



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

For the Three and Nine Months ended September 30, 2022

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30,
2022**

This management's discussion and analysis ("MD&A") has been prepared as of November 7, 2022 and should be read in conjunction with the interim condensed consolidated financial statements of Eupraxia Pharmaceuticals Inc. ("Eupraxia" or the "Company") as at and for the three and nine months ended September 30, 2022 and the related notes thereto and in conjunction with the audited consolidated financial statements of the Company and related notes thereto for the year ended December 31, 2021 which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts are expressed in Canadian dollars unless otherwise noted. In this MD&A, unless the context requires otherwise, references to "we" or "our" are references to Eupraxia. Additional information relating to the Company is available in our annual information form ("AIF"), filed on SEDAR on March 29, 2022.

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," "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. Also, as of the date of this MD&A, the Company's lead asset EP-104IAR will be known and referred to as EP-104.

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-104 Phase 2 study for osteoarthritis ("OA"), including the number of patients enrolled in the study, its projected timeline and completion;
- the EP-104 Phase 1b/2a study for eosinophilic esophagitis ("EoE"), including the number of patients enrolled in the study, its projected timeline and completion;
- the success of regulatory submissions, including the clinical trial applications ("CTAs") and Investigational New Drug ("IND") for EP-104;
- 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 ("IP");
- development of additional IP, ability to patent or otherwise protect such developed IP and licenses with third parties for IP;
- 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-104 from existing therapies for treatment of 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-104, our ability to successfully commercialize EP-104 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;
- The Company is reliant upon third party contract manufacturing relationships for the manufacture of our products.
- 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-104, 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 Base Shelf Prospectus dated January 10, 2022 (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 product candidates, 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 more prolonged activity than currently available treatments, improved pharmacokinetics ("**PK**") and related safety profile and 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-

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.

target tissues. The Company’s strategy is to develop a portfolio of product candidates based on extended delivery technology.

Eupraxia now has two distinct clinical development programs, one targeting chronic OA pain in the knee and the second targeting Eosinophilic Esophagitis (“**EoE**”). Both programs are broadly based upon the same drug candidate EP-104IAR. This injectable drug is dispensed together with a “vehicle” specifically designed for the target and co-administered with the active pharmaceutical ingredient (“**API**”). Although using the same underlying API and extended-release formulation, therapeutic targets may be differentiated by dosing levels, vehicle and delivery methods (e.g. intra-articular). All regulatory filings to-date and communication from the Company have been made referencing EP-104IAR. In the interest of greater clarity for investors the Company will drop the suffix IAR and simply refer to the product candidate as EP-104 in conjunction with the specific indication.

Eupraxia’s lead product candidate, EP-104, 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 global US\$7.3 billion OA therapeutics market², which is currently underserved by currently approved pharmaceutical therapies.

EP-104 also has potential to treat EoE, a rare immune-mediated disease recognized by the US National Organization for Rare Disorders (“**NORD**”). Over \$1B is spent annually in hospitalizations, endoscopic procedures and medications to treat EoE³, and a significant unmet medical need exists for cost-effective and less burdensome long-term treatment⁴ options.

Overview of Osteoarthritis

OA is a chronic progressive disease characterized by deterioration of joint cartilage and inflammation⁵, 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 movement⁶. 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 disability⁷.

Globally, OA is the leading cause of disability in older adults⁸. 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^{9,8} OA is estimated to affect more than 30 million patients in the United States alone¹⁰, including an estimated 14 million people with symptomatic knee OA¹¹. 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

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

³ Dellon ES. Cost-effective care in eosinophilic esophagitis. *Ann Allergy Asthma Immunol.* 2019;**123**:166–172. doi: 10.1016/j.anaai.2019.04.010

⁴ Taft TH, Guadagnoli L, Edlynn E. Anxiety and Depression in Eosinophilic Esophagitis: A Scoping Review and Recommendations for Future Research. *J Asthma Allergy.* **2019 Dec 9**;12:389-399. doi: 10.2147/JAA.S193045. PMID: 31849499; PMCID: PMC6910091.

⁵ Chow, Y.Y., Chin, K.Y. The Role of Inflammation in the Pathogenesis of Osteoarthritis. *Mediators of Inflammation*, 2020, DOI: 10.1155/2020/8293921.

⁶ 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.

⁷ Sinusas, K. Osteoarthritis: Diagnosis and Treatment. *Am Fam Physician.* 2012, 85(1): 49 – 56.

