EUPRAXIA PHARMACEUTICALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 and 2019

(Expressed in Canadian Dollars)

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Eupraxia Pharmaceuticals Inc.

Opinion

We have audited the consolidated financial statements of Eupraxia Pharmaceuticals Inc. and its subsidiaries (together the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' deficit and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which describes conditions indicating that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Amended and Restated Licence Agreement with Auritec Pharmaceuticals, Inc. Refer to Note 22 At December 31, 2020 the Company is party to an Amended and Restated Licence Agreement (the "Agreement") with Auritec Pharmaceuticals Inc. ("Auritec") that has been amended multiple times to extend and adjust the obligations of the parties. This Agreement grants the Company an exclusive licence to patents held by Auritec regarding the Plexis Platform for the delivery of fluticasone. A breach of this Agreement could result in Auritec terminating the agreement.	Our approach to addressing the matter included the following procedures, among others: • We agreed the terms of the Agreement to the underlying documents. • We agreed the payments made to satisfy the Upfront Fee during the year ended December 31, 2020 and subsequent to the year end. • These procedures provided assurance that there was no breach of the Agreement during the year ended December 31, 2020, and that the disclosure is in compliance with IFRS.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion & Analysis filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits and remain alert for indications that the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Anna C. Moreton.

Baker Tilly WM LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, B.C.
March 29, 2021

EUPRAXIA PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	December 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash	$ 150,126	$ 1,156,079
Prepaid expenses and deposits	367,523	134,479
Amounts receivable (Notes 5, 17)	620,606	1,348,295
Total current assets	1,138,255	2,638,853
Non-current assets		
Equipment (Note 6)	68,314	324,895
Right of use assets (Note 13)	247,023	321,315
Total assets	$ 1,453,592	$ 3,285,063
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Notes 8, 17)	$ 3,200,812	$ 2,392,351
Loans payable (Notes 11, 17)	3,924,698	4,249,105
Convertible notes payable (Notes 9, 17)	8,592,751	7,378,853
Special warrants (Note 10)	1,715,000	1,652,763
Lease liability – current portion (Note 13)	52,529	58,048
Payable to Auritec Pharmaceuticals Inc. (Note 22)	5,056,482	4,935,440
Total current liabilities	22,542,272	20,666,560
Non-current liabilities		
Derivative warrant liabilities (Note 12)	376,308	498,155
Lease liability (Note 13)	198,665	251,193
	23,117,245	21,415,908
Shareholders' Deficit		
Share capital (Note 14)	23,797,507	23,548,357
Contributed surplus (Note 14)	6,189,888	5,961,208
Deficit	(51,197,157)	(47,199,955)
Deficit attributable to the Owners of the Company	(21,209,762)	(17,690,390)
Non-controlling interest	(453,891)	(440,455)
Total shareholders' deficit	(21,663,653)	(18,130,845)
Total liabilities and shareholders' deficit	$ 1,453,592	$ 3,285,063

Nature of business and going concern (Note 1)
Commitments (Note 22)
Subsequent events (Note 24)

Approved and authorized for issue on behalf of the Board of Directors on March 29, 2021:

John Montalbano — Director
James Helliwell — Director

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

EUPRAXIA PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Year ended December 31, 2020	Year ended December 31, 2019
Expenses		
Consulting fees	$ 19,143	$ 160,308
Depreciation of equipment (Note 6)	42,517	120,052
Depreciation of right of use assets (Note 13)	74,292	81,884
General and administrative (Note 17)	135,386	286,257
Professional fees	120,528	542,951
Rent (Note 17)	39,435	133,497
Research and development, net (Note 7, 16)	859,781	2,941,935
Salaries and benefits, net (Notes 16, 17)	682,236	1,073,099
Stock-based compensation (Notes 14, 17)	228,680	544,950
Travel	44,195	273,598
Total expenses	2,246,193	6,158,531
Other income/(expenses)		
Interest income	427	12,044
Interest expense (Notes 12, 21)	(1,881,633)	(1,463,788)
Loss on sale of equipment (Note 6)	(132,759)	-
Foreign exchange gain	127,673	339,096
Gain on lease modification (Note 13)	-	1,737
Change in fair value of warrant liabilities (Note 12)	121,847	28,865
	(1,764,445)	(1,082,046)
Net loss and comprehensive loss for the year	$ (4,010,638)	$ (7,240,577)
Loss and comprehensive loss attributable to:		
Owners of the Company	$ (3,997,202)	$ (7,176,138)
Non-controlling interest	(13,436)	(64,439)
Net loss and comprehensive loss for the year	$ (4,010,638)	$ (7,240,577)
Loss per share – basic and diluted (Owners of the Company)	$ (0.65)	$ (1.17)
Loss per share – basic and diluted (Non-controlling interest)	(0.00)	(0.01)
Loss per share – basic and diluted	$ (0.65)	$ (1.18)
Weighted average shares outstanding – basic and diluted	6,118,673	6,118,002

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

EUPRAXIA PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
(Expressed in Canadian Dollars)

	Number of Common Shares	Amount	Contributed Surplus	Deficit	Non-controlling interest	Total
Balance, December 31, 2018	6,118,002	$ 23,548,357	$ 5,416,258	$ (40,023,817)	$ (376,016)	$ (11,435,218)
Stock-based compensation	-	-	544,950	-	-	544,950
Net loss and comprehensive loss	-	-	-	(7,176,138)	(64,439)	(7,240,577)
Balance, December 31, 2019	6,118,002	23,548,357	5,961,208	(47,199,955)	(440,455)	(18,130,845)
Stock-based compensation	-	-	228,680	-	-	228,680
Conversion of promissory note	62,288	249,150	-	-	-	249,150
Net loss and comprehensive loss	-	-	-	(3,997,202)	(13,436)	(4,010,638)
Balance, December 31, 2020	6,180,290	$ 23,797,507	$ 6,189,888	$ (51,197,157)	$ (453,891)	$ (21,663,653)

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

EUPRAXIA PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Year ended December 31, 2020	Year ended December 31, 2019
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES		
Net loss for the year	$ (4,010,638)	$ (7,240,577)
Items not affecting cash		
Accrued interest and accretion	1,469,878	851,629
Depreciation of equipment (Note 6)	42,517	120,052
Depreciation of right of use assets (Note 13)	74,292	81,884
Loss on sale of equipment (Note 6)	132,759	-
Gain on lease modification (Note 13)	-	(1,737)
Interest – lease liability (Note 13)	42,648	19,514
Stock-based compensation (Note 14, 17)	228,680	544,950
Change in fair value of warrant liabilities (Note 12)	(121,847)	(28,865)
Accrued interest and foreign exchange on payable to Auritec Pharmaceuticals Inc.	177,729	-
	(1,963,982)	(5,630,150)
Changes in non-cash working capital balances		
Accounts payable and accrued liabilities	829,461	314,598
Prepaid expenses and deposits	2,905	32,269
Amounts receivable	727,689	135,271
Cash used in operating activities	(403,927)	(5,171,012)
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Equipment acquisition (Note 6)	-	(9,479)
Proceeds from sale of equipment (Note 6)	81,305	-
Payable to Auritec Pharmaceuticals Inc. (Note 22)	(56,687)	(1,885,560)
Cash from (used in) investing activities	24,618	(1,895,039)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Receipt of cash loans (net of repayments) (Note 11)	(1,000,000)	4,500,514
Issuance of convertible notes for cash (net of transaction costs) (Note 9)	710,000	3,015,000
Financing costs related to Initial Public Offering (Note 24)	(235,949)	-
Lease payments (Note 13)	(100,695)	(111,734)
Finance lease payments	-	(5,131)
Cash from (used in) financing activities	(626,644)	7,398,649
Change in cash during the year	(1,005,953)	332,598
Cash, beginning of year	1,156,079	823,481
Cash, end of year	$ 150,126	$ 1,156,079

