CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)

FOR THE YEARS ENDED SEPTEMBER 30, 2019, 2018 AND 2017

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 financial statements of ESSA Pharma Inc. (the "Company"), which comprise the consolidated statements of financial position as of September 30, 2019 and 2018, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years ended September 30, 2019, 2018, and 2017 and the related notes, comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the consolidated financial statements).

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2019 and 2018 and its financial performance and its cash flows for the years ended September 30, 2019, 2018, and 2017 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a consolidated net loss of $10,441,865 during the year ended September 30, 2019 and, as of that date, the Company's accumulated deficit was $54,810,951. As stated in Note 1 to the consolidated financial statements, these events or conditions, indicate that a material uncertainty exists that casts substantial doubt on the Company's ability to continue as a going concern.

Basis for Opinion

A - Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

B - Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to error or fraud. Those standards also require that we comply with ethical requirements, including independence. We are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We are a public accounting firm registered with the PCAOB.

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An audit includes performing procedures to assess the risks of material misstatements of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included obtaining and examining, on a test basis, audit evidence regarding the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies and principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a reasonable basis for our audit opinion.

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

December 18, 2019

ESSA PHARMA INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in United States dollars)
AS AT SEPTEMBER 30

	2019	2018
ASSETS		
Current		
Cash	$ 53,322,723	$ 14,829,144
Receivables (Note 18)	360,800	297,349
Prepaids (Note 5)	615,485	470,154
	54,299,008	15,596,647
Deposits	274,085	201,399
Intangible assets (Note 7)	200,731	219,028
Total assets	$ 54,773,824	$ 16,017,074
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 1,565,789	$ 523,669
Current portion of long-term debt (Note 8)	3,708,955	2,815,947
Income tax payable	300,000	4,722
	5,574,744	3,344,338
Long-term debt (Note 8)	-	3,501,016
Derivative liabilities (Note 9)	18,179	19,648
Total liabilities	5,592,923	6,865,002
Shareholders' equity		
Share capital (Note 10)	76,212,154	40,205,997
Reserves (Note 11)	29,856,177	15,391,640
Accumulated other comprehensive loss	(2,076,479)	(2,076,479)
Deficit	(54,810,951)	(44,369,086)
	49,180,901	9,152,072
Total liabilities and shareholders' equity	$ 54,773,824	$ 16,017,074

Nature and continuance of operations (Note 1)
Commitments (Note 18)
Subsequent events (Note 20)

On behalf of the Board on December 18, 2019

"David R. Parkinson" Director *"Franklin Berger"* Director

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

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

	2019	2018	2017
OPERATING EXPENSES			
Research and development (Note 19)	$ 6,696,234	$ 4,873,335	$ 5,726,366
Financing costs (Note 8)	602,744	911,959	784,583
General and administration (Note 19)	5,473,486	5,928,671	5,140,921
Total operating expenses	(12,772,464)	(11,713,965)	(11,651,870)
Foreign exchange	7,845	1,417	(36,497)
Interest income	26,251	42,734	-
Loss on disposal of equipment (Note 6)	-	(83,692)	-
Gain on derivative liability (Note 9)	1,469	151,095	7,305,746
Gain on acquisition of Realm Therapeutics plc (Note 4)	2,332,954	-	-
Loss for the year before taxes	(10,403,945)	(11,602,411)	(4,382,621)
Income tax expense (Note 14)	(37,920)	(27,029)	(116,391)
Loss and comprehensive loss for the year	$ (10,441,865)	(11,629,440)	(4,499,012)
Basic and diluted loss per common share	$ (1.24)	$ (2.55)	$ (3.09)
Weighted average number of common shares outstanding – basic and diluted	8,433,441	4,566,519	1,454,936

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

	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year	$ (10,441,865)	$ (11,629,440)	$ (4,499,012)
Items not affecting cash:			
Amortization	18,297	34,488	46,145
Gain on derivative liability	(1,469)	(151,095)	(7,305,746)
Gain on acquisition of Realm Therapeutics plc	(2,332,954)	-	-
Finance expense	602,744	911,959	784,583
Product development and relocation grant	-	(229,201)	(5,192,799)
Unrealized foreign exchange	16,457	19,694	(28,866)
Share-based payments	1,146,707	1,401,414	758,927
Loss on disposal of equipment	-	83,692	-
Changes in non-cash working capital items:			
Receivables	(59,665)	(35,874)	(14,649)
Prepaid expenses	(179,416)	601,949	(53,871)
Accounts payable and accrued liabilities	(1,014,049)	(1,120,833)	(1,867,853)
Income tax payable	(4,722)	(104,799)	18,330
Net cash used in operating activities	(12,249,935)	(10,218,046)	(17,354,811)
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits	201,399	(201,399)	-
Termination costs on Realm sublease (Note 4)	(246,906)	-	-
Net cash used in investing activities	(45,507)	(201,399)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Advance on product development and relocation grant	-	-	5,192,799
Cash acquired on acquisition of Realm	22,244,248	-	-
Transaction costs on acquisition of Realm	(1,860,341)	-	-
Proceeds on financing	36,000,000	26,040,000	-
Share issuance costs	(2,362,329)	(2,174,826)	(211,073)
Proceeds on loan advance	-	-	8,000,000
Financing costs	-	-	(220,937)
Loan principal repaid	(2,808,823)	(1,991,378)	-
Interest paid	(401,929)	(563,298)	(436,944)
Options exercised	-	-	2,939
Net cash used in financing activities	50,810,826	21,310,498	12,326,784
Effect of foreign exchange on cash	(21,805)	(19,094)	117
Change in cash for the year	38,493,579	10,871,959	(5,027,910)
Cash, beginning of year	14,829,144	3,957,185	8,985,095
Cash, end of year	$ 53,322,723	$ 14,829,144	$ 3,957,185

