

**EUPRAXIA PHARMACEUTICALS INC.**

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

**For the Three Months ended March 31, 2022**  
(Expressed in Canadian Dollars)

**EUPRAXIA PHARMACEUTICALS INC.**  
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2022  
(Expressed in Canadian Dollars)

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

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 16,880,796	\$ 20,892,069
Short term investments	9,022,835	9,008,855
Prepaid expenses and deposits	301,122	270,986
Amounts receivable (Note 5)	437,153	429,718
<b>Total current assets</b>	<b>26,641,906</b>	<b>30,601,628</b>
<b>Non-current assets</b>		
Prepaid expenses	1,034	31,371
Equipment (Note 6)	424,519	444,736
Right-of-use asset (Note 7)	131,961	144,332
<b>Total assets</b>	<b>\$ 27,199,420</b>	<b>\$ 31,222,067</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Notes 8 and 20)	\$ 1,105,450	\$ 2,112,989
Loans payable – current portion (Note 11)	94,925	94,916
Lease liability – current portion (Note 12)	61,979	59,883
<b>Total current liabilities</b>	<b>1,262,354</b>	<b>2,267,788</b>
<b>Non-current liabilities</b>		
Loans payable (Note 11)	153,306	180,189
Lease liability (Note 12)	120,684	137,751
Convertible debt (Note 15)	9,343,344	9,083,403
<b>Total liabilities</b>	<b>10,879,688</b>	<b>11,669,131</b>
<b>Shareholders' Equity</b>		
Share capital (Note 16(b))	80,713,131	80,713,131
Contributed surplus (Notes 15 and 16(c))	14,386,746	13,860,404
Deficit	(77,877,545)	(74,186,763)
<b>Equity attributable to the owners of the Company</b>	<b>17,222,332</b>	<b>20,386,772</b>
<b>Non-controlling interest</b>	<b>(902,600)</b>	<b>(833,836)</b>
<b>Total shareholders' equity</b>	<b>16,319,732</b>	<b>19,552,936</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 27,199,420</b>	<b>\$ 31,222,067</b>

Nature of business and going concern (Note 1)

Subsequent event (Note 26)

**Approved and authorized for issue on behalf of the Board of Directors on May 5, 2022:**

“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)

	<b>Three Months ended March 31, 2022</b>	<b>Three Months ended March 31, 2021</b>
<b>Expenses</b>		
General and administrative (Note 17)	\$ 880,042	\$ 1,794,327
Research and development (Note 18)	1,945,766	669,704
Depreciation and amortization (Notes 6 and 7)	39,365	20,238
Stock-based compensation (Notes 16(c) and 20)	526,342	2,711,192
<b>Total expenses</b>	<b>3,391,515</b>	<b>5,195,461</b>
<b>Other income (expenses)</b>		
Interest income	35,305	101
Interest expense (Note 24)	(334,590)	(452,109)
Foreign exchange gain (loss)	(68,746)	(5,238)
Loss on conversion of notes and special warrants (Notes 9 and 10)	-	(1,935,916)
Change in fair value of warrant liability (Note 14)	-	(1,273,219)
	<b>(368,031)</b>	<b>(3,666,381)</b>
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (3,759,546)</b>	<b>\$ (8,861,842)</b>
<b>Loss and comprehensive loss attributable to:</b>		
Owners of the Company	\$ (3,690,782)	\$ (8,860,023)
Non-controlling interest	(68,764)	(1,819)
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (3,759,546)</b>	<b>\$ (8,861,842)</b>
	\$ (0.26)	\$ (1.13)
Loss per share – basic and diluted (Owners of the Company)	\$ (0.00)	\$ (0.00)
Loss per share – basic and diluted (Non-controlling interest)	\$ (0.26)	\$ (1.13)
<b>Loss per share – basic and diluted</b>		<b>(1.13)</b>
<b>Weighted average shares outstanding – basic and diluted</b>	<b>14,242,595</b>	<b>7,814,446</b>

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

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

	<b>Number of Shares</b>	<b>Amount</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Non-controlling Interest</b>	<b>Total</b>
<b>Balance, December 31, 2020</b>	6,180,290	\$ 23,797,507	\$ 6,189,888	\$ (51,197,157)	\$ (453,891)	\$ (21,663,653)
Initial Public Offering (Note 16(b))	5,125,000	37,877,184	-	-	-	37,877,184
Conversion of notes (Note 9)	1,261,387	10,089,835	-	-	-	10,089,835
Conversion of Special Warrants (Note 10)	298,798	2,390,085	-	-	-	2,390,085
Warrant reclassification (Note 14)	-	-	2,175,688	-	-	2,175,688
Stock-based compensation (Note 16(c))	-	-	2,711,192	-	-	2,711,192
Total loss and comprehensive loss for the period	-	-	-	(8,860,023)	(1,819)	(8,861,842)
<b>Balance, March 31, 2021</b>	12,865,475	74,154,611	11,076,768	(60,057,180)	(455,710)	24,718,489
Conversion of loans (Note 11)	1,298,664	5,987,642	-	-	-	5,987,642
Initial Public Offering (Note 16(b))	-	(43,722)	-	-	-	(43,722)
Equity component of convertible debt (Note 15)	-	-	1,280,177	-	-	1,280,177
Issuance of shares for services (Note 16(b))	78,456	614,600	-	-	-	614,600
Stock-based compensation (Note 16(c))	-	-	1,503,459	-	-	1,503,459
Total loss and comprehensive loss for the period	-	-	-	(14,129,583)	(378,126)	(14,507,709)
<b>Balance, December 31, 2021</b>	14,242,595	80,713,131	13,860,404	(74,186,763)	(833,836)	19,552,936
Stock-based compensation (Note 16(c))	-	-	526,342	-	-	526,342
Total loss and comprehensive loss for the period	-	-	-	(3,690,782)	(68,764)	(3,759,546)
<b>Balance, March 31, 2022</b>	14,242,595	\$ 80,713,131	\$ 14,386,746	\$ (77,877,545)	\$ (902,600)	\$ 16,319,732