Supplemental disclosure with respect to cash flows (Note 23)

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

1. NATURE OF BUSINESS AND GOING CONCERN

Eupraxia Pharmaceuticals Inc. (the "Company") was incorporated under the laws of the province of Alberta on May 12, 2011 under the name Plaza Capital Partners Inc. On May 11, 2012 the Company changed its name to Eupraxia Pharmaceuticals Inc. and continued from the province of Alberta to the province of British Columbia. On October 10, 2012 a wholly-owned subsidiary, Eupraxia Holdings, Inc. ("Holdings") was incorporated under the laws of the State of Delaware, USA. On November 16, 2012, Holdings was registered as an extra-provincial corporation under the laws of the province of British Columbia, Canada. On October 10, 2012, Eupraxia Pharmaceuticals USA, LLC ("Eupraxia USA") was incorporated under the laws of the State of Delaware. On November 16, 2012, Eupraxia USA was registered as an extra-provincial corporation under the laws of province of British Columbia. Holdings holds a 95% interest in Eupraxia USA.

The Company's principal business is to discover, develop, and market innovative technologies in the biotechnology sector. The address of the Company's corporate office and principal place of business is 201 – 2067 Cadboro Bay Road, Victoria, British Columbia, Canada.

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Company's environment and in the global markets, possible disruption in supply chains, and measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the Company's operations. The extent of the impact of this outbreak and related containment measures on the Company's operations cannot be reliably estimated at the time these consolidated financial statements were approved, March 29, 2021.

These 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, 2020 the Company had cash of $150,126 and a working capital deficit of $21,404,017 and the Company has not yet generated revenue from operations. The Company incurred a net loss of $4,010,638 during the year ended December 31, 2020 and, as of that date the Company's accumulated deficit was $51,197,157. As the Company is in the research and development stage, the recoverability of the costs incurred to date is dependent upon the ability of the Company to obtain the necessary financing to complete the research and development of its projects and upon future profitable production or proceeds from the monetization of research activities to date. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. These events and conditions indicate a material uncertainty which may cast significant doubt about its ability to continue as a going concern. These 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 Company proposed a four-for-one share consolidation of its common stock as part of the Company's Initial Public Offering on the Toronto Stock Exchange. All share and earnings per share information have been retroactively adjusted to reflect the share consolidation.

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Measurement
The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value. The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Consolidation
These consolidated financial statements include the accounts of the Company and the accounts of its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when an entity is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. All significant intercompany transactions and balances have been eliminated.

Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest's share of changes in equity since the date of acquisition.

Loss per Share
The Company applies the "Treasury Stock Method" to calculate loss per common share. Under this method, the basic loss per share is calculated based on the weighted average aggregate number of common shares outstanding during each period. The diluted loss per share assumes that the outstanding stock options and share purchase warrants had been exercised at the beginning of the period, or date of issuance if issued during the period, and proceeds from dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. Since the Company was in a loss position for the years ended December 31, 2020 and 2019, the assumed conversion of outstanding common share warrants and options has an anti-dilutive impact, therefore the diluted loss per share is equal to basic loss per share.

Equipment
Equipment is recorded at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided over the estimated useful lives of the assets as follows:

Computer equipment	45% declining balance
Office equipment	20% declining balance
Leasehold improvements	straight-line over the term of the lease
Lab equipment	20% declining balance

The useful lives and depreciation methods applied to each category of equipment are assessed on an annual basis by management and adjusted where necessary to reflect the recoverability of equipment.

Research and Development Expenditures
The Company expenses all research costs as they are incurred. Development costs are also expensed unless they meet all of the specific capitalization criteria established in IAS 38, Intangible Assets. Capitalized development costs are stated at cost, net of investment tax credits and government assistance, and net of accumulated amortization and accumulated impairment losses, if any.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Tax Credits
Investment tax credits ("ITCs") arising from research and development activities are deducted from the related costs and are included in profit or loss when there is reasonable assurance that the credits will be realized. ITCs arising from the acquisition or development of equipment and capitalized development costs are deducted from the cost of those assets with amortization calculated on the net amount.

Government Grants
Government grants related to research and development activities are recognized in profit or loss as a deduction from the related expenditure when there is reasonable assurance that the grant will be received. Grants that compensate the Company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

Government Assistance
Government contributions are recognized and deducted from the related costs when there is reasonable assurance that the contribution will be received and all attached conditions have been complied with by the Company. Government contributions arising from the acquisition or development of equipment and capitalized development costs are deducted from the cost of those assets with amortization calculated on the net amount.

Income Taxes
Current tax is the expected tax payable or recoverable on the taxable profit or loss for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable from previous years.

Deferred income tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for if they relate to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, or differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Stock-based Compensation
Where equity-settled stock options are awarded to employees, officers or directors, the fair value of the options at the date of grant, as measured using the Black-Scholes option pricing model, is charged to profit or loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period, if applicable.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares or assets. Amounts related to the issuance of shares are recorded as a reduction of share capital, amounts related to assets are capitalized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-based Compensation (continued)
When the value of goods or services received in exchange for the stock-based payment cannot be reliably estimated, the fair value is measured by use of the Black-Scholes option pricing model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All equity-settled stock-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, in addition to any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized in profit or loss.

Share Capital and Warrants
The Company records proceeds from share issuances net of issue costs and any related tax effects. Common shares issued for consideration other than cash are valued based on their market value at the date the agreement to issue shares was concluded. When units are issued during a private placement, which include both common shares and share purchase warrants, the warrants are valued by comparing the total unit price to the fair value of the shares on the day of the announcement of the private placement. Any premium above the fair value of the shares issued is allocated to the warrants and credited to contributed surplus.

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Deferred Financing Costs
Financing costs related to the Company's proposed Initial Public Offering (Note 24) are recorded as deferred financing costs. These costs will be deferred until the financing is completed, at which time the costs will be allocated between the proceeds received and profit or loss. If the financing does not close, the costs will be charged to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the period end date exchange rates.

The functional currency of Eupraxia Pharmaceuticals Inc., the parent entity, is the Canadian dollar, which is also the presentation currency of the consolidated financial statements. The functional currency of each of the Company's foreign subsidiaries is also the Canadian dollar.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in profit or loss.

