

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

**ESSA Pharma Inc.**



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

**FOR THE YEARS ENDED SEPTEMBER 30, 2022 and 2021**

**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, 2022 and 2021, and the related consolidated statements of operations and comprehensive loss, cash flows, and changes in shareholders’ equity for the years ended September 30, 2022 and 2021, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2022 and 2021, and the results of its operations and its cash flows for the years ended September 30, 2022 and 2021 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 entity’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement 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.



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***Critical Audit Matters***

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

We have not identified any critical audit matters for the years ended September 30, 2022 and 2021.

We have served as the Company's auditor since 2012.

**/s/ DAVIDSON & COMPANY LLP**

Vancouver, Canada

Chartered Professional Accountants

December 12, 2022

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

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 57,076,475	\$ 137,825,024
Short-term investments (Note 4)	110,161,029	57,102,159
Receivables	6,211	489,012
Prepays (Note 5)	1,815,626	2,181,882
	<u>169,059,341</u>	<u>197,598,077</u>
Deposits	259,455	259,455
Operating lease right-of-use assets (Note 7)	186,499	308,286
<b>Total assets</b>	<b><u>\$ 169,505,295</u></b>	<b><u>\$ 198,165,818</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 6)	\$ 2,176,565	\$ 3,808,944
Current portion of operating lease liabilities (Note 7)	133,834	120,719
	<u>2,310,399</u>	<u>3,929,663</u>
Operating lease liabilities (Note 7)	76,418	210,251
Derivative liabilities (Note 8)	—	20,352
<b>Total liabilities</b>	<b><u>2,386,817</u></b>	<b><u>4,160,266</u></b>
<b>Shareholders' equity</b>		
Authorized		
Unlimited common shares, without par value		
Unlimited preferred shares, without par value		
Common shares 44,073,076 issued and outstanding (September 30, 2021 – 43,984,346) (Note 9)	278,089,136	277,415,176
Additional paid-in capital (Note 9)	44,043,503	36,442,620
Accumulated other comprehensive loss	(2,135,145)	(2,076,479)
Accumulated deficit	<u>(152,879,016)</u>	<u>(117,775,765)</u>
	<u>167,118,478</u>	<u>194,005,552</u>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 169,505,295</u></b>	<b><u>\$ 198,165,818</u></b>

**Nature of operations (Note 1)**

**Commitments (Note 15)**

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>2022</u>	<u>2021</u>
<b>OPERATING EXPENSES</b>		
Research and development	\$ 24,415,246	\$ 24,258,989
Financing costs (Note 7)	13,746	22,220
General and administration	12,544,760	12,884,581
Total operating expenses	(36,973,752)	(37,165,790)
Foreign exchange	1,687	(16,041)
Interest and other income	1,736,641	234,997
Derivative liability gain (Note 8)	20,352	107,024
Loss for the year before taxes	(35,215,072)	(36,839,810)
Income tax recovery (Note 11)	111,821	34,349
<b>Net loss for the year</b>	(35,103,251)	(36,805,461)
<b>OTHER COMPREHENSIVE LOSS</b>		
Unrealized loss on short-term investments (Note 4)	(58,666)	—
<b>Loss and comprehensive loss for the year</b>	\$ (35,161,917)	\$ (36,805,461)
<b>Basic and diluted loss per common share</b>	\$ (0.80)	\$ (0.96)
<b>Weighted average number of common shares outstanding – basic and diluted</b>	44,038,241	38,480,378

