



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

For the year ended December 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2021

This management's discussion and analysis ("MD&A") has been prepared as of March 29, 2022 and should be read in conjunction with the audited consolidated financial statements of Eupraxia Pharmaceuticals Inc. ("Eupraxia" or the "Company") for the years ended December 31, 2021 and 2020 and the related notes thereto which are prepared in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed in Canadian dollars unless otherwise noted. 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 annual information form ("AIF"), filed on SEDAR on March 29, 2022.

Effective March 5, 2021, the Company consolidated all of its 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 audited consolidated financial statements 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 sufficient 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 agreements 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 the ongoing COVID-19 pandemic, 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;
- we may not be able to enforce our 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 United States;
- 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;
- we 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 may be affected by macroeconomic conditions;
- our business may be affected by global geopolitical risks, including the current conflict between Russia and Ukraine;
- we 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;
- we 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 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 certain securities;
- 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 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 Shelf 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 capital¹ 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 "*Credit risk*", "*Liquidity risk*", "*Market risk*", "*Price risk*", "*Interest rate risk*" and "*Foreign currency risk*" and under the heading "*Risk Factors*" in the Shelf Prospectus and the AIF. 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. We believe a product with this profile could offer the dual potential of providing long-lasting treatment while minimizing tolerability 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 OA. Knee OA accounts for approximately 80% (US\$5.6 billion) of the

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.

global US\$7.3 billion OA therapeutics market², which is currently underserved by the available approved pharmaceuticals.

Overview of Osteoarthritis

OA is a chronic progressive disease characterized by deterioration of joint cartilage and inflammation³ 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 movement⁴. 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 disability⁵.

Globally, OA is the leading cause of disability in older adults⁶. 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 world⁷. OA is estimated to affect more than 30 million patients in the United States alone⁹, including an estimated 14 million people with symptomatic knee OA¹⁰. 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 been approved by regulatory authorities as safe and effective¹¹. 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 injections¹².

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,

² Market and Markets. Osteoarthritis Therapeutics Market: Global forecast to 2025. 2022.

³ Chow, Y.Y., Chin, K.Y. The Role of Inflammation in the Pathogenesis of Osteoarthritis. *Mediators of Inflammation*, 2020, DOI: 10.1155/2020/8293921.

⁴ Michael, J.W.P.; Schluter-Brust, K.U.; Eysel, P. The Epidemiology, Etiology, Diagnosis, and Treatment of Osteoarthritis of the Knee. *Dtsch Arztebl Int.* 2010, 107(9): 152-62. DOI: 10.3238/arztebl.2010.0152.

⁵ Sinusas, K. Osteoarthritis: Diagnosis and Treatment. *Am Fam Physician.* 2012, 85(1): 49 – 56.

⁶ WHO Department of Chronic Diseases and Health Promotion. Available at: <http://www.who.int/chp/topics/rheumatic/en/>.

⁷ Cross, M., et al. The global burden of hip and knee osteoarthritis: estimates from the Global Burden of Disease 2010 study. *Ann Rheum Dis.* 2014, 73 :1323 – 1330. DOI: 10.1136/annrheumdis-2013-204763.

⁸ Osteoarthritis Fact Sheet. Centers for Disease Control and Prevention. Available at www.cdc.gov/arthritis/basics/osteoarthritis.htm. January 10, 2019.

⁹ Osteoarthritis Fact Sheet. Centers for Disease Control and Prevention. Available at www.cdc.gov/arthritis/basics/osteoarthritis.htm. January 10, 2019.

¹⁰ Vina, E.R.; Kwok, C.K. Epidemiology of osteoarthritis: literature update. *Curr Opin Rheumatol.* 2018, 30(2):160 – 167. DOI:10.1097/BOR.0000000000000479.

¹¹ Bellamy N. et al. Intraarticular corticosteroid for treatment of osteoarthritis of the knee (Review). Cochrane Database of Systematic Reviews 2006, Issue 2. Art. No.: CD005328. DOI: 10.1002/14651858.CD005328.pub2.

¹² McAlindon T.E., et al. Effect of intra-articular triamcinolone vs saline on knee cartilage volume and pain in patients with knee osteoarthritis: a randomized clinical trial. *JAMA.* 2017. 317(19):1967 - 1975. DOI: 10.1001/jama.2017.5283.