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)

	<b>Three Months ended March 31, 2022</b>	<b>Three Months ended March 31, 2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Total loss and comprehensive loss	\$ (3,759,546)	\$ (8,861,842)
Items not affecting cash		
Accrued interest on convertible notes (Note 9)	-	136,253
Accrued interest on loans (Note 11)	-	266,868
Accrued interest on SVB debt facility (Note 15)	259,941	-
Accrued interest on payable to Auritec Pharmaceuticals Inc. (Note 13)	-	7,046
Accrued interest on short term investments	(13,980)	-
Depreciation and amortization (Notes 6 and 7)	39,365	20,238
Interest – lease liability (Note 12)	6,953	8,792
Loss on conversion of notes, specials warrants and loans (Notes 9, 10 and 11)	-	1,935,916
Stock-based compensation (Note 16(c))	526,342	2,711,192
Change in fair value of warrant liabilities (Note 14)	-	1,273,219
Unrealized foreign exchange	67,034	-
	<u>(2,873,891)</u>	<u>(2,502,318)</u>
<b>Changes in non-cash working capital balances</b>		
Accounts payable and accrued liabilities	(1,003,290)	(1,714,476)
Prepaid expenses	201	(2,98,893)
Amounts receivable	(7,435)	141,519
<b>Cash used in operating activities</b>	<u>(3,884,415)</u>	<u>(4,374,168)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of equipment (Note 6)	(6,777)	(3,800)
Payable to Auritec Pharmaceuticals Inc. (Note 13)	-	(5,063,528)
<b>Cash used in investing activities</b>	<u>(6,777)</u>	<u>(5,067,328)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipt of loans (Note 11)	-	2,452,125
Repayment of loans (Note 11)	(23,229)	-
Issuance of convertible notes for cash (Note 9)	-	100,000
IPO shares issued for cash (net of transaction costs) (Note 16(b))	-	37,877,184
Lease payments (Note 12)	(21,924)	(21,926)
<b>Cash provided by (used in) financing activities</b>	<u>(45,153)</u>	<u>40,407,383</u>
<b>Increase (decrease) in cash and cash equivalents</b>	(3,936,345)	30,965,887
<b>Foreign exchange effect on cash and cash equivalents</b>	(74,928)	-
<b>Cash and cash equivalents, beginning of period</b>	20,892,069	150,126
<b>Cash and cash equivalents, end of period</b>	<u>\$ 16,880,796</u>	<u>\$ 31,116,013</u>

Supplemental disclosure with respect to cash flows (Note 25)

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 MONTHS ENDED MARCH 31, 2022  
(Unaudited and Expressed in Canadian Dollars)

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### **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 March 9, 2021, the Company completed an initial public offering on the Toronto Stock Exchange (“TSX”) with the listing of both common shares and warrants under the symbols “EPRX” and “EPRX.WT”, respectively. The Company completed a four-for-one share consolidation of its common stock as part of the Company’s initial public offering on the TSX. All share and earnings per share information has been retroactively adjusted to reflect the share consolidation.

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.

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

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 March 31, 2022, the Company had cash and cash equivalents of \$16,880,796, short term investments of \$9,022,835 and working capital of \$25,379,552 and the Company has not yet generated revenue from operations. The Company incurred a net loss of \$3,759,546 during the three months ended March 31, 2022 and, as of that date, the Company’s accumulated deficit was \$77,877,545. As the Company is in the research and development stage, the recoverability of the costs incurred to date is dependent upon the ability of the Company to obtain the necessary financing to complete the research and development of its projects and upon future profitable production or proceeds from the monetization of research activities to date. The Company is active in its pursuit of additional funding through partnering, and other strategic activities, as well as via grants, to fund future research and development activities and will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future, especially with recent developments in Russia and Ukraine affecting the global capital markets in addition to the ongoing impact of COVID-19. These events and conditions indicate a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern. 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.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2022

(Unaudited and Expressed in Canadian Dollars)

**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, 2021 and 2020.

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, 2021 and 2020.

**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.

<b>Company Entity</b>	<b>Date of Incorporation</b>	<b>Jurisdiction of Incorporation</b>	<b>Effective Interest (Note 16(e))</b>
Eupraxia Pharma, Inc.	January 7, 2021	Delaware, USA	95%
Eupraxia Holdings Inc.	October 10, 2012	Delaware, USA	95%
Eupraxia Pharmaceuticals USA, LLC	October 10, 2012	Delaware, USA	95%
AMDM Holdings Inc.	April 6, 2016	Washington, USA	95%

**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, 2022 or later periods. The new and amended standards are not expected to have a material impact on the Company.