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 (DEFICIENCY)
(Expressed in United States dollars)

			Reserves				
	Number of shares	Share capital	Share-based payments	Warrants	Cumulative translation adjustment	Deficit	Total
Balance, September 30, 2016	1,454,848	$25,974,742	$ 3,496,221	$ 309,293	$ (2,076,479)	$(28,240,634)	$ (536,857)
Share issuance costs	250	5,375	(2,436)	-	-	-	2,939
Share-based payments	-	-	758,927	-	-	-	758,927
Loss for the year	-	-	-	-	-	(4,499,012)	(4,499,012)
Balance, September 30, 2017	1,455,098	$25,980,117	$ 4,252,712	$ 309,293	$ (2,076,479)	$(32,739,646)	$ (4,274,003)
Financing	4,321,000	17,284,000	-	8,756,000	-	-	26,040,000
Share issuance costs	-	(3,058,120)	-	672,221	-	-	(2,385,899)
Share-based payments	-	-	1,401,414	-	-	-	1,401,414
Loss for the year	-	-	-	-	-	(11,629,440)	(11,629,440)
Balance, September 30, 2018	5,776,098	$40,205,997	$ 5,654,126	$ 9,737,514	$ (2,076,479)	$(44,369,086)	$ 9,152,072
Acquisition of Realm	6,718,150	15,989,197	-	-	-	-	15,989,197
Financing	6,080,596	12,161,192	-	23,838,808	-	-	36,000,000
Share issuance costs	-	(901,298)	-	(1,764,982)	-	-	(2,666,280)
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	-	-	-	-	-	(10,441,865)	(10,441,865)
Balance, September 30, 2019	20,762,374	$76,212,154	$ 6,800,833	$23,055,344	$ (2,076,479)	$(54,810,951)	$ 49,180,901

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Nature and Continuance 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 26th 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", and on the Toronto Venture Exchange ("TSX-V") under the symbol "EPI".

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, 2019, no products are in commercial production or use. Since September 2017, the Company has been focused on preclinical development of its next-generation compounds, and in March 2019 announced the selection of EPI-7386 as a final Investigational New Drug candidate. Prior to that, the Company's primary activity was the Phase I clinical development of clinical candidate EPI-506, which was discontinued on September 11, 2017.

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).

Share Consolidation

Effective April 25, 2018, the Company consolidated its issued and outstanding common shares on the basis of one post-consolidation share for 20 pre-consolidation shares. Unless otherwise stated, all share and per share amounts have been restated retrospectively to reflect this share consolidation.

Going Concern

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") assuming the Company will continue on a going-concern basis. The Company has incurred losses and negative operating cash flows since inception. The Company incurred a net loss of $10,441,865 during the year ended September 30, 2019 and has an accumulated deficit of $54,810,951. The ability of the Company to continue as a going concern in the long-term depends upon its ability to develop profitable operations and to continue to obtain adequate financing. As at September 30, 2019, the Company has not advanced its research into a commercially viable product. The Company's continuation as a going concern is dependent upon the successful development of its NTD Technology to a commercial standard. During the year ended September 30, 2019, the Company completed a financing and acquired capital resources in the Realm Acquisition which are anticipated to provide funds to deliver on an operating plan through the next fiscal year and beyond.

The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. The Company's operations and research programs are dependent on the Company's ability to receive financial support once the current resources have been depleted.

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

2. BASIS OF PRESENTATION (cont'd…)

Basis of Presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

All amounts expressed in these 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

Subsidiaries

Subsidiaries are all entities over which the Company has exposure to variable returns from its involvement and has the ability to use power over the investee to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases.

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:

	Country of Incorporation	Effective Interest	Functional Currency
ESSA Pharmaceuticals Corp.	USA	100%	US Dollar
Realm Therapeutics plc [1]	United Kingdom	100%	Pound Sterling
Realm Therapeutics Inc. [1]	USA	100%	US Dollar

[1] In the process of liquidation and dissolution as at September 30, 2019.

Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual results may differ from these estimates and assumptions.

2. BASIS OF PRESENTATION (cont'd…)

Estimates and Judgments (cont'd…)

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:

Intangible Assets – impairment

The application of the Company's accounting policy for intangible assets expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available.

