Item 8. Financial Statements and Supplementary Data

ESSA Pharma Inc.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)

FOR THE YEARS ENDED SEPTEMBER 30, 2021, 2020 and 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
ESSA Pharma Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of ESSA Pharma Inc. (the "Company"), as of September 30, 2021 and 2020, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows for the years ended September 30, 2021, 2020, and 2019, 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 ESSA Pharma Inc. as of September 30, 2021 and 2020, and the results of its operations and its cash flows for the three years ended September 30, 2021 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of September 30, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) ("COSO") and our report dated November 18, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

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.

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the 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 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, 2021, 2020, and 2019.

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

/s/ DAVIDSON & COMPANY LLP

Vancouver, Canada

Chartered Professional Accountants

November 18, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
ESSA Pharma Inc.

Opinion on the Internal Controls Over Financial Reporting

We have audited ESSA Pharma Inc.'s (the "Company") internal controls over financial reporting as of September 30, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows for the years ended September 30, 2021, 2020, and 2019, and the related notes and our report dated November 18, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting of the annual report on Form 10-K dated November 18, 2021. Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DAVIDSON & COMPANY LLP

Vancouver, Canada — Chartered Professional Accountants

November 18, 2021

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

	2021	2020
ASSETS		
Current		
Cash and cash equivalents	$ 137,825,024	$ 56,320,763
Short-term investments (Note 5)	57,102,159	22,011,337
Receivables	489,012	309,538
Prepaids (Note 6)	2,181,882	1,600,128
Operating lease right-of-use assets (Note 8)	—	55,162
	197,598,077	80,296,928
Deposits	259,455	277,637
Operating lease right-of-use assets (Note 8)	308,286	—
Total assets	$ 198,165,818	$ 80,574,565
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 7)	$ 3,808,944	$ 1,144,230
Current portion of operating lease liabilities (Note 8)	120,719	59,094
	3,929,663	1,203,324
Derivative liabilities (Note 10)	20,352	127,376
Operating lease liabilities (Note 8)	210,251	—
Total liabilities	4,160,266	1,330,700
Shareholders' equity		
Authorized		
Unlimited common shares, without par value		
Unlimited preferred shares, without par value		
Common shares 43,984,346 issued and outstanding (September 30, 2020 – 32,064,411) (Note 11)	277,415,176	131,086,364
Additional paid-in capital (Note 11)	36,442,620	31,204,284
Accumulated other comprehensive loss	(2,076,479)	(2,076,479)
Accumulated deficit	(117,775,765)	(80,970,304)
	194,005,552	79,243,865
Total liabilities and shareholders' equity	$ 198,165,818	$ 80,574,565

Nature of operations (Note 1)
Commitments (Note 17)

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

	2021	2020	2019
OPERATING EXPENSES			
Research and development	$ 24,258,989	$ 12,145,968	$ 6,696,234
Financing costs (Notes 8 and 9)	22,220	618,109	602,744
General and administration	12,884,581	11,373,952	5,455,189
Total operating expenses	(37,165,790)	(24,138,029)	(12,754,167)
Foreign exchange	(16,041)	(44,851)	7,845
Interest income	234,997	559,719	26,251
Derivative liability gain (loss) (Note 10)	107,024	(110,856)	1,159
Loss for the year before taxes (Note 14)	(36,839,810)	(23,734,017)	(12,718,912)
Income tax recovery (expense)	34,349	288,647	(37,920)
Loss and comprehensive loss for the year	$ (36,805,461)	$ (23,445,370)	$ (12,756,832)
Basic and diluted loss per common share	$ (0.96)	$ (1.04)	$ (1.51)
Weighted average number of common shares outstanding – basic and diluted	38,480,378	22,443,893	8,433,441