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**

	<b>2022</b>	<b>2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (35,103,251)	\$ (36,805,461)
Items not affecting cash and cash equivalents:		
Amortization of right-of-use asset	121,787	109,464
Amortization of premiums/discounts on short-term investments, net	69,653	—
Accretion of lease liability	13,305	9,570
Derivative liability gain	(20,352)	(107,024)
Interest income	(894,233)	(76,056)
Unrealized foreign exchange	845	31,192
Share-based payments	7,888,085	9,476,113
Changes in non-cash working capital items:		
Receivables	482,801	(157,575)
Prepays	366,256	(563,572)
Accounts payable and accrued liabilities	(1,629,065)	2,667,738
Net cash used in operating activities	(28,704,169)	(25,415,611)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of short-term investments	(296,012,498)	(57,026,103)
Proceeds from short-term investments sold	242,959,084	22,000,000
Interest from short-term investments	705,020	11,337
Net cash used in investing activities	(52,348,394)	(35,014,766)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on issuance of common shares	—	149,999,985
Share issuance costs	—	(9,229,450)
Options exercised	319,832	1,186,833
Warrants exercised	—	596
Shares purchased through employee share purchase plan	66,926	133,071
Lease payments	(134,023)	(100,282)
Net cash provided by financing activities	252,735	141,990,753
Effect of foreign exchange on cash and cash equivalents	51,279	(56,115)
Change in cash and cash equivalents for the year	(80,748,549)	81,504,261
Cash and cash equivalents, beginning of year	137,825,024	56,320,763
Cash and cash equivalents, end of year	\$ 57,076,475	\$ 137,825,024

**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)

	<b>Number of shares</b>	<b>Common shares</b>	<b>Additional paid-in capital</b>	<b>Accumulated other comprehensive loss</b>	<b>Deficit</b>	<b>Total</b>
<b>Balance, September 30, 2020</b>	32,064,411	\$ 131,086,364	\$ 31,204,284	\$ (2,076,479)	\$ (80,970,304)	\$ 79,243,865
Financing	5,555,555	149,999,985	—	—	—	149,999,985
Share issuance costs	—	(9,229,450)	—	—	—	(9,229,450)
Warrants exercised	6,024,807	3,254,460	(3,253,864)	—	—	596
Options exercised	323,610	2,105,467	(918,634)	—	—	1,186,833
Shares issued through employee share purchase plan	15,963	198,350	(65,279)	—	—	133,071
Share-based payments	—	—	9,476,113	—	—	9,476,113
Loss and comprehensive loss for the year	—	—	—	—	(36,805,461)	(36,805,461)
<b>Balance, September 30, 2021</b>	43,984,346	\$ 277,415,176	\$ 36,442,620	\$ (2,076,479)	\$ (117,775,765)	\$ 194,005,552
Options exercised	72,910	568,854	(249,022)	—	—	319,832
Shares issued through employee share purchase plan	15,820	105,106	(38,180)	—	—	66,926
Share-based payments	—	—	7,888,085	—	—	7,888,085
Loss and comprehensive loss for the year	—	—	—	(58,666)	(35,103,251)	(35,161,917)
<b>Balance, September 30, 2022</b>	<u>44,073,076</u>	<u>\$ 278,089,136</u>	<u>\$ 44,043,503</u>	<u>\$ (2,135,145)</u>	<u>\$ (152,879,016)</u>	<u>\$ 167,118,478</u>

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”.

The Company is focused on the development of small molecule drugs for the treatment of prostate cancer. The Company has 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, 2022, no products are in commercial production or use.

## 2. BASIS OF PRESENTATION

### Basis of Presentation

These accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) on a going concern basis.

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

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 subsidiary.

#### *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 subsidiary 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

The liquidation and dissolution process for Realm Therapeutics plc and Realm Therapeutics Inc. were completed as at September 30, 2022. The consolidated financial statements also include the operations of Realm Therapeutics plc and Realm Therapeutics Inc. to the date of dissolution.



## 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.

### *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 9.

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

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

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

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

The Company's short-term investments consist of guaranteed investment certificates, U.S. treasury securities, corporate debt securities, commercial paper and term deposits with original maturities exceeding three months and less than one year. The investments are carried at fair value plus accrued interest.

#### **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.

#### **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 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 8).

### **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 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**

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 elected the short-term lease exemption for all leases that qualify; as a result, we will not recognize right-of-use assets or lease liabilities for leases with a term of less than 12 months at inception.

## **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 adopted**

During the year ended September 30, 2022, there have been no new, or existing, recently issued accounting pronouncements that are of significance, or potential significance, that impact the Company's consolidated financial statements.

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

Management does not believe that any recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the Company's consolidated financial statements.

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. 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 0.31%-3.45% per annum and have maturities of up to 12 months.