Following initial recognition, the Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on a straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

Product development and relocation grant

Pursuant to the terms of the Company's grant from the Cancer Prevention Research Institute of Texas ("CPRIT"), the Company has met certain terms and conditions as detailed in Note 18 to qualify for the grant funding. The Company has therefore recognized in profit or loss, as recoveries of research and development expenditures, a portion of the grant that represents expenses the Company has incurred to date under the grant parameters. The expenses are subject to assessment by CPRIT for compliance with the grant regulations which may result in certain expenses being denied.

Long-term debt

The Company has made certain estimates regarding the expected timing of and value of cash flows with respect to long-term debt. The estimates will fluctuate in accordance with changes in interest rates and any prepayments made, should the Company elect to do so (Note 8).

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.

2. BASIS OF PRESENTATION (cont'd…)

Estimates and Judgments (cont'd…)

Functional Currency

The functional currency of the Company and its subsidiaries is the currency of their respective primary economic environment, and the Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment. The functional currencies of the Company's entities have been judged as detailed in Note 2.

Acquisition of Realm

The acquisition of Realm required management to make a judgment as to whether Realm constituted a business combination or an asset acquisition under the definitions of IFRS 3. The assessment required management to assess the inputs, processes and ability of Realm to produce outputs at the time of acquisition. Pursuant to the assessment, Realm was considered an asset acquisition (Note 4).

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 has applied estimates with respect to the valuation of pre-funded warrants issued for cash. Pre-funded warrants are valued at an amount equal to the cash proceeds received.

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 Company has made reference to prices quoted on the TSX-V and NASDAQ. The assumptions and models used for estimating fair value for share-based payment transactions are discussed in Note 11.

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign exchange

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

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. Exchange gains and losses, including results of re-translation, are recorded in the foreign currency translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Equipment

The Company acquired office and computer equipment for use in its research and business activities.

Depreciation has been recognized using the straight-line method at the rate of 30% per annum for computer equipment and 20% for office equipment.

Intangible assets

The Company owns intangible assets consisting of patent licences. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

The Company does not hold any intangible assets with indefinite lives.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in general and administrative expenses.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use to September 15, 2030.

Impairment of long-lived assets

The Company's long-lived assets are reviewed for indications of impairment at the date of preparing each statement of financial position. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying value of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or group of assets. For the purpose of impairment testing, the Company determined it has one cash-generating unit.

The recoverable amount is the greater of the asset's fair value less cost to sell and value in use. In assessing fair value less cost to sell for the cash-generating unit, the Company's market capitalization is considered.

Provisions

Provisions are recorded when a present legal, statutory or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, if the effect is material, its carrying amount is the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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 profit or loss in reduction thereof 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 in profit or loss 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.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria will be deemed by the Company to have been met when revenue is received by the Company and a determination that it has sufficient resources to market and sell its product offerings. Upon a determination that the criteria to capitalize development expenditures have been met, the expenditures capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures will be expensed as incurred.

Capitalized development expenditures will be measured at cost less accumulated amortization and accumulated impairment losses. No development costs have been capitalized to date.

Financial instruments

On October 1, 2018, the Company adopted IFRS 9 *Financial Instruments* ("IFRS 9"), which was issued by the IASB in October 2010. IFRS 9 incorporates revised requirements for the classification and measurement of financial liabilities and carrying over the existing derecognition requirements from IAS 39 *Financial Instruments: recognition and measurement*. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. There was no impact to the Company's financial instruments resulting from the adoption of IFRS 9.

<u>Financial assets</u>

The Company classifies its financial assets in the following categories: fair value through profit or loss, amortized cost or fair value through other comprehensive income. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Financial assets (cont'd…)

Amortized cost

Financial assets are classified at amortized cost if both of the following criteria are met and the financial assets are not classified or designated as at fair value through profit and loss: 1) the Company's objective for these financial assets is to collect their contractual cash flows and 2) the asset's contractual cash flows represent 'solely payments of principal and interest'. The Company's cash and receivables are recorded at amortized cost as they meet the required criteria.

Fair value through other comprehensive income ("OCI")

For financial assets that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at fair value through other comprehensive income ("FVOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. Under this new FVOCI category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. On disposal of the investment the cumulative change in fair value is not recycled to profit or loss, rather transferred to deficit. The Company does not have any financial assets designated as FVOCI.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

Amortized cost: This category consists of liabilities carried at amortized cost using the effective interest method.

The Company's accounts payable and accrued liabilities and long-term debt are classified as amortized cost. The derivative liabilities are classified as fair value through profit or loss.

Financial instrument disclosures

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).

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Share-based payments

Share based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments granted to non-employees are accounted for as equity settled share-based payment transactions and measured at the fair value of goods and services received. If the fair value of the goods or services received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or services.

Share-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

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 vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

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.

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 or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

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; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(Expressed in United States dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes (cont'd…)

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.

IFRS 15 *Revenue from Contracts with Customers*

On October 1, 2018, the Company adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. IFRS 15 did not have an impact on the Company's financial statements.

New standards not yet adopted

IFRS 16 Leases

IFRS 16 *Leases* ("IFRS 16") is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. On adoption of IFRS 16, the Company expects to capitalize leases currently disclosed in Note 18 resulting in an increase in lease liabilities and corresponding right-of-use assets of $165,500.

