ZENITH

Condensed Interim Consolidated Financial Statements

For the three and six months ended October 31, 2018 and 2017

Condensed Interim Consolidated Statements of Financial Position

(unaudited)

As at:

In thousands of US dollars	Notes	October 31, 2018	April 30, 2018
Assets			
Current assets:			
Cash		$ 2,054	$ 1,164
Prepaid expenses and deposits		428	419
Investment tax credit receivable		218	145
Other assets		19	29
Clinical supplies		286	190
Total current assets		3,005	1,947
Non-current assets:			
Property and equipment		710	816
Intangible assets		1,190	1,004
Clinical supplies		137	183
Total non-current assets		2,037	2,003
Total assets		$ 5,042	$ 3,950
Liabilities			
Current liabilities:			
Trade and other payables		$ 2,107	$ 1,579
Due to Resverlogix Corp.		250	118
Financing rights	5	715	-
Total liabilities		3,072	1,697
Shareholders' equity (deficit):			
Share capital	6 (a)	73,480	69,764
Contributed surplus		2,438	2,062
Warrants		204	-
Deficit		(74,152)	(69,573)
Total		1,970	2,253
Total liabilities and shareholders' equity (deficit)		$ 5,042	$ 3,950

Future operations (note 3)
Commitments (note 8)
Subsequent event (note 9)

Signed on behalf of the Board:

Signed: "Donald McCaffrey" Director

Signed: "Kenneth Zuerblis" Director

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

Condensed Interim Consolidated Statements of Comprehensive Loss

For the three and six months ended October 31

(unaudited)

		Three months ended October 31,		Six months ended October 31,	
In thousands of US dollars	Notes	2018	2017	2018	2017
Expenses:					
Research and development	7	$ 1,898	$ 1,566	$ 3,471	$ 3,417
Investment tax credits		(40)	(35)	(77)	(72)
Net research and development		1,858	1,531	3,394	3,345
General and administrative	7	592	346	1,169	856
		2,450	1,877	4,563	4,201
Finance (income) costs:					
Gain on change in fair value of warrant liability	6 (d)	-	(394)	-	(390)
Gain on change in fair value of financing rights	5	-	(665)	-	(665)
Interest income		(4)	(2)	(4)	(6)
Foreign exchange loss (gain)		1	8	2	(2)
Net finance income		(3)	(1,053)	(2)	(1,063)
Loss before income taxes		2,447	824	4,561	3,138
Income taxes		13	14	18	21
Net and total comprehensive loss		$ 2,460	$ 838	$ 4,579	$ 3,159

Net loss per share *(note 6 (e))*				
Basic and diluted	$ 0.02	$ 0.01	$ 0.04	$ 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

For the six months ended October 31

(unaudited)

In thousands of US dollars	Share Capital	Contributed Surplus	Warrants	Deficit	Total Shareholders' Equity
Balance, April 30, 2017	$ 69,306	$ 1,694	$ -	$ (61,028)	$ 9,972
Common shares issued in connection with stock option plan	94	(63)	-	-	31
Share-based payment transactions	-	172	-	-	172
Net and total comprehensive loss	-	-	-	(3,159)	(3,159)
Balance, October 31, 2017	$ 69,400	$ 1,803	$ -	$ (64,187)	$ 7,016
Balance, April 30, 2018	$ 69,764	$ 2,062	$ -	$ (69,573)	$ 2,253
Common shares issued in connection with private placements	3,576	-	204	-	3,780
Common shares issued in connection with stock option and long term incentive plans	140	(76)	-	-	64
Share-based payment transactions	-	452	-	-	452
Net and total comprehensive loss	-	-	-	(4,579)	(4,579)
Balance, October 31, 2018	$ 73,480	$ 2,438	$ 204	$ (74,152)	$ 1,970

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	2018	2017
Cash used in:			
Cash flows used in operating activities:			
Net loss		$ (4,579)	$ (3,159)
Items not involving cash:			
Equity-settled share-based payment transactions	7	452	172
Depreciation and amortization	7	147	143
Change in fair value of warrant liability		-	(390)
Change in fair value of financing rights		-	(665)
Interest income		(4)	(6)
Income taxes		18	21
Changes in non-cash working capital:			
Prepaid expenses and deposits		(9)	(61)
Clinical supplies		(50)	12
Other assets		10	15
Investment tax credit receivable		(73)	(80)
Unearned deposits		-	(11)
Trade and other payables		434	(486)
Increase (decrease) in due to Resverlogix Corp.		132	(187)
		(3,522)	(4,682)
Interest received		5	30
Income tax paid		(31)	(45)
Net cash used in operating activities		(3,548)	(4,697)
Cash flows generated from financing activities:			
Proceeds from the issuance of equity units		4,495	-
Proceeds from exercise of stock options		64	31
Net cash generated from financing activities		4,559	31
Cash flows used in investing activities:			
Property and equipment expenditures		(2)	(13)
Intangible asset expenditures		(225)	(214)
Changes in non-cash investing working capital		107	(43)
Net cash used in investing activities		(120)	(270)
Effect of foreign currency translation on cash		(1)	6
Increase (decrease) in cash		890	(4,930)
Cash, beginning of period		1,164	10,175
Cash, end of period		$ 2,054	$ 5,245

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, 2018 and 2017

(unaudited)

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

1. General information

Zenith Capital 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. 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 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., the reorganization did not result in a change in the ultimate beneficial ownership of the operating assets.

