

EUPRAXIA PHARMACEUTICALS INC.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)**

For the three and six months ended June 30, 2023
(Expressed in Canadian Dollars)

EUPRAXIA PHARMACEUTICALS INC.
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(Expressed in Canadian Dollars)

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EUPRAXIA PHARMACEUTICALS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited and Expressed in Canadian Dollars)

	June 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents (Note 22)	\$ 19,095,744	\$ 24,735,934
Prepaid expenses and deposits	570,467	319,509
Amounts receivable (Note 5)	68,445	121,510
Total current assets	19,734,656	25,176,953
Non-current assets		
Prepaid expenses	5,841	3,373
Equipment (Note 6)	540,821	600,628
Right-of-use asset (Note 7)	70,104	94,847
Total assets	\$ 20,351,422	\$ 25,875,801
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 3,525,591	\$ 3,966,449
Loans payable – current portion (Note 9)	108,260	107,564
Lease liability – current portion (Note 10)	72,596	68,267
Convertible debt – current portion (Note 12)	10,894,019	-
Total current liabilities	14,600,466	4,142,280
Non-current liabilities		
Loans payable (Note 9)	28,081	84,933
Lease liability (Note 10)	31,021	69,484
Convertible debt (Note 12)	-	10,215,529
Total liabilities	14,659,568	14,512,226
Shareholders' Equity		
Share capital (Note 13(b))	99,369,283	92,337,011
Reserves (Notes 12 and 13(c))	18,303,436	17,964,378
Deficit	(110,233,373)	(97,446,136)
Equity attributable to the owners of the Company	7,439,346	12,855,253
Non-controlling interest	(1,747,492)	(1,491,678)
Total shareholders' equity	5,691,854	11,363,575
Total liabilities and shareholders' equity	\$ 20,351,422	\$ 25,875,801

Nature of business and going concern (Note 1)

Approved and authorized for issue on behalf of the Board of Directors on August 11, 2023:

“John Montalbano”

Director

“James Helliwell”

Director

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

EUPRAXIA PHARMACEUTICALS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited and Expressed in Canadian Dollars)

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Expenses				
General and administrative (Note 14)	\$ 2,342,024	\$ 910,822	\$ 3,742,592	\$ 1,790,864
Research and development (Note 15)	4,684,617	4,910,791	7,592,953	6,856,557
Depreciation (Notes 6 and 7)	49,186	48,898	97,803	88,263
Share-based compensation (Notes 13 (c) and 17)	573,630	272,027	1,002,653	798,369
Total expenses	7,649,457	6,142,538	12,436,001	9,534,053
Other income (expense)				
Interest income	204,580	114,129	424,693	149,434
Interest expense (Note 21)	(563,141)	(369,598)	(1,069,504)	(704,188)
Loss on disposal of assets (Note 6)	(6,007)	(8,380)	(6,192)	(8,380)
Foreign exchange gain	13,200	126,663	43,953	57,917
	(351,368)	(137,186)	(607,050)	(505,217)
Net loss and comprehensive loss for the period	\$ (8,000,825)	\$ (6,279,724)	\$ (13,043,051)	\$ (10,039,270)
Loss and comprehensive loss attributable to:				
Owners of the Company	\$ (7,827,359)	\$ (6,090,088)	\$ (12,787,237)	\$ (9,780,870)
Non-controlling interest	(173,466)	(189,636)	(255,814)	(258,400)
Net loss and comprehensive loss for the period	\$ (8,000,825)	\$ (6,279,724)	\$ (13,043,051)	\$ (10,039,270)
Loss per share – basic and diluted (Owners of the Company)	\$ (0.36)	\$ (0.31)	\$ (0.59)	\$ (0.57)
Loss per share – basic and diluted (Non-controlling interest)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Loss per share – basic and diluted	\$ (0.36)	\$ (0.32)	\$ (0.60)	\$ (0.59)
Weighted average shares outstanding – basic and diluted	22,009,026	19,900,173	21,857,497	17,087,013

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

EUPRAXIA PHARMACEUTICALS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited and Expressed in Canadian Dollars)

	Number of Shares	Amount	Reserves	Deficit	Non-controlling Interest	Total
Balance, December 31, 2021	14,242,595	\$ 80,713,131	\$ 13,860,404	\$ (74,186,763)	\$ (833,836)	\$ 19,552,936
Overnight marketed public offering, net of transaction costs (Note 13 (b))	7,150,550	11,153,880	2,143,968	-	-	13,297,848
Share-based compensation (Note 13(c))	-	-	798,369	-	-	798,369
Net loss and comprehensive loss for the period	-	-	-	(9,780,870)	(258,400)	(10,039,270)
Balance, June 30, 2022	21,393,145	91,867,011	16,802,741	(83,967,633)	(1,092,236)	23,609,883
Share-based payments (Note 13 (c))	-	-	1,221,637	-	-	1,493,664
Redemption of warrants (Notes 13 (b) and 13 (d))	200,000	470,000	(60,000)	-	-	410,000
Net loss and comprehensive loss for the period	-	-	-	(13,478,503)	(399,442)	(14,149,972)
Balance, December 31, 2022	21,593,145	92,337,011	17,964,378	(97,446,136)	(1,491,678)	11,363,575
Share-based compensation (Note 13 (c))	-	-	1,002,653	-	-	1,002,653
Redemption of warrants (Notes 13 (b) and 13 (d))	2,200,484	7,023,637	(660,145)	-	-	6,363,492
Redemption of options (Notes 13 (b) and 13 (c))	1,600	8,635	(3,450)	-	-	5,185
Net loss and comprehensive loss for the period	-	-	-	(12,787,237)	(255,814)	(13,043,051)
Balance, June 30, 2023	23,795,229	\$ 99,369,283	\$ 18,303,436	\$ (110,233,373)	\$ (1,747,492)	\$ 5,691,854

