
**EUPRAXIA PHARMACEUTICALS INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

For the three and nine months ended September 30, 2021

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021**

This management's discussion and analysis ("**MD&A**") has been prepared as of November 10, 2021 and should be read in conjunction with the interim condensed consolidated financial statements of Eupraxia Pharmaceuticals Inc. ("**Eupraxia**" or the "**Company**") for the three and nine months ended September 30, 2021 and the related notes thereto (the "**Interim Financials**") as well as the audited consolidated financial statements of the Company and related notes thereto for the year ended December 31, 2020. The Interim Financials are prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee and all dollar amounts are expressed in Canadian dollars unless otherwise noted. This MD&A was prepared by management of the Company and approved by its Board of Directors prior to its release. In this discussion, unless the context requires otherwise, references to "we" or "our" are references to Eupraxia. Additional information relating to our Company is available in our final long form prospectus ("**Prospectus**"), filed on SEDAR on March 3, 2021.

Effective March 5, 2021, the Company consolidated all the issued and outstanding common shares of the Company (the "**Common Shares**") on the basis of four pre-consolidated Common Shares for one post-consolidated Common Share (the "**Share Consolidation**"). All references to the Common Shares in this MD&A and the Interim Financials have been adjusted to reflect the Share Consolidation.

**Forward-Looking Statements**

Certain statements and information in this MD&A contain forward-looking statements or forward-looking information under applicable Canadian securities legislation that may not be based on historical fact, including, without limitation, statements containing the words "may," "might," "will," "likely", "could," "would," "should," "expect," "intend," "plan," "objective," "goal," "outlook," "anticipate," "believe," "estimate," "predict," "project," "forecast," "estimate," "potential," "target," "seek," "contemplate," "continue," "design," and "ongoing," or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words and similar expressions. Forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance or other statements that are not statements of fact. Such forward-looking statements are made as of the date of this MD&A.

Forward-looking statements are necessarily based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as the factors we believe are appropriate. Forward-looking statements in this MD&A include, but are not limited to, statements relating to:

- the Company's business strategies and objectives, including current and future plans, expectations and intentions;
- the Company's ability to obtain and sufficiency of funding for our operations, including funding for research, development and commercial activities;
- the Company's projected operating expenses and capital expenditures;
- the Company's ability to achieve profitability;
- projected revenues, future trends, opportunities and growth in the Company's industry and the drug development markets;
- the Company's ability to maintain and enhance its competitive advantages and technological advantages;
- the entry into commercial partnerships and commercialization of our technology;
- the Company's ability to enter into definitive agreements with its contract research organizations;
- the Company's ability to enter into co-development and/or collaborative partnerships;
- the Company's clinical development activities;
- the timing and results of clinical trials;
- the EP-104IAR Phase 2 study, including the number of patients enrolled in the study, its projected timeline and completion;
- the success of regulatory submissions, including the clinical trial application ("CTA") for EP-104IAR;
- potential regulatory approval;
- hiring of additional research and development team members;
- the potential for the Company's technology to impact the drug delivery process;
- the Company's ability to protect, expand upon and exploit its existing intellectual property;

- development of additional intellectual property, ability to patent or otherwise protect such developed intellectual property and licenses with third parties for intellectual property;
- entry into sponsored research agreement and the benefits therefrom;
- competitive advantages of the Company and its technology;
- application of regulations and standards to the Company's future products and services or research and development activities;
- the Company's retention of funds or payment of dividends;
- the translation of the Company's technologies and expansion of its offerings into clinical applications;
- the benefits to patients from Eupraxia's platforms;
- the value of the strategic relationship to Eupraxia's clients and investors;
- the Company's engagement with legal and regulatory authorities in various jurisdictions;
- the demand and commercial viability of the Company's technology; and
- the demand and market acceptance for products developed by the Company.

Forward-looking statements and information involve significant risks, assumptions, uncertainties and other factors that may cause actual future results or anticipated events to differ materially from those expressed or implied in any forward-looking statements or information and, accordingly, should not be read as guarantees of future performance or results. These risks and factors include, but are not limited to:

- we have a limited operating history;
- we have a novel technology with uncertain market acceptance;
- if we breach any of the agreements under which we license rights to our product candidates or technology from third parties, we could lose license rights that are important to our business. Our current license agreement may not provide an adequate remedy for its breach by the licensor;
- our technology may not be successful for its intended use;
- our future technology will require regulatory approval, which is costly and we may not be able to obtain it and we may fail to obtain regulatory approvals or only obtain approvals for limited uses or indications;
- until contained, a global pandemic, including COVID-19, could cause a slowdown in global economic growth, impact the Company's business, operations, financial condition and share price and cause delays or disruptions to the running of Eupraxia's Phase 2 study;
- we completely rely on third parties to provide supplies and inputs required for our products and services;
- we rely on external contract research organizations to provide clinical and non-clinical research services;
- if we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our drug candidates, if approved, we may be unable to generate any product revenue;
- we rely on key personnel;
- we may not be able to successfully execute our business strategy;
- we will require additional financing, which may not be available;
- we are in a highly competitive industry which is continuously evolving with technological changes;
- our future success will depend on our ability to continually enhance and develop our products and services;
- if we are unable to differentiate EP-104IAR from existing therapies for treatment of osteoarthritis ("**OA**"), or if the US Food and Drug Administration (the "**FDA**") or other applicable regulatory authorities approve new or generic products that compete with EP-104IAR, our ability to successfully commercialize EP-104IAR would be adversely affected;
- a variety of risks associated with potential international business relationships could materially adversely affect our business;
- core development and/or collaboration arrangements we may enter into in the future may not be successful;
- we may acquire businesses or products, or form strategic alliances in the future, and we may not realize the benefits of such acquisitions or alliances;
- we do not have any long-term customer commitments;
- we have traditionally relied on key collaborations and grants;
- our business and operations would suffer in the event of computer system failures, cyberattacks, or a deficiency in our cyber security;
- we may fail to manage our growth successfully which may adversely impact our operating results;

