia excluding Middle East and North Africa ("MENA"), India, and ten Eurasian countries (the "Asian Territories"). Under the terms of the agreement, Newsoara was granted the rights to develop, market, and distribute ZEN-3694 for all indications in the Asian Territories.

Concurrent with the execution of the licensing agreement, in November 2021, Newsoara entered into a subscription agreement to subscribe for 1.5 million units of Zenith at a price of $1.00 per unit, and Newsoara also agreed to subscribe for an additional 10 million units of Zenith by way of completing ZEN-3694 development programs with a budget of $10 million over the subsequent 15 months. Each unit shall be comprised of one common share and one-half of a common share purchase warrant. Each whole warrant shall be exercisable into one common share at $1.00 for a period of two years from the date of the subscription agreement. In September 2022, the Company closed the first ($1.5 million) tranche of the private placement. The Company used the proceeds to repay $1.5 million of debt.

Private Placement

In October 2022, the Company issued 56,985 equity units pursuant to a private placement at a price of $0.75 per unit for gross proceeds of $43 thousand. Each equity unit consisted of one common share and one common share purchase warrant. Each warrant granted in October 2022 is exercisable at a price of $1.00 per underlying common share for a period of two years from the closing of the private placement.

Warrant Exercises

In October 2020, the full principal amount of a $0.5 million convertible 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. Each warrant was exercisable at a price of $1.50 per underlying share until May 6, 2022. During the six months ended October 31, 2022, the exercise price of the warrants was amended to $0.75 per share and all of the 348,698 warrants were exercised. In addition, the exercise price of the 100,000 liability-classified warrants (refer to Note 8 (d)) was amended to $0.75 per share and all of the 100,000 liability-classified warrants were exercised. In total, 448,698 warrants were exercised for gross proceeds of $0.3 million, and $0.1 million attributed to the previous valuation of the warrants was reclassified to share capital.

Shares Issued Pursuant to Anti-Dilution Rights

During the six months ended October 31, 2022, the Company issued 120,334 shares to various subscribers, reflecting an adjusted subscription price of $0.75 per share, compared to the original subscription price of $1.50 per unit, in connection with 120,334 anti-dilution rights associated with $0.2 million of private placements that closed in June, July and August 2021. The fair value of the anti-dilution rights settled with additional shares was $0.1 million.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended October 31, 2022 and 2021

(unaudited)

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

8. 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. 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, 2022	4,777,534	$ 0.91
Expired	(737,268)	0.62
Forfeited	(21,532)	1.25
Outstanding, October 31, 2022	4,018,734	$ 0.97

The following table summarizes information about the stock options outstanding and exercisable at October 31, 2022.

Range of Exercise Prices (CAD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)	Number Exercisable
$0.58	294,400	1.79	$ 0.58	294,400
$0.64 - $0.65	950,000	0.56	0.64	950,000
$0.97 - $1.05	1,990,234	2.07	1.01	1,862,770
$1.38 - $1.39	784,100	3.60	1.39	348,270
	4,018,734	1.99	$ 0.97	3,455,440

The number of stock options exercisable at October 31, 2022 was 3,455,440 (2021 – 3,271,824) with a weighted average exercise strike price of CAD$0.91 (2021 – CAD$0.77).

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 value of $0.73 per stock option associated with the 829,000 stock options granted during the six months ended October 31, 2021:

	2021
Risk-free interest rate	0.7%
Expected life	4.3 years
Expected volatility	114%
Share value at grant date	CAD$1.39
Expected dividends	Nil

During the six months ended October 31, 2022, 268,100 options previously granted to employees that were set to expire in October 2022 under the initial terms of the stock option agreements were extended two years to expire in October 2024. The extension of these options and the related $41 thousand incremental fair value (as measured at the modification date) was recognized as part of share based payment transaction costs in the period.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended October 31, 2022 and 2021

(unaudited)

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

8. 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 six months ended October 31, 2022, the Company granted 2,500,000 RSUs. During the six months ended October 31, 2021, the Company granted 2,512,420 RSUs, of which 1,088,813 RSUs were granted to settle accrued bonuses and director fees from prior years (that were initially intended to be cash-settled). The amounts of settled accrued bonuses and director fees were reclassed from Trade and other payables to Contributed surplus. The $0.1 million difference between the value of the 1,088,813 RSUs granted to settle accrued bonuses and director fees and the value of the amounts settled was recorded as a loss on extinguishment of payables in the Consolidated Statements of Comprehensive Loss.

The weighted average fair value of the RSUs granted in the six months ended October 31, 2022 was $0.58 per RSU (2021 – $1.02 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. Director's fees are currently 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, 2022	6,790,446	$ 0.65
Granted	2,500,000	0.58
Cancelled	(562,155)	0.32
Forfeited	(4,566)	1.02
Outstanding, October 31, 2022	8,723,725	$ 0.65

(d) Warrant liability

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. During the year ended April 30, 2021, the Company issued 100,000 warrants pursuant to the Debenture, with an exercise price of $2.00 per underlying common share and an expiry date 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, the exercise price of the warrants issued pursuant to the Debenture was adjusted to $1.50 per underlying common share. In connection with the March 2022 private placement, the exercise price of the warrants issued pursuant to the Debenture was further adjusted to $1.00 per underlying common share. The variable exercise price requires that these warrants are liability-classified and revalued each reporting period. During the six months ended October 31, 2022, the exercise price of the warrants was amended to $0.75 per share and all of the 100,000 liability-classified warrants were exercised.