⁸ WHO Department of Chronic Diseases and Health Promotion. Available at: <http://www.who.int/chp/topics/rheumatic/en/>.

⁹ 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.

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

¹¹ Vina, E.R.; Kwok, C.K. Epidemiology of osteoarthritis: literature update. *Curr Opin Rheumatol.* 2018, 30(2):160 – 167. DOI:10.1097/BOR.0000000000000479.

effective¹². 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 injections¹³.

Overview of Eosinophilic Esophagitis

EoE is a rare, chronic, immune-mediated disease, characterized by inflammation and the accumulation of large numbers of eosinophils (a type of white blood cells) within the epithelial lining of the esophagus. In adults, EoE leads to dysphagia and food impaction; in children, it often presents with irritability, nausea and vomiting. Patients with EoE frequently develop esophageal strictures, a narrowing or tightening of the esophagus, accompanied by proliferations of fibrotic tissue¹⁴.

According to NORD criteria, EoE is categorized as a rare disease (i.e., affecting fewer than 1 in 2,000 people)¹⁵. US-based population-based studies are showing that the incidence is increasing by approximately 10 cases/100,000 persons annually. Patients with EoE often experience debilitating impacts from both symptoms and interventions, leading to mental health issues and compounding the overall disease burden on the health care system and the individual¹⁶.

Current EoE treatment guidelines aim to lower eosinophil counts and improve symptoms. Recommended treatment progresses from strict dietary protocols to pharmacological intervention (proton pump inhibitors, swallowed corticosteroids) to mechanical intervention (endoscopic dilation for established strictures)¹⁷. The American Gastroenterological Association and the Joint Task Force on Allergy-Immunology Practice recommend the use of topical corticosteroids (budesonide, swallowed fluticasone) over systemic steroids for long-term EoE management.¹⁸ Of the current available therapies, all have different levels of effectiveness for different patient populations. A single biologic (Dupixent®) involving weekly injections is approved in the US and a single topical corticosteroid (Jorveza™) is approved in Europe, Canada and Australia involving twice daily oral doses. High treatment costs, short duration of effect, associated candida of the esophagus, recurrent disease, and patient compliance with frequent administrations complicate these approved pharmaceutical treatments and indicate an unmet need for better long-term treatment options.

Composition of EP-104

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

FP is the active ingredient of EP-104. FP is 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,

¹² 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.

¹³ 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.

¹⁴ Straumann A, Aceves SS, Blanchard C, Collins MH, Furuta GT, Hirano I, Schoepfer AM, Simon D, Simon HU. Pediatric and adult eosinophilic esophagitis: similarities and differences. *Allergy*. 2012 Apr;67(4):477-90. doi: 10.1111/j.1398-9995.2012.02787.x. Epub 2012 Feb 8. PMID: 22313241. *Clin Gastroenterol Hepatol*. 2011 May;9(5):400-9.e1. doi: 10.1016/j.cgh.2011.01.017. Epub 2011 Jan 28.

¹⁵ Eosinophilic Esophagitis - NORD (National Organization for Rare Disorders). <https://rarediseases.org/rare-diseases/eosinophilic-esophagitis/> Published 2019. Accessed Oct 25, 2022

¹⁶ [Anxiety and Depression in Eosinophilic Esophagitis: A Scoping Review and Recommendations for Future Research - PMC \(nih.gov\)](https://pubmed.ncbi.nlm.nih.gov/35484444/)

¹⁷ Carr, S.; Chan, E.S.; Watson W. Eosinophilic Esophagitis. *Allergy. Asthma. Clin. Immunol.* **2018**, *14* (Suppl 2), 58, 103-113. DOI: 10.1186/s13223-018-0287-0

¹⁸ Hirano et al reference WAS 2020 (Hirano, I.; Chan, E.S.; Rank, M.A.; Sharaf, R.N.; Stollman, N.H.; Stukus, D.R.; Wang, K.; Greenhawt, M.; Falck-Ytter, Y.T. AGA Institute and the Joint Task Force on Allergy-Immunology Practice Parameters Clinical Guidelines for the Management of Eosinophilic Esophagitis. *Gastroenterology*. **2020 May**, *158* (6), 1776-1786. DOI: 10.1053/j.gastro.2020.02.038

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. FP is not currently approved for use in any formulation for the treatment of OA pain or EoE. For EoE, instant-release FP is prescribed off-label as inhaled Flovent[®]. Ellodi Pharmaceuticals is in phase 3 study development of a once-daily oral disintegrating FP tablet for EoE. To the Company’s knowledge, EP-104 is the only extended-release formulation of FP in development. The Company believes its drug delivery technology platform has the potential to be effective in EoE based on the proven efficacy of oral immediate release fluticasone propionate in this indication, and the growing library of data supporting the value of extended-release steroids in a variety of indications.