**EUPRAXIA PHARMACEUTICALS INC.**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2022**

**(Unaudited and Expressed in Canadian Dollars)**

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**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) The valuation of stock-based compensation and other non-cash stock-based payments; and
- ii) The determination of the amount allocated to the liability and equity components (for those financial instruments that are comprised of both). This requires management to estimate various components and characteristics of present value calculations used in determining the fair value of the instrument, 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 MONTHS ENDED MARCH 31, 2022**  
(Unaudited and Expressed in Canadian Dollars)

**5. AMOUNTS RECEIVABLE**

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
	<b>2020</b>	
Government grants (Note 19)	\$ 102,885	\$ 102,952
Scientific research and development ITCs (Note 18)	298,564	298,564
GST/HST recoverable	35,704	28,202
	22,415	
<b>Total</b>	<b>\$ 437,153</b>	<b>\$ 429,718</b>

**6. EQUIPMENT**

	<b>Computers</b>	<b>Office</b>	<b>Leasehold Improvements</b>	<b>Lab</b>	<b>Total</b>
<b><u>Cost</u></b>					
As at December 31, 2020	\$ 90,719	\$ 84,517	\$ 106,464	\$ 45,943	\$ 327,643
Additions	38,284	8,371	63,844	321,174	431,673
As at December 31, 2021	129,003	92,888	170,308	367,117	759,316
Additions	6,777	-	-	-	6,777
<b>As at March 31, 2022</b>	<b>\$ 135,780</b>	<b>\$ 92,888</b>	<b>\$ 170,308</b>	<b>\$ 367,117</b>	<b>\$ 766,093</b>
<b><u>Accumulated depreciation</u></b>					
As at December 31, 2020	\$ 77,265	\$ 52,630	\$ 106,464	\$ 22,970	\$ 259,329
Depreciation	12,989	6,913	9,343	26,006	55,251
As at December 31, 2021	90,254	59,543	115,807	48,976	314,580
Depreciation	4,749	1,667	4,671	15,907	26,994
<b>As at March 31, 2022</b>	<b>\$ 95,003</b>	<b>\$ 61,210</b>	<b>\$ 120,478</b>	<b>\$ 64,883</b>	<b>\$ 341,574</b>
<b><u>Carrying amount</u></b>					
As at December 31, 2021	\$ 38,749	\$ 33,345	\$ 54,501	\$ 318,141	\$ 444,736
As at March 31, 2022	\$ 40,777	\$ 31,678	\$ 49,830	\$ 302,234	\$ 424,519

**EUPRAXIA PHARMACEUTICALS INC.**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE THREE MONTHS ENDED MARCH 31, 2022  
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**7. RIGHT-OF-USE ASSET**

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

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
<b>Beginning Balance</b>	<b>\$ 144,332</b>	<b>\$ 247,023</b>
Less: Tenant improvement allowance received	-	(46,413)
Amortization	(12,371)	(56,278)
<b>Ending Balance</b>	<b>\$ 131,961</b>	<b>\$ 144,332</b>

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Research and development	\$ 621,841	\$ 1,046,037
General and administrative	409,320	318,424
Wages and payroll remittances	74,289	5,011
Bonus <sup>(1)</sup>	-	743,517
<b>Total</b>	<b>\$ 1,105,450</b>	<b>\$ 2,112,989</b>

(1) Bonus relates to FY21 corporate bonus which was paid out to employees during the period ended March 31, 2022.

**9. CONVERTIBLE NOTES PAYABLE**

On May 25, 2018, the Company approved the issuance of unsecured convertible notes (the “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 carried an annual interest rate of 10% and originally matured on June 30, 2020, subsequently extended to December 31, 2020.

In the event of a Qualified Financing of greater than USD15,000,000, the principal and any accrued interest would convert into the same class of securities issued in the Qualified Financing at a 10% discount to the price paid per share.

On April 30, 2020, the Company approved the issue of unsecured convertible notes (the “2020 Notes”) up to an aggregate principal amount of \$2,000,000. The terms of these convertible notes were identical to the notes outlined above with the exception that they converted at a 30% discount in the event of a Qualified Financing.

The settlement of the convertible notes required a variable number of shares; therefore, the contract was treated as a financial liability even though it involved settlement by the delivery of common shares.

On March 9, 2021, both the Notes and 2020 Notes were converted into common shares as a result of the Company’s initial public offering on the TSX which constituted a Qualified Financing. As a result, principal and any accrued interest would convert into the same class of securities issued in the Qualified Financing at a 10% discount to the price paid per share. Principal and interest totaling \$8,829,004 was converted into 1,261,387 common shares. These shares had a fair market value of \$10,089,835 as of the conversion date, which was reflected in the Company’s share capital balance. The difference of \$1,260,831 between the carrying value of the liability and the fair market value was recorded in other income (expense) as a loss on conversion of notes. Accrued interest included in profit or loss during the three months ended March 31, 2022 was \$nil (three months ended March 31, 2021 - \$136,253).

**EUPRAXIA PHARMACEUTICALS INC.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2022**

(Unaudited and Expressed in Canadian Dollars)

**9. CONVERTIBLE NOTES PAYABLE (continued)**

As at March 31, 2022 and December 31, 2021, the following convertible notes were outstanding:

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Convertible notes <sup>(1)</sup> issued June 19, 2018	\$ -	\$ 2,150,000
Convertible notes <sup>(1)</sup> issued November 13, 2018	-	975,000
Convertible notes <sup>(1)</sup> issued December 20, 2018	-	350,000
Convertible notes <sup>(1)</sup> issued April 1, 2019	-	1,500,000
Convertible notes <sup>(1)</sup> issued April 30, 2019	-	700,000
Convertible notes <sup>(1)</sup> issued May 23, 2019	-	815,000
Convertible notes <sup>(2)</sup> issued June 1, 2020	-	500,000
Convertible notes <sup>(2)</sup> issued July 22, 2020	-	121,000
Convertible notes <sup>(2)</sup> issued November 27, 2020	-	110,000
Convertible notes <sup>(2)</sup> issued January 5, 2021	-	100,00
Accrued interest	-	1,508,004
Loss on conversion	-	1,260,831
Conversion into common shares on March 9, 2021	-	(10,089,835)
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>

(1) Converted at 10% discount as a result of the Qualified Financing

(2) Converted at 30% discount as a result of the Qualified Financing

**EUPRAXIA PHARMACEUTICALS INC.**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(Unaudited and Expressed in Canadian Dollars)

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**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 Special Warrants originally had an expiry date of June 30, 2020 which was subsequently extended to December 31, 2021.

