

**EUPRAXIA PHARMACEUTICALS INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2024 and 2023**

(Expressed in U.S. Dollars)

**EUPRAXIA PHARMACEUTICALS INC.**  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2024 and 2023  
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## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors

Eupraxia Pharmaceuticals Inc:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Eupraxia Pharmaceuticals Inc. (the Company) as of December 31, 2024 and 2023, the related consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows for each of the years then ended, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles.

### *Going Concern*

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and forecasted cash outflows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

Chartered Professional Accountants

We have served as the Company's auditor since 2023.

Vancouver, Canada  
March 20, 2025

**EUPRAXIA PHARMACEUTICALS INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in U.S. Dollars, except share amounts)

	<b>December 31, 2024</b>	<b>December 31, 2023</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 33,101,294	\$ 19,341,756
Prepaid expenses and deposits	1,106,512	270,710
Amounts receivable (Note 4)	228,872	190,612
<b>Total current assets</b>	<b>34,436,678</b>	<b>19,803,078</b>
<b>Non-current assets</b>		
Prepaid expenses	80,761	6,904
Property and equipment, net (Note 5)	357,893	409,587
Right-of-use asset, net (Note 6)	67,023	46,660
<b>Total assets</b>	<b>\$ 34,942,355</b>	<b>\$ 20,266,229</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 3,031,527	\$ 3,921,875
Loans payable – current portion (Note 8)	-	62,709
Lease liability – current portion (Note 9)	71,859	53,316
Payable to Auritec (Note 10)	-	5,000,000
Convertible debt (Note 11)	-	10,336,003
<b>Total liabilities</b>	<b>3,103,386</b>	<b>19,373,903</b>
<b>Shareholders' equity</b>		
Preferred shares, without par value; unlimited shares authorized; issued and outstanding: 8,905,638 (December 31, 2023: nil (Notes 12(c)))	31,705,219	-
Common shares, without par value; unlimited shares authorized; issued and outstanding: 35,641,603 (December 31, 2023 - 27,282,165 (Note 12(b)))	116,360,066	92,913,585
Additional paid-in capital (Notes 12(b), 12(d) and 12(e))	20,503,904	17,510,469
Deficit	(131,003,831)	(105,501,295)
Accumulated other comprehensive loss	(4,160,555)	(2,706,552)
<b>Equity attributable to the owners of the Company</b>	<b>33,404,803</b>	<b>2,216,207</b>
<b>Non-controlling interest</b>	<b>(1,565,834)</b>	<b>(1,323,881)</b>
<b>Total shareholders' equity</b>	<b>31,838,969</b>	<b>892,326</b>
<b>Total liabilities and shareholders' equity</b>	<b>34,942,355</b>	<b>\$ 20,266,229</b>

Nature of business and going concern (Note 1)  
Commitments and Contingencies (Note 17)  
Subsequent event (Note 22)

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

**EUPRAXIA PHARMACEUTICALS INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Expressed in U.S. Dollars, except share amounts)