EP-104 Development

Eupraxia has completed Investigational New Drug (“**IND**”) enabling non-clinical studies, demonstrating EP-104 has a potentially favourable tolerability profile, and a Phase 1 clinical study in 32 knee OA patients. See “*Clinical Development*” below. In 2021, Eupraxia initiated a Phase 2 efficacy and safety study in Denmark, Poland and the Czech Republic. The open IND application related to this Phase 2 study protocol remains in effect with the US FDA.

In October 2022, Eupraxia announced the initiation of a multi-jurisdiction Phase 1b/2 clinical study to assess the safety, tolerability and efficacy of EP-104 for EoE. Eupraxia intends to pursue orphan drug status and any other mechanisms that could accelerate clinical testing and ultimate regulatory submission for EoE.

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-104, 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 commercialization of EP-104 in the United States and globally.

Clinical Development of EP-104 for OA

Phase 1

Eupraxia completed a Phase 1, double-blind, placebo-controlled clinical study at three sites in Canada¹⁹. Thirty-two patients with moderate to severe knee OA pain were given a single dose of 15 mg EP-104 (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 tolerability and PK data, and preliminary clinical activity data that supported further development.

Phase 2 - OA

Eupraxia is conducting a Phase 2 clinical study for EP-104 that began in 2021²⁰. The study evaluates the efficacy, safety and PK of 25 mg EP-104 over six months in patients with moderate knee OA as defined by Kellgren Lawrence Grading. The primary endpoint in the trial is the change from baseline Western Ontario and McMaster Universities Osteoarthritis Index (“**WOMAC**”) pain scores at 12 weeks as compared to that of placebo. Secondary endpoints

¹⁹ Details of the Phase 1 clinical study can be found on the US National Institutes of Health (“**NIH**”) database Clinicaltrials.gov, reference number NCT02609126.

²⁰ Details of the Phase 2 trial can be found on the US NIH database Clinicaltrials.gov; reference number NCT04120402.

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 Q2 of 2023.

There have been two significant changes to the Phase 2 protocol since inception:

- Based on the positive safety profile observed during the DSMB Review, the Company is now including patients with a diabetes diagnosis in its Phase 2 trial. Diabetics represent 14% of patients diagnosed with OA²¹, and inclusion of this important subgroup will provide valuable additional data to guide further drug development.
- Magnetic Resonance Imaging (“MRI”) has been added to the trial's protocol to further characterize the efficacy (local inflammation) and safety profile. (cartilage) of EP-104 and could strengthen EP-104's differentiation as a treatment for OA. This elective imaging component is expected to help identify EP-104-induced reductions in inflammation and assess ongoing cartilage health in patients. Scans will follow patients at zero, three, six and 12 months, with a potential to include up to 50 patients. This change was implemented after the DSMB meeting and in conjunction with strong supportive pre-clinical evidence of cartilage health and joint health. The Company believes this MRI subgroup may further strengthen the non-clinical data seen to date. The Company also anticipates that this data will better inform the utility of imaging in the planned Phase 3 program.

Phase 3

In order to seek marketing approval for EP-104, the Company will be required to carry out at least one Phase 3 study with 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-104 on cartilage health (e.g., via X-Ray and/or MRI).

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-104 and Flovent[®] HFA. Additional clinical studies and/or analyses may be required for alternate regulatory jurisdictions.