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 New ESSA Shares issued on July 31, 2019 was $15,989,197.

Realm is not considered to be a business under IFRS 3 *Business Combinations*; accordingly, the Realm Acquisition is accounted for as an asset acquisition.

Consideration:	
6,718,150 common shares	$ 15,989,197
Transaction costs	1,925,145
	17,914,342
Net assets of Realm acquired:	
Cash	22,244,248
Receivables and other current assets	240,000
Accounts payable and accrued liabilities	(2,236,952)
Total net assets	20,247,296
Gain on Realm Acquisition	$ 2,332,954

(Expressed in United States dollars)

4. REALM ACQUISITION (cont'd…)

Included in accounts payable and accrued liabilities is $246,906 in costs associated with the termination of Realm's office lease, which was completed in September 2019, and $300,000 in taxes payable.

5. PREPAID EXPENSES

		2019		2018
Prepaid insurance	$	524,257	$	381,098
Other deposits and prepaid expenses		91,228		89,056
Balance	$	615,485	$	470,154

6. EQUIPMENT

		Furniture and fixtures		Computer equipment		Total
Cost						
Balance, September 30, 2017	$	154,318	$	43,359	$	197,677
Disposals		(154,318)		(43,359)		(197,677)
Balance, September 30, 2018 and 2019	$	-	$	-	$	-
Accumulated Amortization						
Balance, September 30, 2017	$	70,539	$	27,256	$	97,795
Amortization expense		12,567		3,623		16,190
Disposals		(83,106)		(30,879)		(113,985)
Balance, September 30, 2018 and 2019	$	-	$	-	$	-
Net Book Value						
Balance, September 30, 2018	$	-	$	-	$	-
Balance, September 30, 2019	$	-	$	-	$	-

Amortization expense has been recorded in "general and administrative expenses" in the statement of loss and comprehensive loss (Note 19). In the year ended September 30, 2018, the Company disposed of all equipment for $nil proceeds due to office restructuring and recorded a loss on disposal of $83,692.

7. INTANGIBLE ASSETS

		NTD Technology
Cost		
Balance, September 30, 2017, 2018 and 2019	$	361,284
Accumulated Amortization		
Balance, September 30, 2017	$	123,958
Amortization expense		18,298
Balance, September 30, 2018	$	142,256
Amortization expense		18,297
Balance, September 30, 2019	$	160,553

(Expressed in United States dollars)

7. INTANGIBLE ASSETS (cont'd…)

		NTD Technology
Net Book Value		
Balance, September 30, 2018	$	219,028
Balance, September 30, 2019	$	200,731

Amortization expense has been recorded in "general and administrative expenses" in the statement of loss and comprehensive loss (Note 19).

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.

8. 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 has drawn 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 bears an interest rate of the Wall Street Journal Prime Rate ("WSJ Prime Rate") plus 3% per annum and will mature on September 1, 2020. The SVB Term Loan requires 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 contains 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.

The SVB Term Loan is secured by a perfected first priority lien on all of the Company's assets, with a negative pledge on the Company's intellectual property. The SVB Term Loan is subject to standard events of default, including default in the event of a material adverse change. SVB may declare the Company to be in breach of the agreement in the event of a material adverse change, which has been defined to include a material impairment in the Company's assets acting as collateral under the SVB Term Loan, a material adverse change in the business, operations, or condition (financial or otherwise) of the Company, or a material impairment of the prospect of repayment of any portion of its debt obligations. There are no financial covenants under the SVB Term Loan.

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 an initial fair value of $167,022, which has been recognized as a derivative liability (Note 9). 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 are being amortized into profit and loss over the estimated term of the facility, being the legal term, at an effective interest rate of 12.19% (2018 - 12.07%).

(Expressed in United States dollars)

8. LONG-TERM DEBT (cont'd…)

	SVB Term Loan
Balance, September 30, 2017	$ 7,959,680
Principal repaid	(1,991,378)
Interest paid	(563,298)
Accretion	911,959
Balance, September 30, 2018	$ 6,316,963
Principal repaid	(2,808,823)
Interest paid	(401,929)
Accretion	602,744
Balance, September 30, 2019	$ 3,708,955
Current portion	$ 3,708,955
Long-term portion	$ -

The SVB Term Loan was paid off in full subsequent to September 30, 2019 (Note 20).

9. DERIVATIVE LIABILITIES

Broker Warrants Denominated in Foreign Currency

In accordance with IFRS, an obligation to issue shares for a price that is not fixed in the Company's functional currency, and that does not qualify as a rights offering, must be classified as a derivative liability and measured at fair value with changes recognized in the statement of loss and comprehensive loss as they arise. The derivative liability was designated as a financial liability carried at fair value through profit and loss.

In April 2014, in connection with the issuance of a convertible debenture for $1,000,000, the Company issued 1,250 broker warrants valued at $14,935 (C$16,394), each exercisable into one common share at a price of C$40.00 for a period of five years. As at September 30, 2019, the derivative liability had a fair value of $nil (2018 - $nil). The Company has recorded the resulting change in fair value of $nil (2018 - $206) in the statement of loss and comprehensive loss. These warrants expired unexercised during the year ended September 30, 2019.