- any therapeutics we develop will be subject to extensive, lengthy and uncertain regulatory requirements, which could adversely affect our ability to obtain regulatory approval in a timely manner, or at all;
- we may not be able to obtain marketing approval;
- we rely on the protection of our intellectual property rights;
- the Company may not be able to enforce the Company's intellectual property rights throughout the world;
- guidelines and recommendations published by various organizations can reduce the use of products that we may commercialize;
- patent reform legislation in the US;
- risk of reduced or eliminated patent protection from non-compliance with regulatory requirements;
- we may infringe the intellectual property rights of others;
- we may be subject to claims arising from consultants or contractors misappropriating intellectual property;
- we use hazardous chemicals and biological materials in our business. Any claims relating to improper handling, storage or disposal of these materials could be time consuming and costly;
- if product liability lawsuits are brought against us, then we may incur substantial liabilities and may be required to limit commercialization of EP-104IAR, if approved, and any other future products;
- our employees, independent contractors, principal investigators, consultants, commercial partners and vendors may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements and insider trading, which could significantly harm our business;
- we may be subject to securities litigation, which is expensive and could divert management attention;
- the Company may be unable to adequately prevent disclosure of trade secrets and other proprietary information;
- lawsuits relating to intellectual property infringement will be costly and time consuming;
- intellectual property disputes could distract the Company's personnel from their normal responsibilities;
- our directors may serve as directors of other biotech companies and may have conflicts of interest;
- our business is affected by macroeconomic conditions;
- the Company may be responsible for corruption and anti-bribery law violations;
- we are subject to foreign exchange risks;
- we are subject to taxation risks and changing rules by different tax authorities;
- we have had negative operating cash flows since inception and expect to incur losses for the foreseeable future;
- we are subject to a number of risks and hazards, of which not all of them may be sufficiently insured for;
- our Company will devote significant resources to regulatory compliance as a public entity;
- coverage and reimbursement may be limited or unavailable in certain market segments for our product candidates, if approved, which could make it difficult for us to sell any product candidates or therapies profitably;
- our relationships with healthcare providers and physicians and third-party payors will be subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings;
- ongoing healthcare legislative and regulatory reform measures may have a material adverse effect on our business and results of operations;
- investing in the common shares of the Company (the "Common Shares") is speculative, and investors could lose their entire investment;
- we may experience fluctuations in our market value;
- our Common Shares could be subject to large price and volume volatility;
- we will need to raise additional financing in the future which may dilute our share capital;
- we have no history of dividends;
- there is no established market for our Common Shares
- our existing executive officers and directors own a significant percentage of Common Shares and will be able to exert a significant control over matters submitted to the Company's shareholders for approval;
- future sales of shares of the Common Shares by our existing shareholders could cause the Company's share price to decline;
- we may issue, without shareholder approval, Preferred Shares (as defined in the Prospectus) that have rights and preferences potentially superior to those of the Common Shares; and
- if equity research analysts do not publish research or reports about our business or if they issue unfavourable commentary or downgrade our Common Shares, the price of the Common Shares could decline.

Such statements reflect our current views with respect to future events, are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Eupraxia as of the date of such statements, are inherently subject to significant medical, scientific, business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to (i) the Company's ability to attract and retain skilled staff; (ii) future research and development plans for the Company proceeding substantially as currently envisioned; (iii) industry growth trends, including with respect to projected and actual industry sales; (iv) the Company's ability to obtain positive results from the Company's research and development activities, including clinical trials; (v) sufficient working capital[1] and the Company's ability to control costs and raise additional financing going forward; (vi) obtaining regulatory approvals and the potential benefits of our products, if approved; (vii) general business and economic conditions; (viii) the Company's ability to achieve profitability; (ix) the Company's ability to successfully commercialize its current products, enter into commercial partnerships and develop new products; (x) the availability of financing on reasonable terms; (xi) market competition; (xii) the products and technology offered by the Company's competitors; (xiii) the Company's ability to protect patents and proprietary rights; (xiv) the impact of the COVID-19 pandemic on our business, our industry and the economy; and (xv) the availability and cost of personnel, materials and supplies.

In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks outlined herein under the headings "*Market Risk*", "*Interest rate risk*", "*Liquidity Risk*" and "*Credit Risk*" and under the heading "*Risk Factors*" in the Prospectus. Should one or more of these risks or uncertainties, or a risk that is not currently known to us materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by applicable securities laws. Investors are cautioned that forward-looking statements are not guarantees of future performance and are inherently uncertain. Accordingly, investors are cautioned not to put undue reliance on forward-looking statements.

**COVID-19**

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. In response to the pandemic, we have modified our business practices with a focus on the health and safety of our employees, partners, service providers, and communities. At the onset of the outbreak of COVID-19, the Company implemented appropriate measures to allow our offices to remain open and operational while allowing employees to work from home where possible. However, several of our partners were impacted by COVID-19 (including shutdown of some of their offices), which resulted in project delays. The effect of COVID-19 on other aspects of our results of operations and financial performance remains uncertain and may only be known in future periods.

**Overview of the Company**

Eupraxia is a clinical stage biotechnology company focused on the development of locally-delivered, extended-release alternatives to existing pharmaceuticals. Leveraging our proprietary and innovative delivery technology, Eupraxia's goal is to provide the right dose of drug, in the right place, for the right amount of time in indications with a high unmet medical need. Each of Eupraxia's product candidates are designed to achieve improved patient benefit by providing longer term activity than currently available treatments, combined with precisely targeted local delivery. This offers the dual potential of providing long-lasting treatment while minimizing safety complications in target and non-target tissues. The Company strategy is to develop a portfolio of product candidates based on this platform delivery technology.

Eupraxia's lead product candidate, EP-104IAR, is designed to meet the significant unmet medical need and market demand for long-lasting pain relief for knee osteoarthritis ("**OA**"). Knee OA accounts for approximately 80% (US$5.6 billion) of the global US$7.3 billion OA therapeutics market, which is currently underserved by pharmaceuticals that are challenged by poor safety, inadequate efficacy, and/or limited duration.

[1] Working Capital is a non-IFRS financial measure. Management believes Working Capital is a meaningful indicator of the operating liquidity available to the Company and is comprised of current assets less current liabilities.

*Overview of Osteoarthritis*

OA is a chronic progressive disease characterized by deterioration of joint cartilage and inflammation which results in pain and stiffness, usually in the morning or after a period of inactivity; and loss of joint function which limits daily activities. In normal joints, cartilage acts as a cushion between bones and provides a smooth gliding surface for movement. In OA, the inflammatory processes integral to disease progression damages the cartilage, and over time cartilage wears away, causing bone to rub directly against bone resulting in joint damage, severe pain and disability.