Under the terms of the Special Warrants, if the Company completed a Qualified Financing before the Final Conversion Date, then the Special Warrants would 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 number 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.

As the settlement of the Special Warrants required a variable number of shares, the contract was treated as a financial liability even though it involved settlement by the delivery of common shares.

On March 9, 2021, the Special Warrants were converted into common shares as a result of the Company's initial public offering on the TSX which constituted a Qualified Financing. The Special Warrants were converted into 298,798 common shares according to the terms outlined above. These shares had a fair market value of \$2,390,085 as of the conversion date, which was reflected in the Company's share capital balance. The difference of \$675,085 between the carrying value of the liability and the fair market value was recorded in other income (expense) as a loss on conversion of Special Warrants.

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As at March 31, 2022 and December 31, 2021, the following Special Warrants were outstanding:

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Special warrants issued July 18, 2018 (590,000)	\$ -	\$ 1,180,000
Special warrants issued November 13, 2018 (267,500)	-	535,000
Loss on conversion	-	675,085
Conversion into common shares on March 9, 2021	-	(2,390,085)
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>

**11. LOANS PAYABLE**

On January 4, 2021 and January 8, 2021, the Company borrowed an aggregate of USD1,700,000 (\$2,355,795) from certain shareholders and a director of the Company. The loans were unsecured, incurred interest at a rate of 10% per annum and matured on December 31, 2021. Under the terms of the loans and following completion of an equity financing exceeding USD15,000,000, each lender had the right to convert the principal and accrued interest under their respective loan into common shares at a 30% discount to the per share purchase price of the common shares issued and sold in the equity financing. As consideration for providing such loans, the lenders were issued an aggregate of 270,957 common share purchase warrants, with each warrant exercisable for one common share 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 an equity financing, the exercise price of such warrants will be adjusted to equal a 30% discount to the equity financing price. Upon completion of the Company's initial public offering, the exercise price of these warrants was adjusted to \$5.5993.

On January 4, 2021, the Company borrowed USD250,000 from a director of the Company. The loan was unsecured, incurred interest at a rate of 15% per annum and matured on December 31, 2021. The Company intended 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 relating 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 a 10% discount to the equity financing price. Upon completion of the Company's initial public offering, the exercise price of these warrants was adjusted to \$7.1991. On June 2, 2021, upon receipt of the Company's 2020 SR&ED refund, principal and interest owing on the loan totaling USD265,000 was repaid to the director of the Company.

On May 18, 2021, the Company offered existing lenders the opportunity to convert their outstanding principal and accrued interest into common shares at a conversion price equal to \$4.6106 per common share. Principal and interest totaling \$5,987,642 was subsequently converted into 1,298,664 common shares of the Company on June 8, 2021. The difference of \$324,561 between the carrying value of the liability and the fair market value was recorded in other income (expense) as a loss on conversion of loans.

Accrued interest included in profit or loss during the three months ended March 31, 2022 was \$nil (three months ended March 31, 2021 - \$266,868).

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**11. LOANS PAYABLE (continued)**

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 1<sup>st</sup> 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 loan balance as at March 31, 2022 and December 31, 2021:

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Balance, beginning	\$ 275,105	\$ 3,924,698
Receipt of cash loans	-	2,653,062
Transaction costs	-	(526,161)
Loan repayment	(23,229)	(521,386)
Interest accrued	-	206,752
Financing cost accreted	-	201,600
Conversion to common shares	-	(5,987,642)
Loss on conversion	-	324,561
Foreign exchange adjustment	(3,645)	(379)
<b>Balance, ending</b>	<b>\$ 248,231</b>	<b>\$ 275,105</b>
<b>Current portion</b>	<b>\$ 94,925</b>	<b>\$ 94,916</b>
<b>Non-current portion</b>	<b>\$ 153,306</b>	<b>\$ 180,189</b>

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**12. 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.

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
<b>Opening balance</b>	\$ 197,634	\$ 251,194
Interest expense	6,953	35,167
Tenant improvement allowance (net of \$41,046 cash received)	-	(1,031)
Payments	(21,924)	(87,696)
<b>Ending balance</b>	<b>\$ 182,663</b>	<b>\$ 197,634</b>
<b>Current portion</b>	<b>\$ 61,979</b>	<b>\$ 59,883</b>
<b>Non-current portion</b>	<b>\$ 120,684</b>	<b>\$ 137,751</b>

The incremental borrowing rate on lease liabilities is 14%. Variable lease payments comprised of operating, maintenance and property tax fees totaling \$21,620 for the three months ended March 31, 2022 are included in general and administrative expenses (three months ended March 31, 2021 – \$13,881).

The Company subleased a portion of its office space with amounts totaling \$5,129 for the three months ended March 31, 2022 (three months ended March 31, 2021 – \$7,998) 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:

	<b>2022</b>	<b>2023</b>	<b>2024</b>
Office	\$65,772	\$87,696	\$80,388

The following is a reconciliation of undiscounted lease commitments and lease liabilities at March 31, 2022:

<b>Total undiscounted lease commitments</b>	<b>\$ 233,856</b>
Balance remaining of tenant allowance to be repaid	(1,031)
Discount using incremental borrowing rate	(50,162)
<b>Total lease liabilities at March 31, 2022</b>	<b>\$ 182,663</b>

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**13. 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, Eupraxia USA has paid USD5,000,000 to Auritec (the “Upfront Fee”). 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. 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 USD100,000,000.