2016 Warrants

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.

(Expressed in United States dollars)

9. **DERIVATIVE LIABILITIES** (cont'd…)

2016 Warrants (cont'd…)

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, in accordance with IFRS, 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. A liquidity discount of 20% has been applied to the per warrant fair value to account for the lack of marketability of the instruments. On January 13, 2018, the 2-Year Warrants expired unexercised. As at September 30, 2019, the 7-Year Warrants derivative liability had a fair value of $16,521 (2018 - $17,679). The Company has recorded the resulting change in fair value of $1,159 (2018 - $142,583) in the statement of loss and comprehensive loss.

SVB Warrants

In connection with the $8,000,000 draw on the SVB Term Loan (Note 8), 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. The holders of the SVB Warrants may elect, in lieu of exercising the SVB Warrants for cash, a cashless exercise option, in whole or in part, to receive common shares equal to the fair value of the SVB Warrants based on the number of SVB Warrants to be exercised multiplied by a five-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 SVB Warrant.

Additionally, the SVB Warrants contain provisions which require the Company to redeem the SVB Warrants, on a cashless basis, 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 ("Acquisition") where the Company's shareholders receive cash or shares or a combination thereof, and the five-day weighted average market price is greater than the exercise price.

The SVB Warrants are not traded in an active market. A liquidity discount of 20% has been applied to the per warrant fair value to account for the lack of marketability of the instruments. As at September 30, 2019, the SVB Warrants derivative liability had a fair value of $1,659 (2018 - $1,969). The Company has recorded the resulting change in fair value of $310 (2018 - $8,306) in the statement of loss and comprehensive loss.

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, 2018 and 2019:

	2019	2018
Risk-free interest rate	3.31%	3.06%
Expected life	3.31 years	4.29 years
Expected annualized volatility	74.7%	68.0%
Dividend	-	-

(Expressed in United States dollars)

9. DERIVATIVE LIABILITIES (cont'd…)

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 and expected volatility. If the market price were to increase by a factor of 10% this would increase the obligation by approximately $4,945 as at September 30, 2019. If the market price were to decrease by a factor of 10% this would decrease the obligation by approximately $4,316 as at September 30, 2019. If the volatility were to increase by 10%, this would increase the obligation by approximately $14,343 as at September 30, 2019. If the volatility were to decrease by 10%, this would decrease the obligation by approximately $9,569 as at September 30, 2019.

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

		Total
Balance, September 30, 2017	$	170,743
Change in fair value		(151,095)
Balance, September 30, 2018	$	19,648
Change in fair value		(1,469)
Balance, September 30, 2019	$	18,179
Derivatives with expected life of less than one year	$	-
Derivatives with expected life greater than one year	$	18,179

10. SHAREHOLDERS' EQUITY

Authorized

Unlimited common shares, without par value.

Unlimited preferred shares, without par value.

Effective April 25, 2018, the Company consolidated its issued and outstanding common shares on a basis of one post-consolidation share for 20 pre-consolidation shares. Unless otherwise stated, all share and per share amounts have been restated respectively to reflect this share consolidation.

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 financing costs of $687,510.

Realm Acquisition

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

10. SHAREHOLDERS' EQUITY (cont'd…)

January 2018 Financing

On January 9, 2018, the Company closed the first tranche of a brokered equity offering ("**January 2018 Financing**"), issuing 3,427,250 common shares and 1,654,000 pre-funded warrants at a price of $4.00 each, for total gross proceeds of $20,325,000. Each warrant is exercisable, for a nominal exercise price, into one common share of the Company for a period of five years. In connection with the first tranche of the January 2018 Financing, the Company paid a cash commission of $1,204,000, incurred other financing costs of $810,500 including $211,073 of deferred financing costs as at September 30, 2017, and issued 175,937 broker warrants each exercisable into one common share of the Company at a price of $4.00 per share for a period of five years. The broker warrants were valued at $495,033 using the Black-Scholes model with a risk-free interest rate of 2.33%, term of 5 years, volatility of 82.00%, and dividend rate of 0%.

Concurrently, the Company completed a non-brokered private placement of 168,750 common shares at $4.00 per share as purchased by certain directors of the Company for total gross proceeds of $675,000.

On January 16, 2018, the Company closed the second tranche of the January 2018 Financing, issuing 465,000 common shares and 535,000 pre-funded warrants at a price of $4.00 each, for total gross proceeds of $4,000,000. Each warrant is exercisable, for a nominal exercise price, into one common share of the Company for a period of five years. In connection with the second tranche of the January 2018 Financing, the Company paid a cash commission of $352,800, incurred other financing costs of $18,599, and issued 63,000 broker warrants each exercisable into one common share of the Company at a price of $4.00 per share for a period of five years. The broker warrants were valued at $177,188 using the Black-Scholes model with a risk-free interest rate of 2.36%, term of 5 years, volatility of 81.90%, and dividend rate of 0%. Furthermore, on January 16, 2018, the Company's agent partially exercised its over-allotment option for 260,000 additional common shares for additional proceeds to the Company of approximately $1,040,000.