Globally, OA is the leading cause of disability in older adults. Estimates of prevalence and incidence vary according to the definition of OA used (i.e., radiographic (X-Ray) versus symptomatic) and the joints assessed. Approximately 10-15% of all adults over the age of 60 have some form of OA, with the knees being the most commonly affected joints. Knee OA is a leading cause of lower extremity disability in the developed world. OA is estimated to affect more than 30 million patients in the US alone, including an estimated 14 million people with symptomatic knee OA. It is also often associated with depression and loss of sleep which can greatly affect quality of life, causing further impact on the public health system.

Current evidence-based OA treatment guidelines aim to manage signs and symptoms, with the goal of slowing progression if possible. Recommended pharmacological interventions include topical and oral non-steroidal anti-inflammatory drugs, and IA corticosteroids. IA corticosteroid injections have been used for decades to manage pain and stiffness associated with inflammation in knee OA and have proven to be safe and effective. However, IA corticosteroid injections often result in suboptimal patient outcomes due to their short duration of activity and systemic side effects such as flushing, glucose alterations and cortisol suppression due to the high peak exposures required to maintain efficacious concentrations for prolonged durations. Evidence is also emerging regarding the risk of adverse joint findings and/or OA progression following frequent/repeated immediate release IA corticosteroid injections.

*Composition of EP-104IAR*

EP-104IAR contains a solid core of the active ingredient Fluticasone Propionate ("**FP**") with an outer layer of the biocompatible polymer, PVA. The PVA-coated FP particles are heat-treated to form the extended-release product EP-104IAR.

The active ingredient of EP-104IAR is FP, a synthetic trifluorinated corticosteroid with potent anti-inflammatory activity and a well-established systemic safety record in the form of widely used inhaled, intranasal and topical agents. FP has shown to be locally active, and what little is absorbed is rapidly metabolized. Relative to other corticosteroids (including triamcinolone acetonide or "**TCA"**) FP has a high affinity for the glucocorticoid receptor, low solubility, a low rate of dissociation, and a comparatively long half-life. The Company believes these characteristics make the drug an excellent candidate for prolonged anti-inflammatory activity.

FP is currently approved by the FDA, Health Canada, European Medicines Agency ("**EMA**") and many other regulatory agencies around the world for the treatment of symptoms of asthma, rhinitis, nasal polyps and a variety of inflammatory skin conditions. It has an established history of clinical efficacy and safety in its marketed inhaled and topical formulations in the form of Flovent®, Advair® and Cutivate®, amongst others. To the Company's knowledge, EP-104IAR is the only extended-release formulation of FP in development. FP is not currently approved for use in any formulation for the treatment of OA pain.

*EP-104IAR Development*

Eupraxia has completed Investigational New Drug ("**IND**"),enabling non-clinical studies, which demonstrated EP-104IAR has a potentially favourable tolerability profile, and a Phase 1 clinical study in 32 knee OA patients. See *"Development Program, Clinical Development."* Eupraxia initiated a Phase 2 efficacy and safety study in 2021, under a Clinical Trial Application ("CTA") in Denmark. The open IND application related to this Phase 2 study protocol remains in effect with the US FDA. The first patient is anticipated to be dosed in the second half of 2021.

Eupraxia anticipates submitting a New Drug Application ("**NDA**") under the *Federal Food, Drug, and Cosmetic Act* (the "**FDCA**"), Section 505(b)(2) with the FDA, for approval of EP-104IAR, which is required before marketing a new drug in the US. A 505(b)(2) NDA will rely in part on non-clinical studies and clinical trials that Eupraxia needs to conduct, and in part on third-party findings

of safety and efficacy for the active ingredient for which Eupraxia does not have a right of reference or which have been established in the scientific literature in the public domain. Eupraxia intends to conduct activities to support marketing approval and commercialisation of EP-104IAR in the US and globally.

*Eupraxia's Pipeline Product Candidates*

Eupraxia's technology platform is potentially suitable for a wide range of indications and drugs that may be improved by an extended-release profile. The technology takes advantage of controlled diffusion of drug from the central core across a polymer-based membrane. Eupraxia can alter the polymer amount, composition and manufacturing parameters with the intent of achieving drug release rates that are designed to maximize disease treatment and reduce side effects. Unlike other technologies in which the drug is less than 20% of the injected material, with Eupraxia's technology the drug comprises more than 90% of the formulation given to patients.

In addition to EP-104IAR, Eupraxia is developing a pipeline of earlier-stage long-acting formulations. Potential pipeline candidates include drugs for a range of indications such as post-surgical pain (EP-105), and post-surgical site infections (EP-201), each designed to improve on the activity and tolerability of approved drugs. Eupraxia continues to seek a partner for the development, regulatory approval and commercialization of the veterinary version of EP-104IAR.

For a summary of anticipated EP-104IAR and pipeline program costs over the 24 months following the date of this MD&A see *"Development Timelines and Cost Estimates"* and "*Additional Development Costs"* below.

*Clinical Development*

Phase 1

Eupraxia completed a Phase 1, double-blind, placebo-controlled clinical study at three sites in Canada. Thirty-two patients with moderate to severe knee OA pain were given a single dose of 15 mg EP-104IAR (n=24) or placebo (n=8) and evaluated for up to 42 weeks or until the patient returned to baseline pain. The final median post-administration follow-up in the study was 23 weeks. The primary outcome measures were safety and PK. The study was not powered to detect efficacy; however, patient reported outcome measures were collected and analyzed to evaluate pain and symptom relief. Despite the limitations of this study (the small size, the low dose, nine subjects received significantly less than the target dose, and that two placebo subjects demonstrated a delayed high reduction in pain), the Company believes it provides safety and PK data, and preliminary efficacy results that support future development of EP-104IAR.

Phase 2

Eupraxia is conducting a Phase 2 clinical study for EP-104IAR which began in 2021. The study evaluates the efficacy, safety and PK of 25 mg EP-104IAR over six months in patients with moderate knee OA as defined by Kellgren Lawrence Grading. The primary endpoint in the trial will be difference from placebo in change from baseline Western Ontario and McMaster Universities Osteoarthritis Index ("**WOMAC**") pain scores at 12 weeks. Secondary endpoints include comparative measures of pain and function at 12 and 24 weeks. The trial will be run by Nordic BioScience Clinical Development ("NBCD"), who have a proven track record in osteoarthritis clinical trials. An active CTA is in place in Denmark. An open IND is also in effect in the US should the need arise to expand subject recruitment to additional sites. The trial anticipates enrolling 300 patients. Patient screening began in Q3 2021 and is projected to take 8 months to complete. Top-line data readout is anticipated by end of Q4 2022.