Impairment of Long-Lived Assets

At the end of each reporting period, the Company's long-lived assets which include equipment, are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less cost of disposal and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Cash Equivalents

Cash and cash equivalents include cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. The Company did not hold any cash equivalents as at December 31, 2020 and 2019.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

a) Recognition

The Company recognizes a financial asset or financial liability on the consolidated statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value, and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectation of recovering the contractual cash flows of a financial asset.

b) Classification and measurement

The Company determines the classification of its financial instruments at initial recognition. Financial instruments are classified according to the following measurement categories:

i) those to be measured subsequently at fair value, either through profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"); and,
ii) those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are measured at amortized cost at each subsequent reporting period using the effective interest rate method. The effective interest rate method is the rate that discounts estimated future cash flows over the expected life of the financial instrument, or where appropriate, a shorter period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial liabilities are classified and measured at either:

i) amortized cost;
ii) FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as derivatives); or
iii) FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

Financial liabilities classified as FVTPL are measured at fair value, with any changes in fair value on re-measurement recognized in profit or loss.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost or FVTOCI are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at FVTPL are expensed in profit or loss.

The Company has classified its financial assets and liabilities as follows:

Financial assets/liabilities	Classification
Cash	Amortized cost
Deposits	Amortized cost
Other and rent receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Payable to Auritec Pharmaceuticals Inc.	Amortized cost
Convertible notes payable	FVTPL
Special warrants	FVTPL
Loans payable	Amortized cost
Derivative warrant liabilities	FVTPL

c) Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit losses associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportable forward-looking information.

Leases

Right-of-use assets
The Company recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets is equal to the lease liabilities recognized. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

As such, the Company's right-of-use assets are depreciated over the following:

Property	1.25 to 5 years

Right-of-use assets are subject to impairment assessment consistent with other long-lived assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Lease Liabilities
The Company recognizes lease liabilities at the commencement date of the lease measured at the present value of lease payments to be made over the term of the lease. The lease payments are fixed. Other variable lease payments that do not depend on an index or rate are recognized as rent expense in the period the expense is incurred. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

New Accounting Standards

There are new accounting standards, amendments to accounting standards and interpretations that are effective for annual periods beginning on or after January 1, 2021 that have not been applied in preparing the consolidated financial statements for the year ended December 31, 2020. These standards and interpretations are not expected to have a material impact on the Company's consolidated financial statements.

4. SIGNIFICANT 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 fair value of derivative warrant liabilities.

(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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 deferred tax assets and liabilities recorded in the consolidated financial statements;
ii) 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;
iii) The determination of the functional currency of each entity within the Group;
iv) Assessment of the appropriateness of the going concern assertion and any material uncertainties that may cast significant doubt thereon; and
v) Rights and obligations and all legal interpretations relating to the Auritec Pharmaceuticals Inc. License and Settlement Agreements (note 22).

5. AMOUNTS RECEIVABLE

	December 31, 2020	December 31, 2019
Government grants (Note 16)	$ 179,750	$ 80,292
Scientific research and development ITCs (Note 7)	379,000	1,240,000
GST/HST recoverable	22,415	22,152
Rent receivable	33,590	-
Other (Note 17)	5,851	5,851
Total	$ 620,606	$ 1,348,295

(Expressed in Canadian Dollars)

6. EQUIPMENT

	Computers	Office	Leasehold Improvements	Lab	Total
Cost					
As at December 31, 2018	$ 82,826	$ 94,124	$ 106,464	$ 424,891	$ 708,305
Additions	7,893	1,586	-	-	9,479
As at December 31, 2019	90,719	95,710	106,464	424,891	717,784
Disposals[(1)]	-	(11,193)	-	(378,948)	(390,141)
As at December 31, 2020	$ 90,719	$ 84,517	$ 106,464	$ 45,943	$ 327,643
Accumulated depreciation					
As at December 31, 2018	$ 49,465	$ 38,354	$ 68,662	$ 116,356	$ 272,837
Depreciation	16,789	11,313	30,243	61,707	120,052
As at December 31, 2019	66,254	49,667	98,905	178,063	392,889
Depreciation	11,011	7,710	7,559	16,237	42,517
Disposals[(1)]	-	(4,747)	-	(171,330)	(176,077)
As at December 31, 2020	$ 77,265	$ 52,630	$ 106,464	$ 22,970	$ 259,329
Carrying amount					
As at December 31, 2019	$ 24,465	$ 46,043	$ 7,559	$ 246,828	$ 324,895
As at December 31, 2020	$ 13,454	$ 31,887	$ -	$ 22,973	$ 68,314

(1) During the year ended December 31, 2020, the Company received proceeds of $81,305 from the sale of lab and office equipment with a total net book value of $214,064 and recorded a loss on sale of equipment of $132,759.

(Expressed in Canadian Dollars)

7. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are comprised of the following:

Research and development expenses	December 31, 2020	December 31, 2019
Arthritis Program (EP-104IAR)		
Formulation	$ -	$ 4,797
Preclinical	2,167	42,215
Clinical	(11,630)	-
Manufacturing & analytical	214,222	1,987,450
Regulatory	10,131	-
Consulting	53,837	277,154
Veterinary	-	2,073
	268,727	2,316,689
Antibiotics Program (EP-201)		
Formulation	162	19,786
Preclinical	80	157,427
Consulting	(3,250)	13,229
	(3,008)	190,442
Pipeline Development	-	5,170
Other research and development	116,100	475,723
Salaries and benefits	1,171,984	1,756,981
Government grants (Note 16)	(222,796)	(483,156)
SRED refund current year	(379,000)	(1,240,000)
SRED adjustment prior years	(92,226)	(79,914)
Total expenses during the year	$ 859,781	$ 2,941,935

(Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	December 31, 2019
Research and development	$ 620,951	$ 558,760
General and administrative	1,491,969	1,484,035
Wages and payroll remittances	163,984	216,223
Deferred salaries[(1)]	923,908	133,333
Total	$ 3,200,812	$ 2,392,351

(1) The Company has entered into a salary deferral agreement with various employees. Contingent upon the Company closing an institutional financing of at least US$25 million, the Company will pay the employee a bonus of 20% of the deferred salary as of that date. As payment is tied to the successful completion of a financing, the bonus is not included in deferred salaries payable.

9. CONVERTIBLE NOTES PAYABLE

On May 25, 2018 the Company approved the issue of unsecured convertible notes with up to an aggregate principal amount of $3,000,000. The aggregate principal amount was subsequently increased to $8,000,000 on April 1, 2019.

The notes carry an annual interest rate of 10% and originally matured on June 30, 2020, however the maturity dates were subsequently extended to December 31, 2020.

In the event of a qualified financing of greater than US$15,000,000, the principal and any accrued interest will convert into the same class of securities that was issued in the qualified financing at a 10% discount to the price paid per share. If the Company does not consummate a qualified financing prior to maturity, the principal and any accrued interest will convert into common shares at a conversion price of $4.00 per share. On March 10, 2020 the board approved a reduction in the conversion price from $8.00 to $4.00 per share

On December 18, 2020, the Company offered the convertible note holders the opportunity to extend the maturity date of their convertible notes to December 31, 2021. The majority of convertible note holders elected to extend their maturity dates. Convertible notes totaling $249,150 of principal and accrued interest converted into common shares on December 31, 2020 as a result of the convertible note holders not electing to extend their maturity date. In accordance with the terms of the convertible note agreement, 62,288 common shares were issued at $4.00 per share.

On April 30, 2020, the Company approved the issue of unsecured convertible notes up to an aggregate principal amount of $2,000,000. The terms of these convertible notes are identical to the notes outlined above with the exception that they convert at a 30% discount in the event of a qualified financing. As of December 31, 2020, $731,000 had been invested in these convertible notes.