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 “*Clinical Development*” below. Eupraxia initiated a Phase 2 efficacy and safety study in 2021, under a CTA in Denmark. The open IND application related to this Phase 2 study protocol remains in effect with the US FDA. The first patient was 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 United States. A 505(b)(2) NDA will rely in part on non-clinical studies and clinical trials conducted by Eupraxia, 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 United States 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. Eupraxia may develop pipeline candidates 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.

Clinical Development

Phase 1

Eupraxia completed a Phase 1, double-blind, placebo-controlled clinical study at three sites in Canada¹³. 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 pharmacokinetics (“**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

¹³ Details of the Phase 1 clinical study can be found on the US National Institutes of Health (“**NIH**”) database Clinicaltrials.gov, reference number NCT02609126.

in pain), the Company believes it provides tolerability and PK data, and preliminary clinical activity data that support future development of EP-104IAR.

Phase 2

Eupraxia is conducting a Phase 2 clinical study for EP-104IAR which began in 2021¹⁴. The study is evaluating 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 is being run by Nordic BioScience Clinical Development (“NBCD”), who have a proven track record in OA clinical trials. An active CTA is in place in Denmark, Poland and Czech Republic. An open IND is also in effect in the United States should the need arise to expand subject recruitment to additional sites. The trial anticipates enrolling 300 patients. Patient screening began in Q3 2021 with top-line data readout anticipated in Q1 of 2023.

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 PK 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												
	End of Phase 2 Meeting												
	Phase 3 Efficacy Study												

¹⁴ Details of the Phase 2 trial can be found on the US NIH database Clinicaltrials.gov; reference number NCT04120402.

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;
- Conduct an End of Phase 2 meeting with the FDA; and
- Initiate a Phase 3 clinical study to demonstrate the safety and efficacy of EP-104IAR to support a new drug application.

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 intellectual property (IP) portfolio around the technology.

In parallel, the Company will seek out licencing, co-development or marketing partners for its 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 determine whether the Company proceeds with further development.

Significant Company Events

On January 31, 2021, the Company entered into a contribution agreement with Amanda Malone, the Chief Scientific Officer of the Company, and certain of the Company's subsidiaries (the "**Contribution Agreement**"). Pursuant to the Contribution Agreement, the Company acquired AMDM Holdings Inc., a corporation wholly-owned by Ms. Malone, which held 5% of the equity interest in the Company's subsidiary, Eupraxia Pharmaceuticals USA, LLC ("**Eupraxia USA**"). In exchange, the Company issued to Ms. Malone 225 non-voting Class B shares (the "**Class B Shares**") in Eupraxia Pharma Inc. ("**Eupraxia Pharma**"), representing 5% of the outstanding securities of Eupraxia Pharma. The Company holds the remaining 95% of such securities, which consists of 4,275 voting Class A shares.

On March 3, 2021, the Company obtained a receipt for its final prospectus filed with the securities regulatory authorities in each of the provinces of Canada, other than Québec, in connection with the initial public offering (the "**Offering**") of 5,125,000 units of the Company (the "**Units**") at a price of \$8.00 per Unit (the "**Offering Price**") for gross proceeds of \$41,000,000. Each Unit consisted of one common share in the Company and one-half of one common share purchase warrant of the Company (each whole common share purchase warrant, a "**Warrant**"). 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. (Toronto 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. The closing of the Offering occurred on March 9, 2021 (the "**Closing Date**"). The Company was listed on the Toronto Stock Exchange ("**TSX**") with the listing of both the Common Shares and the Warrants under the symbols "EPRX" and "EPRX.WT", respectively.

On March 9, 2021, upon the closing of the Offering, (i) the \$6,690,000 aggregate principal amount of convertible notes issued from June 19, 2018 to May 23, 2019 (collectively, the "**Convertible Notes (10%)**"), plus accrued and unpaid interest of \$1,457,086; (ii) the \$831,000 aggregate principal amount of convertible notes issued from June 1, 2020 to January, 2021 (collectively, the "**Convertible Notes (30%)**") and together with the Convertible Notes (10%), the "**Convertible Notes**"), plus accrued and unpaid interest \$50,918; and (iii) 857,500 special warrants (collectively, the "**Special Warrants**"), were automatically converted into 1,103,886 Common Shares and 157,501 Common Shares and exercised into 298,798 Common Shares, respectively.