Phase 3

In order to seek marketing approval for EP-104IAR, the Company will be required to carry out at least one Phase 3 study with at least several hundred patients. The target patient population will be dependent on the advice of our clinical advisors, key opinion leaders, discussions with the FDA and EMA, and the results from the Phase 2 study. In the Phase 3 program, Eupraxia anticipates patients will participate in the trial over a 12-month period. In addition to efficacy and safety assessments, Eupraxia plans to evaluate the impact of EP-104IAR on cartilage health (e.g., via X-Ray and/or MRI).

Clinical Development

The FDA requires two adequate and well-controlled clinical trials demonstrating the safety and efficacy of any proposed new treatment as part of the NDA. For EP-104IAR, this will require data from the proposed Phase 2 study and at least one other Phase 3 study. To fulfil requirements under the 505(b)(2) pathway, Eupraxia may also be required to conduct a clinical trial to establish pharmacokinetic equivalence between EP-104IAR and Flovent® HFA. Additional clinical studies and/or analyses may be required for alternate regulatory jurisdictions.

*Development Timelines*

Eupraxia currently anticipates advancing the development of EP-104IAR through to completion of Phase 2 within the next two years. The figure below summarizes our current estimates of development timelines for EP-104IAR.

**Eupraxia's Estimated Product Development Timelines to End of Phase 2**

| Program | Development Milestones | 2021 | | | | 2022 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **EP-104IAR** | Phase 2 Efficacy Study | | | | | | | | | | | | |
| | Manufacturing Optimisation for Phase 3 | | | | | | | | | | | | |
| | Non-clinical Studies to support Phase 3 | | | | | | | | | | | | |

*Eupraxia Business Strategy*

Eupraxia's goal is to deliver long-acting medications based on proven treatments in areas of high unmet medical need.

Our focus over the 24 months following the date of this MD&A will be the execution of the EP-104IAR development program, including:

- Initiation and completion of the Phase 2 clinical study to evaluate the safety and efficacy of EP-104IAR to support a new drug application;
- Manufacturing optimization to simplify the supply chain, reduce the cost of goods and prepare for Phase 3 activities;
- Complete non-clinical studies to support subsequent Phase 3 clinical studies that would enhance the EP-104IAR label (e.g., a multi-dose study) and evaluate the safety and biocompatibility of all excipients; and
- Prepare for the End of Phase 2 meeting with the FDA.

Additional EP-104IAR development activities will include interactions with key regulatory authorities, such as the FDA and the EMA, to obtain program guidance and explore expedited review program options (e.g., Fast Track, Breakthrough Therapy) as well as the continued strengthening of the IP portfolio around the technology.

In parallel, the Company will seek out licencing, co-development or marketing partners for it's technology, with the potential to expand and exploit its application fully. It is the Company's intention to put in place conditions and resources that support the success of the development program, marketing authorization(s) and commercialization across multiple jurisdictions, as well as exploitation of any opportunities for lifecycle and patent extension. Depending on market conditions, this may take the form of co-development or commercialization partnerships, transactional opportunities and/or public financing options.

Pipeline programs are another area of potential growth in the 24 months following the date of this MD&A. Eupraxia's platform technology is potentially compatible with a wide variety of drugs and therapeutic indications. Our pipeline strategy focusses on modulating the release of existing drugs to achieve better clinical outcomes in areas of high medical need. The technology has the potential to be particularly suitable for diseases requiring precisely targeted and controlled localized therapy where broader tissue or systemic exposure should be avoided (e.g., tumour oncology).

We currently have several pipeline candidates in development. Our goal is to add a further 1-2 new pipeline product candidates over the 24 months following the date of this MD&A to allow for sustained corporate growth. Eupraxia expects that this will involve a multidisciplinary review of candidate drugs, formulation development, *in vitro* screening to identify the most promising lead candidates and non-clinical proof-of-concept studies. Information generated from these inquiries will be used to support go/no go decisions for further development.

*Significant Quarterly Company Events*

Authorization of Clinical Trial Application for Phase 2 Trial of EP-104IAR

On July 19, 2021, the Company received authorization of its CTA by the Danish Medicines Agency. The authorization was required to initiate the Company's Phase 2 clinical trial for its lead candidate EP-104IAR as a potential treatment for pain from osteoarthritis of the knee. Authorization of our CTA in Denmark is an important step for the Company and EP-104IAR. As this trial gets underway, the Company also plans to broaden the potential of this candidate by initiating a pre-clinical study to support repeat dosing. The Company's existing preclinical cartilage sparing data, combined with the potential for repeat dosing, are meaningful competitive differentiators that could support market expansion opportunities for EP-104IAR, if approved.

Commencement of Patient Screening for Phase 2 Trial of EP-104IAR

On September 14, 2021, the Company started screening patients for inclusion into its Phase 2 trial, which is evaluating EP-104IAR's efficacy and safety as a treatment for knee osteoarthritis.

Intellectual Property Update

On September 9, 2021, the Company received a Notice of Allowance from the Israel Patent Office with respect to its patent application *Injectable Sustained Release Composition and Method of using the Same for Treating Inflammation in Joints and Pain Associated Therewith.* The Company believes that the patent allowance further strengthens its intellectual property platform for EP-104IAR.

Publication in Osteoarthritis and Cartilage Open

On September 19, 2021, the Company's Phase 1 EP-104IAR results were published in *Osteoarthritis and Cartilage Open.* The article, entitled, "Safety and Pharmacokinetics of EP-104IAR (sustained-release fluticasone propionate) in Knee Osteoarthritis: A Randomized, Double-Blind, Placebo-Controlled Phase 1 Trial", was made available to all readers through the medical journal's website. The Phase 1 data indicated that a 15 mg dose of EP-104IAR is well-tolerated, with few local or systemic adverse findings, and no signs of adrenal suppression. While the Phase 1 clinical trial was not powered to detect treatment differences, analyses of all the efficacy measures illustrate that EP-104IAR provided immediate, and substantial pain relief (similar to other intra-articular steroids) with distinct numerical separation from placebo for between eight and 12 weeks. The Phase 1 data supported the Company's progression to its 300-patient Phase 2 trial that is currently screening patients at sites in Denmark.

**Selected Financial Information**

The financial information reported here-in has been derived from the interim condensed consolidated financial statements for the three and nine months ended September 30, 2021. From time to time, the Company may deal with manufacturers and consultants in other countries (primarily the United States). Our financial results may be subject to fluctuations between the Canadian dollar and other international currencies, primarily the U.S. dollar.