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.

In connection with the January 2018 Financing, Omega Fund IV, L.P. ("**Omega**") acquired 465,000 common shares and 535,000 pre-funded warrants (exercised during the year). Pursuant to the terms of a nomination rights agreement between the Company and Omega, Omega was entitled to nominate one director to the board of directors of the Company, so long as Omega held at least 9.99% of the issued and outstanding common shares; these nomination rights expired during the year ended September 30, 2019.

11. RESERVES

Equity incentive plans

Stock option plan

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.

11. RESERVES (cont'd…)

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, 2019, there are no RSUs outstanding.

As at September 30, 2019 the Stock Option Plan and RSU Plan have a combined maximum of 2,563,991 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. A Purchase Right will have a purchase period of between three and 24 months. Purchase Rights are administered by the Board of Directors within the terms and limitations of employee participation. As at September 30, 2019, there are no Purchase Rights outstanding.

As at September 30, 2019, the ESPP has a maximum of 284,447 common shares reserved for issuance.

Stock options

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price*
Balance, September 30, 2016	203,126	$ 42.81
Options exercised	(250)	(12.41)
Options expired/forfeited	(17,000)	(39.71)
Balance, September 30, 2017	185,876	$ 44.53
Options granted	803,400	3.94
Options expired/forfeited	(88,817)	(21.83)
Balance, September 30, 2018	900,459	$ 4.80
Options granted	255,000	3.77
Options expired/forfeited	(32,998)	(4.10)
Balance outstanding, September 30, 2019	1,122,461	$ 4.59
Balance exercisable, September 30, 2019	397,370	$ 5.88

*Options exercisable in Canadian dollars as at September 30, 2019 are translated at current rates to reflect the current weighted average exercise price in US dollars for all outstanding options.

(Expressed in United States dollars)

11. RESERVES (cont'd…)

Stock options (cont'd…)

At September 30, 2019, options were outstanding enabling holders to acquire common shares as follows:

Exercise price		Number of options	Weighted average remaining contractual life (years)
$	2.20	5,000	9.70
$	3.58	12,000	9.06
$	3.81	193,000	9.37
$	4.00	552,500	8.22
C$	4.90	286,000	8.07
C$	5.06	45,000	9.37
C$	40.00	28,961	0.02*
		1,122,461	8.23

* 26,461 options expired unexercised subsequent to September 30, 2019.

Share-based compensation

During the year ended September 30, 2019, the Company granted a total of 255,000 (2018 – 803,400; 2017 - Nil) stock options with a weighted average fair value of $3.00 per option (2018 – $3.08; 2017 - $Nil).

During the year ended September 30, 2018, the Company amended the exercise prices and expiry dates of 83,350 outstanding stock options to exercise prices of either C$4.90 or $4.00 and expiry dates ranging from October 1, 2023 to August 9, 2026. This resulted in additional share-based payments expense of $78,747 for the year ended September 30, 2018. The weighted average assumptions used for the Black-Scholes valuation of the modified options were annualized volatility of 77.80%, risk-free interest rate of 2.66%, expected life of 7.28 years and a dividend rate of nil%.

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, 2019 and 2018 with allocations to its functional expense as follows:

		2019		2018		2017
Research and development expense (Note 19)	$	304,786	$	324,528	$	(3,870)
General and administrative (Note 19)		841,921		1,076,886		762,797
	$	1,146,707	$	1,401,414	$	758,927

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

	2019	2018	2017
Risk-free interest rate	2.55%	2.37%	-
Expected life of options	10.00 years	10.00 years	-
Expected annualized volatility	79.33%	80.89%	-
Dividend	-	-	-

11. RESERVES (cont'd…)

Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price*
Balance, September 30, 2016	354,977	$ 65.60
Warrants granted	7,477	42.80
Warrants expired	(12,818)	55.00
Balance, September 30, 2017	349,636	$ 65.38
Warrants granted	2,427,937	0.40
Warrants expired	(113,636)	66.00
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 outstanding and exercisable, September 30, 2019	12,393,092	$ 1.31

*Warrants exercisable in Canadian dollars as at September 30, 2019 are translated at current rates to reflect the current weighted average exercise price in US dollars for all outstanding warrants.

At September 30, 2019, warrants were outstanding enabling holders to acquire common shares as follows:

Number of Warrants		Exercise Price	Expiry Date
227,273	(1)	US$66.00	January 14, 2023
7,477		US$42.80	November 18, 2023
175,938		US$4.00	January 9, 2023
63,000		US$4.00	January 16, 2023
11,919,404		US$0.0001	August 23, 2024
12,393,092			

(1) Detailed terms of the 2016 Warrants are included in Note 9.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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. The pre-funded warrants were issued in connection with the January 2018 Financing (Note 10);

b) incurred $64,804 in transaction costs through accounts payable and accrued liabilities (Note 4); and

c) incurred $303,951 in share issuance costs through accounts payable and accrued liabilities.

During the year ended September 30, 2018, the Company issued broker warrants valued at $672,221 in connection with the January 2018 Financing (Note 10).