Short-term investments also consist of U.S. treasury securities, corporate debt securities and commercial paper. The Company has classified these investments as available-for-sale, as the sale of such investments may be required prior to maturity to implement management strategies, and therefore has classified all investment securities as current assets. Those investments with maturity dates of three months or less at the date of purchase are presented as cash equivalents in the accompanying balance sheets. Short-term investments are carried at fair value with the unrealized gains and losses included in accumulated other comprehensive loss as a component of shareholders’ equity (deficit) until realized. The Company records an allowance for credit losses when unrealized losses are due to credit-related factors. Realized gains and losses are calculated using the specific identification method and recorded as interest income.

As of September 30, 2022					
	Amortized Cost	Unrealized Gains	Unrealized Losses	Accrued Interest	Estimated Fair Value
GICs and Term deposits	\$ 89,688,690	\$ —	\$ —	\$ 316,960	\$ 90,005,650
U.S. Treasury securities	11,149,053	—	(39,590)	39,720	11,149,183
Corporate debt securities	3,034,417	—	(19,076)	29,258	3,044,599
Commercial paper	5,961,597	—	—	—	5,961,597
Balance, end of year	<u>\$ 109,833,757</u>	<u>\$ —</u>	<u>\$ (58,666)</u>	<u>\$ 385,938</u>	<u>\$ 110,161,029</u>

As of September 30, 2021					
	Amortized Cost	Unrealized Gains	Unrealized Losses	Accrued Interest	Estimated Fair Value
GICs and Term deposits	\$ 57,026,103	\$ —	\$ —	\$ 76,056	\$ 57,102,159
Balance, end of year	<u>\$ 57,026,103</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 76,056</u>	<u>\$ 57,102,159</u>

As of September 30, 2022, short-term investments have an aggregate fair market value of \$110.2 million (2021 – \$57.1 million) were in an aggregate gross unrealized loss position of \$58,665 (2021 - \$Nil). The Company considers the decline in market value for the securities to be primarily attributable to current economic and market conditions. These particular investments have been in an unrealized loss position for less than 12 months and it is not more likely than not that the Company will be required to sell any of its securities prior to maturity. Accordingly, no allowance for credit losses has been recorded as of September 30, 2022 and no realized gains or losses on sales of short-term investments have been recorded through September 30, 2022.

#### 5. PREPAIDS

	September 30, 2022	September 30, 2021
Prepaid insurance	\$ 1,611,516	\$ 1,751,052
Prepaid CMC and clinical expenses and deposits	181,835	240,513
Other deposits and prepaid expenses	22,275	190,317
Balance, end of year	<u>\$ 1,815,626</u>	<u>\$ 2,181,882</u>

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2022	September 30, 2021
Accounts payable	\$ 954,598	\$ 1,425,871
Accrued expenses	807,484	2,062,441
Accrued vacation	414,483	320,632
	<u>                    </u>	<u>                    </u>
Balance, end of year	<u>\$ 2,176,565</u>	<u>\$ 3,808,944</u>

## 7. OPERATING LEASE

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

### Operating lease right-of-use assets

Balance, September 30, 2020	\$ 55,162
Addition	362,588
Amortization	<u>(109,464)</u>
Balance, September 30, 2021	\$ 308,286
Amortization	<u>(121,787)</u>
Balance, September 30, 2022	<u>\$ 186,499</u>

### Operating lease liabilities

Balance, September 30, 2020	\$ 59,094
Addition	362,588
Accretion	9,570
Lease payments	<u>(100,282)</u>
Balance, September 30, 2021	\$ 330,970
Accretion	13,305
Lease payments	<u>(134,023)</u>
Balance, September 30, 2022	<u>\$ 210,252</u>
Operating lease liabilities with expected life of less than one year	\$ 133,834
Operating lease liabilities with expected life greater than one year	<u>\$ 76,418</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, 2022, the Company's incremental borrowing rate was 5.0% and the remaining lease term for the South Francisco office was 20 months and Houston office was 10 months.

Accretion expense of \$13,305 (2021 - \$9,570) have been recorded in "financing costs" in the statement of operations and comprehensive loss.