The settlement of the convertible notes requires a variable number of shares, therefore the contract is a financial liability even though it will be settled by the delivery of common shares. The convertible note has been measured at FVTPL and the fair value as at December 31, 2020 was $8,592,751 (2019 - $7,378,853).

Interest of $707,090 (2019 - $576,019) was accrued on the convertible notes during the year.

(Expressed in Canadian Dollars)

9. CONVERTIBLE NOTES PAYABLE (continued)

As at December 31, 2020 and 2019, the following convertible notes were outstanding:

		2020		2019
Convertible notes[(1)] issued June 19, 2018	$	2,150,000	$	2,150,000
Convertible notes[(1)] issued July 18, 2018		-		200,000
Convertible notes[(1)] issued November 13, 2018		975,000		975,000
Convertible notes[(1)] issued December 20, 2018		350,000		350,000
Convertible notes[(1)] issued April 1, 2019		1,500,000		1,500,000
Convertible notes[(1)] issued April 30, 2019		700,000		700,000
Convertible notes[(1)] issued May 23, 2019		815,000		815,000
Convertible notes[(2)] issued June 1, 2020		500,000		-
Convertible notes[(2)] issued July 22, 2020		121,000		-
Convertible notes[(2)] issued November 27, 2020		110,000		
Accrued interest		1,371,751		713,811
Less: Transaction costs		-		(24,958)
Total	$	8,592,751	$	7,378,853

(1) Convert at 10% discount in the event of a qualified financing
(2) Convert at 30% discount in the event of a qualified financing

(Expressed in Canadian Dollars)

10. SPECIAL WARRANTS

On June 23, 2018, the Company approved the issue of up to 1,000,000 special warrants with a subscription price of $2.00 per warrant for aggregate proceeds of $2,000,000.

The warrants originally had an expiry date of June 30, 2020 however, during the year the Company offered an extension to the expiry date of December 31, 2021. All holders of Special Warrants accepted the extension to the expiry date.

Under the revised terms of the Special Warrants, if the Company has not completed a Qualified Financing before December 31, 2021 (the "Final Conversion Date") then the Special Warrants will be deemed to be exercised for such number of common shares of the Company determined in accordance with the following formula:

$$[SW*2 + (0.1 \times SW*2) (D / 365)] \times [1/4]$$

Where:
SW = Number of Special Warrants.
D = the numbers of days between the date the Special Warrants were issued and the Final Conversion Date.

If the Company completes a Qualified Financing before the Final Conversion Date, then the Special Warrants will be deemed to be exercised, by the Holder on the date of the completion of the Qualified Financing into the class of shares issued and sold in the Qualified Financing and the number of shares issued and sold in the Qualified Financing in accordance with the following formula:

$$(SW \times \$2.00) / (PP \times 0.9) + 0.1 \times [(SW \times \$2.00) / (PP \times 0.9)] (D / 365)$$

Where:
SW = Number of Special Warrants.
D = the numbers of days between the date the Special Warrants were issued and the date of the Qualified Financing.
PP = the per share purchase price of the equity securities issued and sold in the Qualified Financing.

The settlement of the special warrants requires a variable number of shares, therefore the contract is a financial liability even though it will be settled by the delivery of common shares. The special warrants have been measured at FVTPL and the fair value as at December 31, 2020 was $1,715,000 (2019 - $1,652,763).

As at December 31, 2020 and 2019, the following special warrants were outstanding:

	2020	2019
Special warrants issued July 18, 2018 (590,000)	$ 1,180,000	$ 1,180,000
Special warrants issued November 13, 2018 (267,500)	535,000	535,000
Less: Finders fees and other transaction costs	-	(62,237)
Total	$ 1,715,000	$ 1,652,763

(Expressed in Canadian Dollars)

11. LOANS PAYABLE

The terms and conditions of outstanding loans are as follows:

Type	Date	Principal	Currency	Security	Related Party	Interest Rate	Maturity*
Secured Loan	Mar. 27, 2019	$600,000	CAD	Company assets	N/A	14%	Jul. 22, 2020
Secured Loan	Jul. 13, 2019	$250,000	CAD	Company assets	N/A	8%	Jun. 4, 2020
Secured Loan	Jul. 22, 2019	$1,000,000	CAD	Company assets	N/A	8%	Jul. 22, 2020
Secured Loan	Aug. 30, 2019	$250,000	CAD	Company assets	N/A	8%	Jul. 22, 2020
Secured Loan	Nov. 19, 2019	$1,050,000	CAD	Company assets	N/A	8%	Jul. 22, 2020
Secured Loan	Nov. 19, 2019	$200,000	CAD	Company assets	Director	8%	Jul. 22, 2020

*Subsequent to December 31, 2020, the maturity date of the Loans Payable has been extended to December 31, 2021 and lenders have been granted conversion rights (note 24). Interest continues to accrue and will be paid upon maturity.

As at December 31, 2020, and December 31, 2019 the loan balance is comprised of the following:

Loan principal advanced	$	4,449,562
Loan repayment		(107,268)
Interest accrued to December 31, 2019		283,315
Deferred financing cost		(527,020)
Financing cost accreted		150,516
Total, December 31, 2019		4,249,105
Loan repayment		(1,029,584)
Interest accrued to December 31, 2020		328,673
Financing cost accreted		376,504
Total, December 31, 2020	$	3,924,698

12. DERIVATIVE WARRANT LIABILITIES

On July 19, 2019, the directors of the Company approved a new loan structure which offers lenders interest at 8%, and warrants to acquire common shares in an amount equal to 10% of the principal loaned. The warrants vest immediately and allow the investor to purchase common shares anytime up to 3 years from the date of issue. The exercise price of the warrants is $4.00 per share or if a Qualified Financing has closed any time prior to or including the expiry date then the exercise price is the per share purchase price of equity securities issued and sold in the Qualified Financing.

Loans with a total principal of $1,500,000 and accrued interest of $141,733 previously bearing interest at 14% were converted to the new structure on July 13, 2019 and November 19, 2019.

(Expressed in Canadian Dollars)

12. DERIVATIVE WARRANT LIABILITIES (continued)

A total of 289,172 warrants were issued with the loans. The fair value of warrants issued were recorded against the principal balance at the issuance dates. The loan balance included the warrants accreted from the issuance date to year end. Loan financing costs of $376,504 (2019 - $150,516) are included in interest expense for the year.