Development Timelines for OA

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

²¹ Swain, S., Sarmanova, A., Coupland, C., Doherty, M. and Zhang, W. (2020), Comorbidities in Osteoarthritis: A Systematic Review and Meta-Analysis of Observational Studies. *Arthritis Care Res*, 72: 991-1000. <https://doi.org/10.1002/acr.24008>

Eupraxia’s Estimated Product Development Timelines to Initiation of Phase 3

EP-104 Development Milestones	2021				2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Phase 2 Efficacy Study												
Manufacturing Optimisation for Phase 3												
Non-clinical Studies to support Phase 3												
End of Phase 2 Meeting												
Phase 3 Program Startup												

Clinical Development of EP-104 for EoE

Phase 1b/2a- EoE

Eupraxia anticipates commencing patient recruitment in late Q4 2022 for an open label Phase 1b/2a clinical study of EP-104 in EoE, with interim results anticipated in H1 of 2023 and final results and proof of concept in H2 of 2023. The study will be conducted in up to 15 adult patients with a confirmed diagnosis and active symptoms of EoE. Primary outcomes for safety, PK and efficacy will be collected at various points over a 12-week total period. Competent authorities and ethics review boards have cleared the protocol for sites in both Canada and the Netherlands; additional jurisdictions may be added as necessary to complete target recruitment. The trial will be conducted by Alimentiv Inc. a niche gastrointestinal contract research organization with experience in managing EoE clinical trials. To seek marketing approval for EP-104 in EoE, the Company will be required to carry out at least one Phase 3 study assessing both efficacy (reduced eosinophils and improved symptoms) and safety of EP-104 in this indication. Subsequent steps in the research program will be determined following analysis of results as well as interaction with key opinion leaders and regulatory authorities.

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-104 development program, including:

- Completion of the Phase 2 OA clinical study to evaluate the safety and efficacy of EP-104 to support a new drug application;
- Completion of the Phase 1b/2a EoE clinical study to evaluate the safety and effectiveness of EP-104;
- Manufacturing optimization to simplify the supply chain, and manufacture Phase 3 material;
- Complete non-clinical studies to support subsequent Phase 3 clinical studies that would enhance the EP-104 label for OA (e.g., a multi-dose study) and evaluate the safety and biocompatibility of all excipients;
- Conduct End of Phase 2 meeting(s) with relevant competent authorities and explore program options designed to facilitate and expedite drug development and market authorization (e.g., Fast Track, Breakthrough Therapy, Orphan Drug Designation);
- Initiate the Phase 3 clinical program of EP-104 to support a new drug application for OA;
- Progress the clinical EoE research program; and
- Continue to strengthen the IP portfolio around the EP-104 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 next 24 months. Eupraxia's technology is potentially compatible with various drugs and therapeutic indications. The pipeline strategy focuses 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). The Company has previously investigated indications involving post-surgical pain (EP-105) and post-surgical site infections (EP-201). While both programs demonstrated preclinical evidence of Eupraxia's technology working well in these candidates, they have been paused so the Company can remain focused on the other programs described previously in the MD&A.

The Company currently has several pipeline candidates in development with a goal to add a new pipeline product candidate over the next 12 months to allow for sustained corporate growth. Eupraxia expects this to 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 determine whether the Company should proceed with further development.

Significant Company Events

On September 26, 2022, the Company announced the grant of a patent and a notice of allowance for EP-104. The grant of European Patent EP2976062B1 provides compositional and method of use coverage for EP-104 and covers major European markets of commercial significance. The Company believes the new European patent offers strong protection for EP-104 in key European markets until 2034, pending any adjustments or extensions.

On September 26, 2022, the Company also announced the grant of a Brazilian notice of allowance, which will provide compositional and method-of-use coverage for EP-104. The Company believes this grant will provide extensive protection for EP-104 in the Brazilian market until 2034, also pending any adjustments or extensions.

On October 11, 2022, the Company provided the following updates to its Phase 2 OA trial (for details, see *Clinical Development of EP-104 for OA*), namely:

- The study successfully completed all Data Safety Monitoring Board ("DSMB") reviews, with no drug-related Serious Adverse Events noted, and an excellent safety profile.
- The inclusion criteria were expanded to include diagnosed diabetic patients
- MRIs were added as an elective assessment for remaining patients to be enrolled in the study

On October 12, 2022, the Company announced the initiation of the Phase 1b/2a trial of EP-104 for EoE. Eupraxia has received regulatory and ethics clearance in Canada and the Netherlands, and data from the open label trial is anticipated to start reading out in the first half of 2023.

On November 2, 2022, the Company announced the appointment of Mr. Paul Brennan to the role of Chief Business Officer. This new position will report directly to the CEO and will be responsible for advancing partnership opportunities for the Company.