*Selected Interim Condensed Consolidated Statement of Financial Position Data*

| | **September 30, 2021** | **December 31, 2020** |
|---|---|---|
| | **$** | **$** |
| Cash | 33,666,642 | 150,126 |
| Net working capital surplus/(deficit) | 31,391,704 | (21,404,017) |
| Total assets | 34,909,629 | 1,453,592 |
| Total non-current financial liabilities | 9,228,315 | 574,973 |
| Equity (deficit) attributable to owners of the Company | 23,610,637 | (21,209,762) |
| Non-controlling interest | (774,540) | (453,891) |
| Total shareholders' equity (deficit) | 22,836,097 | (21,663,653) |

Cash and cash equivalents increased by $33,516,516 to $33,666,642 as at September 30, 2021. The increase reflects funds received as a result of the Company's Initial Public Offering (the "Offering") that closed on March 9, 2021 and a Convertible Debt Facility obtained from Silicon Valley Bank that closed on June 21, 2021.

Working capital increased by $52,795,721 to a surplus of $31,391,704 as at September 30, 2021. This increase was attributable to the increase in cash referenced above, combined with the conversion of the Convertible Notes and Special Warrants and the conversion of Shareholder Loans that occurred in the first quarter of 2021.

The Company experienced an increase in total assets of $33,456,037 as at September 30, 2021. This increase was primarily due to the increase in cash referenced above.

The Company did not pay any dividends or make any distributions to shareholders in any of the above periods.

*Selected Interim Condensed Consolidated Statements of Operations and Comprehensive Loss Data*

| | 3 months ended September 30, 2021 | 3 months ended September 30, 2020 | 9 months ended September 30, 2021 | 9 months ended September 30, 2020 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Revenue | - | - | - | - |
| Total comprehensive income (loss) – Owners of the Company | (4,974,395) | (730,424) | (19,271,443) | (3,859,467) |
| Total comprehensive income (loss) – Non-controlling interest | (160,790) | 2,206 | (320,649) | (11,330) |
| Weighted average shares outstanding, basic and diluted | 14,242,595 | 6,118,002 | 11,786,857 | 6,118,002 |
| Loss per share, basic and diluted – Owners of the Company | (0.35) | (0.12) | (1.63) | (0.63) |
| Loss per share, basic and diluted – Non-controlling interest | (0.01) | 0.00 | (0.03) | (0.01) |

The comprehensive loss for the three months ended September 30, 2021 increased by $4,406,967 as compared to the three months ended September 30, 2020, primarily due to higher research and development expenses resulting from the commencement of activities associated with the Phase 2 clinical trial for EP-104IAR.

The comprehensive loss for the nine months ended September 30, 2021 increased by $15,721,295 as compared to the nine months ended September 30, 2020, primarily due to higher research and development expenses resulting from the commencement of activities associated with the Phase 2 clinical trial for EP-104IAR and general and administration expenses and other expenses that were associated with the Offering.

**Comparison of the Three and Nine Months Ended September 30, 2021 and 2020**

*Results of Operations*

| | 3 months ended September 30, 2021 $ | 3 months ended September 30, 2020 $ | 9 months Ended September 30 2021 $ | 9 months Ended September 30, 2020 $ |
|---|---|---|---|---|
| Research and development expenses | 3,555,991 | 212,157 | 7,851,413 | 1,060,616 |
| General and administrative expenses | 1,506,581 | 300,520 | 7,384,931 | 1,123,516 |
| Other income (expense) | 72,613 | 215,541 | 4,355,748 | 1,686,665 |
| Total comprehensive income (loss) | 5,135,185 | 728,218 | 19,592,092 | 3,870,797 |

*Research and Development*

Comparing the three months ended September 30, 2021, to the same period in 2020, research and development activities increased by $3,343,834. This increase is due primarily to the following items:

- An increase of $3,176,488 relating to an increase in costs associated with EP-104IAR for the Phase 2 clinical trial.
- An increase of $208,652 relating to Salaries and Benefits as a result of headcount increases and salary increases.

Comparing the nine months ended September 30, 2021, to the same period in 2020, research and development activities increased by $6,790,797. This increase is due primarily to the following items:

- An increase of $6,182,358 relating to an increase in costs associated with EP-104IAR for the Phase 2 clinical trial.
- An increase of $568,201 relating to Salaries and Benefits as a result of headcount increases and salary increases, and retroactive salary, bonuses and deferred salaries that were triggered as a result of the Offering.

*General and Administrative*

General and Administrative expenses consist of Depreciation of Equipment, Depreciation on ROU assets, General and Administrative Expenses, Professional Fees, Public Company Costs, Salaries and Benefits (net) and Stock Based Compensation.

Comparing the three months ended September 30, 2021, to the same period in 2020, general and administrative activities increased by $1,206,061. This increase is due primarily to the following items:

- An increase of $369,620 related to stock-based compensation expense associated with options issued to employees and directors and officers.
- An increase of $312,998 related to professional fees. The increase is primarily due to increased legal fees associated with the transition to a public company.
- Increase of $92,670 related to costs associated with Eupraxia being publicly traded.
- An increase of $230,824 related to an increase in salaries and benefits costs.
- An increase of $191,331 related to general and administrative costs in the form of increased director and officers' liability insurance premiums and business consulting costs.

Comparing the nine months ended September 30, 2021, to the same period in 2020, general and administrative activities increased by $6,261,415. This increase is due primarily to the following items:

- An increase of $3,500,454 related to stock-based compensation expense associated with options issued to employees and directors and officers.
- An increase of $1,224,701 related to professional fees. The increase is primarily due to increased legal fees associated with the Offering and the transition to a public company.
- An increase of $911,382 relating to Salaries and Benefits as a result of headcount increases and salary increases, and retroactive salary, bonuses and deferred salaries that were triggered as a result of the Offering.
- An increase of $368,843 related to public company costs not previously incurred as a result of listing on the TSX.
- An increase of $280,540 related to general and administrative costs in the form of increased director and officers' liability insurance premiums and business consulting costs.

*Other income (expenses)*

Comparing the three months ended September 30, 2021, to the same period in 2020, other income (expenses) decreased by $142,928. This decrease is due primarily to the following items:

- An increase of $94,368 related to foreign exchange gain. The increase in foreign exchange gain is a result of fluctuations in the US exchange rate versus the Canadian dollar on our US denominated cash and liabilities during the current period.
- A decrease of $72,088 to interest expense as a result of the conversion of convertible notes, special warrants and loans payable, as well as the payment of an amount owing under the Auritec licence agreement that had been accruing interest. This was partially offset by interest accrued on the Convertible Debt facility.