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

EUPRAXIA PHARMACEUTICALS INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and Expressed in Canadian Dollars)

	Six months ended June 30, 2023	Six months ended June 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Total loss and comprehensive loss	\$ (13,043,051)	\$ (10,039,270)
Items not affecting cash		
Accrued interest on SVB debt facility (Note 12)	678,490	539,175
Accrued interest on short term investments	-	(62,571)
Depreciation of property and equipment (Notes 6)	73,060	63,520
Depreciation of right-of-use asset (Note 7)	24,743	24,743
Interest – lease liability (Note 10)	9,714	13,907
Loss on disposal of equipment (Note 6)	6,192	8,380
Share-based compensation (Note 13(c))	1,002,653	798,369
Unrealized foreign exchange	(7,572)	(54,643)
	<u>(11,255,771)</u>	<u>(8,708,390)</u>
Changes in non-cash working capital balances		
Accounts payable and accrued liabilities	(399,868)	1,307,852
Prepaid expenses	(253,425)	(261,932)
Amounts receivable	51,549	53,101
Cash used in operating activities	<u>(11,857,515)</u>	<u>(7,609,369)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of equipment (Note 6)	-	310
Acquisition of equipment (Note 6)	(19,445)	(172,389)
Purchase of short-term investments	-	(18,000,000)
Proceeds from redemption of short-term investments	-	9,008,855
Cash used in investing activities	<u>(19,445)</u>	<u>(9,163,224)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Overnight marketed public offering (net of transaction costs) (Note 13(b))	-	13,297,848
Repayment of loans (Note 9)	(52,751)	(46,663)
Lease payments (Note 10)	(43,848)	(43,848)
Redemption of options (Note 13 (c))	5,185	-
Redemption of warrants (Note 13 (d))	6,363,492	-
Cash provided by financing activities	<u>6,272,078</u>	<u>13,207,337</u>
Decrease in cash and cash equivalents	(5,604,882)	(3,565,256)
Foreign exchange effect on cash and cash equivalents	(35,308)	65,668
Cash and cash equivalents, beginning of period	24,735,934	20,892,069
Cash and cash equivalents, end of period	<u>\$ 19,095,744</u>	<u>\$ 17,392,481</u>

Supplemental disclosure with respect to cash flows (Note 22)

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

EUPRAXIA PHARMACEUTICALS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2023
(Unaudited and Expressed in Canadian Dollars)

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, 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 the province of British Columbia. On January 7, 2021, Eupraxia Pharma, Inc. (“Eupraxia Pharma”) was incorporated under the laws of the State of Delaware. On July 4, 2022, Eupraxia Pharmaceuticals Australia Pty Ltd. (“Eupraxia Australia”) was incorporated under the laws of the state of Victoria, Australia. On May 17, 2023, Eupraxia Pharma USA Inc. (“Eupraxia Pharma USA”) was incorporated under the laws of the State of Delaware.

On March 9, 2021, the Company completed its initial public offering on the Toronto Stock Exchange (“TSX”) and began trading under the symbol “EPRX”.

The Company’s principal business is the development of locally-delivered, extended-release alternatives to existing pharmaceuticals. The address of the Company’s corporate office and principal place of business is 201 –2067 Cadboro Bay Road, Victoria, British Columbia, Canada.

These interim condensed consolidated financial statements have been prepared on a going concern basis with the assumption that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. At June 30, 2023, the Company had cash and cash equivalents of \$19,095,744, and working capital of \$5,134,190 and the Company has not yet generated revenue from operations. The Company incurred a net loss of \$13,043,051 during the six months ended June 30, 2023 and, as of that date, the Company’s accumulated deficit was \$110,233,373. 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 funding to complete the research and development of its projects and upon future commercialization or proceeds from the monetization of research activities to date. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future, especially with the ongoing developments affecting the global capital markets. Recent developments with Silicon Valley Bank (“SVB”) have not impacted the Company’s outlook for cash runway. The Company holds no amounts on deposit with SVB and the convertible debt facility (see Note 12 – Convertible Debt) which matures in June 2024 remains in good standing, is fully drawn and is not callable by SVB. The Company is active in its pursuit of additional funding through potential partnering and other strategic activities as well as grants to fund future research and development activities, and additional equity financing.

EUPRAXIA PHARMACEUTICALS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2023
(Unaudited and Expressed in Canadian Dollars)

1. NATURE OF BUSINESS AND GOING CONCERN (continued)

The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional funding. There is a risk that in the future, additional financing will not be available on a timely basis or on terms acceptable to the Company. These events and conditions indicate a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. These interim condensed consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. BASIS OF PRESENTATION**Statement of Compliance**

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"). These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting. Accordingly, they do not include all the information required for full annual financial statements and should be read in conjunction with the Company's most recent annual consolidated financial statements as at and for the years ended December 31, 2022 and 2021.