Selected Financial Information

The financial information reported here-in has been derived from the interim condensed consolidated financial statements prepared in accordance with IFRS as issued by the IASB including IAS 34 “Interim Financial Reporting”. The Canadian dollar is the Company’s functional and presentation currency. 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, 2022	December 31, 2021
	\$	\$
Cash and cash equivalents	11,803,610	20,892,069
Short-term investments	18,173,273	9,008,855
Net working capital	28,531,527	28,333,840
Total assets	31,450,790	31,222,067
Total non-current liabilities	10,116,834	9,401,343
Equity attributable to owners of the Company	20,312,207	20,386,772
Non-controlling interest	(1,231,457)	(833,836)
Total shareholders’ equity	19,080,750	19,552,936

Cash and cash equivalents decreased by \$9,088,459 to \$11,803,610 as at September 30, 2022. The decrease is due primarily to the net loss of \$14,834,028 for the nine months ended September 30, 2022 offset by funds received as a result of the April 20, 2022 financing.

Short-term investments increased by \$9,164,418 to \$18,173,273. This increase reflects funds received as a result of the April 20, 2022 financing and subsequent investment in short term investment vehicles.

Working capital increased by \$197,687 to \$28,531,527 as at September 30, 2022. The increase is due primarily to the funds received as a result of the April 20, 2022 financing and a decrease in accounts payable and accruals of \$33,205 offset by net loss of \$14,834,028 for the nine months ended September 30, 2022.

Total assets increased by \$228,723 to \$31,450,790 as at September 30, 2022. The increase is due primarily to the funds received as a result of the April 20, 2022 financing offset by the cash used in operating activities during the nine months ended September 30, 2022.

Total non-current liabilities increased by \$715,491 to \$10,116,834 as at September 30, 2022. This increase was attributable to accrued interest and accretion on the convertible debt facility obtained from Silicon Valley Bank (“SVB”).

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

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
	\$	\$	\$	\$
Revenue	-	-	-	-
Total comprehensive income (loss) – Owners of the Company	(4,655,537)	(4,974,395)	(14,436,407)	(19,271,443)
Total comprehensive income (loss) – Non-controlling interest	(139,221)	(160,7890)	(397,621)	(320,649)
Weighted average shares outstanding, basic and diluted	21,393,145	14,242,595	18,538,163	11,786,857
Loss per share, basic and diluted – Owners of the Company	(0.22)	(0.35)	(0.78)	(1.63)
Loss per share, basic and diluted – Non-controlling interest	(0.01)	(0.01)	(0.02)	(0.03)

The comprehensive loss for the three months ended September 30, 2022 decreased by \$340,427 when compared to the three months ended September 30, 2021, primarily due to the following:

- Decrease in general and administration costs of \$346,823 over the comparative period. This was due a decrease in professional fees and public company costs;
- Increase in research and development expenses of \$296,078 resulting from the continued activities associated with the Phase 2 clinical trial for EP-104 in OA and Phase 1b/2a clinical trial for EP-104 in EoE;
- Increase in depreciation and amortization of \$20,322 due to an increase in equipment purchases;
- Decrease in stock-based compensation of \$164,192 due to fewer options granted and vested during the period; and
- Increase in other income (expenses) of \$145,812 due primarily to an increase in interest income of \$173,448.

The comprehensive loss for the nine months ended September 30, 2022 decreased by \$4,758,065 when compared to the nine months ended September 30, 2021, primarily due to the following:

- Decrease in general and administration costs of \$1,154,639 over the comparative period. This was due to significant costs associated with the Company going public in March 2021;
- Increase in research and development expenses of \$2,857,213 resulting from the continued activities associated with the Phase 2 clinical trial for EP-104 in OA and Phase 1b/2a clinical trial for EP-104 in EoE;
- Increase in depreciation and amortization of \$68,034 due to an increase in equipment purchases;
- Decrease in stock-based compensation of \$2,604,942 due to fewer options granted and vested during the period; and
- Decrease in other income (expenses) of \$3,923,730 due primarily to the loss on conversion of notes of \$2,260,477 and change in fair value of warrant liability of \$1,273,221 which occurred during the nine months ended September 30, 2021.

Comparison of the Three and Nine months Ended September 30, 2022 and 2021

Results of Operations

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30 2022	Nine months ended September 30, 2021
	\$	\$	\$	\$
General and administrative expenses	700,376	1,047,199	2,491,240	3,645,879
Research and development expenses	3,852,069	3,555,991	10,708,626	7,851,413
Depreciation and amortization	49,887	29,565	138,150	70,116
Stock-based compensation	265,625	429,817	1,063,994	3,668,936
Other income (expense)	73,199	(72,613)	(432,018)	(4,355,748)
Total comprehensive income (loss)	(4,794,758)	(5,135,185)	(14,834,028)	(19,592,092)

General and Administrative

General and administrative expenses consist of office and administrative costs, professional fees, public company costs, salaries and benefits.