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

	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year	$ (36,805,461)	$ (23,445,370)	$ (12,756,832)
Items not affecting cash and cash equivalents:			
Amortization of right-of-use asset	109,464	110,324	—
Accretion of lease liability	9,570	12,992	—
Derivative liability loss	(107,024)	110,856	(1,159)
Income tax recovery	—	(280,000)	—
Interest income	(76,056)	—	—
Finance expense	31,192	211,079	602,744
Unrealized foreign exchange	—	13,059	16,457
Share-based payments	9,476,113	7,522,608	1,146,707
Changes in non-cash working capital items:			
Receivables	(157,575)	89,938	(59,665)
Prepaids	(563,572)	(1,262,280)	(179,416)
Accounts payable and accrued liabilities	2,667,738	(46,358)	(1,014,049)
Income tax payable	—	(20,000)	(4,722)
Net cash used in operating activities	(25,415,611)	(16,983,152)	(12,249,935)
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits	—	274,085	201,399
Purchase of short-term investments	(57,026,103)	(22,011,337)	—
Proceeds from short-term investments sold	22,000,000	—	—
Interest from short-term investments	11,337	—	—
Net cash (used in) provided by investing activities	(35,014,766)	(21,737,252)	201,399
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash acquired on acquisition of Realm	—	—	22,244,248
Transaction costs on acquisition of Realm	—	(64,804)	(1,860,341)
Termination costs on Realm sublease	—	—	(246,906)
Proceeds on issuance of common shares	149,999,985	48,990,000	36,000,000
Share issuance costs	(9,229,450)	(3,447,954)	(2,362,329)
Options exercised	1,186,833	915	—
Warrants exercised	596	257,172	—
Shares purchased through employee share purchase plan	133,071	80,714	—
Lease payments	(100,282)	(119,384)	—
Loan principal repaid	—	(3,199,799)	(2,808,823)
Loan final payment paid	—	(688,000)	—
Interest and financing costs paid	—	(32,235)	(401,929)
Net cash provided by financing activities	141,990,753	41,776,625	50,563,920
Effect of foreign exchange on cash and cash equivalents	(56,115)	(58,181)	(21,805)
Change in cash and cash equivalents for the year	81,504,261	2,998,040	38,493,579
Cash and cash equivalents, beginning of year	56,320,763	53,322,723	14,829,144
Cash and cash equivalents, end of year	$ 137,825,024	$ 56,320,763	$ 53,322,723

Supplemental Disclosure with respect to Cash Flows (Note 12)

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

ESSA PHARMA INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in United States dollars)

	Number of shares	Common shares	Additional paid-in capital	Accumulated other comprehensive loss	Deficit	Total
Balance, September 30, 2018	5,776,098	$ 40,205,997	$ 15,573,597	$ (2,076,479)	$ (44,768,102)	$ 8,935,013
Acquisition of Realm	6,718,150	20,247,296	—	—	—	20,247,296
Financing	6,080,596	12,161,192	23,838,808	—	—	36,000,000
Share issuance costs	—	(2,826,443)	(1,764,982)	—	—	(4,591,425)
Pre-funded warrants exercised	2,187,530	8,757,066	(8,755,996)	—	—	1,070
Share-based payments	—	—	1,146,707	—	—	1,146,707
Loss for the year	—	—	—	—	(12,756,832)	(12,756,832)
Balance, September 30, 2019	20,762,374	$ 78,545,108	$ 30,038,134	$ (2,076,479)	$ (57,524,934)	$ 48,981,829
Financing	8,165,000	48,990,000	—	—	—	48,990,000
Share issuance costs	—	(3,136,949)	(7,054)	—	—	(3,144,003)
Warrants exercised	3,120,115	6,549,631	(6,292,459)	—	—	257,172
Options exercised	416	1,648	(733)	—	—	915
Shares issued through employee share purchase plan	16,506	136,926	(56,212)	—	—	80,714
Share-based payments	—	—	7,522,608	—	—	7,522,608
Loss for the year	—	—	—	—	(23,445,370)	(23,445,370)
Balance, September 30, 2020	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 for the year	—	—	—	—	(36,805,461)	(36,805,461)
Balance, September 30, 2021	43,984,346	$ 277,415,176	$ 36,442,620	$ (2,076,479)	$ (117,775,765)	$ 194,005,552

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 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". On October 30, 2020 the Company's common shares delisted in Canada from the TSX Venture Exchange.

The Company is focused on the development of small molecule drugs for the treatment of prostate cancer. The Company has acquired a license to certain patents (the "NTD Technology") which were the joint property of the British Columbia Cancer Agency and the University of British Columbia. As at September 30, 2021, no products are in commercial production or use.

Acquisition of Realm Therapeutics plc

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

2. BASIS OF PRESENTATION

Basis of Presentation

These accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

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

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

Basis of Consolidation and Functional Currency

Consolidation

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

Functional Currency

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

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

	Country of Incorporation	Effective Interest	Functional Currency
ESSA Pharma Inc.	Canada	—	US Dollar
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, 2021.