## 8. 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, 2022 and 2021:

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Risk-free interest rate	3.55 %	0.49 %
Expected life	0.28 years	1.28 years
Expected annualized volatility	73.3 %	86.0 %
Dividend	—	—
Liquidity discount	<u>20 %</u>	<u>20 %</u>

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

	<u>Total</u>
Balance, September 30, 2020	\$ 127,376
Change in fair value	<u>(107,024)</u>
Balance, September 30, 2021	\$ 20,352
Change in fair value	<u>(20,352)</u>
Balance, September 30, 2022	<u>\$ —</u>

## 9. SHAREHOLDERS' EQUITY

### *Authorized*

Unlimited common shares, without par value.

Unlimited preferred shares, without par value.

### *February 2021 Financing*

On February 22, 2021, the Company completed an underwritten public offering for aggregate gross proceeds of \$149,999,985 (the "February 2021 Financing"). The Company issued a total of 5,555,555 common shares of the Company at a public offering price of \$27.00 per share, which includes the underwriters having exercised their 30-day option to purchase an additional 724,637 common shares. In connection with the February 2021 Financing, the Company paid cash commissions of \$8,999,999 and incurred other transaction costs of \$229,451.

### *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.

### **Omnibus incentive plans**

The Company has adopted an omnibus incentive plan ("Omnibus Plan") consistent with the policies and rules of Nasdaq. Pursuant to the Omnibus Plan, the Company may issue stock options, share appreciation rights, restricted shares, restricted share units and other share-based awards. As of September 30, 2022, the Company has not issued any instruments other than stock options under the Omnibus Plan.

As of September 30, 2022, the Omnibus Plan has a maximum of 8,410,907 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, 2022, the ESPP has a maximum of 236,598 (2021 – 252,418) 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, 2022, the Company issued a total of 15,820 (2021 – 15,963) 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.

	For the year ended	
	September 30, 2022	2021
Research and development expense	\$ 16,381	\$ 32,299
General and administrative	13,562	36,132
	<u>\$ 29,943</u>	<u>\$ 68,431</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:

	2022	2021
Risk-free interest rate	0.94 %	0.19 %
Expected life of share purchase rights	6 months	6 months
Expected annualized volatility	89.42 %	61.54 %
Dividend	—	—

### Stock options

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:

	Number of Options	Weighted Average Exercise Price*
Balance, September 30, 2020	5,309,584	\$ 3.42
Options granted	1,889,646	9.87
Options exercised	(323,610)	(3.68)
Options expired/forfeited	(72,390)	(4.46)
Balance, September 30, 2021	6,803,230	\$ 5.20
Options granted	1,347,500	4.55
Options exercised	(72,910)	(4.41)
Options expired/forfeited	(175,759)	(3.60)
Balance outstanding, September 30, 2022	<u>7,902,061</u>	<u>\$ 5.13</u>
Balance exercisable, September 30, 2022	<u>4,628,477</u>	<u>\$ 4.59</u>

\* Options exercisable in Canadian dollars as at September 30, 2022 are translated at current rates to reflect the current weighted average exercise price in US dollars for all outstanding options.

At September 30, 2022, 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>
\$	2.39	50,000	9.96
\$	3.23	3,629,400	7.02
\$	3.59	26,667	7.05
\$	3.60	937,500	9.75
\$	3.81	185,816	6.36
\$	4.00	539,518	5.22
\$	4.67	183,511	7.09
\$	5.99	190,000	9.56
\$	7.00	1,475,146	8.20
\$	8.47	120,000	9.04
\$	9.76	50,000	9.39
\$	13.96	190,000	8.29
\$	29.63	100,000	8.58
\$	31.62	75,000	8.67
C\$	4.90	129,503	4.66
C\$	5.06	20,000	6.36
		<u>7,902,061</u>	<u>7.58</u>

### Share-based compensation

During the year ended September 30, 2022, the Company granted a total of 1,347,500 (2021 – 1,889,646) stock options with a weighted average fair value of \$3.20 per option (2021 – \$8.04).

