

**Item 8. Financial Statements and Supplementary Data**

**ESSA Pharma Inc.**



**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in United States dollars)**

**FOR THE YEARS ENDED SEPTEMBER 30, 2020 and 2019**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of  
ESSA Pharma Inc.

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of ESSA Pharma Inc. (the “Company”), as of September 30, 2020 and 2019, and the related consolidated statements of operations and comprehensive loss, cash flows and changes in shareholders’ equity for the years ended September 30, 2020 and 2019, and the related notes and schedules (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ESSA Pharma Inc. as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years ended September 30, 2020 and 2019 in conformity with accounting principles generally accepted in the United States of America.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatements of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 2011.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada  
Accountants

Chartered Professional

December 10, 2020



**ESSA PHARMA INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in United States dollars)  
**AS AT SEPTEMBER 30**

	<u>2020</u>	<u>2019</u> (Note 2)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 56,320,763	\$ 53,322,723
Short-term investments (Note 5)	22,011,337	—
Receivables (Note 17)	309,538	360,800
Prepays (Note 6)	1,600,128	615,485
Operating lease right-of-use assets (Note 8)	<u>55,162</u>	<u>—</u>
	80,296,928	54,299,008
<b>Deposits</b>	<u>277,637</u>	<u>274,085</u>
<b>Total assets</b>	<u>\$ 80,574,565</u>	<u>\$ 54,573,093</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 1,144,230	\$ 1,565,789
Current portion of operating lease liability (Note 8)	59,094	—
Current portion of long-term debt (Note 9)	—	3,708,955
Income tax payable	<u>—</u>	<u>300,000</u>
	1,203,324	5,574,744
<b>Derivative liabilities</b> (Note 10)	<u>127,376</u>	<u>16,520</u>
<b>Total liabilities</b>	<u>1,330,700</u>	<u>5,591,264</u>
<b>Shareholders' equity</b>		
Authorized		
Unlimited common shares, without par value		
Unlimited preferred shares, without par value		
Common shares 32,064,411 issued and outstanding (2019 – 20,762,374) (Note 11)	131,086,364	78,545,108
Additional paid-in capital (Note 11)	31,204,284	30,038,134
Accumulated other comprehensive loss	(2,076,479)	(2,076,479)
Accumulated deficit	<u>(80,970,304)</u>	<u>(57,524,934)</u>
	79,243,865	48,981,829
<b>Total liabilities and shareholders' equity</b>	<u>\$ 80,574,565</u>	<u>\$ 54,573,093</u>
<b>Nature of operations (Note 1)</b>		
<b>Commitments (Note 17)</b>		

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

**ESSA PHARMA INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Expressed in United States dollars)  
**FOR THE YEARS ENDED SEPTEMBER 30**

	<u>2020</u>	<u>2019</u> (Note 2)
<b>OPERATING EXPENSES</b>		
Research and development	\$ 12,145,968	\$ 6,696,234
Financing costs (Notes 8 and 9)	618,109	602,744
General and administration	<u>11,373,952</u>	<u>5,455,189</u>
<b>Total operating expenses</b>	<u>(24,138,029)</u>	<u>(12,754,167)</u>
Foreign exchange	(44,851)	7,845
Interest income	559,719	26,251
Derivative liability (loss) gain (Note 10)	<u>(110,856)</u>	<u>1,159</u>
<b>Loss for the year before taxes</b>	(23,734,017)	(12,718,912)
Income tax recovery (expense) (Note 14)	<u>288,647</u>	<u>(37,920)</u>
<b>Loss and comprehensive loss for the year</b>	<u>\$ (23,445,370)</u>	<u>\$ (12,756,832)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (1.04)</u>	<u>\$ (1.51)</u>
<b>Weighted average number of common shares outstanding – basic and diluted</b>	<u>22,443,893</u>	<u>8,433,441</u>

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

**ESSA PHARMA INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in United States dollars)  
**FOR THE YEARS ENDED SEPTEMBER 30**

	<u>2020</u>	<u>2019</u> (Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (23,445,370)	\$ (12,756,832)
Items not affecting cash and cash equivalents:		
Amortization of right-of-use asset	110,324	—
Accretion of lease liability	12,992	—
Derivative liability (gain) loss	110,856	(1,159)
Income tax expense	(280,000)	—
Finance expense	211,079	602,744
Unrealized foreign exchange	13,059	16,457
Share-based payments	7,522,608	1,146,707
Changes in non-cash working capital items:		
Receivables	89,938	(59,665)
Prepays	(1,262,280)	(179,416)
Accounts payable and accrued liabilities	(46,358)	(1,014,049)
Income tax payable	(20,000)	(4,722)
Net cash used in operating activities	<u>(16,983,152)</u>	<u>(12,249,935)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Deposits	274,085	201,399
Purchase of short-term investments	(22,011,337)	—
Net cash used in investing activities	<u>(21,737,252)</u>	<u>201,399</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash acquired on acquisition of Realm	—	22,244,248
Transaction costs on acquisition of Realm	(64,804)	(1,860,341)
Termination costs on Realm sublease (Note 4)	—	(246,906)
Lease payments	(119,384)	—
Proceeds on issuance of common shares	48,990,000	36,000,000
Share issuance costs	(3,447,954)	(2,362,329)
Options exercised	915	—
Warrants exercised	257,172	—
Shares purchased through employee share purchase plan	80,714	—
Loan principal repaid	(3,199,799)	(2,808,823)
Loan final payment paid	(688,000)	—
Interest and financing costs paid	(32,235)	(401,929)
Net cash provided by financing activities	<u>41,776,625</u>	<u>50,563,920</u>
Effect of foreign exchange on cash and cash equivalents	(58,181)	(21,805)
Change in cash and cash equivalents for the year	2,998,040	38,493,579
Cash and cash equivalents, beginning of year	<u>53,322,723</u>	<u>14,829,144</u>
Cash and cash equivalents, end of year	<u>\$ 56,320,763</u>	<u>\$ 53,322,723</u>