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements as at and for the years ended December 31, 2022 and 2021.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Consolidation**

These interim condensed consolidated financial statements include the accounts of the Company and the accounts of its subsidiaries. The financial statements of subsidiaries are included in the interim condensed 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 as at the date of the original transaction plus the non-controlling interest's share of changes in equity since that date.

Company Entity	Date of Incorporation	Jurisdiction of Incorporation	Effective Interest (Note 13(e))
Eupraxia Holdings, Inc.	October 10, 2012	Delaware, USA	95%
Eupraxia Pharmaceuticals USA, LLC	October 10, 2012	Delaware, USA	95%
AMDM Holdings Inc. ⁽²⁾	April 6, 2016	Washington, USA	95%
Eupraxia Pharma, Inc.	January 7, 2021	Delaware, USA	95%
Eupraxia Pharmaceuticals Australia Pty Ltd.	July 4, 2022	Victoria, Australia	100% ⁽¹⁾
Eupraxia Pharma USA Inc.	May 17, 2023	Delaware, USA	100% ⁽¹⁾

(1) Wholly-owned subsidiary of Eupraxia Pharmaceuticals Inc.

(2) Date of control occurred on January 31, 2021 (see Note 13 (e)).

EUPRAXIA PHARMACEUTICALS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2023
(Unaudited and Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Upcoming Accounting Standards and Interpretations

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning on or after January 1, 2024 or later periods. The new and amended standards are not expected to have a material impact on the Company.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical accounting estimates

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

- i) Share-based payments are measured at fair value, using the Black-Scholes option pricing model, at the grant date and expensed over the vesting period. In determining the fair value, the Company makes estimates of the expected volatility of the shares, the expected life of the share-based instrument, and an estimated risk-free interest rate; and
- ii) The determination of the amount allocated to the liability and equity components (for those financial instruments that are comprised of both). This requires management to estimate various components and characteristics of present value calculations used in determining the fair value of the instrument, including the market interest rates of non-convertible debentures.

Critical accounting judgments

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

- i) The determination of whether the Company is in the "research" or "development" stage of operations. During the research stage of operations, all expenditures associated with the advancement of the technology are expensed in the period they are incurred;
- ii) The determination of the functional currency of the Company and its subsidiaries; and
- iii) Assessment of the appropriateness of the going concern assertion and events and conditions that indicate a material uncertainty that may cast significant doubt thereon.

EUPRAXIA PHARMACEUTICALS INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2023

(Unaudited and Expressed in Canadian Dollars)

5. AMOUNTS RECEIVABLE

	June 30, 2023	December 31, 2022
Government grants (Note 16)	\$ 21,808	\$ 18,816
GST/HST recoverable	46,637	52,358
Other refundable tax credits ⁽¹⁾	-	50,336
Total	\$ 68,445	\$ 121,510

⁽¹⁾ Other refundable tax credits are due to tax incentives for research and development costs incurred by Eupraxia Australia during the fiscal year ended December 31, 2022 which were received during the six months ended June 30, 2023.

6. EQUIPMENT

	Computers	Office	Leasehold Improvements	Lab	Total
<u>Cost</u>					
As at December 31, 2021	\$ 129,003	\$ 92,888	\$ 170,308	\$ 367,117	\$ 759,316
Additions	26,761	7,345	-	274,264	308,370
Dispositions	(60,173)	(10,302)	-	-	(70,475)
As at December 31, 2022	95,591	89,931	170,308	641,381	997,211
Additions	16,150	-	-	3,295	19,445
Dispositions	(2,183)	-	-	(21,426)	(23,609)
As at June 30, 2023	\$ 109,558	\$ 89,931	\$ 170,308	\$ 623,250	\$ 993,047

Accumulated depreciation

As at December 31, 2021	\$ 90,254	\$ 59,543	\$ 115,807	\$ 48,976	\$ 314,580
Depreciation	22,355	6,832	18,686	95,915	143,788
Dispositions	(55,039)	(6,746)	-	-	(61,785)
As at December 31, 2022	57,570	59,629	134,493	144,891	396,583
Depreciation	10,864	3,030	9,343	49,823	73,060
Dispositions	(1,998)	-	-	(15,419)	(17,417)
As at June 30, 2023	\$ 66,436	\$ 62,659	\$ 143,836	\$ 179,295	\$ 452,226

Carrying amount

As at December 31, 2022	\$ 38,021	\$ 30,302	\$ 35,815	\$ 496,490	\$ 600,628
As at June 30, 2023	\$ 43,122	\$ 27,272	\$ 26,472	\$ 443,955	\$ 540,821

EUPRAXIA PHARMACEUTICALS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2023
 (Unaudited and Expressed in Canadian Dollars)

7. RIGHT-OF-USE ASSET

The following table presents details of movement in the carrying value of the right-of-use asset:

	June 30, 2023	December 31, 2022
Beginning Balance	\$ 94,847	\$ 144,332
Depreciation	(24,743)	(49,485)
Ending Balance	\$ 70,104	\$ 94,847

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2023	December 31, 2022
Research and development	\$ 1,917,521	\$ 2,894,806
General and administrative	1,310,264	354,762
Wages and payroll remittances	297,806	21,666
Bonus ⁽¹⁾	-	695,215
Total	\$ 3,525,591	\$ 3,966,449

(1) Bonus relates to corporate bonuses for the years ended December 31, 2022 which were paid out to employees during the period ended June 30, 2023.