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

	Number of warrants	Weighted average exercise price (USD)	Liability amount
Outstanding, April 30, 2022	100,000	$ 1.00	$ -
Exercise of liability-classified warrants	(100,000)	0.75	-
Outstanding, October 31, 2022	-	$ -	$ -

(e) Equity-classified warrants

In connection with the September 2022 closing of the first ($1.5 million) tranche of the November 2021 private placement with Newsoara, the Company issued 750,000 warrants. Each warrant is exercisable at a price of $1.00 per underlying common share until November 2023 (two years from the date of the subscription agreement). In connection with the October 2022 private placement, the Company issued 56,985 warrants. Each warrant granted in October 2022 is exercisable at a price of $1.00 per underlying common share for a period of two years from the closing of the private placement. Due to the equity classification, the warrants in the current period will not be revalued each reporting period.

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

8. Shareholders' equity (deficiency) (continued)

(e) Equity-classified warrants (continued)

As described in Note 8 (a), in October 2020 the Company issued 348,698 warrants pursuant to a convertible debenture conversion, which had an exercise price of $1.50 per underlying common share and were to expire May 6, 2022. During the six months ended October 31, 2022, the exercise price of the warrants was amended to $0.75 per share and all of the 348,698 warrants were exercised. $0.1 million attributed to the previous valuation of the warrants was reclassified to share capital.

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

	Number of warrants	Weighted average exercise price (USD)	Equity amount
Outstanding, April 30, 2022	1,870,615	$ 1.80	$ 811
Issued in connection with private placements	806,985	1.00	121
Issued in connection with promissory notes	250,000	0.75	79
Exercise of warrants	(348,698)	0.75	(84)
Expiry of warrants	(565,250)	3.00	(226)
Outstanding, October 31, 2022	2,013,652	$ 1.07	$ 701

The weighted average fair value of the warrants issued during the six months ended October 31, 2022 was $0.19 per warrant (2021 –$0.60 per warrant), using the Black-Scholes option pricing model with the following weighted average assumptions:

	2022	2021
Risk-free interest rate	3.8%	1.1%
Expected life	2.1 years	4.1 years
Expected volatility	109%	112%
Share value at grant date	USD$0.61	USD$1.13

The following table summarizes information about the equity-classified warrants outstanding and exercisable at October 31, 2022.

Exercise Price (USD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (USD)
$0.75	600,000	4.48	$ 0.75
$1.00	1,106,985	2.00	1.00
$1.50	171,500	3.33	1.50
$2.00	75,167	0.61	2.00
$3.00	60,000	0.23	3.00
	2,013,652	2.75	$ 1.07

(f) Per share amounts

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

	Three months ended October 31,		Six months ended October 31,	
	2022	2021	2022	2021
Weighted average common shares outstanding - basic and diluted	137,656,313	135,427,620	137,298,601	135,375,216

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 six months ended October 31, 2022 and 2021

(unaudited)

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

9. 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 October 31,		Six months ended October 31,	
	2022	2021	2022	2021
Research and development expenses:				
Operating expenses	$ 468	$ 433	$ 781	$ 828
Personnel costs (short-term employee benefits)	287	379	601	790
Share-based payment transaction costs	234	82	326	509
Amortization and depreciation	45	43	90	86
Total research and development expenses	$ 1,034	$ 937	$ 1,798	$ 2,213
General and administrative expenses:				
General expenses	$ 282	$ 299	$ 506	$ 566
Personnel costs (short-term employee benefits)	132	136	272	276
Share-based payment transaction costs	753	569	855	996
Amortization and depreciation	5	5	9	9
Total general and administrative expenses	$ 1,172	$ 1,009	$ 1,642	$ 1,847

10. Commitments

As at October 31, 2022, the Group is party to cancellable agreements with contract research organizations conducting work related to its clinical trials. Corresponding estimated aggregate expenditures over the next twelve months total approximately $0.1 million (April 30, 2022 – $0.1 million).

As at October 31, 2022, the Group is committed to expenditures over the next twelve months of $0.8 million (April 30, 2022 – $1.1 million), pursuant to various research and development contracts.

The Group is also party to a Cooperative Research and Development Agreement ("CRADA") with the National Cancer Institute (part of the U.S Department of Health and Human Services) to develop ZEN-3694, the Group's lead compound, for multiple oncology indications. As at October 31, 2022, the Group is committed to provide additional funding totaling up to an estimated $2.0 million, anticipated over the next five years, including up to an estimated $0.7 million over the next twelve months.

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 $0.1 million and $0.1 million, respectively, for the next twelve months.

11. Subsequent event

Private placement

Subsequent to October 31, 2022, the Company closed a private placement of 816,667 equity units at a price of $0.60 per unit for gross proceeds of $0.5 million. Each equity unit consisted of one common share and two common share purchase warrants. Each warrant is exercisable at a price of $0.60 per underlying common share for a period of five years from the closing of the private placement.