	<b>Year ended December 31, 2024</b>	<b>Year ended December 31, 2023</b>
<b>Expenses</b>		
General and administrative (Note 13)	\$ 10,924,135	\$ 7,484,105
Research and development (Note 14)	16,079,276	20,363,124
<b>Total expenses</b>	<b>27,003,411</b>	<b>27,847,229</b>
<b>Other income/(expenses)</b>		
Interest income	1,159,943	862,969
Interest expense (Note 20)	(603,573)	(1,170,173)
Gain (loss) on sale of equipment (Note 5)	18,611	(4,846)
Foreign exchange gain (loss)	(159,214)	66,291
Convertible debt costs (Note 11(b))	(355,582)	-
Change in fair value of financial instruments (Note 11(a))	1,200,541	(836,595)
<b>Total other income/(loss)</b>	<b>1,260,726</b>	<b>(1,082,354)</b>
Loss before tax expense	(25,742,685)	(28,929,583)
Tax expense (Note 16)	(1,804)	(36,423)
<b>Net loss for the year</b>	<b>\$ (25,744,489)</b>	<b>\$ (28,966,006)</b>
<b>Loss attributable to:</b>		
Owners of the Company	\$ (25,502,536)	\$ (28,220,796)
Non-controlling interest	(241,953)	(745,210)
	(25,744,489)	(28,966,006)
Foreign currency translation adjustment	(1,454,003)	79,814
<b>Comprehensive loss for the year</b>	<b>\$ (27,198,492)</b>	<b>\$ (28,886,192)</b>
<b>Loss per share – basic and diluted (Owners of the Company (Note 12(g)))</b>	<b>\$ (0.76)</b>	<b>\$ (1.17)</b>
<b>Weighted average shares outstanding – basic and diluted</b>	<b>33,930,575</b>	<b>24,146,623</b>

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

**EUPRAXIA PHARMACEUTICALS INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in U.S. Dollars, except share amounts)

	Preferred shares	Amount	Common shares	Amount	Additional paid-in capital	Deficit	Accumulated other comprehensiv e loss	Non- controlling interest	Total- Shareholders' Equity
<b>Balance, December 31, 2022</b>	-	-	21,593,145	71,003,225	16,850,165	(77,280,499)	(2,786,366)	(578,671)	7,207,854
Non-brokered private placement, net of transaction costs (Note 12(b)(iii))	-	-	3,282,936	15,886,537	-	-	-	-	15,886,537
Share-based payments (Note 12(d))	-	-	-	-	1,412,257	-	-	-	1,412,257
Redemption of warrants (Notes 12(b)(i) and 12(e))	-	-	2,385,484	5,974,988	(733,177)	-	-	-	5,241,811
Redemption of options (Notes 12(b)(ii) and 12(d))	-	-	20,600	48,835	(18,776)	-	-	-	30,059
Net loss for the year	-	-	-	-	-	(28,220,796)	-	(745,210)	(28,966,006)
Foreign currency translation adjustment	-	-	-	-	-	-	79,814	-	79,814
<b>Balance, December 31, 2023</b>	-	\$ -	27,282,165	\$ 92,913,585	\$ 17,510,469	\$(105,501,295)	\$ (2,706,552)	\$(1,323,881)	\$ 892,326

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

**EUPRAXIA PHARMACEUTICALS INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in U.S. Dollars, except share amounts)

	Preferred shares	Amount	Common shares	Amount	Additional paid-in capital	Deficit	Accumulated other comprehensive loss	Non- controlling interest	Total- Shareholders' Equity
<b>Balance, December 31, 2023</b>	-	-	27,282,165	\$ 92,913,585	\$17,510,469	\$(105,501,295)	\$(2,706,552)	\$(1,323,881)	\$ 892,326
Overnight marketed offering, net of transaction costs (Note 12(b)(vi))	-	-	8,260,435	22,853,391	-	-	-	-	22,853,391
Non-brokered private placement, net of transaction costs (Note 12(c))	8,905,638	31,705,219	-	-	-	-	-	-	31,705,219
Share-based payments (Note 12(d))	-	-	-	-	3,223,464	-	-	-	3,223,464
Redemption of warrants (Notes 12(b)(iv) and 12(e))	-	-	80,243	551,941	(214,125)	-	-	-	337,816
Redemption of options (Notes 12(b)(v) and 12(d))	-	-	18,760	41,149	(15,904)	-	-	-	25,245
Net loss for the year	-	-	-	-	-	(25,502,536)	-	(241,953)	(25,744,489)
Foreign currency translation adjustment	-	-	-	-	-	-	(1,454,003)	-	(1,454,003)
<b>Balance, December 31, 2024</b>	8,905,638	\$31,705,219	35,641,603	\$116,360,066	\$ 20,503,904	\$(131,003,831)	\$(4,160,555)	\$(1,565,834)	\$31,838,969