The following table summarizes the payments made with respect to the Upfront Fee in US dollars (“USD”) and Canadian dollars (“CDN”):

	USD		CDN	
<b>Balance payable December 31, 2020</b>	\$	<b>3,971,475</b>	\$	<b>5,056,482</b>
Monthly interest accrued		22,524		28,515
Monthly interest paid		(193,999)		(245,739)
Principal repayments		(3,800,000)		(4,817,789)
Foreign exchange		-		(21,469)
<b>Balance payable December 31, 2021 and March 31, 2022</b>	\$	<b>-</b>	\$	<b>-</b>

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**14. DERIVATIVE WARRANT LIABILITY**

On July 19, 2019, the directors of the Company approved a new loan structure which offered lenders interest at 8% and warrants to acquire common shares in an amount equal to one warrant for every \$10.00 of principal and interest loaned. The warrants would 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 was \$4.00 per share or if a Qualified Financing was closed any time prior to or including the expiry date then the exercise price would be the per share purchase price of equity securities issued and sold in the Qualified Financing. Upon completion of the Company's initial public offering, the exercise price of these warrants was adjusted to \$7.999.

Existing 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.

A total of 289,172 warrants were issued in relation to the loans. The fair value of warrants issued were recorded against the principal balance at the issuance dates.

On January 4, 2021 and January 8, 2021, a further 310,803 warrants were issued in connection with the loans outlined in Note 11.

Accretion of loan financing costs of \$131,540 was included in interest expense for the three months ended March 31, 2021.

At issuance the warrants issued as part of the loan financings were a derivative liability given that the warrant exercise price was subject to change if a Qualified Financing occurred. The derivative warrant liability was measured at fair value at each reporting period with any gain or loss resulting from re-measurement recognized in profit or loss. Upon completion of the Company's initial public offering, the exercise price was set and the fair value of warrants (measured on March 9, 2021) was reclassified to equity. The Company recognized \$1,273,219 as a change in the fair value of the derivative warrant liability once the exercise price was set. The fair value of the warrants at each measurement date was estimated using the Black-Scholes option pricing model and based on the following weighted average assumptions:

	<b>At March 9, 2021</b>	<b>At Issuance dates (Jan. 4, 2021 to Jan. 8, 2021)</b>	<b>At December 31, 2020</b>
Annual volatility <sup>(1)</sup>	72.50%	71.35%	71.35%
Risk free interest rate	0.39%	0.25%	0.20%
Warrant life	2.22 years	3 years	1.53 – 1.96 years
Share price	\$8.00	\$3.77	\$3.76
Exercise price <sup>(2)</sup>	\$6.86	\$4.00	\$4.00
Number of warrants issued	599,975	310,803	289,172

(1) Estimated annual volatility is based on the historical stock prices of comparable public companies.

(2) The initial public offering closed on March 9, 2021 constitutes a qualified financing so the exercise price has been modified to \$7.999 to reflect the purchase price of equity securities issued and sold in the Qualified Financing.

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**14. DERIVATIVE WARRANT LIABILITY (continued)**

Details related to the warrant liability are as follows:

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Fair value of warrants issued on July 13, 2019	\$ -	\$ 67,306
Fair value of warrants issued on July 22, 2019	-	264,117
Fair value of warrants issued on August 30, 2019	-	68,341
Fair value of warrants issued on December 16, 2019	-	412,123
Fair value of warrants issued on January 4, 2021	-	1,221,587
Fair value of warrants issued on January 8, 2021	-	142,214
Fair value of warrants reclassified to contributed surplus on March 9, 2021	-	(2,175,688)
<b>Total fair value of warrants</b>	<b>\$ -</b>	<b>\$ -</b>

**15. 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 million principal amount under the Agreement.

The Debt Agreement has a term of 36 months or 48 months at SVB's election. The Debt Agreement accrues interest at the greater of 2.45% and the Canadian prime rate, requiring monthly interest payments. An additional payment in kind will accrue at a rate of 7% per annum, which will be settled at maturity or on conversion.

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**15. CONVERTIBLE DEBT (continued)**

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 11 – Loans Payable) as security for its obligations under the Debt Agreement.

The Company is required, on or prior to June 30, 2022, to raise additional net new capital, as defined in the Debt Agreement, in the aggregate amount of \$10 million. This net new capital can originate from, but is not restricted to, a variety of sources as outlined in the Debt Agreement and can include up to \$5 million in reduced project expenses. Subsequent to the period ended March 31, 2022, the Company completed a \$14.7 million financing which satisfies the net new capital requirement of the Debt Agreement (see Note 26 – Subsequent Event).

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.

As at March 31, 2022 and December 31, 2021, the loan balance is comprised of the following:

	<b>Liability component</b>	<b>Equity component</b>	<b>Total</b>
Principal drawdown	\$ 8,695,652	\$ 1,304,348	\$ 10,000,000
Transaction costs	(161,145)	(24,171)	(185,316)
Accrued interest	506,625	-	506,625
Interest paid	(110,250)	-	(110,250)
Accretion expense	152,521	-	152,521
<b>Total, December 31, 2022</b>	<b>9,083,403</b>	<b>1,280,177</b>	<b>10,363,580</b>
Accrued interest	236,250	-	236,250
Interest paid	(61,250)	-	(61,250)
Accretion expense	84,941	-	84,941
<b>Total, March 31, 2022</b>	<b>\$ 9,343,344</b>	<b>\$ 1,280,177</b>	<b>\$ 10,623,521</b>

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**16. 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

Capital transactions which took place during the year ended December 31, 2021 are as follows:

- i) On March 9, 2021, the Company closed an Initial Public Offering (the “Offering”) of 5,125,000 units of the Company (the “Units”) at a price of \$8.00 per Unit (the “Offering Price”) for gross proceeds of \$41,000,000. Each Unit consisted of one common share in the Company and one-half of one common share purchase warrant of the Company (each whole common share purchase warrant, a “Warrant”). Each Warrant is exercisable into one common share of the Company (each, a “Warrant Share”) at an exercise price of \$11.20 per Warrant Share for a period of five years following the closing of the Offering, subject to adjustment in certain events. The Warrants include an acceleration provision, exercisable at the Company’s option, if the Company’s daily volume weighted average share price is greater than \$22.40 for five consecutive trading days. As consideration for the services rendered by the Underwriters in connection with the Offering, the Company paid the Underwriters a cash commission of \$2,460,000 which is equal to 6% of the gross proceeds raised under the Offering. An additional \$215,832 in legal and agents’ expenses were paid to the Underwriters. The Company incurred an additional \$447,512 in share issue costs associated with the Offering. A further \$43,722 of share issue costs were incurred subsequent to March 31, 2021. The Company 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, to purchase up to an additional number of Units equal to 15% of the Units sold pursuant to the Offering (the “Agents’ Option Units”) at a price of \$8.00 per Agents’ Option Unit to cover the Agents’ over-allocation position, if any, and for market stabilization purposes. On March 23, 2021, the Agents partially exercised the Over-Allotment Option pursuant to which the Company issued 263,774 Warrants to the Agents at a price of \$0.002 per Warrant for gross proceeds of \$528.
- ii) On March 9, 2021, the Company converted outstanding Convertible Notes into 1,261,387 common shares as outlined in Note 9 – Convertible Notes Payable.
- iii) On March 9, 2021, the Company converted outstanding Special Warrants into 298,798 common shares as outlined in Note 10 – Special Warrants.
- iv) On April 29, 2021, the Company issued 78,456 units comprised of one common share and one-half of one common share purchase warrant to Nordic Bioscience Clinical Development (“NBCD”). This investment was in exchange for a \$614,600 (USD500,000) reduction in services fees otherwise payable to NBCD as a contract research organization conducting the Company’s Phase 2 clinical trial. Each warrant is exercisable into one common share of the Company at an exercise price of \$11.20 per warrant at any time prior to April 14, 2026, subject to adjustment in certain events. These units were issued at the same price as the Units issued as part of the Offering.

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## b) Issued (continued)

- v) On June 8, 2021, the Company converted outstanding loans totaling \$5,987,642 into 1,298,664 common shares as outlined in Note 11 – Loans Payable.

There were no capital transactions during the period ended March 31, 2022.

## 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 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:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
<b>Outstanding, December 31, 2020</b>	733,500	\$ 8.00
Issued	1,400,750	7.74
<b>Outstanding December 31, 2021</b>	2,134,250	7.83
Issued	413,500	1.90
<b>Outstanding March 31, 2022</b>	<b>2,547,750</b>	<b>\$ 6.87</b>

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**16. SHARE CAPITAL and CONTRIBUTED SURPLUS (continued)**

c) Options (continued)

As at March 31, 2022, 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	\$8.00 <sup>(3)</sup>	Mar 31, 2025	3.00
Sep 27, 2015	67,500	67,500	\$8.00 <sup>(3)</sup>	Mar 31, 2025	3.00
Nov 2, 2015	62,500	62,500	\$8.00 <sup>(3)</sup>	Nov 2, 2025	3.59
Nov 2, 2015	32,500	32,500	\$8.00 <sup>(3)</sup>	Nov 2, 2025	3.59
Mar 5, 2018	198,750	198,750	\$8.00 <sup>(3)</sup>	Mar 5, 2028	5.93
Mar 5, 2018	253,500	253,500	\$8.00 <sup>(3)</sup>	Mar 5, 2028	5.93
Mar 9, 2021	756,950	378,474 <sup>(1)</sup>	\$8.00	Mar 9, 2031	8.94
Mar 9, 2021	326,800	326,800 <sup>(2)</sup>	\$8.00	Mar 9, 2031	8.94
May 3, 2021	257,000	64,250 <sup>(1)(4)</sup>	\$8.00	May 3, 2031	9.09
Dec 9, 2021	60,000	52,500 <sup>(5)(6)</sup>	\$2.02	Dec 9, 2031	9.70
Mar 31, 2022	413,500	103,375 <sup>(7)</sup>	\$1.90	Mar 31, 2032	10.00
	<b>2,547,750</b>	<b>1,658,899</b>	<b>\$6.87</b>		<b>7.98</b>

- (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.

The stock-based compensation expense was determined based on the fair value of options at the date of measurement and those modified on March 9, 2021 using the Black-Scholes option pricing model with the following weighted-average assumptions.

Options granted during the three months ended	March 31, 2022	March 31, 2021
Expected dividend yield	0.00%	0.00%
Expected forfeiture rate	0.00%	0.00%
Weighted average annual volatility	72.50%	72.50%
Weighted average risk-free interest rate	2.39%	0.91%
Weighted average expected option life	5.5 years	5.5 years
Weighted average share price	\$1.90	\$8.00
Weighted average exercise price	\$1.90	\$8.00
Weighted average fair value of options granted	\$1.20	\$4.92

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**16. SHARE CAPITAL and CONTRIBUTED SURPLUS (continued)**

## d) Options (continued)

The total cost of the option modification which occurred on March 9, 2021 was \$174,352 which has been included in stock-based compensation expense for the three months ended March 1, 2021. The cost was determined based on the incremental fair value of the options using the Black-Scholes option pricing model with the following weighted-average assumptions. Stock-based compensation of \$3,608,583 which was based on the fair value of the options prior to the modification was expensed in previous periods.