Use of Estimates

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

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

Income tax

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

Derivative financial instruments

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

Share-based payments and compensation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash in banks and high-interest savings accounts and 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 and term deposits with original maturities exceeding three months and less than one year. The investments are recorded at cost plus accrued interest, which approximates fair value.

Foreign exchange

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

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

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

Government assistance

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

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

Research and development costs

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

Fair Value of financial instruments

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

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

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

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

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either

directly (i.e., as prices) or indirectly (i.e., derived from prices); and

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

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

Share-based payments

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

Share-based compensation

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

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

Basic and diluted loss per share

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

Leases

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.

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.

Recent accounting pronouncements adopted

ASU 2018-18 – Collaborative Arrangements (Topic 808)

In November 2018, the FASB issued ASU 2018-18, "Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606". This ASU: (i) clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under ASC 606 when the collaborative arrangement participant is a customer, (ii) provides guidance specifying that a distinct good or service is the unit of account for evaluating whether a transaction is with a customer, and (iii) precludes a company from presenting transactions with a collaborative arrangement participant that are not in the scope of ASC 606 together with revenue from contracts with customers. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted this accounting standard as of October 1, 2020. The Company will present collaboration revenue separate from product revenues. The adoption of this new accounting standard did not have a significant impact on the Company's consolidated financial statements.

ASU 2018-15 – Intangibles – Goodwill and Other (Subtopic 350-40)

In August 2018, the FASB issued ASU 2018–15, Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350–40). This ASU addresses the accounting for implementation costs incurred by a customer in a cloud computing arrangement that is a service contract and also adds certain disclosure requirements related to implementation costs incurred for internal-use software and cloud computing arrangements. The amendment aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted this accounting standard as of October 1, 2020 and has applied it prospectively to all implementation costs incurred after October 1, 2020. The adoption of this new accounting standard did not have a significant impact on the Company's consolidated financial statements.

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

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820-10): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"), which changes the fair value measurement disclosure requirements of ASC Topic 820, Fair Value Measurements and Disclosures. Under this ASU, certain disclosure requirements for fair value measurements are eliminated, amended or added. These changes aim to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. The Company has adopted this standard as of October 1, 2020. The adoption of the standard had no impact on the Company's consolidated financial statements and disclosures.

ASU 2019-12 – Income Taxes (Topic 740)

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which simplifies the accounting for income taxes by removing certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new ASU also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates. These changes aim to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. The Company has adopted this standard as of October 1, 2020. The adoption of the standard had no impact on the Company's consolidated financial statements and disclosures.

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

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost, including trade receivables. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model that requires the use of forward-looking information to calculate credit loss estimates. This guidance is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company has adopted this standard as of October 1, 2020. The adoption of the standard had no impact on the Company's consolidated financial statements and disclosures.

Recently accounting pronouncements not yet adopted

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

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

ASU 2020-10 – Codification Improvements

In October 2020, the FASB issued ASU 2020-10, Codification Improvements. The guidance contains improvements to the Codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the Disclosure Section of the Codification. The guidance also contains Codifications that are varied in nature and may affect the application of the guidance in cases in which the original guidance may have been unclear. For public business entities, the amendments in the ASU are effective for fiscal years beginning after December 15, 2020. For all other entities, the amendments are effective for annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. Early adoption is permitted. We do not expect the adoption of ASU 2020-10 to have a material impact on our consolidated financial statements.

ASU 2021-04 – Earnings per share

In May 2021, the FASB issued ASU 2021-04, Earnings Per Share (Topic 260), Debt-Modifications and Extinguishments (Subtopic 470-50), Compensation-Stock Compensation (Topic 718), and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40). The new ASU addresses issuer's accounting for certain modifications or exchanges of freestanding equity-classified written call options. This amendment is effective for all entities, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted. The Company will evaluate the impact of the pronouncement closer to the effective date.

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

4. REALM ACQUISITION

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

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

Net assets of Realm acquired:	
Cash	$ 22,244,248
Receivables and other current assets	240,000
Accounts payable and accrued liabilities	(2,236,952)
Total net assets	$ 20,247,296

5. SHORT-TERM INVESTMENTS

Short-term investments consist of guaranteed investment certificates ("GICs") held at financial institutions purchased in accordance with the Company's treasury policy. These GICs and term deposits bear interest at 0.22%-0.40% per annum and have maturities of up to 12 months.