The warrants issued as part of the loan financing are derivative liabilities given that the warrant exercise price is subject to change if a Qualified Financing occurs. The derivative warrant liabilities are measured at fair value at each reporting period with any gain or loss resulting from re-measurement recognized in profit or loss. The fair value of the warrant liabilities was estimated using the Black-Scholes option pricing model and based on the following assumptions:

	At issuance dates (July 13, 2019 – December 16, 2019)	**At December 31, 2019**	**At December 31, 2020**
Annual volatility[1]	71.35%	71.35%	71.35
Risk free interest rate	1.28% - 1.68%	1.69%	0.20%
Warrant life	3 years	2.53 – 2.96 years	1.53 – 1.96 years
Share price	$3.84 - $3.92	$3.84	$3.76
Exercise price[2]	$4.00	$4.00	$4.00
Number of warrants issued	289,172	289,172	289,172

(1) Estimated annual volatility was based on historical stock prices of comparable public companies.
(2) In the event that a qualified financing closes anytime prior to or including the expiry date, the exercise price shall be the per share purchase price of such equity securities issued and sold in the Qualified Financing

Details related to the warrant liability are as follows:

	December 31, 2020	December 31, 2019
Fair value of warrants issued on July 13, 2019	$ 31,285	$ 42,606
Fair value of warrants issued on July 22, 2019	122,708	166,452
Fair value of warrants issued on August 30, 2019	31,703	42,405
Fair value of warrants issued on December 16, 2019	190,612	246,692
Total fair value of warrants	$ 376,308	$ 498,155

(Expressed in Canadian Dollars)

13. LEASES

The carrying amounts of the Company's right-of-use assets and lease liabilities under IFRS 16 and movements during the year are as follows:

Right-of-Use Assets

	Property
Cost	
Balance, January 1, 2019	$ 116,829
Additions	315,348
Disposals	(60,715)
Balance, December 31, 2020 and 2019	371,462
Accumulated Depreciation	
Balance, January 1, 2019	-
Depreciation	(81,884)
Disposals	31,737
Balance, December 31, 2019	(50,147)
Depreciation	(74,292)
Balance December 31, 2020	(124,439)
Carrying amount as at December 31, 2019	$ 321,315
Carrying amount as at December 31, 2020	$ 247,023

Lease Liabilities

	December 31, 2020	December 31, 2019
Opening balance	$ 309,241	$ 116,829
Additions	-	301,067
Disposals	-	(30,715)
Interest expense	42,648	19,514
Payments	(100,695)	(97,454)
Ending balance	$ 251,194	$ 309,241
Non-current portion	$ 198,665	$ 251,193
Current portion	$ 52,529	$ 58,048

The incremental borrowing rate on lease liabilities is 14%. Variable lease payments comprised of operating, maintenance and property tax fees totaling $61,425 are included in rent expense and recognized in profit or loss.

During the year ended December 31, 2020, the Company subleased a portion of its office space. An amount totaling $21,990 has been recorded as a reduction to rent expense in profit or loss.

The Company's lease payments for office space over the remaining term of the lease are as follows:

	2021	2022	2023	2024
Office	$87,696	$87,696	$87,696	$80,388

(Expressed in Canadian Dollars)

14. SHARE CAPITAL and CONTRIBUTED SURPLUS

a) Authorized
- An unlimited number of Common shares, with no par value, with one vote per share.
- An unlimited number of Preferred shares, with no par value (none have been issued to date).

b) Issued

There were no capital transactions which took place in the prior year.

Capital transactions which took place in the current year are as follows:
- On December 31, 2020, the Company issued 62,288 common shares at $4.00 per share on the conversion of convertible notes totaling $249,150 of principal and accrued interest at maturity.

c) Options

Under the Stock Option Plan (the "Plan"), approved by the Board of Directors on September 27, 2015, the Board of Directors may grant stock options to directors, officers, employees and consultants of the Company up to an aggregate of 12.5% of the Company's then issued and outstanding common shares.

Options granted under the Plan have lives of up to ten years from the date of grant. The vesting schedule of all granted options is determined at the discretion of the Board. Unless otherwise determined by the Board, in its sole discretion, all grants of Options will vest over a four year period, with the first twenty-five percent (25%) of the Options granted to vest following twelve months of continued employment or service, and the remaining Options vesting over the following thirty-six month period in three equal instalments on an annual basis.

The following table summarizes the Company's options transactions:

	Number of options		**Weighted average exercise price**
Outstanding, December 31, 2018 and 2019	766,000	$	9.52
Cancelled	(32,500)		(9.68)
Outstanding, December 31, 2020	**733,500**	**$**	**9.48**

(Expressed in Canadian Dollars)

14. SHARE CAPITAL and CONTRIBUTED SURPLUS (continued)

c) Options (continued)

As at December 31, 2020, the following options were outstanding:

Grant date	Options outstanding	Options exercisable	Exercise price	Expiry date	Remaining contractual life (years)
Sep 27, 2015	118,750	118,750[1]	8.00	Mar 31, 2025	4.25
Sep 27, 2015	67,500	67,500(2)	8.00	Mar 31, 2025	4.25
Nov 2, 2015	62,500	62,500(1)	10.00	Nov 2, 2025	4.84
Nov 2, 2015	32,500	32,500(2)	10.00	Nov 2, 2025	4.84
Mar 5, 2018	198,750	198,750(1)	10.00	Mar 5, 2028	7.18
Mar 5, 2018	253,500	190,125(2)	10.00	Mar 5, 2028	7.18
	733,500	**670,125**	**9.48**		**6.13**

(1) Options granted to various directors of the Company vesting immediately upon issuance.
(2) Options granted to various employees and consultants of the Company vesting as follows: 25% vest immediately, 25% vest on the first anniversary of the issue date, 25% vest on the second anniversary of the issue date, and 25% vest on the third anniversary of the issue date.

The stock-based compensation expense was determined based on the fair value of options at the date of measurement using the Black-Scholes option pricing model with the following weighted-average assumptions.

Options granted during the year ended December 31,	2018	2015
Expected dividend yield	0.00%	0.00%
Expected forfeiture rate	0.00%	0.00%
Weighted average annual volatility	71.35%	78.90%
Weighted average risk free interest rate	2.19%	1.43%
Weighted average option life	10 years	10 years
Weighted average share price	$10.00	$8.64
Weighted average exercise price	$10.00	$8.64
Weighted average fair value of options granted	$7.68	$6.96

(Expressed in Canadian Dollars)

14. SHARE CAPITAL and CONTRIBUTED SURPLUS (continued)

d) Warrants

The following table summarizes the Company's warrant transactions:

	Common shares issuable under warrants	Weighted average exercise price
Outstanding, December 31, 2018	696,421	$ 0.64
Issued	289,172	4.00[(1)]
Outstanding December 31, 2019 and 2020	**985,593**	**$ 1.63**

(1) – In the event that a qualified financing closes anytime prior to or including the expiry date, the exercise price shall be the per share purchase price of such equity securities issued and sold in the Qualified Financing.

As at December 31, 2020, the following warrants were outstanding and exercisable:

Expiry date	Exercise price	Remaining contractual life (years)	Common shares issuable under Warrants
120 days after holder or common-law partner ceases to be a Director/ Officer or consultant	$ 0.7572	N/A	380,921
120 days after holder ceases to be a Director/ Officer or consultant	0.4984	N/A	315,500
July 13, 2022 to December 16, 2022	4.00[(1)]	1.53-1.96	289,172
	$ 1.6256		**985,593**

(1) – In the event that a qualified financing closes anytime prior to or including the expiry date, the exercise price shall be the per share purchase price of such equity securities issued and sold in the Qualified Financing.