(Expressed in United States dollars)

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

During the year ended September 30, 2017, the Company:

(a) Issued warrants valued at $167,022 in connection with the SVB Term Loan (Note 8).

(b) On exercise of stock options, the Company transferred $2,436 from reserves to share capital.

13. RELATED PARTY TRANSACTIONS

Key management personnel of the Company include the President and Chief Executive Officer ("CEO"), Executive VP and Chief Operating Officer ("COO"), Chief Financial Officer ("CFO"), Chief Technical Officer, Chief Scientific Officer, Chief Medical Officer ("CMO"), former Executive VP of Research and Development, and Directors of the Company. Compensation paid to key management personnel is as follows:

	2019	2018	2017
Salaries, consulting fees, and director fees	$ 2,107,096	$ 2,439,422	$ 2,179,826
Share-based payments, net of cancellations [a]	1,006,143	1,429,053	770,222
Total compensation	$ 3,113,239	$ 3,868,475	$ 2,950,048

[a] Share-based payments to related parties represents the fair value of options granted and vested in the period to key management personnel net of expense reversed for options cancelled before vesting.

During the year ended September 30, 2019, the Company modified nil (2018 – 73,000; 2017 – Nil) options held by and granted 202,000 (2018 – 682,000; 2017 - Nil) options to key management personnel. The vesting of these options and options granted to key management personnel in prior periods were recorded as share-based payments expense in the statement of loss and comprehensive loss at a value of $1,006,143 (2018 - $1,429,053; 2017 - $770,222).

Included in accounts payable and accrued liabilities at September 30, 2019 is $108,331 (2018 - $128,035) 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.

Commitments

The CEO is entitled to a payment of one year of base salary upon termination without cause. Additionally, the CEO is entitled to 18 months of salary if termination without cause occurs after a change of control event or within 60 days prior to a change of control event where such event was under consideration at the time of termination. The CFO, COO and CMO are entitled to a payment of one year of base salary upon termination without cause. Additionally, the CFO, COO and CMO are entitled to 18 months of salary if termination without cause occurs within 18 months after a change of control event.

Stock options held by the CEO, CFO, COO, and CMO vest immediately upon a change of control.

(Expressed in United States dollars)

14. INCOME TAXES

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

For the years ended September 30	2019	2018	2017
Loss for the year before income tax	$ (10,403,945)	$ (11,602,411)	$ (4,382,621)
Expected income tax recovery	$ (2,688,000)	$ (3,104,000)	$ (1,139,000)
Non-deductible share-based payments	310,000	378,000	233,000
Acquisition gain	(1,297,000)	-	-
Other permanent differences including foreign exchange	7,000	(41,000)	(1,899,000)
Financing costs	(720,000)	(638,000)	(142,000)
Changes in statutory and foreign tax rates and other	443,920	(463,000)	15,000
Adjustment to prior year provision versus statutory return	(196,000)	290,000	(490,000)
Change in unrecognized deductible temporary differences	4,178,000	3,605,029	3,538,391
Total income tax expense	$ 37,920	$ 27,029	$ 116,391

The significant components of the Company’s unrecognized temporary tax differences are as follows:

	2019	2018	2017
Operating losses carried forward	$ 67,215,000	$ 53,568,000	$ 43,306,000
Investment tax credits	149,000	149,000	154,000
Equipment and intangible assets	85,000	128,000	71,000
Financing costs	5,832,000	2,771,000	1,710,000

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 substantively 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, 2019 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 expense of $37,920 for the year ended September 30, 2019 (2018 - $27,029 2017 - $116,391) in relation to taxable income generated by its US subsidiary.

15. SEGMENTED INFORMATION

The Company works in one industry being the development of small molecule drugs for prostate cancer. The Company’s equipment was located in the USA.

16. CAPITAL MANAGEMENT

The Company considers its capital to include working capital, long-term debt and the components of shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms. Future financings are dependent on market conditions and the ability to identify sources of investment. There can be no assurance the Company will be able to raise funds in the future.

There were no changes to the Company's approach to capital management during the year ended September 30, 2019. As at September 30, 2019, the Company is not subject to externally imposed capital requirements. Subsequent to September 30, 2019, the Company repaid the SVB Term Loan in full (Note 20).

17. FINANCIAL INSTRUMENTS AND RISK

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, long-term debt and derivative liabilities. The fair value of cash, receivables and accounts payable and accrued liabilities approximates their carrying values due to their short term to maturity. The fair value of the SVB Term Loan is approximately $3,926,075 which includes the principal and financing costs assessed on settlement as at September 30, 2019. The derivative liabilities are measured using level 3 inputs (Note 9).

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 receivables. The Company's receivables are primarily due to refundable GST and investment tax credits. The Company limits its exposure to credit loss by placing its cash with major financial institutions. Credit risk with respect to investment tax credits and GST is minimal as the amounts are due from government agencies.

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, 2019, the Company had a working capital of $48,724,264. The SVB Term Loan is repayable over a 33-month period ending September 1, 2020. The Company does not generate revenue and will be reliant on external financing to fund operations and repay the SVB Term Loan. 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.