On April 14, 2021, the Company entered into an agreement with NBCD, a contract research organization dedicated to clinical drug development and research in OA, to conduct Eupraxia's EP-104IAR Phase 2 clinical trial (protocol EP-104IAR-201). The randomized, placebo-controlled trial evaluates the safety, efficacy and PK of a single 25 mg injection into the knees of 300 subjects with knee OA. NBCD agreed to make a US\$500,000 investment in the Company on the same terms as the Offering (the "**Equity Investment**"). NBCD's subscription for the Equity Investment was satisfied by setting off US\$500,000 of service fees otherwise payable by Eupraxia to NBCD and allowed Eupraxia to expand enrollment in its EP-104IAR Phase 2 clinical trial from the original 240 to 300 patients.

On April 29, 2021, the Company issued to NBCD 78,456 units of the Company at a price of C\$8.00 per unit, with each unit consisting of one Common Share and one-half of one common share purchase warrant of the Company (each whole common share purchase warrant, a "**Nordic Warrant**"). 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. on the date that is five years from the date of issuance, subject to adjustment in certain events. The Nordic Warrants include the same acceleration provision as the Warrants under the Offering, which is 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. The Warrants are transferable but are not listed on the TSX.

On May 3, 2021, the Company announced the appointment of Bruce Cousins as the Company's new President and Chief Financial Officer, replacing Alex Rothwell.

On May 18, 2021, the Company offered existing lenders the opportunity to convert their outstanding principal and accrued interest into Common Shares at a conversion price equal to \$4.6106 per Common Share. Principal and interest totaling \$5,987,642 was subsequently converted into 1,298,664 Common Shares on June 8, 2021. Accrued interest totaling \$180,197 was paid in cash to lenders.

On June 21, 2021, the Company entered into a contingent convertible debt agreement (the "**Debt Agreement**") with Silicon Valley Bank ("**SVB**") and concurrently drew down in full the \$10 million principal amount under the Agreement. The Debt Agreement has a term of 36 months or 48 months on SVB's election. 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 will accrue at a rate of 7% per annum, which will be settled on maturity or conversion. Subject to the terms and conditions of the Debt Agreement, SVB may elect to convert the principal amount of the convertible debt and the accrued and unpaid interest thereon into Common Shares at a conversion price equal to \$5.68 per Common Share. The Company has agreed to grant SVB a security interest in all of its assets, excluding its patents and other intellectual property, as security for its obligations under the Agreement. The Company is required, on or prior to June 30, 2022, to raise additional net new capital, as defined in the Debt Agreement, in the aggregate amount of \$10 million. This net new capital can originate from, but is not restricted to, a variety of sources as outlined in the Agreement and can include up to \$5 million in reduced project expenses.

On July 19, 2021, the Company announced that it had received authorization from the Danish Medicines Agency to initiate the EP-104IAR Phase 2 clinical trial. This was followed by central ethics approval on September 1, 2021. On

September 14, 2021, the Company announced that it had initiated patient screening. Successful candidates were subsequently enrolled and dosed in the last quarter, with patient recruitment continuing into 2022.

On September 16, 2021, the Company announced the publication of EP-104IAR Phase 1 results 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.¹⁵

On this date, the Company also announced receipt of 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."

On November 4, 2021, the Company announced receipt of advisory services and funding of up to \$700,000 from the National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP) to support a research and development project to further develop the Company's polymer-based proprietary drug delivery technology.

On December 2, 2021, the Company announced its intent to increase the number of clinical research sites and modify patient enrollment criteria in the EP-104IAR Phase 2 trial to facilitate patient recruitment. Estimated timing for top-line results was unchanged.

On December 3, 2021, the Company amended its stock option plan (the "**Amended Plan**") to: (i) increase the maximum number of Common Shares that may be reserved and available for issuance upon exercise of stock options ("**Options**"), from 15% of the aggregate of the Company's issued and outstanding Common Shares to 18.5% of the total number of issued and outstanding Common Shares (on a non-diluted basis), at the relevant time; and (ii) remove the overall Common Share limitation for all security based compensation arrangements contained in the Company's existing amended and restated stock option plan.

On January 10, 2022, the Company filed a final short form base shelf prospectus with the securities regulatory authorities in each of the provinces and territories of Canada (the "**Shelf Prospectus**"). This Shelf Prospectus will allow the Company and certain of its securityholders to qualify the distribution of up to C\$30 million of common shares, preferred shares, debt securities, warrants, subscription receipts, and units, or any combination thereof (collectively, the "**Securities**") during the 25-month period that the Shelf Prospectus is effective, in amounts, at prices and on terms based on market conditions at the time of any offering, and set forth in an accompanying shelf prospectus supplement ("**Prospectus Supplement**").