15. FOUNDERS' WARRANTS

On October 3, 2012, the directors approved founders' warrants to acquire 600,000 units to be issued at a price of $0.50 per unit in the future to individuals identified by the directors as being strategic to the Company's success. Each unit consisted of one common share and one warrant to purchase one common share at $0.75 with an expiry date of two years from the date of issuance. The Company granted the following units under these terms:

a) On December 21, 2012, the directors approved founders' warrants to acquire 100,000 units to be issued to a director of the Company. The stock-based compensation is comprised of the valuation of the warrant, and the benefit from the discounted cost of the units. The fair value of the discount per share was $1.50, or $150,000 and the warrant was valued at $138,577, consequently, stock-based compensation of $288,577 was recorded.

b) On March 15, 2013, the Company issued founders' warrants to acquire 100,000 units to a company controlled by a director of the Company. The stock-based compensation is comprised of the valuation of the warrant, and the benefit from the discounted cost of the units. The fair value of the discount per share was $1.50, or $150,000, and the warrant was valued at $138,568, consequently, stock-based compensation of $288,568 was recorded.

c) On May 15, 2013, the Company issued founder' warrants to acquire 395,500 units to directors and officers at a price of $0.50 per unit for 24 months from the date of issuance. Each unit is comprised of 1 common share and 1 share purchase warrant. The share purchase warrant is exercisable at $0.75 per warrant for 24 months from the date of issuance. Stock based compensation of $607,202 was recorded.

d) On June 12, 2014, the founder warrants expiry terms were extended from 24 months from the date of issuance to 120 days after the holder ceases to be a director, officer or consultant and the exercise price was amended to $0.4984 per unit.

To date the Company has granted 595,500 founders' warrants to acquire 595,500 units. The founder's warrants have been accounted for in contributed surplus.

(Expressed in Canadian Dollars)

16. GOVERNMENT GRANTS

National Research Council – Industrial Assistance Program (IRAP)
On April 1, 2020, the Company entered into an agreement with the National Research Council Canada via the Industrial Research Assistance Program (NRC-IRAP) for funding support from the Innovation Assistance Program (IAP) commencing April 1, 2020 and ending June 24, 2020. On June 25, 2020, the Company entered into a subsequent agreement with NRC-IRAP for funding support from the IAP commencing June 25, 2020 and ending December 19, 2020. Under the agreements, NRC-IRAP provided a payroll subsidy to assist innovative, early-stage, small and medium sized enterprises that are unable to access existing COVID-19 business support.

On February 1, 2019, the Company entered into an agreement with NRC-IRAP for funding support of specified research and development activities during a project phase, commencing on February 1, 2019 and ending on July 31, 2020. Under the agreement, NRC-IRAP reimbursed up to 80% of supported salary costs, and 50% of supported contractor fees to a maximum of $999,000. The project was completed on January 15, 2020.

On April 1, 2018, the Company entered into an agreement with NRC-IRAP for funding support of specified research and development activities during a project phase, commencing on April 1, 2018 and ending September 30, 2019. Under the agreement, NRC-IRAP reimbursed up to 80% of supported salary costs, and 50% of supported contractor fees to a maximum of $225,000. On December 7, 2018, the maximum contribution available was increased to $255,400. The project was completed on September 30, 2019.

Biotalent Canada
During 2020, the Company applied for and received grants from BioTalent Canada for the Student Work-Integrated Learning Program. These grants partly reimburse the Company for payroll costs associated with student employees involved in research and development activities.

Government of Canada - 10% Temporary Wage Subsidy
On March 18, 2020, the Company applied for and received the 10% Temporary Wage Subsidy for Employers (TWS) from the Government of Canada. The TWS is a 3-month measure that allows eligible employers to reduce the amount of payroll deductions they remit to the Canada Revenue Agency (CRA). The subsidy is equal to 10% of the remuneration paid from March 18 to June 19, 2020, up to $1,375 for each eligible employee, with a maximum total of $25,000 per employer.

At December 31, 2020 there was $179,750 (December 31, 2019 - $80,292) of government grants recorded in amounts receivable and collected subsequent to year end.

The following table summarizes the government grants the Company received during the year.

		2020		2019
NRC-IRAP	$	330,382	$	478,656
Biotalent Canada		5,273		-
Temporary wage subsidy		20,625		-
NSERC		-		4,500
Total	**$**	**356,280**	**$**	**483,156**

Government assistance of $222,796 (2019 - $483,156) relating to Research and Development activities has been offset against R&D costs, and $133,484 (2019 - $nil) relating to General and Administrative costs has been offset against Salaries and benefits.

(Expressed in Canadian Dollars)

17. RELATED PARTIES

Due to/from Related Parties
Related parties include directors, companies controlled by directors, and senior management comprising the CEO, CFO, and CSO.

As at December 31, 2020, $725,486 (2019 - $194,536) is due to Key Management Personnel (as defined below) representing accrued salaries and bonuses and the reimbursement of expenses. This amount is included in accounts payable and accrued liabilities.

As at December 31, 2020, a loan payable of $238,121 (2019 - $222,121) is due to a Director of the Company representing principal and interest as outlined in Note 11.

As at December 31, 2020, $869,534 (2019 - $799,334) of convertible notes are held by a director of the Company representing principal and interest as outlined in Note 9.

As at December 31, 2020, $5,851 (2019 - $5,851) is due from a company controlled by common directors. This amount is included in amounts receivable.

During the year ended December 31, 2020, the Company recognized $nil (2019 - $4,980) for rent and administrative services from a company controlled by common directors.

Compensation for Key Management Personnel
Key Management Personnel include the directors and senior management of the Company.

The aggregate value of compensation for Key Management Personnel was as follows:

Compensation, during the year ended	December 31, 2020	December 31, 2019
Salaries - senior management	$ 620,000	$ 693,680
Salaries - directors	-	-
Stock-based compensation – options granted, senior management	158,137	376,845
Stock-based compensation – options granted, directors	-	-
Total	$ 778,137	$ 996,845

(Expressed in Canadian Dollars)

18. INCOME TAXES

Income tax recovery varies from the amount that would be computed from applying the combined federal and provincial income tax rates to loss before taxes as follows:

Year ended December 31,	2020	2019
Loss before taxes	$ (4,010,638)	$ (7,240,577)
Statutory Canadian corporate tax rate	27%	27%
Anticipated tax recovery	(1,082,900)	(1,955,000)
Difference resulting from:		
Items not deductible for tax purposes and other	66,900	316,700
Change in tax rates	-	-
Share issue costs	-	-
Change in estimate	19,000	22,300
Unrecognized deferred tax assets	997,000	1,616,000
Deferred income taxes (recovery)	$ -	$ -

The significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2020	December 31, 2019
Equipment and license	$ 1,190,000	$ 1,224,000
Right of use assets	(67,000)	(87,000)
Lease liability	68,000	83,000
Non-capital loss carry forwards	10,436,000	9,727,000
Share issue costs	12,000	30,000
SR&ED pool	-	(335,000)
	11,639,000	10,642,000
Unrecognized deferred tax assets	(11,639,000)	(10,642,000)
Net deferred tax asset	$ -	$ -

The Company and its foreign subsidiaries have available non-capital losses for Canadian and US income tax purposes which may be carried forward to reduce taxable income in future years. If not utilized, the non-capital losses of $34,300,000 for Canadian income tax purposes will expire beginning December 31, 2032 as follows:

Expiry date	Non-capital loss
2032	$ 372,000
2033	761,000
2034	3,282,000
2035	3,883,000
2036	3,262,000
2037	5,023,000
2038	9,650,000
2039	5,847,000
2040	2,220,000
	$ 34,300,000

The non-capital losses of $4,354,000 for US income tax purposes have no expiry date.