9. LOANS PAYABLE

On September 10, 2021, the Company entered into a Master Loan and Security Agreement (“Loan Agreement”) whereby the Company borrowed USD235,000 to purchase production and test equipment (see Note 6 – Equipment).

The Loan Agreement has a term of 36 months commencing September 13, 2021. The Loan Agreement accrues interest at 5.84% per annum with monthly payments (principal and interest) being made on the 1st of each month, beginning October 1, 2021. As part of the agreement, the Company granted the lender first priority interest on the equipment it purchased.

Below is a breakdown of the loan balance as at June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Balance, beginning	\$ 192,497	\$ 275,105
Loan repayment	(52,751)	(97,486)
Foreign exchange adjustment	(3,405)	14,878
Balance, ending	\$ 136,341	\$ 192,497
Current portion	\$ 108,260	\$ 107,564
Non-current portion	\$ 28,081	\$ 84,933

EUPRAXIA PHARMACEUTICALS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2023
 (Unaudited and Expressed in Canadian Dollars)

10. LEASES

The Company entered into a lease agreement for its Victoria, BC facility (of approximately 4,900 square feet of office space) which expires on November 30, 2024.

	June 30, 2023	December 31, 2022
Opening balance	\$ 137,751	\$ 197,634
Interest expense	9,714	27,813
Payments	(43,848)	(87,696)
Ending balance	\$ 103,617	\$ 137,751
Current portion	\$ 72,596	\$ 68,267
Non-current portion	\$ 31,021	\$ 69,484

The incremental borrowing rate on lease liabilities is 14%. Variable lease payments comprised of operating, maintenance and property tax fees totaling \$23,142 for the three months ended June 30, 2023 (three months ended June 30, 2022 – \$21,620) and \$46,284 for the six months ended June 30, 2023 are included in general and administrative expenses (six months ended June 30, 2022 – \$43,240).

The Company subleased a portion of its office space with amounts totaling \$8,226 and \$16,452 for the three and six months ended June 30, 2023 (three and six months ended June 30, 2022 – \$10,746 and \$15,875) being recorded as a reduction to general and administrative expenses.

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

	2023	2024
Office	\$43,848	\$80,388

The following is a reconciliation of the undiscounted lease commitment and lease liability at June 30, 2023:

Total undiscounted lease commitment	\$ 124,236
Balance remaining of tenant allowance to be repaid	(1,031)
Discount using incremental borrowing rate	(19,588)
Total lease liability at June 30, 2023	\$ 103,617

EUPRAXIA PHARMACEUTICALS INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2023
 (Unaudited and Expressed in Canadian Dollars)

11. AURITEC LICENSE AGREEMENT

Eupraxia USA entered into an amended and restated license agreement with Auritec Pharmaceuticals Inc. (“Auritec”) on October 9, 2018 (as further amended, the “Amended and Restated License Agreement”). Under the terms of the Amended and Restated License Agreement, Auritec has granted Eupraxia USA an exclusive license (including the right to sublicense to its affiliates and third parties) under the licensed patents held by Auritec and for all the technical information and know-how relating to the technology claimed in the licensed patents held by Auritec with respect to the use of Auritec’s “Plexis Platform” for the delivery of fluticasone in all medical fields (except for otolaryngology and the prevention, treatment and control of all diseases, disorders and conditions of the eye and its adnexa (collectively, the “Excluded Fields”), to develop, make, have made, manufacture, use, commercialize, sell, sub-license, offer for sale, import, and have imported products for the delivery of fluticasone drug products using the Plexis Platform in all medical fields except the Excluded Fields (“Licensed Products”).

Pursuant to the terms of the Amended and Restated License Agreement, in consideration for the rights and exclusive license granted to Eupraxia USA, Eupraxia USA paid the Upfront Fee (as defined in the Amended and Restated License Agreement) of USD5,000,000 by the end of December 31, 2021 with the agreement currently in good standing. In addition, Eupraxia USA has agreed to pay Auritec up to USD30,000,000 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.

The following table summarizes the milestone payment schedule. As of June 30, 2023, none of these milestones have been achieved and no further payments have been made to Auritec:

Milestone Event	Milestone Payment (USD)
Successful Completion of a Phase 2b Study	5,000,000
First OA Regulatory Approval	5,000,000
Second OA Regulatory Approval	5,000,000
Non-OA Indication Regulatory Approval	10,000,000
First calendar year in which aggregate Net Sales by Eupraxia USA, its affiliates and sublicenses exceed USD500,000,000	5,000,000
Maximum amount payable	30,000,000

Eupraxia USA 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 10% to 30% depending on the development stage of the most-advanced Licensed Product, up to a maximum of USD100,000,000. The following table summarizes the Non-Royalty Monetization Revenue percentage schedule:

Date of Execution	Percentage of Non-Royalty Monetization Revenue
Prior to Successful Completion of a Phase 2b Study	30%
After Successful Completion of a Phase 2b Study but prior to Successful Completion of a Phase 3 Study	20%
After Successful Completion of a Phase 3 Study but prior to Regulatory Approval of a Product in the Eupraxia Field from FDA in the United States	15%
After Regulatory Approval of a Product in the Eupraxia Field from FDA in the United States	10%

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12. CONVERTIBLE DEBT

On June 21, 2021, the Company entered into a contingent convertible debt agreement (the "Debt Agreement") with Silicon Valley Bank ("SVB") and concurrently drew down, in full, the \$10,000,000 principal amount under the Debt Agreement.