Selected Financial Information

The financial information reported herein has been derived from the audited consolidated financial statements for the years ended December 31, 2021, 2020 and 2019.

	December 31, 2021	December 31, 2020	December 31, 2019
	\$	\$	\$
Cash and cash equivalents	20,892,069	150,126	1,156,079
Net working capital surplus/(deficit)	28,333,840	(21,404,017)	(18,027,707)
Total assets	31,222,067	1,453,592	3,285,063
Total non-current financial liabilities	9,401,343	574,973	749,348
Equity (deficit) attributable to owners of the Company	20,386,772	(21,209,762)	(17,690,390)
Non-controlling interest	(833,836)	(453,891)	(440,455)
Total shareholders' equity (deficit)	19,552,936	(21,663,653)	(18,130,845)

¹⁵ Amanda Malone, James Price, Nicola Price, Vik Peck, Alan Getgood, Robert Petrella, James Helliwell. Safety and pharmacokinetics of EP-104IAR (sustained-release fluticasone propionate) in knee osteoarthritis: A randomized, double-blind, placebo-controlled Phase 1 trial, *Osteoarthritis and Cartilage Open*, Volume 3, Issue 4, 2021, 100213, ISSN 2665-9131, <https://doi.org/10.1016/j.ocarto.2021.100213>.

Selected Consolidated Statement of Financial Position Data

Cash and cash equivalents increased by \$20,741,943 to \$20,892,069 as at December 31, 2021. The increase reflects funds received as a result of the Company's Offering that closed on March 9, 2021 and a convertible debt facility obtained from SVB that closed on June 21, 2021. The increase was offset by an investment of \$9,000,000 in guaranteed investment certificates (GIC) during the fourth quarter of 2021.

Working capital increased by \$49,737,857 to a surplus of \$28,333,840 as at December 31, 2021. This increase was attributable to the financings referenced above, combined with the conversion of the Convertible Notes and Special Warrants and the conversion of shareholder loans that occurred in the first and second quarters of 2021.

Total assets increased by \$29,768,475 to \$31,222,067 as at December 31, 2021. This increase was primarily due to the increase in cash and cash equivalents and GIC's referenced above.

Total non-current financial liabilities increased by \$8,826,370 to \$9,401,343 as at December 31, 2021. This increase was attributable to the convertible debt facility obtained from SVB.

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

Selected Consolidated Statements of Operations and Comprehensive Loss Data

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
	\$	\$	\$
Revenue	-	-	-
Loss and comprehensive loss – Owners of the Company	(22,989,606)	(3,997,202)	(7,176,138)
Loss and comprehensive loss – Non-controlling interest	(379,945)	(13,436)	(64,439)
Net loss and comprehensive loss	(23,369,551)	(4,010,638)	(7,240,577)
Weighted average shares outstanding, basic and diluted	12,405,838	6,118,673	6,118,002
Loss per share, basic and diluted – Owners of the Company	(1.85)	(0.65)	(1.17)
Loss per share, basic and diluted – Non-controlling interest	(0.03)	-	(0.01)

The comprehensive loss for the year ended December 31, 2021 increased by \$19,358,913 when compared to the year ended December 31, 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 (which includes professional fees and stock based compensation in addition to other expenses that were associated with the Offering and the Company being a public company).

Comparison of the Year Ended December 31, 2021 and 2020

Results of Operations

	Year Ended December 31, 2021	Year Ended December 31, 2020
	\$	\$
Research and development expenses	9,678,807	859,781
General and administrative expenses	8,998,870	1,386,412
Other expense	4,691,874	1,764,445
Total comprehensive loss	23,369,551	4,010,638

Research and Development

Comparing the year ended December 31, 2021, to the same period in 2020, research and development activities increased by \$8,819,026. This increase is due primarily to the following items:

- An increase of \$7,330,167 relating to an increase in costs associated with EP-104IAR for the Phase 2 clinical trial.
- An increase of \$1,114,148 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, amortization of right of use assets, general and administrative expenses, professional fees, public company costs, salaries and benefits (net) and stock-based compensation.