Comparing the three months ended September 30, 2022, to the same period in 2021, general and administrative activities decreased by \$346,823. This increase is due to the following items:

- A decrease of \$262,555 related to professional fees. Fees in the comparative period were much higher due to increased legal fees associated with the Initial Public Offering and the transition to being a public company.
- An decrease related to staff compensation of \$7,740. This decrease is primarily due to an decrease in vacation expenses offset by increase in director's fees and increase in staff during the three months ended September 30, 2022.
- A decrease of \$38,488 related to public company costs that were incurred as a result of listing on the TSX in March 2021.
- An decrease of \$38,040 related to general and administrative costs in the form of increased director and officers' liability insurance premiums, travel costs and office expenses.

Comparing the nine months ended September 30, 2022, to the same period in 2021, general and administrative activities decreased by \$1,154,639. This decrease is due to the following items:

- A decrease of \$1,007,437 related to professional fees. Fees in the comparative period were much higher due to increased legal fees associated with the Initial Public Offering and the transition to being a public company.
- A decrease related to staff compensation of \$174,985. This decrease is primarily due to a one-time retroactive pay adjustment that occurred during the nine months ended September 30, 2021 offset by an increase in staff during the nine months ended September 30, 2022.
- A decrease of \$166,053 related to public company costs that were incurred as a result of listing on the TSX in March 2021.
- An increase of \$193,836 related to general and administrative costs in the form of increased director and officers' liability insurance premiums, travel costs and office expenses.

Research and Development

Comparing the three months ended September 30, 2022, to the same period in 2021, research and development activities increased by \$296,078. This increase is due to the following items:

- A decrease of \$350,298 related to costs associated with EP-104 in OA for the Phase 2 clinical trial in addition to an increase in government grants of \$2,972.

- A decrease related to staff compensation of \$38,453. This decrease is due to an increase in staff vacation during the three months ended September 30, 2022.
- An increase of \$464,962 related to costs associated with EP-104 in EoE for the Phase 1b/2a clinical trial.
- An increase of \$222,839 related to pipeline development and other costs

Comparing the nine months ended September 30, 2022, to the same period in 2021, research and development activities increased by \$2,857,213. This increase is due to the following items:

- An increase of \$1,536,469 related to an increase in costs associated with EP-104 in OA for the Phase 2 clinical trial offset by an increase in government grants of \$206,144.
- An increase related to staff compensation of \$140,928. This increase is due to a one-time retroactive pay adjustment that occurred during the nine months ended September 30, 2021 offset by an increase in staff during the nine months ended September 30, 2022.
- An increase of \$1,012,881 related to costs associated with EP-104 in EoE for the Phase 1b/2a clinical trials.
- An increase of \$373,079 related to pipeline development and other costs.

Other income (expenses)

Comparing the three months ended September 30, 2022, to the same period in 2021, other income (expenses) increased by \$145,812. This increase is due to the following items:

- An increase of \$173,448 to interest income as a result of interest earned on cash as well as short term investments.
- An increase of \$96,544 to interest expense primarily due to interest accrued on the convertible debt facility.
- An increase of \$68,908 related to foreign exchange loss. The increase in foreign exchange loss is a result of fluctuations in the US dollar exchange rate and Australian Dollar versus the Canadian dollar on our US and Australian denominated cash and liabilities during the current period.

Comparing the nine months ended September 30, 2022, to the same period in 2021, other income (expenses) increased by \$3,923,730. This increase is due to the following items:

- A decrease of \$2,260,477 related to a loss on the conversion of Convertible Notes and Special Warrants. Upon conversion, the difference between the financial liability and the fair market value was recorded in other income (expenses) during the nine months ended September 30, 2021.
- A decrease of \$1,273,221 related to the change in fair value of warrant liability. As a result, the financial liability was reclassified as equity as of March 9, 2021 and the difference in fair value was recorded in other income (expenses) during the nine months ended September 30, 2021.
- An increase of \$308,053 to interest income as a result of interest earned on cash equivalents as well as short term investments.
- An increase of \$164,452 to interest expense as a result of the conversion of convertible notes, special warrants and loans payable which occurred during the nine months ended September 30, 2021. This was partially offset by interest accrued on the convertible debt facility.
- An increase of \$254,812 related to foreign exchange gain. The increase in foreign exchange gain is a result of fluctuations in the US dollar exchange rate and Australian Dollar versus the Canadian dollar on our US and Australian denominated cash and liabilities during the current period.
- An increase of \$8,380 related to loss on sale of equipment.