The Debt Agreement has a term of 36 months (or 48 months at SVB's election). The Debt Agreement accrues interest at the greater of 2.45% and the Canadian prime rate, requiring monthly interest payments. An additional payment in kind will accrue at a rate of 7% per annum, which will be settled at maturity or on conversion. During the six months ended June 30, 2023, the Canadian prime rate ranged from 6.45% - 6.95% (2.45% - 3.70% during the six months ended June 30, 2022).

Subject to the terms and conditions of the Debt Agreement, SVB may elect to convert the principal amount of the convertible debt and the accrued and unpaid interest thereon into common shares at a conversion price equal to \$5.68 per common share. The conversion price of the accrued and unpaid interest will be subject to the minimum pricing requirements of the TSX, to the extent applicable, at the time of conversion.

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

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

in either case together with all accrued and unpaid interest on the principal balance of the convertible debt. If the Call Right is exercised by the Company, SVB will retain certain lookback rights in the event the Company subsequently announces its topline data from its Phase 2 clinical study or the Company enters into an agreement to be acquired in the 12 months following the exercise of the Call Right. The Company has agreed to grant SVB a security interest in all of its assets, excluding its patents and other intellectual property, and the testing and product equipment by way of the loan agreement it entered into on September 10, 2021 (Note 9 – Loans Payable) as security for its obligations under the Debt Agreement.

The Company was required, on or prior to June 30, 2022, to raise additional net new capital, as defined in the Debt Agreement, in the aggregate amount of \$10,000,000. During the year ended December 31, 2022, the Company completed a \$14.7 million financing which satisfied the net new capital requirement of the Debt Agreement (see Note 13 – Share Capital and Reserves).

The fair value of the liability component of the convertible debt at the time of issue was calculated as the discounted cash flows assuming a 15% discount rate, which was the estimated rate for a similar instrument without a conversion feature. The fair value of the equity component (the conversion feature) was determined at the time of issue as the difference between the face value and the fair value of the liability component. The liability component will be accreted over the life of the instrument.

The Company's Debt Agreement with SVB remains in good standing as at the date of approval of these interim condensed consolidated financial statements and is fully drawn.

As at June 30, 2023 and December 31, 2022, the loan balance is comprised of the following:

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12. CONVERTIBLE DEBT (continued)

	Liability component	Equity component	Total
Total, December 31, 2021	\$ 9,083,403	\$ 1,280,177	\$ 10,363,580
Accrued interest	1,140,902	-	1,140,902
Interest paid	(396,736)	-	(396,736)
Accretion expense	387,960	-	387,960
Total, December 31, 2022	10,215,529	1,280,177	11,495,706
Accrued interest	796,392	-	796,392
Interest paid	(375,335)	-	(375,335)
Accretion expense	257,433	-	257,433
Total, June 30, 2023	\$ 10,894,019	\$ 1,280,177	\$ 12,174,196

13. SHARE CAPITAL and RESERVES

- 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

Capital transactions which took place during the year ended December 31, 2022, are as follows:

- i) On April 20, 2022, the Company announced that it had closed an overnight marketed public offering (the "Offering"). Pursuant to the Offering, Eupraxia issued 7,150,550 units at a price of \$2.05 per unit and 181,000 warrants at a price of \$0.30 per warrant for aggregate gross proceeds of \$14,712,928.

Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to acquire one common share at an exercise price of \$3.00 per common share for a period of 48 months, expiring on April 20, 2026.

As consideration for the services rendered by the Underwriters in connection with the Offering, the Company paid the Underwriters a cash commission of \$1,029,905 which is equal to 7% of the gross proceeds raised under the Offering and granted 500,538 warrants ("Compensation Warrant"), which is equal to 7% of the total units and warrants issued in the Offering. Each Compensation Warrant entitles the holder thereof to acquire one common share at an exercise price of \$2.05 per common share for a period of 48 months, expiring on April 20, 2026. An additional \$89,600 in legal and agents' expenses were also paid to the Underwriters. The Company incurred an additional \$295,575 in share issuance costs associated with the Offering.

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13. SHARE CAPITAL and RESERVES (continued)

b) Issued (continued)

- ii) During the year ended December 31, 2022, 200,000 common shares were issued on the exercise of warrants for gross proceeds of \$410,000. The weighted average share price during the period in which these warrants were exercised was \$4.18. On exercise, \$60,000 was transferred from reserves to share capital.

Capital transactions which took place during the six months ended June 30, 2023.

- i) During the six months ended June 30, 2023, 2,200,484 common shares were issued on the exercise of warrants for gross proceeds of \$6,363,492. The weighted average share price during the period in which these warrants were exercised was \$7.02. On exercise, \$660,145 was transferred from reserves to share capital.
- ii) During the six months ended June 30, 2023, 1,600 common shares were issued on the exercise of options for gross proceeds of \$5,185. The weighted average share price during the period in which these options were exercised was \$5.59. On exercise, \$3,450 was transferred from reserves to share capital.
- c) Options

Under the Amended Stock Option Plan (the “Amended Plan”), approved by the Board of Directors on October 27, 2021 and ratified by Shareholders on December 3, 2021, the Board of Directors may grant stock options to directors, officers, employees and consultants of the Company up to an aggregate of 18.5% of the Company’s then issued and outstanding common shares.