The consolidated financial statements comprise the Company and its wholly-owned subsidiaries, Zenith Epigenetics Ltd. and Zenith Epigenetics Inc. (together referred to as the "Group"). The Company 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 December 17, 2018.

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, 2018 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, 2018.

3. Future operations

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

The accompanying condensed interim consolidated financial statements have been prepared pursuant to International 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 October 31, 2018, the Company had $2.1 million of cash and was committed to pay $2.1 million of trade and other payables, $0.3 million due to a related party, $1.5 million for research and development commitments and $0.2 million of lease obligations over the next twelve months as described further in Note 8. 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 $1.7 million.

The Company's cash as at October 31, 2018 will not be 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.

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, 2018 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, 2018.

New standards and interpretations adopted

The Company has adopted the following new standard, with a date of initial application of May 1, 2018:

IFRS 9 – Financial Instruments

IFRS 9 – *Financial Instruments* ("IFRS 9") replaces IAS 39 – *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018. IFRS 9 includes guidance on the classification and measurement of financial assets and impairment of financial assets. The Company has applied IFRS 9 retrospectively, with the initial application date of May 1, 2018. There were no changes to the measurement of the Company's financial assets and liabilities or adjustments to comparative information as a result of the adoption of IFRS 9.

Recent accounting pronouncements

IFRS 16 – Leases

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

Zenith will adopt IFRS 16 on May 1, 2019, and has selected the modified retrospective transition approach. Zenith has also elected to apply the optional exemptions for short-term and low-value leases. IFRS 16 is expected to increase the Corporation's assets and liabilities, increase depreciation expense, increase interest, accretion and finance costs and reduce general and

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

4. Significant accounting policies (continued)

administrative expenses and research and development expenses. Cash payments associated with operating leases are currently presented within operating activities; under IFRS 16, the cash flows will be allocated between financing activities for the repayment of the principal liability and operating activities for the financing expense portion. The overall impact to cash flow will be unchanged. Management is still quantifying the impact of IFRS 16 adoption.

5. Financing Rights

Anti-Dilution Rights

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

	Number of Rights	Liability amount
Outstanding, April 30, 2017	12,095,300	$ 665
Expired	(12,095,300)	(665)
Outstanding, April 30, 2018	-	-
Granted	2,247,500	715
Outstanding, October 31, 2018	2,247,500	$ 715

Pursuant to the terms of the private placements that the Company closed in the current period 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, 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.

Valuation

The determination of the fair value of the anti-dilution rights required management to use judgment, including management's estimates of various probabilities of future equity offerings at various prices below $2 per share (for the anti-dilution rights granted in the current six month 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 October 31, 2018, management's estimates of the various probabilities of future equity offerings remained unchanged from those assessed at the grant dates.

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

6. Shareholders' equity (deficit)

(a) Common shares

(i) Authorized:

Unlimited number of common shares.

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

(ii) Issued and outstanding:

Common shares	Number of shares	Amount
Balance, April 30, 2017	125,487,400	$ 69,306
Issued in connection with warrant exercises	728,640	342
Issued in connection with stock option plan	345,100	116
Balance, April 30, 2018	126,561,140	69,764
Issued in connection with private placements	2,247,500	3,576
Issued in connection with stock option plan	237,300	112
Issued in connection with long term incentive plan	124,688	28
Balance, October 31, 2018	129,170,628	$ 73,480

Private Placements

In July and August 2018, the Company issued 2,247,500 equity units pursuant to private placements at a price of $2.00 per unit for gross proceeds of $4.5 million (including 1.5 million equity units issued to Eastern Capital Limited). Each equity unit consists of one common share and one-half common share purchase warrant. Each warrant is exercisable at a price of $3.00 per underlying common share for a period of three years from the closing of the private placement. As described in Note 5 "Financing rights", under certain conditions, the subscribers are entitled to receive additional shares.

(b) Stock options

The Company's stock option plan has been approved as a rolling 10% plan that allows for reservation of a number of common shares under the plan equal to 10% of the Company's issued and outstanding common shares on an undiluted basis. Additionally, the plan is a reloading plan, which allows for the number of common shares reserved for issuance related to the options under the plan to automatically become eligible to be reallocated pursuant to stock option based grants upon option expiry, cancellation or exercise. The Company may grant options to its directors, officers, employees and consultants. The majority of options vest over zero to three years and have a four to five year term. Certain stock options granted in the year ended April 30, 2015 have performance conditions which are required to be met in order for the options to vest. These stock options have a seven year term. The stock options are settled by way of the issuance of equity instruments of the Company ("equity-settled").