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

**EUPRAXIA PHARMACEUTICALS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in U.S. Dollars)

	<b>Year ended December 31, 2024</b>	<b>Year ended December 31, 2023</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (25,744,489)	\$ (28,966,006)
<b>Items not affecting cash</b>		
Accrued interest on convertible debt (Note 11(a))	241,597	571,603
Depreciation (Note 5 and 6)	171,719	155,527
Interest – lease liability	6,711	14,401
Loss (gain) on sale of equipment	(18,611)	4,846
Share-based payments (Note 13(c))	3,223,464	1,412,257
Change in fair value of financial instruments (Note 11(a))	(1,200,541)	836,595
Lease payments (Note 9)	(65,739)	(64,996)
Unrealized foreign exchange	156,087	(64,609)
<b>Changes in operating assets and liabilities</b>		
Accounts payable and accrued liabilities	(714,878)	577,908
Payable to Auritec (Note 10)	(5,000,000)	5,000,000
Prepaid expenses	(948,422)	(122,435)
Amounts receivable	(101,389)	(103,710)
<b>Cash used in operating activities</b>	<b>(29,994,491)</b>	<b>(20,748,619)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of equipment	(104,227)	(73,377)
Proceeds from sale of equipment (Note 5)	29,068	-
<b>Cash used in investing activities</b>	<b>(75,159)</b>	<b>(73,377)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Non-brokered private placement (net of transaction costs) (Note 12(b)(iii))	-	15,886,537
Overnight marketed public offering (net of transaction costs) (Note 12(b)(i) and (vi))	22,853,391	-
Non-brokered private placement (net of transaction costs) (Note 12(c))	31,705,219	-
Redemption of warrants (Note 12(e))	337,816	5,241,811
Redemption of options (Note 12(d))	25,245	30,059
Repayment of loans (Note 8)	(62,651)	(79,441)
Repayment of convertible debt (Note 11(a))	(9,074,813)	-
<b>Cash provided by financing activities</b>	<b>45,784,207</b>	<b>21,078,966</b>
<b>Increase in cash</b>	<b>15,714,557</b>	<b>256,970</b>
<b>Foreign exchange effect on cash</b>	<b>(1,955,019)</b>	<b>821,397</b>
<b>Cash, beginning of year</b>	<b>19,341,756</b>	<b>18,263,389</b>
<b>Cash, end of year</b>	<b>\$ 33,101,294</b>	<b>\$ 19,341,756</b>

Supplemental disclosure with respect to cash flows (Note 21)

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

**EUPRAXIA PHARMACEUTICALS INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2024 and 2023  
(Expressed in U.S. Dollars, except share amounts)

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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 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”. On April 5, 2024, the Company began trading on the Nasdaq Capital Market under the symbol “EPRX”.

The Company is a clinical stage biotechnology company leveraging its proprietary Diffusphere™ technology to optimize drug delivery for applications with significant unmet medical need. The address of the Company’s corporate office and principal place of business is 201-2067 Cadboro Bay Road, Victoria, British Columbia, Canada.

These consolidated financial statements have been prepared on a going concern basis with the assumption that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. At December 31, 2024, the Company had cash of \$33,101,294. The Company has not yet generated revenue from operations. The Company incurred a net loss of \$25,744,489 during the year ended December 31, 2024, and as of that date, the Company’s accumulated deficit was \$131,003,831. 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.

The Company will periodically have to raise funds to continue operations and raised net proceeds of \$22,853,391 through an overnight marketed public offering of 8,260,435 Common Shares in March 2024, and a further \$31,705,219 through a non-brokered private placement of 8,905,638 Series 1 Preferred Shares on October 31, 2024. 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 geopolitical uncertainty affecting the global capital markets. 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.