6. PREPAIDS

	September 30, 2021	September 30, 2020
Prepaid insurance	$ 1,751,052	$ 825,014
Prepaid CMC and clinical expenses and deposits	240,513	650,586
Other deposits and prepaid expenses	190,317	124,528
Balance, end of year	$ 2,181,882	$ 1,600,128

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2021	September 30, 2020
Accounts payable	$ 1,425,871	$ 678,643
Accrued expenses	2,062,441	310,604
Accrued vacation	320,632	154,983
Balance, end of year	$ 3,808,944	$ 1,144,230

8. OPERATING LEASE

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

Operating lease right-of-use asset		
Balance, September 30, 2018 and 2019	$	—
Addition		165,486
Amortization		(110,324)
Balance, September 30, 2020	$	55,162
Addition		362,588
Amortization		(109,464)
Balance, September 30, 2021	$	308,286
Operating lease liabilities		
Balance, September 30, 2018 and 2019	$	—
Addition		165,486
Accretion		12,992
Lease payments		(119,384)
Balance, September 30, 2020	$	59,094
Addition		362,588
Accretion		9,570
Lease payments		(100,282)
Balance, September 30, 2021	$	330,970

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, 2021, the Company's incremental borrowing rate was 5.0% and the remaining lease term for the South Francisco office was 32 months and Houston office was 22 months.

Operating lease costs of $100,282 (2020 - $119,384) and accretion expense of $9,570 (2020 - $12,992) have been recorded in "general and administrative expenses" and "financing costs" in the statement of operations and comprehensive loss respectively.

9. LONG-TERM DEBT

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

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

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

The SVB Term Loan was fully repaid during the fiscal year ended September 30, 2020.

	SVB Term Loan
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
Principal repaid	(3,199,799)
Interest paid	(32,235)
Accretion	211,079
Final payment	(688,000)
Balance, September 30, 2020 and 2021	$ —

10. DERIVATIVE LIABILITIES

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

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

Valuation

The Company uses the Black-Scholes option pricing model to estimate fair value. The following weighted average assumptions were used to estimate the fair value of the derivative warrant liabilities on September 30, 2021 and 2020:

	September 30, 2021	September 30, 2020
Risk-free interest rate	0.49 %	0.22 %
Expected life	1.28 years	2.28 years
Expected annualized volatility	86.0 %	97.3 %
Dividend	—	—
Liquidity discount	20 %	20 %

Sensitivity

The derivative warrants are a recurring Level 3 fair value measurement. The key level 3 inputs used by management to determine the fair value are the market price, expected volatility and liquidity discount. If the market price were to increase by a factor of 10% this would increase the obligation by approximately $745,868 as at September 30, 2021. If the market price were to decrease by a factor of 10% this would decrease the obligation by approximately $429,170 as at September 30, 2021. If the volatility were to increase by 10%, this would increase the obligation by approximately $741,813 as at September 30, 2021. If the volatility were to decrease by 10%, this would decrease the obligation by approximately $423,842 as at September 30, 2021.

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

	Total
Balance, September 30, 2018	$ 17,679
Change in fair value	(1,159)
Balance, September 30, 2019	$ 16,520
Change in fair value	110,856
Balance, September 30, 2020	$ 127,376
Change in fair value	(107,024)
Balance, September 30, 2021	$ 20,352
Derivatives with expected life of less than one year	$ —
Derivatives with expected life greater than one year	$ 20,352

11. 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.

July 2020 Financing

On July 31, 2020, the Company completed an underwritten public offering for aggregate gross proceeds of US$48,990,000 (the "**July 2020 Financing**"). The Company issued a total of 7,100,000 common shares of the Company at a public offering price of US$6.00 per share. Additionally, the underwriters exercised a 30-day option to purchase up to an additional 1,065,000 common shares. In connection with the July 2020 Financing, the Company paid cash commissions of $2,939,400 and incurred other transaction costs of $212,256.

August 2019 Financing

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

Realm Acquisition

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

Nomination Rights

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

Equity incentive plans

Restricted share units plan

The Company has adopted a Restricted Share Unit Plan ("RSU Plan") consistent with the policies and rules of the TSX-V and Nasdaq. Pursuant to the RSU Plan, RSUs may be granted with vesting criteria and periods are approved by the Board of Directors at its discretion. The RSUs issued under the RSU Plan may be accounted for as either equity-settled or cash-settled share-based payments. At September 30, 2021, there are no RSUs outstanding.