Options granted under the Amended 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 three-year period, with the first twenty-five percent (25%) of the Options vesting on the date of grant, 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 option transactions:

	Number of options	Weighted average exercise price
Outstanding, December 31, 2021	2,134,250	\$ 7.83
Granted	1,172,200	3.16
Outstanding, December 31, 2022	3,306,450	6.18
Exercised	(1,600)	3.24
Cancelled	(4,800)	3.24
Granted	197,200	6.83
Outstanding, June 30, 2023	3,497,250	\$ 6.22

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13. SHARE CAPITAL and RESERVES (continued)

c) Options (continued)

As at June 30, 2023, the following options were outstanding:

Grant Date	Options Outstanding	Options Exercisable	Exercise Price	Expiry Date	Remaining Contractual Life (years)
Sep 27, 2015	186,250	186,250	\$8.00 ⁽³⁾	Mar 31, 2025	1.75
Nov 2, 2015	95,000	95,000	\$8.00 ⁽³⁾	Nov 2, 2025	2.35
Mar 5, 2018	452,250	452,250	\$8.00 ⁽³⁾	Mar 5, 2028	4.68
Mar 9, 2021	756,950	567,713 ⁽¹⁾	\$8.00	Mar 9, 2031	7.70
Mar 9, 2021	326,800	326,800 ⁽²⁾	\$8.00	Mar 9, 2031	7.70
May 3, 2021	257,000	128,500 ⁽¹⁾⁽⁴⁾	\$8.00	May 3, 2031	7.85
Dec 9, 2021	60,000	55,000 ⁽⁵⁾⁽⁶⁾	\$2.02	Dec 9, 2031	8.45
Mar 31, 2022	411,500	205,750 ⁽⁷⁾	\$1.90	Mar 31, 2032	8.76
Dec 9, 2022	754,300	246,492 ⁽⁸⁾⁽⁹⁾⁽¹⁰⁾	\$3.85	Dec 9, 2032	9.45
May 18, 2023	180,000	45,000 ⁽¹¹⁾	\$6.84	May 18, 2033	9.89
May 30, 2023	17,200	4,300 ⁽¹²⁾	\$6.75	May 30, 2033	9.92
	3,497,250	2,313,055	\$6.22		7.48

- (1) Options granted to employees and board members of the Company vesting as follows: 25% vest immediately, 25% vest on the first anniversary of the grant date, 25% vest on the second anniversary of the grant date, and 25% vest on the third anniversary of the grant date.
- (2) Options granted to employees and board members of the Company vesting 100% as of the grant date.
- (3) On March 9, 2021 the exercise price of these options was modified from \$10.00 per share to \$8.00 per share.
- (4) These options were granted to the Company's CFO on May 3, 2021 but were not approved until the Company's AGM on December 3, 2021.
- (5) 50,000 options granted to board members of the Company vesting 100% as of the grant date.
- (6) 10,000 options granted vesting as follows: 25% vest immediately, 25% vest on the first anniversary of the grant date, 25% vest on the second anniversary of the grant date, and 25% vest on the third anniversary of the grant date.
- (7) Options granted to employees of the Company vesting as follows: 25% vest immediately, 25% vest on the first anniversary of the grant date, 25% vest on the second anniversary of the grant date, and 25% vest on the third anniversary of the grant date.
- (8) 660,400 options granted to employees of the Company vesting as follows: 25% vest immediately, 25% vest on the first anniversary of the grant date, 25% vest on the second anniversary of the grant date, and 25% vest on the third anniversary of the grant date.
- (9) 75,000 options granted to board members of the Company vesting 100% as of the grant date.
- (10) 20,000 options granted vesting as follows: 33% vest immediately, 33% vest on the first anniversary of the grant date, and 33% vest on the second anniversary of the grant date.
- (11) These options were granted to the Company's CMO on May 18, 2023 and vest as follows: 25% vest immediately, 25% vest on the first anniversary of the grant date, 25% vest on the second anniversary of the grant date, and 25% vest on the third anniversary of the grant date.
- (12) Options granted to employees of the Company vesting as follows: 25% vest immediately, 25% vest on the first anniversary of the grant date, 25% vest on the second anniversary of the grant date, and 25% vest on the third anniversary of the grant date.

The share-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 for the six months ended June 30, 2023 and 2022.