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 may cast substantial doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

## **2. BASIS OF PRESENTATION**

These consolidated financial statements are presented in U.S. dollars and have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”). These consolidated financial statements include the accounts of the Company and the accounts of its subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

The financial information for all prior periods is presented in U.S. dollars as if the U.S. dollar had been used as the reporting currency during those periods.

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the years ended December 31, 2024 and 2023.

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

### **Basis of Measurement**

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value. The consolidated financial statements are presented in U.S. dollars, which is the Company’s reporting currency. The Company’s functional currency is the Canadian dollar.

The preparation of consolidated financial statements in accordance with U.S. GAAP requires the Company to make estimates and judgments in certain circumstances that affect the reported amounts of assets, liabilities, expenses, and related disclosure. On an ongoing basis, the Company evaluates its estimates, most notably those related to accrual of expenses including clinical and preclinical study expense accruals, stock-based compensation, valuation allowance for deferred taxes, and fair value measurement of convertible debt. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from these estimates.

### **Consolidation**

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

**EUPRAXIA PHARMACEUTICALS INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2024 and 2023  
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Consolidation (continued)**

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 12(f))</b>
Eupraxia Holdings, Inc.	October 10, 2012	Delaware, USA	95%
Eupraxia Pharmaceuticals USA, LLC	October 10, 2012	Delaware, USA	95%
AMDM Holdings Inc. <sup>(1)</sup>	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% <sup>(2)</sup>
Eupraxia Pharma USA Inc.	May 17, 2023	Delaware, USA	100% <sup>(2)</sup>

(1) Date of Control occurred on January 31, 2021 (see Note 12(f))

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

**Earnings (Loss) per Share**

Basic net income (loss) per common share is calculated based on the net income (loss) that is considered attributable to common shareholders, including considering the impact of the 8,905,638 Preferred Shares as a separate class for the year ended December 31, 2024 (2023 – nil). As the preferred shares entitle holders to dividends after a three year period and are considered Increasing Rate Preferred Stock (as per ASC 505-10-S99-7), implied dividends are deducted from the amounts allocated to common shareholders in the consideration of the net income (loss) available for basic net income (loss) per share.

The Company applies the "Treasury Stock Method" to calculate loss per common share. Under this method, the basic earnings (loss) per share is calculated based on the weighted average aggregate number of common shares outstanding during each period. The diluted earnings (loss) per share assumes that the outstanding stock options and share purchase warrants had been exercised at the beginning of the period, or date of issuance if issued during the period, and proceeds from dilutive instruments are used to purchase common shares at the average market price during the period.

The if-converted method is used to compute the dilutive effect of the Company's convertible preferred shares. Under the if-converted method, dividends on the preferred shares, if applicable, are added back to earnings attributable to common shareholders, and the preferred shares and paid-in kind dividends are assumed to have been converted at the share price applicable at the end of the period. The if-converted method is applied only if the effect is dilutive.

Since the Company was in a loss position for the years ended December 31, 2024 and 2023, the assumed exercise of the outstanding share purchase warrants and options, and conversion of the convertible preferred shares has an anti-dilutive impact, therefore the diluted loss per share is equal to basic loss per share.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Equipment**

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

Computers	45% declining balance
Office furniture and equipment	20% declining balance
Leasehold improvements	straight-line over the shorter of the initial term of the lease or useful life
Lab equipment	20% declining balance

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

#### **Research and Development Expenditures**

Research and development costs are expensed as they are incurred. These costs consist primarily of salaries and wages related to research and development activities, including share-based payments for employees engaged in research and development, clinical trial expenses and other research costs.

#### **Investment Tax Credits**

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

#### **Government Grants**

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

#### **Government Assistance**

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

#### **Income Taxes**

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

Deferred tax is recorded using the asset and liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for if they relate to goodwill not deductible for tax purposes, or differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted at the reporting date and expected to apply when these differences reverse. A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized.