Comparing the year ended December 31, 2021, to the same period in 2020, general and administrative activities increased by \$7,617,738. This increase is due primarily to the following items:

- An increase of \$3,985,971 related to stock-based compensation expense (non-cash) associated with options issued and vested to employees and directors and officers.
- An increase of \$992,926 related to professional fees. The increase is primarily due to increased legal fees associated with the Offering and the transition to being a public company.
- An increase of \$1,674,702 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 \$478,014 related to public company costs not previously incurred as a result of listing on the TSX.
- An increase of \$486,125 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 year ended December 31, 2021, to the same period in 2020, other income and expense increased by \$2,927,429. 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 \$1,395,068 related to the increase in fair value of warrant liability. The warrants issued as part of the loan financing in Note 14 of the audited 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 to that date has been recorded in Other Income as a loss.
- A decrease of \$584,945 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 Amended and Restated License Agreement (as defined herein). This was partially offset by interest accrued on the convertible debt facility.
- An increase of \$54,889 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 \$132,759 relating to a loss on sale of equipment that was recorded during 2020.

Summary of Quarterly Results

The information in the tables below has been derived from the Company's unaudited interim condensed consolidated financial statements. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter. All dollar amounts are expressed in Canadian dollars.

	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020
	\$	\$	\$	\$	\$	\$	\$	\$
Total Revenue	-	-	-	-	-	-	-	-
Total comprehensive income (loss)	(3,777,460)	(5,135,184)	(5,595,065)	(8,861,842)	(139,842)	(728,218)	(989,727)	(2,152,851)
Loss per share, basic and diluted	(0.27)	(0.36)	(0.42)	(1.13)	(0.02)	(0.12)	(0.16)	(0.35)

The net loss of the Company has increased since the completion of the Offering in the first quarter of 2021. This is a result of 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. This trend is expected to continue into the future. Research and Development expenses are expected to remain high 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 public company compliance.

Use of Proceeds

	Estimated Amount to be Expended \$	Actual Amount Expended \$
Research and Development	26,078,000	14,122,000
General and administrative expenses	11,742,000	7,974,000
Total	37,820,000	22,096,000

There have been no material variances to the way the Company intended to use proceeds from the Offering.

Liquidity, Capital Resources and Outlook, Management of Cash Resources

As of December 31, 2021, the Company had a cash balance of \$20,892,069 (December 31, 2020 - \$150,126) and a working capital balance of \$28,333,840 (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 USD, 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 completed an Offering for gross proceeds of \$41,000,000 and entered into the Debt Agreement for an additional \$10,000,000 during the course of 2021. 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 year ended December 31, 2021 and 2020.

	December 31, 2021 \$	December 31, 2020 \$
Net cash provided by (used in):		
Operating activities	(14,641,630)	(403,784)
Investing activities	(14,449,819)	24,618
Financing activities	49,915,019	(626,644)
Net increase (decrease) in cash and cash equivalents	20,823,570	(1,005,810)
Foreign Exchange effect on cash	(81,627)	(143)

Cash used in operating activities for the year ended December 31, 2021 increased by \$14,237,846 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 used in investing activities for the year ended December 31, 2021 increased by \$14,474,437 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 purchase of short term investments.

Cash provided from financing activities for the year ended December 31, 2021 increased by \$50,541,663 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 audited 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. At December 31, 2021 the Company had cash and cash equivalents of \$20,892,069, short term investments of \$9,008,855 and working capital of \$28,333,840 and the Company has not yet generated revenue from operations. The Company incurred a net loss of \$23,369,551 during the year ended December 31, 2021 and, as of that date the Company's accumulated deficit was \$74,186,763. In addition, the Company is required to raise an additional \$10,000,000 in net new capital by June 30, 2022. 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 especially with recent developments in Russia and Ukraine affecting the global capital markets in addition to the ongoing impact of COVID-19. These events and conditions indicate a material uncertainty which may cast significant doubt about its ability to continue as a going concern. The audited consolidated 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 December 31, 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 an amended and restated license agreement dated effective October 9, 2018 (as further amended, 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 (as defined in the Amended and Restated License Agreement) 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 \$86,478 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.

Convertible Debt Facility

On June 21, 2021, the Company entered into the Debt Agreement with SVB and concurrently drew down, in full, the \$10 million principal amount under the Agreement.

The Debt Agreement has a term of 36 months or 48 months at SVB's election. 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 will accrue at a rate of 7% per annum, which will be settled at maturity or on conversion.