## d) Warrants

The following table summarizes the Company's warrant transactions:

	Number of warrants	Weighted average exercise price
<b>Outstanding December 31, 2021</b>	<b>4,161,898</b>	<b>\$ 8.81</b>
<b>Outstanding March 31, 2022</b>	<b>4,161,898</b>	<b>\$ 8.81</b>

As at March 31, 2021, 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	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	7.999 <sup>(1)</sup>	0.28-0.71	289,172
January 4, 2024	5.5993	1.76	239,080
January 4, 2024	7.1991	1.76	39,846
January 8, 2024	5.5993	1.78	31,877
March 9, 2026	11.20	3.94	2,826,274
April 29, 2026	11.20	4.08	39,228
	<b>\$ 8.81</b>		<b>4,161,898</b>

(1) Upon completion of the Company's initial public offering, the exercise price of these warrants was adjusted pursuant to the terms of the warrant agreements.

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**16. SHARE CAPITAL and CONTRIBUTED SURPLUS (continued)**

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 Pharmaceuticals 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 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.

**17. GENERAL AND ADMINISTRATION EXPENSES**

General and administration expenses are comprised of the following:

	<b>Three months ended March 31, 2022</b>	<b>Three months ended March 31, 2021<sup>(1)</sup></b>
Office expenses	\$ 102,805	\$ 41,845
Insurance	114,691	35,853
Travel	21,744	167
Professional fees	97,286	750,732
Public company costs	64,027	190,614
Salaries and benefits (Notes 19 and 20)	479,489	775,116
<b>General and administrative expenses</b>	<b>\$ 880,042</b>	<b>\$1,794,327</b>

(1) The comparative interim condensed consolidated financial statements have been reclassified from interim condensed consolidated financial statements previously presented to conform to the presentation of the current period’s interim condensed consolidated financial statements. General and administrative expenses now include: professional fees, public company costs and salaries and benefits, which previously had been shown as separate line items on the interim condensed consolidated statement of operations and comprehensive loss in addition, to office expenses, insurance and travel, which were included in general and administration expenses of \$77,865 for the three months ended March 31, 2021.

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**18. RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses are comprised of the following:

<b>Research and development expenses for the three months ended</b>	<b>March 31, 2022</b>	<b>March 31, 2021</b>
<b>Arthritis Program (EP-104IAR)</b>		
Preclinical	\$ 286,969	\$ 542
Clinical	828,947	5,750
Manufacturing & analytical	165,784	24,398
Regulatory	85,415	-
Consulting	-	5,681
	<u>1,367,115</u>	<u>36,371</u>
<b>Pipeline Development</b>	23,204	-
<b>Other research and development</b>	89,037	27,120
<b>Salaries and benefits</b>	618,594	644,147
<b>Government grants (Note 19)</b>	<u>(152,184)</u>	<u>(37,934)</u>
<b>Total expenses during the period</b>	<b>\$ 1,945,766</b>	<b>\$ 669,704</b>

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**19. GOVERNMENT GRANTS AND ASSISTANCE**National Research Council – Industrial Research Assistance Program (“NRC-IRAP”)

On April 1, 2020, the Company entered into an agreement with 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. On March 12, 2021, the Company entered into a third agreement for funding support from the IAP commencing December 20, 2020 and ending March 13, 2021. 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. During the three months ended December 31, 2021, the Company claimed \$65,030 pertaining to this agreement.

On April 15, 2021, the Company entered into an agreement with NRC-IRAP for funding support from the Youth Internship Program commencing April 15, 2021 and ending on December 31, 2021. Under the agreement, the NRC agrees to contribute up to a maximum of \$36,000 for internal graduate salary costs. There were no amounts claimed during the three months ended March 31, 2022 and 2021.

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. During the three months ended March 31, 2022, the Company claimed \$138,718 pertaining to this agreement (three months ended March 31, 2021 - \$nil).

At March 31, 2022, there was \$102,885 (December 31, 2021 - \$102,952) 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:

	<b>March 31, 2022</b>	<b>March 31, 2021</b>
NRC-IRAP	\$ 138,718	\$ 65,030
Biotalent Canada	13,466	-
<b>Total</b>	<b>\$ 152,184</b>	<b>\$ 65,030</b>

Government assistance of \$152,184 (2021 - \$37,934) relating to research and development activities has been offset against research and development expense, and \$nil (2020 - \$27,096) relating to general and administrative costs has been offset against salaries and benefits expense.

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**20. RELATED PARTIES***Due to/from Related Parties*

Related parties include directors and companies controlled by Key Management Personnel (which includes directors and senior management comprising the CEO, CFO, and CSO).

As at March 31, 2022, \$43,375 (December 31, 2021 - \$404,167) is due to Key Management Personnel (as defined above) representing accrued salaries and benefits.

On June 2, 2021, \$318,533 representing loan principal and interest, was repaid to a Director of the Company as outlined in Note 11. No amounts were repaid during the period ended March 31, 2022.

On June 8, 2021, \$244,110 representing loan principal and interest, was converted into 52,945 common shares of the Company and \$250,226 representing loan principal and interest, was converted into 54,271 common shares of the Company as outlined in Note 11. Both loans were from Directors of the Company. No amounts were converted during the period ended March 31, 2022.

On March 9, 2021, \$882,575 of convertible notes held by a Director representing principal and interest as outlined in Note 9 were converted into 122,595 common shares. No amounts were converted during the period ended March 31, 2022.

*Compensation for Key Management Personnel*

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

<b>Compensation, during the period ended</b>	<b>March 31, 2022</b>	<b>March 31, 2021</b>
Salaries and benefits	\$ 320,875	\$ 946,282
Stock-based compensation	397,988	2,467,668
<b>Total</b>	<b>\$ 718,863</b>	<b>\$ 3,413,950</b>

Included in short-term compensation during the three months ended March 31, 2021 was \$696,282 related to a retroactive salary adjustment and deferred compensation bonus to senior management which was paid out subsequent to March 31, 2021.