The Company uses a two-step process to recognize and measure the income tax benefit of uncertain tax positions taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is recognized if it is more likely than not that the position will be sustained upon examination of the tax authority based solely on the technical merits of the position. A tax benefit that meets the more likely than not recognition threshold is measured as the largest amount that is greater than

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Income Taxes (continued)**

50% likely to realized upon settlement with the tax authority. To the extent a full benefit is not expected to be realized, an income tax liability is established. Any change in judgement related to the expected resolution of an uncertain tax provision is recognized in the year of such a change. Interest and penalties related to income tax are included as a component of income tax expense.

#### **Convertible Instruments**

##### **a) Convertible Preferred Shares:**

Accounting for convertible or redeemable equity instruments in the Company's own equity requires an evaluation of the hybrid security to determine if liability classification is required under ASC 480-10. Liability classification is required for freestanding financial instruments that are: (1) subject to an unconditional obligation requiring the issuer to redeem the instrument by transferring assets, (2) instruments other than equity shares that embody an obligation of the issuer to repurchase its equity shares, or (3) certain types of instruments that obligate the issuer to issue a variable number of equity shares. Securities that do not meet the scoping criteria to be classified as a liability under ASC 480 are subject to redeemable equity guidance to determine classification, which prescribes that securities which may be subject to redemption are classified based upon whether an event is within the control of the issuer (permanent equity classification) or not within the control of the issuer (temporary equity classification).

Under ASC 505-10-S99-7, Increasing Rate Preferred Stock, an entity must recognize dividends on discounted preferred stock in which stated dividend rates increase over time (whether there is a conversion feature or not) even if the holder converts a preferred stock instrument in the issuer's common shares before the stated dividend rate increases since the issuer does not have the ability to require the instrument to be converted into common shares. In the instance that the preferred stock is not issued at a discount, the impact of such a feature is limited to the amounts allocable to common shareholders in calculating earnings per share.

##### **b) Convertible Debt:**

The Company accounts for convertible debt that does not meet the criteria for equity treatment in accordance with the guidance contained in ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. For derivative financial instruments that are accounted for as assets or liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations.

#### **Share-Based Payments**

The Company grants stock options to employees, directors and officers pursuant to stock option plans described in note 13c. Employee stock-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense, net of actual forfeitures, over the requisite service period with a corresponding increase in additional paid-in capital. Stock-based compensation expense is amortized on a straight-line basis over the requisite service period for the entire award, which is generally the vesting period of the award. Any consideration received on exercise of stock options is credited to share capital.

#### **Share Capital and Warrants**

The Company records proceeds from share issuances net of issue costs and any related tax effects. Common shares issued for consideration other than cash are valued based on their market value at the date the agreement to issue shares was concluded. When units are issued during a private placement, which include both common shares and share purchase warrants, the proceeds are allocated based on the relative fair values of the base instrument and the warrants. Any value of the warrants is allocated to the warrants and credited to additional paid-in capital.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Foreign Currency Translation**

The functional currency for each of the Company and the Company's subsidiaries is the currency of the primary economic environment in which each entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. The functional currency of Eupraxia Pharmaceuticals Inc., the parent entity, and each of the Company's subsidiaries is the Canadian dollar.

Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the period end date exchange rates with exchange gains or losses recorded in profit or loss.

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

The reporting currency of the Company's consolidated financial statements is the U.S. dollar. All assets and liabilities are translated from the functional currency to the reporting currency using the spot rate at the period end date, equity components are translated at the historical rate, and income and expenses are translated using the average exchange rate for the period. All foreign currency differences arising on translation from functional to reporting currency are included in accumulated other comprehensive loss.

#### **Impairment of Long-Lived Assets**

The Company assesses the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset or group of assets. If carrying value exceeds the sum of undiscounted cash flows, the Company then determines the fair value of the underlying asset. Any impairment to be recognized is measured by the amount by which the carrying amount of the asset group exceeds the estimated fair value of the asset or asset group. As of December 31, 2024 and 2023, the Company determined that there were no indicators of impairment of long-lived assets.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, bank deposits, and highly liquid investments with original maturities of three months or less from the date of purchase that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash equivalents are recorded at cost plus accrued interest.