As at September 30, 2021 the Stock Option Plan and RSU Plan have a combined maximum of 7,342,788 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, 2021, the ESPP has a maximum of 252,418 (2020 –268,381) 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, 2021, the Company issued a total of 15,963 (2020 –16,506; 2019 - nil) common shares upon the exercise of Purchase Rights. The Company recognizes compensation expense for purchase rights on a straight-line basis over the service period.

	For the year ended September 30,		
	2021	2020	2019
Research and development expense	$ 32,299	$ 24,984	$ —
General and administrative	36,132	46,033	—
	$ 68,431	$ 71,017	$ —

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:

	2021	2020	2019
Risk-free interest rate	0.19 %	1.44 %	—
Expected life of share purchase rights	6 months	6 months	—
Expected annualized volatility	61.54 %	90.34 %	—
Dividend	—	—	—

Stock options

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

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price*
Balance, September 30, 2018	900,459	$ 4.59
Options granted	255,000	3.77
Options expired/forfeited	(32,998)	(4.10)
Balance, September 30, 2019	1,122,461	$ 4.59
Options granted	4,218,000	3.31
Options exercised	(416)	(2.20)
Options expired/forfeited	(30,461)	(28.46)
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 outstanding, September 30, 2021	6,803,230	$ 5.20
Balance exercisable, September 30, 2021	2,799,226	$ 3.49

* Options exercisable in Canadian dollars as at September 30, 2021 are translated at current rates to reflect the current weighted average exercise price in US dollars for all outstanding options.

At September 30, 2021, options were outstanding enabling holders to acquire common shares as follows:

Exercise price		Number of options	Weighted average remaining contractual life (years)
$	2.20	4,584	7.70
$	3.23	3,794,603	8.02
$	3.59	26,667	8.05
$	3.81	185,816	7.36
$	4.00	539,518	6.22
$	4.67	183,511	8.09
$	7.00	1,508,146	9.20
$	13.96	190,000	9.29
$	29.63	100,000	9.58
$	31.62	75,000	9.67
C$	4.90	163,154	5.81
C$	5.06	32,231	7.36
		6,803,230	8.15

Share-based compensation

During the year ended September 30, 2021, the Company granted a total of 1,889,646 (2020 – 4,218,000, 2019 - 255,000) stock options with a weighted average fair value of $8.04 per option (2020 – $2.98, 2019 - $3.00).

The Company recognized share-based payments expense for options granted and vesting, net of recoveries on cancellations of unvested options, during the years ended September 30, 2021, 2020 and 2019 with allocations to its functional expense as follows:

	For the year ended September 30, 2021	2020	2019
Research and development expense	$ 3,611,083	$ 1,853,388	$ 304,786
General and administrative	5,796,599	5,598,202	841,921
	$ 9,407,682	$ 7,451,590	$ 1,146,707

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

	2021	2020	2019
Risk-free interest rate	0.44 %	1.55 %	2.55 %
Expected life of options	10.00 years	10.00 years	10.00 years
Expected annualized volatility	78.16 %	77.00 %	79.33 %
Dividend	—	—	—

Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2018	2,663,937	$ 6.13
Warrants granted	11,919,404	0.0001
Warrants exercised	(2,188,999)	(0.002)
Warrants expired	(1,250)	(31.17)
Balance, September 30, 2019	12,393,092	$ 1.31
Warrants exercised	(3,120,115)	(0.08)
Balance, September 30, 2020	9,272,977	$ 1.73
Warrants exercised	(6,038,227)	(0.06)
Balance outstanding and exercisable, September 30, 2021	3,234,750	$ 4.84

* Warrants exercisable in Canadian dollars as at September 30, 2021 are translated at current rates to reflect the current weighted average exercise price in US dollars for all outstanding warrants.

At September 30, 2021, 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
80,000		US$	4.00	January 9, 2023
2,920,000		US$	0.0001	August 23, 2024
3,234,750				

(1) Detailed terms of the 2016 Warrants are included in Note 10.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended September 30, 2021, the Company:

a) issued 81,303 common shares upon the cashless exercise of 94,723 pre-funded warrants.

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

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

a) issued 1,652,530 common shares upon the cashless exercise of 1,653,999 pre-funded warrants;

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

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

13. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities at September 30, 2021 is $82,036 (2020 - $87,846) due to related parties with respect to key management personnel compensation and expense reimbursements. Amounts due to related parties are non-interest bearing, with no fixed terms of repayment.