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13. SHARE CAPITAL and RESERVES (continued)

c) Options (continued)

Options granted during the six months ended	June 30, 2023	June 30, 2022
Expected dividend yield	0.00%	0.00%
Expected forfeiture rate	0.00%	0.00%
Weighted average annual volatility	72.73%	72.50%
Weighted average risk-free interest rate	3.37%	2.39%
Weighted average expected option life	5.5 years	5.5 years
Weighted average share price	\$6.83	\$1.90
Weighted average exercise price	\$6.83	\$1.90
Weighted average fair value of options granted	\$4.39	\$1.20

Share-based payments for the three and six months ended June 30, 2023 were \$573,630 and \$1,002,653 (three and six months ended June 30, 2022 - \$272,027 and \$798,369).

d) Warrants

The following table summarizes the Company's warrant transactions:

	Number of warrants	Weighted average exercise price
Outstanding December 31, 2021	4,161,898	\$ 8.81
Issued	7,832,088	2.94
Expired	(289,172)	8.00
Exercised	(200,000)	2.05
Outstanding December 31, 2022	11,504,814	\$ 4.97
Exercised	(2,200,484)	2.89
Outstanding June 30, 2023	9,304,330	\$ 5.44

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13. SHARE CAPITAL and RESERVES (continued)

d) Warrants (continued)

As at June 30, 2023, the following warrants were outstanding:

Expiry date	Exercise price	Remaining contractual life (years)	Warrants outstanding and exercisable
120 days after holder or common-law partner ceases to be a Director/ Officer or consultant	\$ 0.7572	N/A	243,421
120 days after former spouse ceases to be a Director/ Officer or consultant	0.7572	N/A	137,500
120 days after holder ceases to be a Director/ Officer or consultant	0.4984	N/A	315,500
January 4, 2024	5.5993	0.51	239,080
January 4, 2024	7.1991	0.51	39,846
January 8, 2024	5.5993	0.53	31,877
March 9, 2026	11.20	2.69	2,826,274
April 20, 2026	3.00	2.81	5,381,550
April 20, 2026	2.05	2.81	50,054
April 29, 2026	11.20	2.83	39,228
	\$ 5.44		9,304,330

e) Class B Non-Voting shares

On January 31, 2021, the Company entered into a contribution agreement with 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 the Chief Scientific Officer, which held 5% of the equity interest in the Company's subsidiary, Eupraxia USA. In exchange, the Company issued to the Chief Scientific Officer 225 non-voting Class B shares (the "Class B Shares") in Eupraxia Pharma Inc. 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 the Chief Scientific Officer 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 the Chief Scientific Officer 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.

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14. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are comprised of the following:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Office expenses	\$ 112,271	\$ 58,330	\$ 232,361	\$ 161,135
Insurance	146,720	144,698	233,505	259,389
Travel	72,981	70,584	190,647	92,328
Professional fees	1,230,387	102,645	1,624,447	199,931
Public company costs	164,096	84,580	235,795	148,607
Salaries and benefits (Notes 17)	615,569	449,985	1,225,837	929,474
General and administrative expenses	\$ 2,342,024	\$ 910,822	\$ 3,742,592	\$ 1,790,864

15. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are comprised of the following:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Direct Research and Development Costs				
Preclinical	\$ 294,127	\$ 372,109	\$ 879,584	\$ 659,078
Clinical	2,579,778	1,895,156	3,268,452	2,724,103
Manufacturing & analytical	913,729	1,357,261	1,485,411	1,523,045
Regulatory	133,910	175,718	260,298	261,133
	3,921,544	3,800,244	5,893,745	5,167,359
Pipeline Development	3,641	557,484	94,300	580,688
Other research and development	125,621	66,761	325,786	155,798
Salaries and benefits (Note 17)	699,944	582,724	1,406,162	1,201,318
Government grants (Note 16)	(66,004)	(96,422)	(126,911)	(248,606)
SR&ED and other R&D tax incentives	(129)	-	(129)	-
Total expenses during the period	\$ 4,684,617	\$ 4,910,791	\$ 7,592,953	\$ 6,856,557

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16. GOVERNMENT GRANTS AND ASSISTANCENational Research Council – Industrial Research Assistance Program (“NRC-IRAP”)

On October 1, 2021, the Company entered into an agreement with NRC-IRAP for funding support of specified research and development activities during a project phase, commencing on September 1, 2021 and ending on December 15, 2023. Under the agreement, NRC-IRAP would reimburse up to 80% of supported salary costs, and 50% of supported contractor fees to a maximum of \$700,000.

At June 30, 2023, there was \$21,808 (December 31, 2022 - \$18,816) of government grants recorded in amounts receivable and collected subsequent to period end.

The following table summarizes the government grants and assistance the Company received or accrued during the period:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
NRC-IRAP	\$ 66,004	\$ 95,500	\$ 126,911	\$ 234,218
Biotalent Canada	-	922	-	14,388
Total	\$ 66,004	\$ 96,422	\$ 126,911	\$ 248,606

Government assistance of \$66,004 and \$126,911 for the three and six months ended June 30, 2023 (\$96,422 and \$248,606 for the three and six months ended June 30, 2022) relating to research and development activities has been offset against research and development expense.

17. RELATED PARTIESDue to/from Related Parties

Related parties include directors, officers and companies controlled by Key Management Personnel (which includes directors and senior management comprising the CEO, CBO, CFO, CMO, and CSO). Key Management Personnel are those who have the authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

As at June 30, 2023, \$167,800 (December 31, 2022 - \$547,720) is due to Key Management Personnel (as defined above) representing accrued compensation and the reimbursement of business expenses.

Compensation for Key Management Personnel

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

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17. RELATED PARTIES (continued)

Compensation, during the period ended	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Salaries and benefits	\$ 505,733	\$ 326,875	\$ 942,283	\$ 647,750
Share-based compensation	468,286	200,675	785,134	598,663
Total	\$ 974,019	\$ 527,550	\$ 1,727,417	\$ 1,246,413

18. COMMITMENTS

As of June 30, 2023, and in the normal course of business, the Company has the following obligations to make future payments, representing contracts and other commitments that are known and committed.