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, 2022 and 2021 with allocations to its functional expense as follows:

	<u>For the year ended</u>	
	<u>September 30,</u>	<u>2021</u>
	<u>2022</u>	<u>2021</u>
Research and development expense	\$ 4,306,463	\$ 3,611,083
General and administrative	3,551,679	5,796,599
	<u>\$ 7,858,142</u>	<u>\$ 9,407,682</u>

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

	<u>2022</u>	<u>2021</u>
Risk-free interest rate	2.73 %	0.44 %
Expected life of options	10.00 years	10.00 years
Expected annualized volatility	79.11 %	78.16 %
Dividend	<u>—</u>	<u>—</u>

## Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2020	9,272,977	\$ 1.73
Warrants exercised	<u>(6,038,227)</u>	<u>(0.06)</u>
Balance outstanding and exercisable, September 30, 2021 and September 30, 2022	<u>3,234,750</u>	<u>\$ 4.84</u>

\* Warrants exercisable in Canadian dollars as at September 30, 2022 are translated at current rates to reflect the current weighted average exercise price in US dollars for all outstanding warrants.

At September 30, 2022, warrants were outstanding enabling holders to acquire common shares as follows:

Number of Warrants	Exercise Price	Expiry Date
227,273 <sup>(1)</sup>	US\$ 66.00	January 14, 2023
7,477	US\$ 42.80	November 18, 2023
80,000	US\$ 4.00	January 9, 2023
2,920,000	US\$ 0.0001	August 23, 2024
<u>3,234,750</u>		

<sup>(1)</sup> Detailed terms of the 2016 Warrants are included in Note 8.

## 10. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities at September 30, 2022 is \$81,225 (2021 - \$82,036) 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.

## 11. INCOME TAXES

The following is a reconciliation of income taxes calculated at the combined Canadian federal and provincial income statutory corporate tax rate of 27.0% (2021 – 27.0%) to the tax expense:

For the years ended September 30	2022	2021
Loss for the year before income tax	<u>\$ (35,215,072)</u>	<u>\$ (36,839,810)</u>
Tax recovery at statutory income tax rates	\$ (9,509,000)	\$ (9,947,000)
Non-deductible share-based payments	963,000	1,575,000
Taxable capital gains		
Other permanent differences including foreign exchange	(25,000)	(49,000)
Share issue costs	—	(2,492,000)
Change in statutory, foreign tax, foreign exchange rates and other	1,288,000	1,260,000
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	165,000	(725,000)
Change in valuation allowance	<u>7,007,000</u>	<u>10,344,000</u>
Total income tax expense	<u>\$ (111,000)</u>	<u>\$ (34,000)</u>

Tax attributes are subject to review, and potential adjustment, by tax authorities. The Company has recorded an income tax recovery of \$111,000 for the year ended September 30, 2022 (2021 recovery of \$34,000) in relation to taxable income generated by its US subsidiary.

For the years ended September 30, 2022 and 2021, 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 that have not been included on the consolidated statement of financial position are as follows:

Deferred tax assets	2022	2021
Operating losses carried forward	\$ 37,710,000	\$ 29,749,000
Equipment and intangible assets	77,000	77,000
Investment tax credits	29,000	29,000
Financing costs	2,026,000	3,025,000
Federal R&D credit	210,000	210,000
Other	<u>125,000</u>	<u>79,000</u>
	40,177,000	33,169,000
Valuation allowance	<u>(40,177,000)</u>	<u>(33,169,000)</u>
Net future tax assets	<u>\$ —</u>	<u>\$ —</u>

As at September 30, 2022, the Company has non-capital loss carry-forwards of approximately \$87,702,000 (2021 - \$78,416,000) available to offset future taxable income in Canada and approximately \$66,812,000 (2021 - \$40,843,000) available to offset future taxable income in the US. These non-capital loss carryforwards begin to expire in 2031.

## **12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

There were no significant non-cash financing or investing activities during the year ended September 30, 2022.

During the year ended September 30, 2021, the Company issued 81,303 common shares upon the cashless exercise of 94,723 pre-funded warrants.

## **13. 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.

## **14. FINANCIAL INSTRUMENTS AND RISK**

The Company's financial instruments consist of cash and cash equivalents, short-term investments, receivables, accounts payable and accrued liabilities and derivative liabilities. The fair value of cash and cash equivalents, GICs and term deposits included in short-term investments, receivables, accounts payable and accrued liabilities approximates their carrying values due to their short term to maturity. The fair value of U.S. treasury securities, corporate debt securities and commercial paper included in short-term investments are measured using Level 2 inputs based on standard observable inputs, including reported trades, broker/dealer quotes, and bids and/or offers (Note 4). The derivative liabilities are measured using Level 3 inputs (Note 8).