**Supplemental Disclosure with respect to Cash Flows (Note 12)**

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

**ESSA PHARMA INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in United States dollars)

	Number of shares	Common shares	Additional paid-in capital	Accumulated other comprehensive loss	Deficit	Total
<b>Balance, September 30, 2018 (Note 2)</b>	5,776,098	\$ 40,205,997	\$ 15,573,597	\$ (2,076,479)	\$ (44,768,102)	\$ 8,935,013
Acquisition of Realm	6,718,150	20,247,296	—	—	—	20,247,296
Financing	6,080,596	12,161,192	23,838,808	—	—	36,000,000
Share issuance costs	—	(2,826,443)	(1,764,982)	—	—	(4,591,425)
Pre-funded warrants exercised	2,187,530	8,757,066	(8,755,996)	—	—	1,070
Share-based payments	—	—	1,146,707	—	—	1,146,707
Loss for the year	—	—	—	—	(12,756,832)	(12,756,832)
<b>Balance, September 30, 2019 (Note 2)</b>	20,762,374	\$ 78,545,108	\$ 30,038,134	\$ (2,076,479)	\$ (57,524,934)	\$ 48,981,829
Financing	8,165,000	48,990,000	—	—	—	48,990,000
Share issuance costs	—	(3,136,949)	(7,054)	—	—	(3,144,003)
Warrants exercised	3,120,115	6,549,631	(6,292,459)	—	—	257,172
Options exercised	416	1,648	(733)	—	—	915
Shares issued through employee share purchase plan	16,506	136,926	(56,212)	—	—	80,714
Share-based payments	—	—	7,522,608	—	—	7,522,608
Loss for the year	—	—	—	—	(23,445,370)	(23,445,370)
<b>Balance, September 30, 2020</b>	<b>32,064,411</b>	<b>\$ 131,086,364</b>	<b>\$ 31,204,284</b>	<b>\$ (2,076,479)</b>	<b>\$ (80,970,304)</b>	<b>\$ 79,243,865</b>

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

## **1. NATURE OF OPERATIONS**

### **Nature of Operations**

ESSA Pharma Inc. (the “Company”) was incorporated under the laws of the Province of British Columbia on January 6, 2009. The Company’s head office address is Suite 720 – 999 West Broadway, Vancouver, BC, V5Z 1K5. The registered and records office address is the 26<sup>th</sup> Floor at 595 Burrard Street, Three Bentall Centre, Vancouver, BC, V7X 1L3. The Company is listed on the Nasdaq Capital Market (“Nasdaq”) under the symbol “EPIX”. On October 30, 2020 the Company’s common shares delisted in Canada from the TSX Venture Exchange.

The Company is focused on the development of small molecule drugs for the treatment of prostate cancer. The Company has acquired a license to certain patents (the “NTD Technology”) which were the joint property of the British Columbia Cancer Agency and the University of British Columbia. As at September 30, 2020, no products are in commercial production or use.

### **Acquisition of Realm Therapeutics plc**

On July 31, 2019, the Company acquired all of the issued and outstanding shares of Realm Therapeutics plc (“Realm”) pursuant to a Scheme of Arrangement as sanctioned on July 29, 2019 by the High Court of Justice in England and Wales (the “Realm Acquisition”) (Note 4).

## **2. BASIS OF PRESENTATION**

### **Basis of Presentation**

These accompanying consolidated financial statements, including comparatives, have been prepared in accordance with U.S. GAAP and the accounting policies in Note 3 have been consistently applied in the preparation of the consolidated financial statements. Previously, the Company prepared its consolidated financial statements under International Financial Reporting Standards (“IFRS”) as permitted by securities regulators in Canada, as well as in the United States under the status of a Foreign Private Issuer as defined by the United States Securities and Exchange Commission (“SEC”). At the end of the second quarter of 2020, the Company determined that it no longer qualified as a Foreign Private Issuer under the SEC rules. As a result, beginning October 1, 2020 the Company is required to report with the SEC on domestic forms and comply with domestic company rules in the United States. The transition to U.S. GAAP was made retrospectively for all periods from the Company’s inception.

The accompanying consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value.

All amounts expressed in these accompanying consolidated financial statements and the accompanying notes are expressed in United States dollars, except per share data and where otherwise indicated. References to “\$” are to United States dollars and references to “C\$” are to Canadian dollars.

### **Basis of Consolidation and Functional Currency**

#### *Consolidation*

The accounts of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Inter-company transactions, balances and unrealized gains or losses on transactions are eliminated upon consolidation. The consolidated financial statements comprise the accounts of ESSA Pharma Inc., the parent company, and its wholly owned subsidiaries.

### *Functional Currency*

The functional currency of an entity is the currency of the primary economic environment in which the entity operates.

The functional currency of the Company and its subsidiaries have been determined as follows:

	<u>Country of Incorporation</u>	<u>Effective Interest</u>	<u>Functional Currency</u>
ESSA Pharma Inc.	Canada	—	US Dollar
ESSA Pharmaceuticals Corp.	USA	100 %	US Dollar
Realm Therapeutics plc <sup>(1)</sup>	United Kingdom	100 %	Pound Sterling
Realm Therapeutics Inc. <sup>(1)</sup>	USA	100 %	US Dollar

<sup>(1)</sup> In the process of liquidation and dissolution as at September 30, 2020.