**21. COMMITMENTS**

As of March 31, 2022, and in the normal course of business, the Company has the following obligations to make future payments, representing contracts and other commitments that are known and committed.

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 - 3 years</b>
Convertible Debt (Note 15)	\$ 9,343,344	\$ -	\$ 9,343,344
Loans Payable (Note 11)	248,231	94,925	153,306
Leases (Note 12)	233,856	87,696	146,160
<b>Total Contractual Obligations</b>	<b>\$ 9,825,431</b>	<b>\$ 182,621</b>	<b>\$ 9,642,810</b>

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**21. COMMITMENTS (continued)**

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 13 – 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 March 31, 2022 due to the uncertainty over whether these milestones will be achieved.

**22. FINANCIAL INSTRUMENTS**

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

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

*Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk, as its cash and cash equivalents and short term investments, being its primary exposure to credit risk, is with a large Canadian bank. The Company's maximum exposure to credit risk is the carrying value of 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 March 31, 2022, the Company had cash and cash equivalents of \$16,880,796 (December 31, 2021 - \$20,892,069) in addition to short term investments of \$9,022,835 (December 31, 2021 - \$9,008,855) and current liabilities of \$1,262,354 (December 31, 2021 - \$2,267,788). Management is currently working on certain strategic alternatives including, but not limited to, financing arrangements. There is no assurance, however, that any or all of these alternatives will materialize or that additional funding will be available, if and when needed.

*Market risk*

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

*Price risk*

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

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**22. FINANCIAL INSTRUMENTS (continued)***Interest rate risk*

Interest rate risk consists of two components; to the extent that payments are made or received on the Company's monetary assets or liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that the prevailing market interest rates differ from the interest rate on the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk. At March 31, 2021, the Company maintains a Convertible Debt facility totaling \$10,000,000 (the "Debt") (see Note 15 – Convertible Debt) as well as having a loan of USD235,000 (the "Loan") (see Note 11 – Loans Payable).

The 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 accrues interest at 5.84%.

As at March 31, 2022, management has determined the effect on the future results of operations due to increased interest expense paid on the Convertible Debt Facility of the Company if the Canadian prime rate were to increase by 1%. An impact of a 1% increase in the Canadian prime rate would increase the amount of interest to be paid over the remaining term of the Convertible Debt facility by approximately \$237,000. There would be no impact with a 1% decrease in the prime rate.

*Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign currency risk due to its frequency of transactions in US dollars. The Company does not use derivatives to hedge against this risk however, it has purchased sufficient US dollars to cover the majority of anticipated costs of the Company's Phase 2 clinical trial. At March 31, 2022, the Company held cash of USD4,014,424 (December 31, 2021 – USD5,179,699) had accounts payable of USD195,844 (December 31, 2021 – USD623,478) and a loan payable of USD198,649 (December 31, 2021 – USD216,994) which were translated to Canadian dollars at 1.2496 (December 31, 2021 – 1.2678). The impact of a 10% change in the exchange rates would have an impact of approximately \$452,000 (December 31, 2021 – \$550,100) on 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.

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, rent and other receivables, 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

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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.

**23. CAPITAL DISCLOSURES**

The Company's principal source of capital is from the issuance of common shares, although other initiatives such as warrants, 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.

**24. INTEREST EXPENSE**

Interest expense is comprised of the following:

	<b>Three months ended March 31, 2022</b>	<b>Three months ended March 31, 2021</b>
Interest on convertible notes payable (Note 9)	\$ -	\$ 136,253
Interest and accretion on loans payable (Note 11)	-	266,868
Interest and accretion on convertible debt (Note 15)	321,191	-
Interest on lease liabilities (Note 12)	6,953	8,792
Interest on amount payable to Auritec Pharmaceuticals Inc. (Note 13)	-	28,515
Other interest and accretion	6,446	11,681
<b>Total</b>	<b>\$ 334,590</b>	<b>\$ 452,109</b>

**25. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The Company paid interest of \$70,018 during the three months ended March 31, 2022 (\$257,419 paid during the three months ended March 31, 2021).

The Company received interest of \$21,325 during the three months ended March 31, 2022 (\$421 received during the three months ended March 31, 2021).

The Company did not have any significant non-cash transactions for the three months ended March 31, 2022.

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**25. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (continued)**

The Company had the following significant non-cash transactions for the three months ended March 31, 2021:

- 1,261,387 common shares were issued at \$7.999 per share on the conversion of convertible notes on March 9, 2021, valued at \$10,089,835.
- 298,798 common shares were issued at \$7.999 per share on the conversion of special warrants on March 9, 2021, valued at \$2,390,085.
- Warrants with a fair value of \$2,255,818 as at March 9, 2021 were reclassified from a financial liability to equity as outlined in Note 10 – Special Warrants.

**26. SUBSEQUENT EVENT**

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 (the "Offering Price") 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 in the capital of the Company (each, a "Common Share") and one common share purchase warrant of the Company (each, a "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 following the closing date of the Offering, being April 20, 2022 (the "Closing Date"). The Warrants will commence trading on the Toronto Stock Exchange under the symbol "EPRX.WT.A."

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 513,208 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 following the Closing Date. An additional \$93,600 in legal and agents' expenses were also paid to the Underwriters. The Company has incurred additional costs associated with the Offering.

The completion of the Offering satisfies the requirement to raise \$10 million in additional net new capital under the terms of our Debt Agreement with Silicon Valley Bank (Note 15 – Convertible Debt).