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.

	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020
	\$	\$	\$	\$	\$	\$	\$	\$
Total Revenue	-	-	-	-	-	-	-	-
Total comprehensive income (loss)	(4,794,758)	(6,279,724)	(3,759,546)	(3,777,460)	(5,135,185)	(5,595,065)	(8,861,842)	(139,842)
Loss per share, basic and diluted	(0.22)	(0.32)	(0.26)	(0.27)	(0.36)	(0.42)	(1.13)	(0.02)

The net loss of the Company has increased since the completion of the Initial Public 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-104 in OA, Phase 1b/2a clinical trial of EP-104 in EoE, and general and administration expenses and other expenses that were associated with the Initial Public Offering. This trend is expected to continue into the future. Research and development expenses are expected to remain high as we undertake our clinical trials 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

The following table shows the estimated use of net proceeds for each financing, compared with the actual use of net proceeds:

March 2021 Financing

	Estimated Amount to be Expended \$	Actual Amount Expended \$
Research and Development	26,078,000	24,831,000
General and administrative expenses	11,742,000	10,465,000
Total	37,820,000	35,296,000

April 2022 Financing

	Estimated Amount to be Expended \$	Actual Amount Expended \$
Research and Development	8,500,000	-
General and administrative expenses	5,100,000	-
Total	13,600,000	-

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

Liquidity, Capital Resources and Outlook, Management of Cash Resources

As of September 30, 2022, the Company had cash, cash equivalents and short-term investments totalling \$29,976,883 (December 31, 2021 - \$29,900,924).

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 or debt 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 U.S. 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 Initial Public Offering for gross proceeds of \$41,000,000 and entered into a Debt Agreement for an additional \$10,000,000 during the course of 2021. In addition, the Company completed an Offering of approximately \$14,700,000 on April 20, 2022. These funds are being 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 Q4 of 2023.

Comparison of Cash Flow

Net cash provided by (used in):	Nine months ended September 30, 2022 \$	Nine months ended September 30, 2021 \$
Operating activities	(13,489,319)	(11,088,820)
Investing activities	(9,213,992)	(5,436,081)
Financing activities	13,160,540	50,063,231
Net increase (decrease) in cash and cash equivalents	(9,542,771)	33,538,330
Foreign exchange effect on cash and cash equivalents	454,312	(21,814)

Cash used in operating activities for the nine months ended September 30, 2022 increased by \$2,400,499 compared to the same period in the prior year. There were increased costs associated with the Phase 2 clinical trial for EP-104 in OA and the Phase 1b/2a clinical trial for EP-104 in EoE during the nine months ended September 30, 2022. This was offset by fewer costs related to professional fees and costs related to public company fees.

Cash used in investing activities for the nine months ended September 30, 2022 increased by \$3,777,911 compared to the same period in the prior year. During the nine months ended September 30, 2022, the Company's use of cash for investing activities consisted of the purchase of computer and lab equipment and purchasing short term investments compared to the nine months ended September 30, 2021 in which cash was used primarily for the settlement of the amount payable to Auritec in relation to the licensing agreement.

Cash provided by financing activities for the nine months ended September 30, 2022 decreased by \$36,902,691 compared to the same period in the prior year. During the nine months ended September 30, 2022, the Company's cash provided for financing activities was primarily due to net funds of \$13,297,848 received as a result of the April 20, 2022 financing as compared to cash provided by financing activities for the same period in the prior year, of which \$37,877,184 was due to the proceeds received from the Initial Public Offering in addition to \$11,730,748 received from various loans as well as the convertible debt.

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. At September 30, 2022, the Company had cash and cash equivalents of \$11,803,610, short term investments of \$18,173,273 and working capital of \$28,531,527 and the Company has not yet generated revenue from operations. The Company incurred a net loss of \$14,834,028 during the nine months ended September 30, 2022 and, as of that date, the Company's accumulated deficit was \$88,623,170. 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 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 and 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 the Company's ability to continue as a going concern. The interim condensed 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.