### **Use of Estimates**

The preparation of the accompanying consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities, expenses, contingent assets and contingent liabilities as at the end of, or during, the reporting period. Actual results could significantly differ from those estimates. Significant areas requiring management to make estimates include the derivative liabilities, the valuation of equity instruments issued for services, income taxes and the product development and relocation grant. Further details of the nature of these assumptions and conditions may be found in the relevant notes to these consolidated financial statements.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions that have been made, relate to the following key estimates:

#### *Income tax*

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. Changes in facts and circumstances as a result of income tax audits, reassessments, changes to corporate structure and associated domiciling, jurisprudence and any new legislation may result in an increase or decrease the provision for income taxes. The value of deferred tax assets is evaluated based on the probability of realization; the Company has assessed that it is improbable that such assets will be realized and has accordingly not recognized a value for deferred taxes.

#### *Derivative financial instruments*

Certain warrants are treated as derivative financial liabilities. The estimated fair value, based on the Black-Scholes model, is adjusted on a quarterly basis with gains or losses recognized in the statement of loss and comprehensive loss. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield, expected term and liquidity discounts (Note 10).

#### *Share-based payments and compensation*

The Company has applied estimates with respect to the valuation of shares issued for non-cash consideration. Shares are valued at the fair value of the equity instruments granted at the date the Company receives the goods or services.

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the fair value of the underlying common shares, the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are discussed in Note 11.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Cash and cash equivalents**

Cash and cash equivalents consist primarily of cash in banks and high-interest savings accounts and are recorded at cost, which approximates fair value.

#### **Short-term investments**

The Company's short-term investments consist of guaranteed investment certificates and term deposits with original maturities exceeding three months and less than one year. The investments are recorded at cost plus accrued interest, which approximates fair value.

#### **Foreign exchange**

Transactions in currencies other than the United States dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in comprehensive loss.

On translation of the entities whose functional currency is other than the United States dollar, revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Assets and liabilities are translated at the rate of exchange at the reporting date.

Translation gains and losses are recorded in other comprehensive income (loss) as the cumulative translation adjustment along with the historical effects of a change in the functional currency.

#### **Government assistance**

Government grants, including grants from similar bodies, consisting of investment tax credits are recorded as a reduction of the related expense or cost of the asset acquired. Government grants are recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable assurance that the grant will be received.

Research grants that compensate the Company for expenses incurred are recognized in the statement of operations and comprehensive loss on a systematic basis in the same years in which the expenses are recognized. Grants that compensate the Company for the cost of an asset are recognized on a systematic basis over the useful life of the asset.

## **Research and development costs**

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Investment tax credits related to current expenditures are included in the determination of net income as the expenditures are incurred when there is reasonable assurance they will be realized.

## **Fair Value of financial instruments**

The Company's financial instruments consist of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities, long-term debt and derivative liabilities.

The Company provides disclosures that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the date of the statement of financial position, and how the entity manages these risks.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

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

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximates their carrying values due to their short term to maturity. The derivative liabilities are measured using level 3 inputs (Note 10).

## **Share-based payments**

Share based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity settled share-based payment transactions and measured at the fair value of at grant date.

### *Share-based compensation*

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. The Company has elected to early adopt ASU 2018-07 which treats the measurement of employee and nonemployee options similarly and has been applied to all periods presented.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the requisite service or vesting period as applicable. Consideration paid for the shares on the exercise of stock options is credited to share capital. Such value is recognized as expense over the requisite service period, net of actual forfeitures, using the accelerated attribution method. The Company recognizes forfeitures as they occur. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results, or updated estimates, differ from current estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised.

## **Basic and diluted loss per share**

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the weighted-average method. Since the Company has losses, the exercise of outstanding options and warrants has not been included in this calculation as it would be anti-dilutive.

## **Leases**

In February 2016, the Financial Accounting Standards Board ("FASB") established Topic 842, Leases, by issuing Accounting Standards Update (ASU) No. 2016-02, which supersedes ASC 840, Leases, and requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements.

Topic 842, as amended, (the "new lease standard") establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the consolidated balance sheets for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the consolidated statements of operation.

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present in the arrangement. Leases with a term greater than one year are recognized on the balance sheet as ROU assets and short-term and long-term lease liabilities, as applicable. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. The Company typically only includes an initial lease term in its assessment of a lease arrangement. It also considers termination options and factors those into the determination of lease payments. Options to renew a lease are not included in the assessment unless there is reasonable certainty that the Company will renew.

Operating lease liabilities and their corresponding ROU assets are recorded based on the present value of lease payments over the expected remaining lease term. Certain adjustments to the ROU asset may be required for items such as incentives received. The interest rate implicit in lease contracts is typically not readily determinable. As a result, the Company utilizes its incremental borrowing rate, which reflects the fixed rate at which it could borrow on a collateralized basis the amount of the lease payments in the same currency, for a similar term, in a similar economic environment. In transition to ASC 842, the Company utilized the remaining lease term of its leases in determining the appropriate incremental borrowing rates. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company adopted the new lease standard on October 1, 2019 and used the effective date as the date of initial adoption. Consequently, financial information will not be updated, and the disclosures required under the new standard will not be provided for earlier periods. Adoption of ASU 2016-02 resulted in the recording of operating lease right-of-use assets and associated lease liabilities of \$165,486 (Note 8) as of October 1, 2019 on the consolidated balance sheet with no cumulative impact to accumulated deficit and did not have a material impact on the Company's result of operations or cash flows.