Comparing the nine months ended September 30, 2021, to the same period in 2020, other income and expense increased by $2,669,083. This increase is due primarily to the following items:

- An increase of $2,260,477 related to a loss on the conversion of Convertible Notes, Special Warrants and Loans Payable in 2021. The Convertible Notes and Special Warrants had originally been recorded as a financial liability as their settlement involved a variable number of Common Shares. Upon conversion, the difference between the financial liability and the fair market value has been recorded in Other Income as a loss.
- An increase of $1,333,032 related to the increase in fair value of warrant liability. The warrants issued as part of the loan financing in Note 14 of the Interim Condensed Consolidated Financial Statements were originally treated as a derivative liability given that the warrant exercise price was subject to change in the event of a qualified financing. The Offering constituted a Qualified Financing which fixed the exercise price of these warrants. As a result, the financial liability was reclassified as equity as of March 9, 2021 and the difference in fair value has been recorded in Other Income as a loss.
- A decrease of $490,392 to interest expense as a result of the conversion of convertible notes, special warrants and loans payable, as well as the payment of an amount owing under the Auritec licence agreement. This was partially offset by interest accrued on the Convertible Debt facility.
- An increase of $265,946 related to foreign exchange gain. The increase in foreign exchange gain is a result of fluctuations in the US exchange rate versus the Canadian dollar on our US denominated cash and liabilities during the current period.
- A decrease of $134,438 relating to a loss on sale of equipment that was recorded during 2020.

Research and Development expenses are expected to increase as we undertake our Phase 2 clinical trial and incur significant costs for contract research organizations and consultants, and further investment in additional drug candidates in support of broader pipeline development. General and administrative expenses are likely to increase in the future as a result of increased costs associated with the Company going public.

**Summary of Quarterly Results**

Selected Quarterly Information has not been provided as the Company has not previously prepared financial statements on a quarterly basis prior to becoming a reporting issuer.

**Liquidity, Capital Resources and Outlook, Management of Cash Resources**

As of September 30, 2021, the Company had a cash balance of $33,666,642 (December 31, 2020 - $150,126) and a working capital balance of $31,391,704 (December 31, 2020 – working capital deficit of $21,404,017).

The Company's business currently does not generate revenue or positive cash flows from operations and is reliant on equity and debt financing to provide the necessary cash to continue its research and development activities and ongoing operations. There can be no assurance that equity financings will be available in the future with terms that are satisfactory to the Company.

The Company's cash flow forecasts are continually updated to reflect actual cash inflows and outflows so to monitor the requirements and timing for additional financial resources. Given the volatility of the Canadian and US dollar ("USD") exchange rate, the Company estimates its USD expenses for the year and sets aside appropriate levels of USD cash. By holding US dollars, the Company remains subject to currency fluctuations which effect its loss during any given year.

Further, we continue to monitor additional opportunities to raise equity capital and/or secure additional funding through non-dilutive sources such as government grants and additional license agreements. However, it is possible that our cash and working capital position may not be enough to meet our business objectives in the event of unforeseen circumstances or a change in our strategic direction.

The Company recently completed an Offering for gross proceeds of $41,000,000 and entered into a debt agreement for an additional $10,000,000. These funds will be used to fund our Phase 2 clinical trial and advance other drugs in the Company's pipeline. The remainder of the net proceeds will be used for working capital and general corporate purposes and based on current forecasts, will be sufficient to fund the Company through to early 2023.

**Comparison of Cash Flow for the Nine Months ended September 30, 2021 and 2020.**

| | September 30, 2021<br>$ | September 30, 2020<br>$ |
|---|---|---|
| Net cash provided by (used in): | | |
| Operating activities | (11,088,820) | (292,167) |
| Investing activities | (5,436,081) | 22,940 |
| Financing activities | 50,063,231 | (457,772) |
| Net increase (decrease) in cash | **33,538,330** | **(726,999)** |

Cash provided by (used in) operating activities:

Cash used in operating activities for the nine months ended September 30, 2021 increased by $10,796,653 compared to the same period in the prior year. The primary driver was the increase in expenditure on the EP-104IAR program as we undertake our Phase 2 clinical trial, payment of accounts payable and accrued liabilities, and increased salary costs and deferred salary bonuses.

Cash provided by (used in) investing activities:

Cash used in investing activities for the nine months ended September 30, 2021 increased by $5,459,021 compared to the same period in the prior year. The primary driver of the increase was the settlement of the amount payable to Auritec in relation to our licensing agreement and the acquisition of lab equipment in the current quarter.

Cash from financing activities:

Cash provided from financing activities for the nine months ended September 30, 2021 increased by $50,521,003 compared to the same period in the prior year. The primary driver of the increase was the proceeds received from the Offering, and the convertible debt facility.

**Going Concern**

The interim condensed consolidated financial statements have been prepared on a going concern basis with the assumption that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at September 30, 2021, the Company had cash of $33,666,642, however the Company has not yet generated revenue from operations. The Company incurred a net loss of $19,592,092 during the nine-month period ended September 30, 2021 and, as of that date the Company's accumulated deficit was $70,468,600. As the Company is in the research and development stage, the recoverability of the costs incurred to date is dependent upon the ability of the Company to obtain the necessary financing to complete the research and development of its projects and upon future profitable production or proceeds from the monetization of research activities to date. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. These events and conditions indicate a material uncertainty which may cast significant doubt about its ability to continue as a going concern. The interim condensed consolidated interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. The Company is active in its pursuit of additional funding through partnering, and other strategic activities, as well as via grants, to fund future research and development activities. There is a risk that in the future, additional financing will not be available on a timely basis or on terms acceptable to the Company.

**Long-Term Obligations and Other Contractual Commitments**

The Company may be required to make milestone, royalty, and other research and development funding payments under research and development collaboration and other agreements with third parties. These payments are contingent upon the achievement of specific development, regulatory and/or commercial milestones. The Company has not accrued for these payments as at September

30, 2021 due to the uncertainty over whether these milestones will be achieved. The Company's significant contingent milestone, royalty and other research and development commitments are as follows:

Auritec License Agreement

Auritec is a privately held clinical-stage drug delivery company that holds patents in the field of extended-release delivery of drug products utilizing its proprietary drug delivery platform, the "Plexis Platform". Eupraxia, through its subsidiary, Eupraxia USA, is a party to the Amended and Restated License Agreement with Auritec.