Contractual Obligations	Total	Less than 1 year	1 - 3 years
Convertible Debt (Note 12)	\$ 10,894,019	\$ 10,894,019	\$ -
Loans Payable (Note 9)	136,341	108,260	28,081
Leases (Note 10)	124,236	87,696	36,540
Total Contractual Obligations	\$ 11,154,596	\$ 11,089,975	\$ 64,621

The Company may be required to make milestone, royalty, and other research and development funding payments under research and development collaboration and other agreements with third parties (see Note 11 – Auritec Licence Agreement). These payments are contingent upon the achievement of specific development, regulatory and/or commercial milestones. The Company has not accrued for these payments as at June 30, 2023 due to the uncertainty over whether these milestones will be achieved.

19. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, loans payable and convertible debt.

There were no changes to the Company's risk exposures or management of risks during the period ended June 30, 2023. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company believes it has no significant credit risk, as its cash and cash equivalents being its primary exposure to credit risk, is with a large Canadian bank. The Company's maximum exposure to credit risk is the carrying value of these financial assets.

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19. FINANCIAL INSTRUMENTS (continued)*Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2023, the Company had cash and cash equivalents of \$19,095,744 (December 31, 2022 - \$24,735,934) in addition to current liabilities of \$14,600,466 (December 31, 2022 - \$4,142,280). 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 that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate cash flow risk; and to the extent that the prevailing market interest rates differ from the interest rate on the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk. At June 30, 2023, the Company maintains a convertible debt facility totaling \$10,000,000 as well as having a loan of USD235,000 of which a principal balance of \$136,341 (USD102,977) remains as at June 30, 2023.

The convertible debt accrues interest at the greater of 2.45% and the Canadian prime rate, requiring monthly interest payments. An additional payment in kind accrues at a rate of 7% per annum, which will be settled at maturity or on conversion. The loan used to purchase equipment during the year ended December 31, 2021 accrues interest at a fixed rate of 5.84%.

As at June 30, 2023, management has determined the effect on the future results of operations due to a change in the current Canadian prime rate. An impact of a 1% change in the Canadian prime rate would impact the amount of interest to be paid over the remaining term of the convertible debt facility by approximately \$115,400.

Currency risk

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 currency risk due to its frequency of transactions in US dollars. The Company does not use derivatives to hedge against this risk however, it has purchased US dollars to cover the majority of anticipated costs of the Company's Phase 2 clinical trial. At June 30, 2023, the Company held cash of USD269,868 (December 31, 2022 - USD1,159,926) had accounts payable of USD1,665,393 (December 31, 2022 - USD1,814,067) and a loan payable of USD102,977 (December 31, 2022 - USD142,127) which were translated to Canadian dollars at an exchange rate of 1.324 (December 31, 2022 - 1.3544). The impact of a 10% change in the exchange rates would have an impact of approximately \$198,000 (December 31, 2022 - \$108,000) on profit or loss. The Company also has cash held in Australian dollars and accounts payable in Australian dollars and Euros. The impact of a 10% change in the exchanges of these currencies would have an immaterial effect on future cash flows.

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19. FINANCIAL INSTRUMENTS (continued)*Other price risk*

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

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.

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

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts payable and accrued liabilities, loans payable and convertible debt. With the exception of convertible debt, the carrying value of the Company's financial instruments approximate their fair values due to their short-term maturities. The fair value of convertible debt approximates its carrying value due to minimal changes in interest rates and the Company's credit risk since issuance of the instruments.

20. CAPITAL DISCLOSURES

The Company's principal source of capital is from the issuance of common shares, although other initiatives such as warrants, convertible notes, 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 shareholders equity attributable to common shareholders, which includes share capital, reserves, and deficit totalling \$7,439,345 (December 31, 2022 - \$12,855,253).

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the six months ended June 30, 2023. The Company is not subject to externally imposed capital requirements.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2023
 (Unaudited and Expressed in Canadian Dollars)

21. INTEREST EXPENSE

Interest expense is comprised of the following:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Interest and accretion on convertible debt (Note 12)	\$ 571,836	\$ 356,706	\$ 1,053,825	\$ 677,897
Interest on lease liability (Note 10)	4,857	6,954	9,714	13,907
Other interest and accretion	(13,552)	5,938	5,965	12,384
Total	\$ 563,141	\$ 369,598	\$ 1,069,504	\$ 704,188

22. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company paid interest of \$381,299 during the six months ended June 30, 2023 (\$155,768 paid during the six months ended June 30, 2022).

The Company received interest of \$491,261 during the six months ended June 30, 2023 (\$101,574 received during the six months ended June 30, 2022).

The Company did not have any significant non-cash transactions for the six months ended June 30, 2023 and June 30, 2022.

A detailed breakdown of cash and cash equivalents is as follows:

	June 30, 2023	December 31, 2022
Cash	\$ 19,095,744	\$ 14,669,359
Cash equivalents	-	10,066,575
Total	\$ 19,095,744	\$ 24,735,934

23. SUBSEQUENT EVENTS

- On July 14, 2023, 185,000 common shares were issued on the exercise of warrants for gross proceeds of \$555,000. The share price at exercise of the warrants was \$8.64. On exercise, \$55,500 was transferred from reserves to share capital.