## **Income taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at period end.

Deferred tax is recognized in respect of temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and an excess of the amount for financial reporting over the tax basis of an investment in a foreign subsidiary that is essentially permanent in duration. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the financial position reporting date.

A valuation allowance is recognized for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets are reviewed at each reporting date and a valuation allowance is recorded to the extent that it is no longer more likely than not that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

### **Recently accounting pronouncements not yet adopted**

#### *ASU 2018-13 – Fair Value Measurement (Topic 820-10)*

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820-10): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”), which changes the fair value measurement disclosure requirements of ASC Topic 820, Fair Value Measurements and Disclosures. Under this ASU, certain disclosure requirements for fair value measurements are eliminated, amended or added. These changes aim to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. The guidance is effective for the Company beginning on October 1, 2020 and prescribes different transition methods for the various provisions. The Company does not expect the adoption of ASU 2018-13 to have a material impact on its financial statements and disclosures.

#### *ASU 2019-12 – Income Taxes (Topic 740)*

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”), which simplifies the accounting for income taxes by removing certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new ASU also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates. These changes aim to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. The guidance is effective for the Company beginning on October 1, 2021 and prescribes different transition methods for the various provisions. The Company does not expect the adoption of ASU 2019-12 to have a material impact on its financial statements and related disclosures.

#### *ASU 2016-13 – Financial Instruments-Credit Losses (Topic 326)*

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost, including trade receivables. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model that requires the use of forward-looking information to calculate credit loss estimates. This guidance is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. Entities will apply the amendments using a modified retrospective approach. The Company does not expect the adoption of ASU 2016-13 to have a material impact on its financial statements and related disclosures.

*ASU 2020-06 – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)*

In August 2020, the FASB issued ASU No. 2020-06 (“ASU 2020-06”) “Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity.” ASU 2020-06 will simplify the accounting for convertible instruments by reducing the number of accounting models for convertible debt instruments and convertible preferred stock. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract as compared with current GAAP. Convertible instruments that continue to be subject to separation models are (1) those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative, and that do not qualify for a scope exception from derivative accounting and (2) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in capital. ASU 2020-06 also amends the guidance for the derivatives scope exception for contracts in an entity’s own equity to reduce form-over-substance-based accounting conclusions. ASU 2020-06 will be effective January 1, 2024, for the Company. Early adoption is permitted, but no earlier than January 1, 2021, including interim periods within that year. Management is currently evaluating the effect of the adoption of ASU 2020-06 on the consolidated financial statements, but currently does not believe ASU 2020-06 will have a significant impact on the Company’s accounting.

Recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company’s present or future consolidated financial statement presentation or disclosures.

#### **4. REALM ACQUISITION**

On July 31, 2019, the Company acquired all of the issued and outstanding shares of Realm. Realm shareholders received a total of 6,718,150 common shares of the Company (“New ESSA Shares”) at a ratio of 0.05763 of a New ESSA Share per share of Realm (or 1.4409 New ESSA Shares for every one Realm ADS, representing 25 Realm shares). The fair value of the Realm net assets on July 31, 2019, substantially all of which consisted of cash, was \$20,247,296. Additionally, the Company incurred issuance costs of \$1,925,145.

Realm is not considered to be a business under the definitions of ASU 2017-01; accordingly, the Realm Acquisition is accounted for as a financing transaction. The shares issued in connection with the acquisition of Realm were valued on the basis of the value of assets received.

Net assets of Realm acquired:

Cash	\$ 22,244,248
Receivables and other current assets	240,000
Accounts payable and accrued liabilities	(2,236,952)
<b>Total net assets</b>	<b><u>\$ 20,247,296</u></b>

#### **5. SHORT-TERM INVESTMENTS**

Short-term investments consist of guaranteed investment certificates (“GICs”) held at financial institutions purchased in accordance with the Company’s treasury policy. These GICs and term deposits bear interest at 0.25%-0.45% per annum and have maturities of up to 12 months.

## 6. PREPAIDS

	<u>2020</u>	<u>2019</u>
Prepaid insurance	\$ 825,014	\$ 524,257
Prepaid preclinical and clinical expenses and deposits	650,586	8,260
Other deposits and prepaid expenses	<u>124,528</u>	<u>82,968</u>
Balance, end of year	<u>\$ 1,600,128</u>	<u>\$ 615,485</u>

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2020</u>	<u>2019</u>
Accounts payable	\$ 678,643	\$ 1,358,554
Accrued expenses	310,604	151,182
Accrued vacation	<u>154,983</u>	<u>56,053</u>
Balance, end of year	<u>\$ 1,144,230</u>	<u>\$ 1,565,789</u>

## 8. OPERATING LEASE

In March 2018, the Company signed an office lease with a three-year term. With the adoption of ASC 842, the Company has recorded an operating lease right-of-use asset and corresponding lease liability. Operating lease cost under this lease is recognized on a straight-line basis over the term of the lease.