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, 2022 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 USD5,000,000. 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 USD30,000,000 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 USD500,000,000	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 USD100,000,000.

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 a Debt Agreement with SVB and concurrently drew down, in full, the \$10,000,000 principal amount under the Debt 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 IP, 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 was 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 could originate from, but was not restricted to, a variety of sources as outlined in the Debt Agreement and could include up to \$5 million in reduced project expenses. On April 20, 2022, the Company closed an Offering for gross proceeds of \$14.7 million that satisfied this requirement.

Summary of Contractual Obligations

As of September 30, 2022, 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	\$ 9,916,524	\$ -	\$ 9,916,524
Loans Payable	221,010	107,251	113,759
Leases	190,008	87,696	102,312
Total Contractual Obligations	\$ 10,327,542	\$ 194,947	\$ 10,132,595

Transactions with Related Parties

There were no ongoing contractual commitments and transactions with related parties during the three and nine months ended September 30, 2022, other than those disclosed in Note 20 - Related Parties of the interim condensed 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 interim condensed 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 interim condensed consolidated financial statements, and may require accounting adjustments based on future events. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. 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 three and nine months ended September 30, 2022.

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, 2023 that have not been applied in preparing the interim condensed consolidated financial statements. These standards and interpretations are not expected to have a material impact on the Company's interim condensed consolidated financial statements.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, 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 these 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, 2022, the Company had cash and cash equivalents of \$11,803,610 (December 31, 2021 - \$20,892,069) in addition to short-term investments of \$18,173,273 (December 31, 2021 - \$9,008,855) and current liabilities of \$2,253,206 (December 31, 2021 - \$2,267,788). 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.

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, 2022, the Company maintains a Convertible Debt facility totaling \$10,000,000 (the "Debt") as well as having a loan of USD235,000 (the "Loan").

The convertible debt 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. The loan used to purchase equipment in 2021 accrues interest at a fixed rate of 5.84%.

As at September 30, 2022, 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 \$185,833. 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 US dollars to cover the majority of anticipated costs of the Company's Phase 2 clinical trial. At September 30, 2022, the Company held cash of USD4,165,958 (December 31, 2021 – USD5,179,699) had accounts payable of USD926,997 (December 31, 2021 – USD623,478) and a loan payable of USD161,239 (December 31, 2021 – USD216,994) which were translated to Canadian dollars at 1.3707 (December 31, 2021 – 1.2678). The impact of a 10% change in the exchange rates would have an impact of approximately \$422,000 (December 31, 2021 – \$550,100) on profit or loss. The Company also has cash in Australian dollars and accounts payable in Australian dollars and Euros. The impact of a 10% change in the exchange would have an immaterial effect on future cash flows.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk and foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. The Company is not exposed to significant price risk with respect to commodity or equity prices.

Risks and Uncertainties

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

Outstanding Share Capital

As of the date of this MD&A, the Company had 21,393,145 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⁾	2,547,750
2013 Warrants ⁽²⁾	380,921
Founders Warrants ⁽³⁾	315,500
Underlying Founders Warrants ⁽⁴⁾	315,500
2019 Warrants ⁽⁵⁾	138,445
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
Warrants – Listed EPRX.WT.A ⁽¹⁰⁾	7,331,550
Compensation Warrants ⁽¹¹⁾	513,208
Nordic Warrants ⁽¹²⁾	39,228
SVB Debt Facility ⁽¹³⁾	1,930,735
Total Common Shares Issuable	17,212,414

Notes:

- (1) Represents options outstanding under the Company's stock option plan, each having an exercise price between \$1.90 and \$8.00 and expiry dates ranging from March 31, 2025 to March 31, 2032.
- (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 163,445 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 August 30, 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 Warrant entitles the holder thereof to acquire one Common Share at an exercise price of \$3.00 per Common Share for a period of 48 months following the closing date of the Offering, being April 20, 2022.
 - (11) 513,208 Compensation Warrants were issued to the Agents and represents 7% of the Units issued in the Offering including the Over-allotment option. Each Compensation Warrant shall entitle the Agents to acquire a Common Share at the Offering Price of \$2.05 for a period of 48 months following completion of the Offering, being April 20, 2022.
 - (12) 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.
 - (13) 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 three months ended September 30, 2022 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, 2022, 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.