Under the terms of the Amended and Restated License Agreement, Auritec has granted Eupraxia USA an exclusive license (including the right to sublicense to its affiliates and third parties) under the licensed patents held by Auritec and for all the technical information and know-how relating to the technology claimed in the licensed patents held by Auritec with respect to the use of the Plexis Platform for the delivery of fluticasone in all medical fields (except for the Excluded Fields), to develop, make, have made, manufacture, use, commercialize, sell, sub-license, offer for sale, import, and have imported the Licensed Products.

Pursuant to the terms of the Amended and Restated License Agreement, in consideration for the rights and exclusive license granted to Eupraxia USA, Eupraxia USA was required to pay an Upfront Fee of US$5,000,000. As of the date of this MD&A, Eupraxia USA has fully paid the Upfront Fee.

In addition to the Upfront Fee, pursuant to the Amended and Restated License Agreement, Eupraxia USA has agreed to pay Auritec up to US$30 million upon achievement of certain regulatory and commercial milestones related to Licensed Products under the Amended and Restated License Agreement as well as a royalty of 4% of net sales of Licensed Products by Eupraxia USA or its affiliates, subject to certain reductions.

The following table summarizes the milestone payment schedule:

| **Milestone Event** | **Milestone Payment (USD)** |
|---|---|
| | |
| Successful Completion of a Phase 2b Study | 5,000,000 |
| First OA Regulatory Approval | 5,000,000 |
| Second OA Regulatory Approval | 5,000,000 |
| Non-OA Indication Regulatory Approval | 10,000,000 |
| First calendar year in which aggregate Net Sales by Eupraxia USA, its affiliates and sublicenses exceed US$500,000,000 | 5,000,000 |
| **Maximum amount payable** | 30,000,000 |

Eupraxia USA has also agreed to pay to Auritec 20% of sublicensing royalties or other consideration based on net sales of Licensed Products. Eupraxia USA has further agreed to pay Auritec a percentage of Non-Royalty Monetization Revenue (as defined in the Amended and Restated License Agreement), which includes payments received for a sale of Eupraxia USA or its assets or sale or sublicense of a Licensed Product, which percentage ranges from 15% to 30% depending on the development stage of the most-advanced Licensed Product, up to a maximum of US$100 million.

Lease Agreement

On October 21, 2019, the Company entered into a lease agreement for its head office located at Suite 201 – 2067 Cadboro Bay Road, Victoria BC. The lease is for a period of 5 years, expiring November 30, 2024. The annual base rent for the lease is $87,696 with anticipated additional annual rent of $75,516 to cover the Company's share of property taxes and operating costs. Additional rent is subject to adjustment at the end of each lease year based on actual costs incurred.

Summary of Contractual Obligations

As of September 30, 2021, and in the normal course of business, the Company has the following obligations to make future payments, representing contracts and other commitments that are known and committed.

| **Contractual Obligations** | **Payments Due by Period** | | | |
|---|---|---|---|---|
| | **Total** **$** | **Less than 1 year** **$** | **1 - 3 years** **$** | **4 - 5 years** **$** |
| Convertible Debt | 8,874,496 | - | 8,874,496 | - |
| Loans Payable | 257,741 | 79,230 | 178,511 | - |
| Leases | 277,704 | 87,696 | 175,392 | 14,616 |
| Total Contractual Obligations | 9,409,941 | 166,926 | 9,228,399 | 14,616 |

**Transactions with Related Parties**

There were no ongoing contractual commitments and transactions with related parties during the three and nine months ended September 30, 2021 and 2020, other than those compensation-based payments disclosed in Note 19 - Related Parties of the Interim Financials.

**Off-Balance Sheet Arrangements**

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations or financial condition.

**Critical Accounting Estimates and Judgments**

The preparation of the consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the Interim Financials and reported amounts of expenses during the reporting year, which, by their nature, are uncertain. Actual outcomes could differ from these estimates. The impacts of such estimates are pervasive throughout the Interim Financials, and may require accounting adjustments based on future events. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future periods if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical accounting estimates*

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

(i) the valuation of stock-based compensation and other non-cash stock-based payments;

*Critical accounting judgments*

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The Company's management made the following critical accounting judgments:

(i) The determination of whether the Company is in the "research" or "development" stage of operations. During the research stage of operations, all expenditures associated with the advancement of the technology are expensed in the period they are incurred;

(ii) The determination of the functional currency of the Company, the Company's wholly owned subsidiary and Eupraxia USA;

(iii) Assessment of the appropriateness of the going concern assertion and any material uncertainties that may cast significant doubt thereon; and

(iv) The determination of the amount allocated to the liability and equity components (for those financial instruments that are comprised of both). This requires management to estimate various components and characteristics of present value calculations used in determining the fair value of the instrument, including the market interest rates of non-convertible debentures.

**Accounting Standards Issued and Adopted**

No new standards, amendments to standards, or interpretations to existing standards were adopted during the three and nine months ended September 30, 2021.

**Accounting Standards and Amendments Issued but Not Yet Adopted**

There are new accounting standards, amendments to accounting standards and interpretations that are effective for annual periods beginning on or after January 1, 2022 that have not been applied in preparing the Interim Statements. These standards and interpretations are not expected to have a material impact on the Company's consolidated financial statements.

**Financial Instruments**

The Company's financial instruments consist of cash, rent receivable, other receivable, accounts payable and accrued liabilities, loans payable and convertible debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

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

*Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk, as its cash, being its primary exposure to credit risk, is with a large Canadian bank. The Company's maximum exposure to credit risk is the carrying value of its financial assets.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. 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 a cash balance of $33,666,642 (December 31, 2020-$150,126) and current liabilities of $2,845,217 (December 31, 2020 - $22,542,272). Management is currently working on certain strategic alternatives including, but not limited to, financing arrangements. There is no assurance, however, that any or all of these alternatives will materialize or that additional funding will be available, if and when needed.

*Market risk*

Market risk is the risk of fluctuations in fair values or future cash flows that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

*Price risk*

The Company is not exposed to significant price risk with respect to commodity or equity prices.