The Company's operating leases included on the balance sheet are as follows:

### Operating lease right-of-use asset

Balance, September 30, 2018 and 2019	\$ —
Adoption of ASC 842 (Note 3)	165,486
Amortization	<u>(110,324)</u>
Balance, September 30, 2020	<u>\$ 55,162</u>

### Operating lease liabilities

Balance, September 30, 2018 and 2019	\$ —
Adoption of ASC 842 (Note 3)	165,486
Accretion	12,992
Lease payments	<u>(119,384)</u>
Balance, September 30, 2020	<u>\$ 59,094</u>

The Company recognizes a right-of-use asset for the right to use the underlying asset for the lease term, and a lease liability, which represents the present value of the Company's obligation to make payments over the lease term. The present value of the lease payments is calculated using an incremental borrowing rate as the Company's leases do not provide an implicit interest rate. At September 30, 2020, the Company's incremental borrowing rate was 12.0% and the remaining lease term was 6 months.

Operating lease costs of \$119,384 and accretion expense of \$12,992 have been recorded in "general and administrative expenses" and "financing costs" in the statement of operations and comprehensive loss respectively.

## 9. LONG-TERM DEBT

On November 18, 2016, Silicon Valley Bank (“SVB”) entered into a \$10,000,000 capital term loan facility agreement (“SVB Term Loan”) with the Company. The Company drew down \$8,000,000 from the SVB Term Loan. The option to draw an additional \$2,000,000 lapsed on July 31, 2017.

The SVB Term Loan bore interest at the Wall Street Journal Prime Rate (“WSJ Prime Rate”) plus 3% per annum and with a maturity date of September 1, 2020. The SVB Term Loan required a final payment of 8.6% of the amount advanced (“Final Payment”), due upon the earlier of the maturity or termination of the SVB Term Loan. The Company was required to make interest only payments until December 31, 2017. The SVB Term Loan contained a voluntary prepayment option whereby the principal amount can be prepaid in whole, or in part, for a fixed fee if a prepayment is made on or before the second anniversary of the SVB Term Loan. In the year ended September 30, 2020, the Company repaid the SVB Term Loan in full totalling \$3,708,955, comprising \$3,199,799 in principal, \$32,235 in accrued interest, \$211,079 in financing costs and the Final Payment of \$688,000.

In connection with the \$8,000,000 draw, the Company granted an aggregate of 7,477 warrants to SVB (the “SVB Warrants”), exercisable at a price of \$42.80 per share for a period of seven years until November 18, 2023, with a fair value of \$167,022. The Company incurred total additional transaction costs of \$220,898 related to the SVB Term Loan and First Amendment. The transaction costs and Final Payment were being amortized into profit and loss over the estimated term of the facility, being the legal term, resulting in an effective interest rate of 12.6% (2019 - 12.19%).

The SVB Term Loan was fully repaid during the fiscal year.

	<b>SVB Term Loan</b>
Balance, September 30, 2018	\$ 6,316,963
Principal repaid	(2,808,823)
Interest paid	(401,929)
Accretion	602,744
	<hr/>
Balance, September 30, 2019	\$ 3,708,955
Principal repaid	(3,199,799)
Interest paid	(32,235)
Accretion	211,079
Final payment	(688,000)
	<hr/>
Balance, September 30, 2020	\$ —

## 10. DERIVATIVE LIABILITIES

In January 2016, the Company completed a private placement of 227,273 units of the Company at \$66.00 per unit (“Unit”) for gross proceeds of \$14,999,992. Each Unit consisted of one common share of the Company, one 7-year cash and cashless exercise warrant (the “7-Year Warrants”), and one half of one 2-year cash exercise warrant (the “2-Year Warrants”). The 7-Year Warrants and 2-Year Warrants have an exercise price of \$66.00 per common share (collectively, the “2016 Warrants”). The holders of the 7-Year Warrants may elect, in lieu of exercising the 7-Year Warrants for cash, a cashless exercise option, in whole or in part, to receive common shares equal to the fair value of the 7-Year Warrants based on the number of 7-Year Warrants to be exercised multiplied by a ten-day weighted average market price less the exercise price with the difference divided by the weighted average market price. If a warrant holder exercises this option, there will be variability in the number of shares issued per 7-Year Warrant.

Additionally, the 2016 Warrants contain provisions which may require the Company to redeem the 2016 Warrants, at the option of the holder, in the event of a major transaction, such as a change of control or sale of the Company's assets ("Major Transaction"). The redemption value would be subject to a Black-Scholes valuation at the time of exercise. In the event the consideration for a Major Transaction payable to the common shareholders is in cash, in whole or in part, the redemption of the 2016 Warrants would be made in cash pro-rata to the composition of the consideration. The potential for a cash settlement for the 2016 Warrants outside the control of the Company, in accordance with U.S. GAAP, requires the 2016 Warrants to be treated as financial liabilities measured at fair value through profit or loss. The 2016 Warrants are not traded in an active market.

#### Valuation

The Company uses the Black-Scholes option pricing model to estimate fair value. The following weighted average assumptions were used to estimate the fair value of the derivative warrant liabilities on September 30, 2019 and 2020:

	<u>2020</u>	<u>2019</u>
Risk-free interest rate	0.22 %	1.55 %
Expected life	2.28 years	3.29 years
Expected annualized volatility	97.3 %	74.8 %
Dividend	—	—
Liquidity discount	<u>20 %</u>	<u>20 %</u>

#### Sensitivity

The derivative warrants are a recurring Level 3 fair value measurement. The key level 3 inputs used by management to determine the fair value are the market price, expected volatility and liquidity discount. If the market price were to increase by a factor of 10% this would increase the obligation by approximately \$37,109 as at September 30, 2020. If the market price were to decrease by a factor of 10% this would decrease the obligation by approximately \$19,071 as at September 30, 2020. If the volatility were to increase by 10%, this would increase the obligation by approximately \$68,172 as at September 30, 2020. If the volatility were to decrease by 10%, this would decrease the obligation by approximately \$42,877 as at September 30, 2020.