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 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. Short-term investments includes investments that may have maturity dates exceeding one year at the date of purchase; however, the Company may liquidate investment positions prior to maturity to implement management strategies. The Company maintains an investment policy which requires certain minimum investment grades over its investment instruments.

As of September 30, 2022, cash and cash equivalents consisted of cash in Canada and the United States and term deposits in Canada and investments in certain instruments which have a maturity of less than three months at the date of purchase. Balances in cash accounts 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, 2022, the Company had working capital of \$166,765,422. 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, 2022, 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, 2022 would result in a fluctuation of \$45,556 in the net loss recognized for the period. The Company does not currently engage in hedging activities.

## **15. COMMITMENTS**

### *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\$20,000 upon filing an Investigational New Drug (IND) Application, C\$50,000 at the start of a Phase 2 clinical trial, C\$900,000 at the start of a Phase 3 clinical trial, C\$1,450,000 at application for marketing approval, and with further milestone payments on the second and additional compounds. To date, the Company has paid C\$20,000 for filing an IND application for EPI-7386. The next milestone of C\$50,000 will be due upon initiation of the Phase 2 clinical trial for EPI-7386.

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

Contractual obligations	2023	2024	2025	2026	2027
Minimum annual royalty per License Agreement	C\$ 85,000	C\$ 85,000	C\$ 85,000	C\$ 85,000	C\$85,000
Lease on CDN office spaces	C\$ 55,275	C\$ —	C\$ —	C\$ —	C\$ —
Lease on US office spaces	\$ 136,866	\$ 81,509	\$ —	\$ —	\$ —

### *Collaborative agreements*

On January 13, 2021, the Company announced a clinical collaboration with Janssen Research & Development, LLC (“Janssen”) to evaluate EPI-7386 with abiraterone acetate with prednisone as well as the combination of EPI-7386 with apalutamide in patients with mCRPC. Under the terms of the agreement, Janssen may sponsor and conduct up to two Phase 1/2 studies evaluating the safety, tolerability and preliminary efficacy of the combination of EPI-7386 and apalutamide as well as the combination of EPI-7386 with abiraterone acetate plus prednisone in patients with mCRPC who have failed a current second-generation antiandrogen therapy. Janssen will assume all costs associated with the studies, other than the manufacturing costs associated with the clinical drug supply of EPI-7386. The parties will form a joint oversight committee for the clinical studies. ESSA will retain all rights to EPI-7386.

The combination trial was initiated in March 2022. Enrollment was suspended by Janssen in October 2022 due to operational recruitment challenges. ESSA has announced its intention to revise the collaboration, with ESSA conducting a study of the combinations, potentially in an earlier patient population, and Janssen supplying apalutamide and abiraterone acetate.

On February 25, 2021, the Company announced a clinical collaboration with Astellas Pharma Inc. (“Astellas”) to evaluate the combination of EPI-7386 and Astellas/Pfizer’s androgen receptor inhibitor, enzalutamide, for patients with mCRPC. Under the terms of the agreement, ESSA will sponsor and conduct a Phase 1/2 study to evaluate the safety, tolerability and preliminary efficacy of the combination of EPI-7386 and enzalutamide in mCRPC patients who have not yet been treated with second-generation antiandrogen therapies. Astellas will supply enzalutamide for the trial. ESSA will retain all rights to EPI-7386.

On April 28, 2021, the Company announced that it had entered into a clinical trial collaboration and supply agreement with Bayer Consumer Care AG (“Bayer”) to evaluate EPI-7386 in combination with Bayer’s androgen receptor inhibitor, darolutamide, in patients with mCRPC. Under the terms of the agreement, following review of certain clinical data, Bayer may sponsor and conduct a Phase 1/2 study to evaluate the safety, tolerability, pharmacokinetics and preliminary efficacy of the combination of EPI-7386 and darolutamide in mCRPC patients. ESSA will supply EPI-7386 for the trial and will retain all rights to EPI-7386.