*Interest rate risk*

Interest rate risk consists of two components; to the extent that payments are made or received on the Company's monetary assets or liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that the prevailing market interest rates differ from the interest rate on the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk. At September 30, 2021, the Company maintains a Convertible Debt facility totaling $10,000,000 as well as having a loan of USD235,000 (see Note 11 – Loans Payable). The Loan Agreement accrues interest at 5.84%. The Debt Agreement accrues interest at the greater of 2.45% and the Canadian prime rate, requiring monthly interest payments. An additional payment in kind accrues at a rate of 7% per annum, which will be settled at maturity or on conversion. As at September 30, 2021, management has determined the effect on the future results of operations due to increased interest expense

paid on the Convertible Debt Facility of the Company if the Canadian prime rate were to increase by 1%. An impact of a 1% increase in the Canadian prime rate would increase the amount of interest to be paid over the remaining term of the Convertible Debt facility by approximately $287,000. There would be no impact with a 1% decrease in the prime rate.

**Risks and Uncertainties**

The primary risk factors affecting the Company are set forth under the heading "*Risk Factors*" in the final Long Form Prospectus dated March 3, 2021.

**Outstanding Share Capital**

As of the date of this MD&A, the Company had 14,242,595 Common Shares issued and outstanding. The maximum number of additional Common Shares issuable, should all convertible rights be exercised are as follows:

| **Common Shares Issuable:** | **As of the date of MD&A** |
|---|---|
| Options [(1)] | 2,074,250 |
| 2013 Warrants [(2)] | 380,921 |
| Founders Warrants [(3)] | 315,500 |
| Underlying Founders Warrants [(4)] | 315,500 |
| 2019 Warrants [(5)] | 289,172 |
| 2021 30% Warrants [(6)] | 270,957 |
| 2021 10% Warrants [(7)] | 39,846 |
| Class B Shares [(8)] | 562,500 |
| Warrants – Listed EPRX.WT[(9)] | 2,826,274 |
| Nordic Warrants [(10)] | 39,228 |
| SVB Debt Facility [(11)] | 1,808,509 |
| **Total Common Shares Issuable** | **8,922,657** |

Notes:

(1) Represents options outstanding under the Company's stock option plan, each having an exercise price equal to $8.00 and expiry dates ranging from March 31, 2025 to May 3, 2031. This figure also includes 257,000 options that have been granted but are subject to disinterested shareholder approval at the AGM.

(2) Represents common share purchase warrants to acquire up to 380,921 Common Shares at an exercise price of $0.7572 per share, with each such common share purchase warrant expiring 120 days after the warrant holder or the holder's spouse ceases to be a director, officer or consultant of the Company.

(3) Represents common share purchase warrants to acquire 315,500 units, with each unit consisting of one Common Share and one underlying common share purchase warrant (an "Underlying Founder Warrant") at an exercise price of $0.4984 per unit, expiring 120 days after the warrant holder ceases to be a director, officer or consultant of the Company.

(4) Represents Underlying Founder Warrants to acquire up to 315,500 Common Shares, at an exercise price of $0.75 per share, expiring two years from the date of issuance of the Underlying Founder Warrant.

(5) Represents common share purchase warrants to acquire up to 289,172 Common Shares at an exercise price $7.999 per share, being the per share price of the Common Shares issued and sold in the Offering, with expiry dates ranging from July 13, 2022 to December 16, 2022.

(6) Represents common share purchase warrants to acquire up to 270,957 Common Shares at an exercise price of $5.5993 per share, being a 30% discount to the per share price of the Common Shares issued and sold in the Offering, with expiry dates ranging from January 4, 2024 to January 8, 2024.

(7) Represents common share purchase warrants to acquire up to 39,846 Common Shares at an exercise price of $7.1991, being a 10% discount to the per share price of the Common Shares issued and sold in the Offering, with an expiry date of January 4, 2024.

(8) Represents 562,500 Common Shares that are issuable upon conversion of the 225 Class B Shares of Eupraxia Pharma held by Amanda Malone, the Chief Scientific Officer of the Company. Each Class B Share is exchangeable into Common Shares based on an exchange rate of 2,500 Common Shares for each Class B Share, subject to adjustments upon the occurrence of certain events, for a total of 562,500 Common Shares. The Class B Shares are exchangeable by Ms. Malone at her election, provided that the Company may force the exchange of the Class B Shares into Common Shares at any time on or after January 31, 2031, or on or after January 31, 2026 if the Company is listed on a stock exchange and is a reporting issuer in Canada at such time. The Company may also force the exchange of the Class B Shares into Common Shares if there is a change of control transaction involving the Company, a change in law which makes the exchange necessary or desirable or if there are a *de minimis* number of Class B Shares outstanding. If the Company is listed on a stock exchange at the time of the applicable exchange, the Company may elect to pay Ms. Malone cash in lieu of issuing Common Shares, with such cash amount to be determined based on the then current market price of the Common Shares.

(9) Each Warrant is exercisable into one common share of the Company (each, a "Warrant Share") at an exercise price of $11.20 per Warrant Share at any time prior to 5:00 p.m. (Eastern time) on the date that is five years following the closing of the Offering, subject to adjustment in certain events. The Warrants

include an acceleration provision, exercisable at the Company's option, if the Company's daily volume weighted average share price is greater than $22.40 for five consecutive trading days.

(10) Each Nordic Warrant is exercisable into one Common Share at an exercise price of $11.20 per share at any time prior to 5:00 p.m. (Eastern time) on April 29, 2026, subject to adjustment in certain events. The Nordic Warrants include an acceleration provision, exercisable at the Company's option, if the Company's daily volume weighted average share price is greater than $22.40 for five consecutive trading days.

(11) SVB may elect to convert the principal amount of the convertible debt into Common Shares at a conversion price equal to $5.68 per Common Share. SVB may also elect to convert accrued and unpaid interest, the conversion price of the accrued and unpaid interest will be subject to the minimum pricing requirements of the TSX, to the extent applicable at the time of conversion.

## Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding the Company is accumulated and communicated to the Company's management, including its CEO and CFO, in a timely manner.

In addition, the CEO and CFO have designed or caused to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. The control framework used to design the Company's ICFR uses the framework and criteria established in the *Internal Control-Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our ICFR are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.

The CEO and the CFO have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the period ended September 30, 2021 that have materially affected or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation and concluded that as at September 30, 2021, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information regarding required disclosures was made known to them on a timely basis. The Company's CEO and CFO will certify Eupraxia's quarterly filings with the Canadian securities regulatory authorities.

## Additional Information

Additional information about the Company is available on SEDAR at www.sedar.com.