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

6. Shareholders' equity (deficit) (continued)

(b) Stock options (continued)

	Number of options	Weighted average exercise price (CAD)
Outstanding, April 30, 2017	3,249,534	$ 0.37
Granted	964,200	0.58
Exercised	(345,100)	0.16
Expired	(245,734)	0.19
Outstanding, April 30, 2018	3,622,900	0.46
Granted	1,067,600	0.64
Exercised	(237,300)	0.35
Expired	(233,000)	0.34
Outstanding, October 31, 2018	4,220,200	$ 0.52

The following table summarizes information about the stock options outstanding and exercisable at October 31, 2018.

Range of Exercise Prices (CAD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (CAD)	Number Exercisable
$0.28 - $0.32	515,200	1.35	$ 0.29	515,200
$0.45 - $0.48	1,227,600	1.90	0.46	847,600
$0.50 - $0.59	1,409,800	3.41	0.56	823,939
$0.64 - $0.65	1,067,600	4.58	0.64	-
	4,220,200	3.02	$ 0.52	2,186,739

The number of stock options exercisable at October 31, 2018 was 2,186,739 (2017 – 1,964,540) with a weighted average exercise strike price of CAD$0.45 (2017 – CAD$0.38).

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 $0.30 and $0.31 per stock option associated with stock options granted during the six months ended October 31, 2018 and 2017, respectively:

	2018	2017
Risk-free interest rate	2.0%	0.3%
Expected life	4.3 years	4.3 years
Expected volatility	98%	123%
Share value at grant date	CAD$0.64	CAD$0.58
Expected dividends	Nil	Nil

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

6. Shareholders' equity (deficit) (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, 2018, the Company granted 2,471,297 RSUs (2017 – 627,363). Certain restricted stock units granted in the six months ended October 31, 2018 have performance conditions which are required to be met in order for the options to vest. The weighted average fair value of the RSUs granted in the six months ended October 31, 2018 was $0.45 per RSU (2017 - $0.42 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, 2017	2,828,044	$ 0.29
Granted	730,271	0.42
Outstanding, April 30, 2018	3,558,315	0.32
Granted	2,471,297	0.45
Exercised	(124,688)	0.23
Outstanding, October 31, 2018	5,904,924	$ 0.37

(d) Equity-classified warrants

As described in Note 6(a), in July and August 2018 the Company issued 1,123,750 warrants pursuant to private placements. Each warrant has an exercise price of USD$3.00 per warrant and expire three years from the grant dates. As the warrants were issued with an exercise price denominated in the same currency as the Company's functional currency, they are not liability-classified. Due to the equity classification, the warrants issued in the current period will not be revalued each reporting period.

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

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

The following table summarizes information about the equity-classified warrants outstanding and exercisable at October 31, 2018.

Exercise Price (USD)	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price (USD)
$3.00	1,123,750	2.80	$ 3.00
	1,123,750	2.80	$ 3.00

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

6. Shareholders' equity (deficit) (continued)

(e) Per share amounts

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

	Three months ended October 31,		Six months ended October 31,	
	2018	2017	2018	2017
Weighted average common shares outstanding - basic and diluted	128,714,921	125,623,033	127,719,347	125,593,344

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

7. 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.

	Three months ended October 31,		Six months ended October 31,	
	2018	2017	2018	2017
Included in research and development expenses:				
Share-based payment transaction costs	$ 95	$ 29	$ 181	$ 55
Amortization and depreciation	68	65	134	130
Included in general and administrative expenses:				
Share-based payment transaction costs	$ 144	$ 60	$ 271	$ 117
Amortization and depreciation	7	7	13	13

8. Commitments

As at October 31, 2018, 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 $1.7 million (2017 – $2.5 million). As described in Note 9, additional agreements with contract research organizations were entered into after October 31, 2018.

As at October 31, 2018, the Group is committed to expenditures over the next twelve months of $1.5 million (2017 – $1.3 million), pursuant to various research and development contracts.

As at October 31, 2018, Resverlogix was committed to operating lease payments for office and laboratory premises, for which the Company is allocated, as follows:

	2018	2017
Less than 1 year	$ 199	$ 192
Between 1 and 5 years	575	602
More than 5 years	12	163
	$ 786	$ 957

The Company agreed to pay Resverlogix for its proportionate share of operating lease payments and operating costs for office and laboratory premises of an estimated $0.2 million and $0.1 million, respectively, for the next twelve months. The operating lease payments are included in the figures above.

9. Subsequent event

Clinical Trial Collaboration with Pfizer

Subsequent to October 31, 2018, the Company announced that it had entered into a clinical trial collaboration with Pfizer Inc. ("Pfizer") to evaluate the safety and efficacy of a novel anti-cancer combination of Zenith's investigational bromodomain and extra-terminal domain inhibitor ("BETi"), ZEN-3694, and Pfizer's poly ADP ribose polymerase inhibitor ("PARPi"), talazoparib, in patients with locally advanced or metastatic triple negative breast cancer ("TNBC"). Under the terms of the agreement, Zenith and Pfizer will collaborate on a Phase 1b/2 TNBC clinical study. Pfizer will provide talazoparib, Zenith will provide ZEN-3694, and both parties will fund the study with Pfizer funding up to $2.9 million, or approximately 50%, of the shared study costs. Subsequent to October 31, 2018, the Company entered into agreements with contract research organizations to conduct work related to the TNBC trial.