17. FINANCIAL INSTRUMENTS AND RISK (cont'd…)

Financial risk factors (cont'd…)

Market risk (cont'd…)

(a) Interest rate risk

As at September 30, 2019, the Company has cash balances 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.

The Company's SVB Term Loan is interest-bearing debt at a variable rate. A 10% change in the WSJ Prime Rate would result in an increase of $11,371 or decrease of $40,146 in the net loss realized for the year.

(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 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 would result in a fluctuation of $21,465 in the net loss realized for the period. The Company does not currently engage in hedging activities.

(c) Price risk

The Company is exposed to price risk with respect to equity prices. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

18. COMMITMENTS

Product Development and Relocation Grant

In February 2014 the Company received notice that it had been awarded a product development and relocation grant by CPRIT whereby the Company is eligible to receive up to $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. The funding under CPRIT is subject to a number of conditions including negotiation and execution of an award contract which details the milestones that must be met to release the tranched CPRIT funding, proof the Company has raised the 50% matching funds to release CPRIT monies, and relocation of the project to the State of Texas such that the substantial functions of the Company related to the project grant are in Texas and the Company uses Texas-based subcontractor and collaborators wherever possible.

As at September 30, 2016, the Company had received the first two tranches of the CPRIT Grant, totalling $6,578,000, which have been recognized as research and development recoveries in the statements of loss and comprehensive loss over fiscal years 2014, 2015, and 2016. During the year ended September 30, 2017, the Company received $5,192,799, representing a partial payment of the third and final tranche of the grant of $5,422,000. The remaining balance of $229,201 has been recorded as a receivable as at September 30, 2018 and 2019.

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.

(Expressed in United States dollars)

18. COMMITMENTS (cont'd…)

Product Development and Relocation Grant (cont'd…)

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.

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

Contractual obligations	2020	2021	2022	2023	2024
Minimum annual royalty per License Agreement (Note 7)	C$ 85,000	C$ 85,000	C$ 85,000	C$ 85,000	C$ 85,000
SVB loan payments (Note 8)	$ 4,045,500	$ -	$ -	$ -	$ -
Lease on US office spaces	$ 119,383	$ 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 lead agent on all future financings occurring up to 12 months following the termination of the agreement.

19. EXPENSES BY NATURE

Research and development expenses include the following major expenses by nature:

For the year ended September 30	2019	2018	2017
Clinical	$ 80,021	$ 1,177,179	$ 2,623,636
Consulting	301,817	624,879	935,151
Legal patents and license fees	781,133	561,099	834,295
Manufacturing	946,705	219,526	3,571,106
Other	111,750	40,845	187,228
Pharmacology	-	372,509	407,373
Preclinical	2,789,753	446,748	-
Research grants and administration	254,970	385,085	(38,534)
Royalties	65,405	66,929	48,863
Salaries and benefits	1,012,344	845,428	2,213,655
Share-based payments (Note 11)	304,786	324,528	(3,870)
Travel	47,550	37,781	140,262
CPRIT Grant claimed on eligible expenses (Note 18)	-	(229,201)	(5,192,799)
Total	$ 6,696,234	$ 4,873,335	$ 5,726,366

(Expressed in United States dollars)

19. EXPENSES BY NATURE (cont'd…)

General and administrative expenses include the following major expenses by nature:

For the year ended September 30	2019	2018	2017
Amortization (Notes 6 and 7)	$ 18,297	$ 34,488	$ 46,145
Consulting and subcontractor fees	142,780	96,986	86,931
Director fees	252,000	196,472	191,500
Insurance	471,852	449,972	395,690
Investor relations	319,373	235,416	230,579
Office, IT and communications	155,208	216,714	187,364
Professional fees	675,412	860,435	612,865
Regulatory fees and transfer agent	91,764	150,913	74,600
Rent	192,479	415,744	470,716
Salaries and benefits	2,072,746	2,010,613	1,863,634
Share-based payments (Note 11)	841,921	1,076,886	762,797
Travel and entertainment	239,654	184,032	218,100
Total	$ 5,473,486	$ 5,928,671	$ 5,140,921

20. SUBSEQUENT EVENTS

SVB Term Loan Repayment

Subsequent to September 30, 2019, the Company repaid the SVB Term Loan (Note 8) in full totalling $3,652,471, comprising $2,953,968 in principal, $10,503 in accrued interest, and the Final Payment of $688,000.

Stock Options

On October 4, 2019, the Company granted 1,441,530 stock options to directors, officers, employees and consultants at an exercise price of $3.23 for a period of 10 years. Additionally, the board of directors approved an amended stock option and amended restricted share unit plan to provide for a maximum of 6,251,469 common shares. The Company granted 2,551,470 stock options under the amended stock option plan to certain employees at a weighted average price of $3.23 for a period of 10 years. Options granted under the amended stock option plan may not be exercised by the optionees until the amended plan is approved by the shareholders and regulators.

On October 17, 2019, the Company amended 42,000 stock options held by a former director such that they were immediately vested, and the expiry date was extended for a period of one year from date of resignation.

On October 30, 2019, the Company granted 225,000 stock options to non-executive members of the board of directors at an exercise price of $4.67 for a period of 10 years.