The following table is a continuity schedule of changes to the Company's derivative liabilities:

	<u>Total</u>
Balance, September 30, 2018	\$ 17,679
Change in fair value	<u>(1,159)</u>
Balance, September 30, 2019	\$ 16,520
Change in fair value	<u>110,856</u>
Balance, September 30, 2020	<u>\$ 127,376</u>
Derivatives with expected life of less than one year	\$ —
Derivatives with expected life greater than one year	<u>\$ 127,376</u>

## 11. SHAREHOLDERS' EQUITY

### *Authorized*

Unlimited common shares, without par value.

Unlimited preferred shares, without par value.

### *July 2020 Financing*

On July 31, 2020, the Company completed an underwritten public offering for aggregate gross proceeds of US\$48,990,000 (the "**July 2020 Financing**"). The Company issued a total of 7,100,000 common shares of the Company at a public offering price of US\$6.00 per share. Additionally, the underwriters exercised a 30-day option to purchase up to an additional 1,065,000 common shares. In connection with the July 2020 Financing, the Company paid cash commissions of \$2,939,400 and incurred other transaction costs of \$193,951.

### *August 2019 Financing*

On August 27, 2019, the Company closed a public offering of equity securities of the Company in Canada and a concurrent private placement of equity securities in the United States (the "**August 2019 Financing**"). The Company issued a total of 6,080,596 common shares and 11,919,404 pre-funded warrants in lieu of common shares of the Company at a price of \$2.00 per security for aggregate gross proceeds of \$36,000,000. Each pre-funded warrant entitles the holder thereof to acquire one common share at a nominal exercise price for a period of five years. In connection with the August 2019 Financing, the Company paid cash commissions of \$1,978,770 and incurred other transaction costs of \$698,162.

### *Realm Acquisition*

On July 31, 2019, the Company issued 6,718,150 shares in relation to the Realm Acquisition (Note 4).

### *Nomination Rights*

In connection with a January 2016 private placement of 227,273 Units, a Unit consisting of one common share, one 7-year warrant and one-half of one 2-year warrant, of the Company, Clarus Lifesciences III, L.P. ("**Clarus**") acquired 106,061 common shares. Clarus is entitled to nominate two directors to the board of directors of the Company, one of which must be an independent director and preapproved by the Company. These nomination rights will continue for so long as Clarus holds greater than or equal to 53,030 common shares, subject to adjustment in certain circumstances.

## **Equity incentive plans**

### *Restricted share units plan*

The Company has adopted a Restricted Share Unit Plan ("RSU Plan") consistent with the policies and rules of the TSX-V and Nasdaq. Pursuant to the RSU Plan, RSUs may be granted with vesting criteria and periods are approved by the Board of Directors at its discretion. The RSUs issued under the RSU Plan may be accounted for as either equity-settled or cash-settled share-based payments. At September 30, 2020, there are no RSUs outstanding.

As at September 30, 2020 the Stock Option Plan and RSU Plan have a combined maximum of 6,251,469 common shares which may be reserved for issuance.

### *Employee Share Purchase Plan*

The Company has adopted an Employee Share Purchase Plan (“ESPP”) under which qualifying employees may be granted purchase rights (“Purchase Rights”) to the Company’s common shares at not less of 85% of the market price at the lesser of the date the Purchase Right is granted or exercisable. The Company currently holds offerings consisting of six-month periods commencing on January 1 and July 1 and ending on June 30 and December 31 of each calendar year. As at September 30, 2020, the ESPP has a maximum of 268,381 (2019 – 284,887) common shares reserved for issuance.

Eligible employees are able to contribute up to 15% of their gross base earnings for purchases under the ESPP through regular payroll deductions. Purchase of shares under the ESPP are limited for each employee at \$25,000 worth of the Company’s common shares (determined using the lesser of (i) the market price of a common share on the first day of an applicable purchase period and (ii) the market price of a common share on the purchase date) for each calendar year in which a purchase right is outstanding.

During the year ended September 30, 2020, the Company issued a total of 16,506 (2019 – Nil) common shares upon the exercise of Purchase Rights. The Company recognizes compensation expense for purchase rights on a straight-line basis over the service period.

	<u>2020</u>	<u>2019</u>
Research and development expense	\$ 24,984	\$ —
General and administrative	46,033	—
	<u>\$ 71,016</u>	<u>\$ —</u>

The Company measures the purchase rights based on their estimated grant date fair value using the Black-Scholes option pricing model and the estimated number of shares that can be purchased. The following weighted average assumptions were used for the valuation of purchase rights:

	<u>2020</u>	<u>2019</u>
Risk-free interest rate	1.44 %	—
Expected life of options	6 months	—
Expected annualized volatility	90.34 %	—
Dividend	—	—

### **Stock options**

The Company has adopted a Stock Option Plan consistent with the policies and rules of the TSX-V and Nasdaq. Pursuant to the Stock Option Plan, options may be granted with expiry terms of up to 10 years, and vesting criteria and periods are approved by the Board of Directors at its discretion. The options issued under the Stock Option Plan are accounted for as equity-settled share-based payments.

Stock option transactions are summarized as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price*</u>
Balance, September 30, 2018	900,459	\$ 4.88
Options granted	255,000	3.77
Options expired/forfeited	<u>(32,998)</u>	<u>(4.10)</u>
Balance, September 30, 2019	1,122,461	\$ 4.59
Options granted	4,218,000	3.31
Options exercised	(416)	(2.20)
Options expired/forfeited	<u>(30,461)</u>	<u>(28.46)</u>
Balance outstanding, September 30, 2020	<u>5,309,584</u>	<u>\$ 3.42</u>
Balance exercisable, September 30, 2020	<u>1,859,826</u>	<u>\$ 3.52</u>

\* Options exercisable in Canadian dollars as at September 30, 2020 are translated at current rates to reflect the current weighted average exercise price in US dollars for all outstanding options.