19. FINANCIAL INSTRUMENTS

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

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

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2020, the Company had a cash balance of $150,126 (2019 - $1,156,079) and current liabilities of $22,542,272 (2019 - $20,666,560). The current liabilities balance at December 31, 2020 includes $10,307,751 (2019 - $9,031,616) which will be settled with Company equity on completion of the Initial Public Offering (note 24). 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. The Company has cash balances and interest payable to Auritec Pharmaceuticals Inc. that is calculated using the US Bank prime interest rate. A 10% change in the prime interest rate would have an impact of $12,350 on the annual interest amount. The Company is not otherwise at a significant risk to fluctuating interest rates.

(Expressed in Canadian Dollars)

19. FINANCIAL INSTRUMENTS (continued)

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. The Company does not use derivatives to hedge against this risk. At December 31, 2020, the Company held cash of USD$473 (2019 - USD$4,738) and had accounts payable of USD$839,212 (2019 - USD$845,854) and an amount owing to Auritec of USD$3,971,475 (2019 – USD$3,800,000) which were translated to Canadian dollars at 1.2732 (2019 – 1.2988). The impact of a 10% change in the exchange rates would have an impact of $612,497 (2019 – $109,860) on the profit or loss.

Fair Value Measurement

The Company categorizes its financial instruments measured at fair value into one of three different levels depending on the observation of inputs used in the measurement. Derivative warrant liabilities, special warrants and convertible notes payable are measured at Level 3 inputs of the fair value hierarchy as it uses a combination of observable and unobservable inputs in calculating fair value.

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets
Level 2: Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs

Items that are measured at fair value include:

Financial Instrument	Fair value	Level	Significant inputs
Convertible notes payable	$8,592,751	3	Refer to note 9
Special warrants	$1,715,000	3	Refer to note 10
Derivative warrant liabilities	$376,308	3	Refer to note 12

The fair value of other financial instruments, including cash, deposits, other and rent receivables, accounts payable and accrued liabilities, payable to Auritec Pharmaceuticals Inc. and loans payable, approximates their carrying values due to the short-term nature of these instruments.

20. CAPITAL DISCLOSURES

The Company's principal source of capital is from the issuance of common shares, although other initiatives such as convertible notes payable, special warrants and debt have been utilized. The Company's capital management objective is to obtain sufficient capital to develop scientific programs that can be added to the product portfolio using the Company's novel drug delivery platform. To meet these objectives, management monitors the Company's ongoing capital requirements whilst examining each scientific program for its ability to meet patient's medical needs, address a large market and novel drug kinetics. The capital structure of the Company consists of equity attributable to common shareholders, including issued share capital, contributed surplus and deficit. The Company is not subject to any externally imposed capital requirements. There have been no changes to the Company's capital management during the year ended December 31, 2020.

(Expressed in Canadian Dollars)

21. INTEREST EXPENSE

Interest expense for the years ended December 31, 2020 and 2019 is comprised of the following:

	2020	2019
Interest on convertible notes payable (Note 9)	$ 707,090	$ 576,019
Interest and accretion on loans payable (Note 11)	705,177	433,831
Interest on lease liabilities (Note 13)	42,648	19,514
Interest on amount payable to Auritec Pharmaceuticals Inc. (Note 22)	284,255	402,210
Other interest and accretion	142,463	32,214
Total	$ 1,881,633	$ 1,463,788

22. AURITEC LICENSE AGREEMENT & SETTLEMENT

Original Agreement

By way of an agreement dated December 18, 2012, Holdings, a wholly owned subsidiary of Eupraxia Pharmaceuticals Inc., and Auritec Pharmaceuticals, Inc. ("Auritec"), an unrelated company, (collectively referred to as the "Members") entered into a Limited Liability Company Agreement (the "Agreement") with Eupraxia Pharmaceuticals USA, LLC ("Eupraxia USA").

The purpose of this agreement was to co-develop assets within Eupraxia USA. Over time, it became clear that the agreement was not functioning to the benefit of the Members. A legal remedy was sought and a negotiated settlement resulted in 2018.

Settlement Agreement and Restated License Agreement.

By way of an agreement dated October 9, 2018, Eupraxia USA**,** Holdings and the Company (collectively the "Eupraxia Parties") entered into a Settlement Agreement with Auritec.

The parties agreed to resolve, dismiss and release both the Delaware Claims and the Canada Claims and entered into an "Amended and Restated License Agreement". All other existing agreements between Auritec and the Eupraxia Parties have been terminated.

Under the terms of the Settlement Agreement, Auritec has assigned, transferred and delivered to Eupraxia USA 100% of its membership interest in Eupraxia USA. The capital account of Auritec with respect to these membership interests has been forfeited and cancelled, and Auritec is no longer a member of Eupraxia USA. Membership interests in Eupraxia USA now consist of Holdings (950 units) and AMDM Holdings Ltd. (50 units).

Under the terms of the Amended and Restated License Agreement, Auritec has granted to Eupraxia USA, an exclusive global license (including the right to sublicense to affiliates and third parties) under the Auritec patents and the Auritec technology to develop, make, have made, manufacture, use, commercialize, sell, offer for sale, import, and have imported products for the delivery of fluticasone in all medical uses other than otolaryngology.

22. AURITEC LICENSE AGREEMENT & SETTLEMENT (continued)

Pursuant to the terms of the Amended and Restated License Agreement, Eupraxia USA will pay US$5,000,000 to Auritec within 90 days of signing (the "Upfront Fee"). In addition, 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 products licensed under the Amended and Restated License Agreement ("Licensed Products") as well as a royalty of 4% of net sales of Licensed Products by Eupraxia USA or its affiliates, subject to certain reductions. Eupraxia USA also agreed to pay to Auritec 20% of sublicensing royalties or other consideration based on net sales of Licensed Products. Eupraxia USA 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 sale or sublicense of a Licensed Product, which percentage ranges from 30% to 15% depending on the development stage of the most-advanced Licensed Product, up to a maximum of US$50 million.

Amendments to Amended and Restated License Agreement

Subsequent amendments were made to the Amended and Restated License Agreement on February 1, 2019, March 29, 2019, May 10, 2019, August 12, 2019, March 31, 2020, December 18, 2020 and January 6, 2021 (note 24).

These amendments resulted in the following modifications to the terms of the Amended and Restated License Agreement:

- The non-royalty monetization revenue cap was increased to US$100 million.

- The remaining US$3,800,000 balance of the Upfront Fee after partial payments of US$200,000 and US$1,000,000 shall be paid as follows:
  - (i) US$1,650,000 on or prior to January 8, 2021; and
  - (ii) The remaining US$2,150,000 balance plus outstanding interest is due on or prior to the earlier of December 31, 2021 or three days after which Eupraxia has received aggregate proceeds of debt and/or equity financing of US$12,000,000 or more.
- Interest on the balance of the Upfront Fee calculated at a rate of prime plus 2% calculated daily.
- In consideration for the extension of Eupraxia USA's deadline for paying the Upfront Fee granted by Auritec, the Parties have separately entered into a Security Agreement dated as of March 31, 2020, pursuant to which Eupraxia USA has granted to Auritec a continuing first priority lien on and security interest in all of the Collateral (as defined in the Security Agreement), to secure the payment of the Secured Obligations.