14. INCOME TAXES

The following is a reconciliation of income taxes calculated at the combined Canadian federal and provincial income statutory corporate tax rate of 27.0% (2020 – 27.0%, 2019 – 27.0%) to the tax expense:

For the years ended September 30	2021	2020	2019
Loss for the year before income tax	$ (36,839,810)	$ (23,734,017)	$ (12,718,912)
Tax recovery at statutory income tax rates	$ (9,947,000)	$ (6,408,000)	$ (3,434,000)
Non-deductible share-based payments	1,575,000	2,031,000	227,000
Taxable capital gains		—	346,000
Other permanent differences including foreign exchange	(49,000)	21,000	3,000
Share issue costs	(2,492,000)	(849,000)	(720,000)
Change in statutory, foreign tax, foreign exchange rates and other	1,260,000	1,013,000	458,000
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(725,000)	(307,000)	(196,000)
Change in valuation allowance	10,344,000	4,210,000	3,354,000
Total income tax expense	$ (34,000)	$ (289,000)	$ 38,000

Tax attributes are subject to review, and potential adjustment, by tax authorities. The Company has recorded an income tax recovery of $34,349 for the year ended September 30, 2021 (2020 – recovery of $288,647, 2019 – expense of $37,920) in relation to taxable income generated by its US subsidiary.

For the years ended September 30, 2021 and 2020, the Company did not record a provision for income taxes due to a full valuation allowance against our deferred tax assets. The significant components of the Company's deferred tax assets are as follows:

Deferred tax assets	2021	2020
Operating losses carried forward	$ 29,749,000	$ 21,297,000
Equipment and intangible assets	77,000	77,000
Investment tax credits	29,000	39,000
Financing costs	3,025,000	1,462,000
Federal R&D credit	210,000	—
Other	79,000	—
	33,169,000	22,875,000
Valuation allowance	(33,169,000)	(22,875,000)
Net future tax assets	$ —	$ —

As at September 30, 2021, the Company has non-capital loss carry-forwards of approximately $78,416,000 (2020 - $64,494,000) available to offset future taxable income in Canada and approximately $40,843,000 (2020 - $20,249,000) available to offset future taxable income in the US. These non-capital loss carryforwards begin to expire in 2031.

15. SEGMENTED INFORMATION

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

16. FINANCIAL INSTRUMENTS AND RISK

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

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

Financial risk factors

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

Credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents, short-term investments and receivables. The Company's receivables are refunds from vendors. The Company limits its exposure to credit loss by placing its cash with major financial institutions. The Company considers highly liquid investments with a maturity of up to twelve months when purchased to be short-term investments. As at September 30, 2021, cash and cash equivalents consisted of cash in Canada and the United States. and term deposits in Canada. Balances exceed amounts insured by the Canada Deposit Insurance Corporation for up to C$100,000 and by the Federal Deposit Insurance Corporation for up to $250,000. Amounts due from government agencies are considered to have minimal credit risk.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2021, the Company had working capital of $193,668,414. 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, 2021, 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, UK pound and Euro 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, UK Pound, Euro and U.S. dollar in relation to Canadian, UK Pound, Euro dollars held at September 30, 2021 would result in a fluctuation of $27,261 in the net loss recognized for the period. The Company does not currently engage in hedging activities.

17. COMMITMENTS

Product Development and Relocation Grant

In February 2014 the Company was awarded a product development and relocation grant by CPRIT whereby the Company received $12,000,000 on eligible expenditures over a three-year period related to the development of the Company's androgen receptor n-terminus blocker program for prostate cancer. A final payment of $229,201 was recorded as a receivable as at September 30, 2020. During the fiscal year ended September 30, 2021, the Company determined that the receivable was deemed uncollectible. The impairment of the CPRIT receivable is recorded against research and development expenses.

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

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

License Agreement

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

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

Contractual obligations	2022	2023	2024	2025	2026
Minimum annual royalty per License Agreement	C$ 85,000	C$ 85,000	C$ 85,000	C$ 85,000	C$85,000
Vendor Agreement	C$ 25,000	C$ —	C$ —	C$ —	C$ —
Consulting Agreement	$ 35,000	$ —	$ —	$ —	$ —
Lease on US office spaces	$ 113,288	$ 119,586	$ 81,509	$ —	$ —

Collaborative agreements

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 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.