At September 30, 2020, options were outstanding enabling holders to acquire common shares as follows:

<u>Exercise price</u>	<u>Number of options</u>	<u>Weighted average remaining contractual life (years)</u>
\$ 2.20	4,584	8.70
\$ 3.23	3,953,000	8.96 *
\$ 3.58	12,000	0.05 *
\$ 3.59	40,000	9.05
\$ 3.81	193,000	8.15 *
\$ 4.00	552,500	7.22 *
\$ 4.67	225,000	9.09 *
C\$ 4.90	284,500	7.06
C\$ 5.06	45,000	8.36
	<u>5,309,584</u>	<u>8.63</u>

\* 42,000 options expired unexercised and 42,207 options exercised subsequent to September 30, 2020.

### Share-based compensation

During the year ended September 30, 2020, the Company granted a total of 4,218,000 (2019 – 255,000) stock options with a weighted average fair value of \$3.31 per option (2019 – \$3.00).

The Company recognized share-based payments expense for options granted and vesting, net of recoveries on cancellations of unvested options, during the years ended September 30, 2020 and 2019 with allocations to its functional expense as follows:

	<u>2020</u>	<u>2019</u>
Research and development expense	\$ 1,853,390	\$ 304,786
General and administrative	<u>5,598,202</u>	<u>841,921</u>
	<u>\$ 7,451,592</u>	<u>\$ 1,146,707</u>

The following weighted average assumptions were used for the Black-Scholes option-pricing model valuation of stock options granted:

	<u>2020</u>	<u>2019</u>
Risk-free interest rate	1.55 %	2.55 %
Expected life of options	10.00 years	10.00 years
Expected annualized volatility	77.00 %	79.33 %
Dividend	—	—

## Warrants

Warrant transactions are summarized as follows:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price*</u>
Balance, September 30, 2018	2,663,937	\$ 6.13
Warrants granted	11,919,404	0.0001
Warrants exercised	(2,188,999)	(0.002)
Warrants expired	(1,250)	(31.17)
Balance, September 30, 2019	12,393,092	\$ 1.31
Warrants exercised	(3,120,115)	(0.08)
Balance outstanding and exercisable, September 30, 2020	<u>9,272,977</u>	<u>\$ 1.73</u>

\* Warrants exercisable in Canadian dollars as at September 30, 2020 are translated at current rates to reflect the current weighted average exercise price in US dollars for all outstanding warrants.

At September 30, 2020, warrants were outstanding enabling holders to acquire common shares as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
227,273 <sup>(1)</sup>	US\$ 66.00	January 14, 2023
7,477	US\$ 42.80	November 18, 2023
129,723	US\$ 4.00	January 9, 2023
45,000	US\$ 4.00	January 16, 2023
8,863,504	US\$ 0.0001	August 23, 2024
<u>9,272,977</u>		

<sup>(1)</sup> Detailed terms of the 2016 Warrants are included in Note 10.

## 12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

There were no significant non-cash financing or investing activities during the year ended September 30, 2020.

During the year ended September 30, 2019, the Company:

- a) issued 1,652,530 common shares upon the cashless exercise of 1,653,999 pre-funded warrants;
- b) incurred \$64,804 in transaction costs related to the Realm Transaction through accounts payable and accrued liabilities (Note 4); and
- c) incurred \$303,951 in share issuance costs through accounts payable and accrued liabilities.

## 13. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities at September 30, 2020 is \$87,846 (2019 - \$108,331) due to related parties with respect to key management personnel compensation and expense reimbursements. Amounts due to related parties are non-interest bearing, with no fixed terms of repayment.

## 14. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

For the years ended September 30	2020	2019
Loss for the year before income tax	\$ (23,734,017)	\$ (12,718,912)
Tax recovery at statutory income tax rates	\$ (6,408,000)	\$ (3,434,000)
Non-deductible share-based payments	2,031,000	227,000
Taxable capital gains	—	346,000
Other permanent differences including foreign exchange	21,000	3,000
Share issue costs	(849,000)	(720,000)
Change in statutory, foreign tax, foreign exchange rates and other	1,013,353	457,920
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(307,000)	(196,000)
Change in valuation allowance	4,210,000	3,354,000
Total income tax expense	\$ (288,647)	\$ 37,920

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

In December 2017, the United States Government proposed changes to the Federal corporate income tax rate to reduce the rate from 34% to 21% effective January 1, 2018 and onwards. This change in tax rate was enacted on December 22, 2017. The relevant deferred tax balances have been remeasured to reflect the decrease in the Company's Federal income tax rate from 34% to 21% applicable to the Company's US subsidiary. Operating losses carried forward as at September 30, 2020 expire from 2031 – 2039. Financing costs expire from 2040 to 2044. Investment tax credits expire in 2035.

Tax attributes are subject to review, and potential adjustment, by tax authorities. The Company has recorded an income tax recovery of \$288,647 for the year ended September 30, 2020 (2019 – expense of \$37,920) in relation to taxable income generated by its US subsidiary.