22. AURITEC LICENSE AGREEMENT & SETTLEMENT (continued)

The following table summarizes the Auritec loan transactions and balance in US dollars and Canadian dollars:

Upfront Fee payable	US$	5,000,000	$	6,480,500
Principal repayments		(1,200,000)		(1,604,151)
Monthly interest accrued		303,119		402,210
Monthly interest paid		(303,119)		(402,210)
Foreign exchange		-		59,091
Balance payable at December 31, 2019		3,800,000		4,935,440
Monthly interest accrued		214,225		284,255
Monthly interest paid		(42,750)		(56,687)
Foreign exchange		-		(106,526)
Balance payable December 31, 2020	US$	3,971,475	$	5,056,482

23. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

There were no income taxes paid during the years ended December 31, 2020 and 2019.

The Company paid interest of $116,056 (2019 - $436,441) during the year ended December 31, 2020.

The Company received interest of $425 (2019 - $11,535) during the year ended December 31, 2020.

The Company had the following significant non-cash transactions for the year ended December 31, 2020:

- A convertible note was issued to a vendor to settle $21,000 of amounts payable.
- 62,288 common shares were issued at $4.00 per share on the conversion of convertible notes at maturity on December 31, 2020.

The Company did not have any significant non-cash transactions for the year ended December 31, 2019.

24. SUBSEQUENT EVENTS

Amendments to Amended and Restated License Agreement

On January 6, 2021, Eupraxia and Auritec entered into the seventh amendment to the Amended and Restated License Agreement, pursuant to which the parties agreed to extend the deadline for the US$3,800,000 balance of the Upfront Fee such that US$1,650,000 would be paid on or prior to January 8, 2021. The US$1,650,000 balance was paid on January 6, 2021. The deadline for the remaining US$2,150,000 balance plus outstanding interest is due on or prior to the earlier of December 31, 2021 or three days after which Eupraxia has received aggregate proceeds of debt and/or equity financing of US$12,000,000 or more. The remaining balance including principal and accrued interest totalling US$2,343,999, was paid on March 9, 2021.

24. SUBSEQUENT EVENTS (continued)

Issuance of Convertible Notes

On January 5, 2021, the Company issued convertible unsecured promissory notes with an aggregate principal amount of $100,000. These notes have a maturity date of December 31, 2021 and accrue interest at 10% per annum. In the event of a Qualified Financing the principal amount and accrued and unpaid interest will automatically convert into common shares at a conversion price equal to a 30% discount to the Qualified Financing Price. In the event these notes reach maturity on December 31, 2021 prior to the completion of a Qualified Financing, the principal amount and the accrued and unpaid interest will convert into common shares at a price of $4.00 per share. The convertible notes were converted into common shares as stated below in "Conversion of Convertible Notes and Special Warrants".

Shareholder Loans

On January 4, 2021 and January 8, 2021, the Company borrowed an aggregate of US$1,700,000 from certain shareholders and a director of the Company, which loans were unsecured, incur interest at a rate of 10% per annum and mature on December 31, 2021. Under the terms of the loans, following completion of the Offering (which represented an arm's length equity financing exceeding US$15,000,000), each lender has the right to convert the principal and accrued but unpaid interest under their respective loan into common shares at an exercise price of $5.5993 per share, representing a 30% discount to the per share purchase price of the common shares issued and sold in the Offering (as defined in "Initial Public Offering" below). At the time the financial statements were approved, the full balance of principal and interest remained outstanding under such loans. As consideration for providing such loans, the lenders were issued common share purchase warrants to acquire an aggregate of 270,957 common shares for a period of three years from the date of issuance at an exercise price of $4.00 per share, provided that, upon completion of the Offering, the exercise price of such common share purchase warrants was adjusted to $5.5993 per share, being an amount equal to a 30% discount to the per share price of the common shares issued and sold in the Offering, in accordance with the terms of such common share purchase warrants.

SR&ED Loan

On January 4, 2021, the Company borrowed US$250,000 from a director of the Company. The loan is unsecured, incurs interest at a rate of 15% per annum and matures on December 31, 2021. The Company intends to repay the loan using the proceeds of the Scientific Research and Experimental Development Tax Incentive Program (SR&ED) tax credits and/or refunds received by the Company in regards to the 2020 calendar year. As consideration for providing the loan, the lender was issued a total of 39,846 common share purchase warrants, with each warrant exercisable for one Common Share for a period of three years at an exercise price of $4.00 per share, provided that upon completion of an equity financing, the exercise price of such warrants will be adjusted to equal to a 10% discount to the equity financing price. At the time the financial statements were approved, the full balance of principal and interest remained outstanding. As consideration for providing the loan, the lender was issued common share purchase warrants to acquire a total of 39,846 common shares for a period of three years at an exercise price of $4.00 per share, provided that upon completion of the Offering, the exercise price of such common share purchase warrants was adjusted to $7.1991, being an amount equal to a 10% discount to the per share price of the common shares issued and sold in the Offering, in accordance with the terms of such common share purchase warrants.

24. SUBSEQUENT EVENTS (continued)

US Subsidiary Restructuring

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 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.

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.

Amendment to Outstanding Loan Agreements

On January 20, 2021, the Company entered into an amending agreement with each of the lenders outlined in Note 11 to which the maturity date under each loan agreement was extended to December 31, 2021. Each lender was also granted the right to convert the principal amount under the loan into common shares at a price of $7.1991 per common share, representing a 10% discount to the per share price of the common shares issued and sold in the Offering. If the applicable lender elects to convert such principal amount, the remaining accrued but unpaid interest will, at the election of the Company, either be paid to the applicable lender in cash out of the Company's working capital or converted into common shares at a price of $7.1991 per common share. At the time of such repayment or conversion, all security interest under the loans will be discharged. At the time the financial statements were approved, the full balance of principal and interest remained outstanding.

Existing Option Re-Pricing

On March 2, 2021, the Company adjusted the exercise price of all existing stock options as referenced in Note 14 to $8.00.

24. SUBSEQUENT EVENTS (continued)

Initial Public Offering

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 consist 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 will 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 Company has granted the Agents an over-allotment option (the "Over-Allotment Option"), exercisable in whole or in part, at the sole discretion of the Agents, at any time up to 30 days following the closing of the Offering. The Over-Allotment Option may be exercised by the Agents to sell either (i) Additional Units at the Offering Price; (ii) Additional Offered Shares at a price of $7.999 per Additional Offered Share; (iii) Additional Warrants at a price of $0.002 per Additional Warrant; or (iv) any combination of Additional Units, Additional Offered Shares and Additional Warrants (collectively, the "Additional Securities"), so long as the aggregate number of Additional Offered Shares and Additional Warrants which may be issued under the Over-Allotment Option does not exceed 768,750 Additional Offered Shares and 384,375 Additional Warrants, for additional gross proceeds of up to $6,150,000 upon the terms and conditions set forth herein for the purpose of covering over-allotments made in connection with the Offering (as defined herein) and for market stabilization purposes.

The closing of the Offering occurred on March 9, 2021 (the "Closing Date"). The Company is now 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 23, 2021, the Agents partially exercised the Over-Allotment Option pursuant to which the Company issued 263,775 Warrants to the Agents at a price of $0.002 per Warrant for gross proceeds of $528.

Conversion of Convertible Notes and Special Warrants

The Initial Public Offering disclosed above constitutes a "Qualified Financing" as referenced in Notes 9 & 10. As a result, on March 9, 2021, the Company converted the outstanding Convertible Notes into 1,261,387 common shares and the Special Warrants into 298,798 common shares.