Subject to the terms and conditions of the Debt Agreement, SVB may elect to convert the principal amount of the convertible debt and the accrued and unpaid interest thereon into Common Shares at a conversion price equal to \$5.68 per Common Share. 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.

The Company will have the right (the "**Call Right**") to call the convertible debt by paying to SVB an amount equal to:

- i. 125% of the principal amount of the convertible debt (less principal amounts previously repaid), if the Call Right is exercised on or before the 18 month anniversary of the date of the Debt Agreement; and
- ii. 150% of the principal amount of the convertible debt (less principal amounts previously repaid), if the Call Right is exercised after the 18 month anniversary of the date of the Debt Agreement,

in either case together with all accrued and unpaid interest on the principal balance of the convertible debt. If the Call Right is exercised by the Company, SVB will retain certain lookback rights in the event the Company subsequently announces its topline data from its Phase 2 clinical study or the Company enters into an agreement to be acquired in the 12 months following the exercise of the Call Right. The Company has agreed to grant SVB a security interest in

all of its assets, excluding its patents and other intellectual property, and the testing and product equipment by way of the loan agreement it entered into on September 10, 2021 as security for its obligations under the Debt Agreement.

The Company is required, on or prior to June 30, 2022, to raise additional net new capital, as defined in the Debt Agreement, in the aggregate amount of \$10 million. This net new capital can originate from, but is not restricted to, a variety of sources as outlined in the Debt Agreement and can include up to \$5 million in reduced project expenses.

Summary of Contractual Obligations

As of December 31, 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	Total	Less than 1 year	1 - 3 years
	\$	\$	\$
Convertible Debt	9,083,403	-	9,083,403
Loans Payable	275,105	94,916	180,189
Leases	255,780	87,696	168,084
Total Contractual Obligations	9,614,288	182,612	9,431,676

Transactions with Related Parties

There were no ongoing contractual commitments and transactions with related parties during the year ended December 31, 2021 and 2020, other than those compensation-based payments disclosed in Note 19 - Related Parties of the audited consolidated financial statements.

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 consolidated financial statements 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 consolidated financial statements, 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; and
- ii) 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.

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 and its subsidiaries; and
- iii) Assessment of the appropriateness of the going concern assertion and events and conditions that indicate a material uncertainty that may cast significant doubt thereon.

Accounting Standards Issued and Adopted

No new standards, amendments to standards, or interpretations to existing standards were adopted during the year ended December 31, 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 audited consolidated financial 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 and cash equivalents, short term investments, rent and other receivables, 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 and cash equivalents and short term investments, 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 manages its liquidity risk by forecasting cash flows and anticipated investing and financing activities to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2021, the Company had cash and cash equivalents of \$20,892,069 in addition to short term investments of \$9,008,855 (December 31, 2020 - \$150,126) and current liabilities of \$2,267,788 (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 December 31, 2021, the Company maintains a convertible debt facility totaling \$10,000,000 as well as having a loan of USD216,994 (\$275,105). 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 December 31, 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 \$262,000. There would be no impact with a 1% decrease in the prime rate.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign currency risk due to its frequency of transactions in US dollars. The Company does not use derivatives to hedge against this risk however, it has purchased sufficient US dollars to cover the majority of anticipated costs of the Company's Phase 2 clinical trial. At December 31, 2021, the Company held cash of USD5,179,699 (December 31, 2020 - USD473) had accounts payable of USD623,478 (December 31, 2020 - USD839,212), loan payable of USD216,994 (December 31, 2020 - USD nil) and had an amount owing to Auritec of USD nil (December 31, 2020 - USD3,971,475) which were translated to Canadian dollars at 1.2678 (December 31, 2020 - 1.2732). The impact of a 10% change in the exchange rates would have an impact of approximately \$550,100 (2020 - \$612,400) on profit or loss.

Risks and Uncertainties

The primary risk factors affecting the Company are set forth under the heading "*Risk Factors*" in the Shelf Prospectus and the AIF.

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⁾	2,134,250
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⁾	1,855,441
Total Common Shares Issuable	9,029,589

Notes:

- (1) Represents options outstanding under the Company's stock option plan, each having an exercise price between \$2.02 and \$8.00 and expiry dates ranging from March 31, 2025 to December 9, 2031.
- (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 year ended December 31, 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 December 31, 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 annual filings with the Canadian securities regulatory authorities.

Additional Information

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