For the years ended September 30, 2020 and 2019, the Company did not record a provision for income taxes due to a full valuation allowance against our deferred tax assets. The significant components of the Company’s deferred tax assets are as follows:

<b>Deferred tax assets</b>	<u>2020</u>	<u>2019</u>
Operating losses carried forward	\$ 21,297,000	\$ 17,306,000
Equipment and intangible assets	77,000	77,000
Investment tax credits	39,000	137,000
Financing costs	<u>1,462,000</u>	<u>1,159,000</u>
	22,875,000	18,679,000
Valuation allowance	<u>(22,875,000)</u>	<u>(18,679,000)</u>
Net future tax assets	<u>\$ —</u>	<u>\$ —</u>

## 15. SEGMENTED INFORMATION

The Company works in one industry being the development of small molecule drugs for prostate cancer. The Company’s right of use asset is located in the USA.

## 16. FINANCIAL INSTRUMENTS AND RISK

The Company’s financial instruments consist of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities, long-term debt and derivative liabilities. The fair value of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximates their carrying values due to their short term to maturity. The derivative liabilities are measured using level 3 inputs (Note 10).

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

## Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### *Credit risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents, short-term investments and receivables. The Company's receivables is mainly the balance remaining on the CPRIT Grant. The Company limits its exposure to credit loss by placing its cash with major financial institutions. The Company considers highly liquid investments with a maturity of up to twelve months when purchased to be short-term investments. As at September 30, 2020, cash and cash equivalents consisted of cash in Canada and the United States. and term deposits in Canada. Balances exceed amounts insured by the Canada Deposit Insurance Corporation for up to C\$100,000 and by the Federal Deposit Insurance Corporation for up to \$250,000. Amounts due from government agencies are considered to have minimal credit risk.

### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2020, the Company had working capital of \$79,093,604. The Company does not generate revenue and will be reliant on external financing to fund operations. Debt and equity financing are dependent on market conditions and may not be available on favorable terms.

### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, and foreign exchange rates.

#### (a) Interest rate risk

As at September 30, 2020, the Company has cash and cash equivalents balances and GICs which are interest bearing. Interest income is not significant to the Company's projected operational budget and related interest rate fluctuations are not significant to the Company's risk assessment.

#### (b) Foreign currency risk

The Company's foreign currency risk exposure relates to net monetary assets denominated in Canadian dollars. The Company maintains its cash and cash equivalents in US dollars and converts on an as needed basis to discharge Canadian denominated expenditures. A 10% change in the foreign exchange rate between the Canadian and U.S. dollar in relation to Canadian dollars held at September 30, 2020 would result in a fluctuation of \$4,676 in the net loss recognized for the period. The Company does not currently engage in hedging activities.

## 17. COMMITMENTS

### *Product Development and Relocation Grant*

In February 2014 the Company was awarded a product development and relocation grant by CPRIT whereby the Company received \$12,000,000 on eligible expenditures over a three-year period related to the development of the Company's androgen receptor n-terminus blocker program for prostate cancer. A final payment of \$229,201 has been recorded as a receivable as at September 30, 2019 and 2020.

If the Company is found to have used any grant proceeds for purposes other than intended, is in violation of the terms of the grant, or fails to maintain the required level of operations in the State of Texas for three years following the final payment of grant funds, then the Company could be required to repay any grant proceeds received.

Under the terms of the grant, the Company is also required to pay a royalty to CPRIT, comprised of 4% of revenues the Company receives from sale of commercial product or commercial service, until aggregate royalty payments equal \$24,000,000, and 2% of revenues thereafter. The Company has the option to terminate the grant agreement by paying a one-time, non-refundable buyout fee, based on certain factors including the grant proceeds, and the number of months between the termination date and the buyout fee payment date.

#### *License Agreement*

The NTD Technology is held under a license agreement signed in fiscal 2010 (the “License Agreement”). As consideration for the License Agreement, the Company issued common shares of the Company. The License Agreement contains an annual royalty as a percentage of annual net revenue and a percentage of any annual sublicensing revenue earned with respect to the NTD Technology. The License Agreement stipulates annual minimum advance royalty payments of C\$85,000. In addition, there are certain milestone payments for the first compound, to be paid in stages as to C\$50,000 at the start of a Phase II clinical trial, C\$900,000 at the start of a Phase III clinical trial, C\$1,450,000 at application for marketing approval, and with further milestone payments on the second and additional compounds

The Company has the following obligations over the next five years:

Contractual obligations	2021	2022	2023	2024	2025
Minimum annual royalty per License Agreement	C\$ 85,000	C\$ 85,000	C\$ 85,000	C\$ 85,000	C\$85,000
Vendor Agreement	C\$ 25,000	C\$ 25,000	C\$ —	C\$ —	C\$ —
Consulting Agreement	\$ 35,000	\$ 35,000	\$ —	\$ —	\$ —
Lease on US office spaces	\$ 70,670	\$ —	\$ —	\$ —	\$ —

#### *Advisory Contract*

In April 2019 the Company executed an Engagement Letter with Oppenheimer & Co. Inc. (“Oppenheimer”), an investment bank, to retain their services to act as its lead financial advisor for which it obtained a percentage of funds raised on successful completion of the financing in August 2019. Oppenheimer would receive compensation on certain capital transactions while the Engagement Letter is in effect. The Company may terminate the agreement on 30 days’ written notice. Oppenheimer retains a right of first refusal as a lead agent on all future financings occurring up to December 31, 2020.

## **18. SUBSEQUENT EVENTS**

On October 14, 2020, the Company issued 1,493,504 common shares upon the cashless exercise of 1,493,504 pre-funded warrants.

On December 3, 2020, the Company issued 42,207 common shares for stock options exercised for gross proceeds of \$153,701.