#### **Financial Instruments and Fair Value**

The Company measures certain financial instruments and other items at fair value into a three-level hierarchy established by US GAAP that prioritizes those inputs to valuation techniques used to measure fair value on the degree to which they are observable. This hierarchy includes:

- i. Level 1 – Unadjusted quoted prices in active markets for identical instruments.
- ii. Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the financial instrument, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- iii. Inputs are unobservable and reflect the Company's assumptions as to what market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments and Fair Value (continued)**

Assets and liabilities are classified on the lowest level of input that is significant to the fair value measurements. Reclassification of the level may be a result of changes in the observability of the valuation inputs for certain instruments within the fair value hierarchy. The carrying value of amounts receivable, accounts payable, and accrued liabilities approximate fair value due to the short-term nature of these instruments. On a recurring basis, the Company's cash and cash equivalents and marketable securities are measured at fair value.

**Leases**

Leases classified as operating leases are recorded as lease liabilities based on the present value of minimum lease payments over the lease term, discounted using the lessor's rate implicit in the lease or the Company's incremental borrowing rate, if the lessor's implicit rate is not readily determinable. The lease term includes all periods covered by renewal and termination options where the Company is reasonably certain to exercise the renewal options or not to exercise the termination options. Corresponding right-of-use assets are recognized consisting of the lease liabilities, initial direct costs and any lease incentive payments. Lease liabilities are drawn down as lease payments are made and right-of-use assets are depreciated over the term of the lease. Operating lease expenses are recognized on a straight-line basis over the term of the lease, consisting of interest accrued on the lease liability and depreciation of the right-of-use asset, adjusted for changes in index-based variable lease payments in the period of change. Lease payments on short-term operating leases with lease terms twelve months or less are expensed on a straight-line basis over the lease term.

**Segment Reporting**

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker ("CODM"), in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one operating segment focusing on creating product candidates designed optimize drug delivery for applications with significant unmet medical needs.

**Recently Adopted Accounting Pronouncements**

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which enhances the disclosures required for operating segments on an interim and annual basis. The Company adopted this ASU in the fourth quarter of 2024 retrospectively to all prior periods presented in the consolidated financial statements.

**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, 2025 or later periods. The new and amended standards are not expected to have a material impact on the Company's consolidated financial statements.

**4. AMOUNTS RECEIVABLE**

	<b>December 31, 2024</b>	<b>December 31, 2023</b>
GST/HST recoverable	\$ 82,097	\$ 85,879
Other refundable tax credits <sup>(1)</sup>	146,775	104,733
<b>Total</b>	<b>\$ 228,872</b>	<b>\$ 190,612</b>

(1) Other refundable tax credits represent tax incentives for R&D costs incurred by Eupraxia Australia (Note 15 – Research and Development Expenses).

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**5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	<b>Computers</b>	<b>Office furniture and equipment</b>	<b>Leasehold Improvements</b>	<b>Lab Equipment</b>	<b>Total</b>
<b><u>Cost</u></b>					
<b>As at January 1, 2023</b>	<b>\$ 70,578</b>	<b>\$ 66,399</b>	<b>\$ 125,744</b>	<b>\$ 473,553</b>	<b>\$ 736,274</b>
Additions	18,534	-	-	54,843	73,377
Disposals	(5,488)	-	-	(16,124)	(21,612)
Foreign currency adjustments	2,001	1,597	3,023	12,992	19,613
<b>As at December 31, 2023</b>	<b>85,625</b>	<b>67,996</b>	<b>128,767</b>	<b>525,264</b>	<b>807,652</b>
Additions	13,953	5,701	-	104,819	124,473
Disposals	(13,219)	(7,890)	-	(15,473)	(36,582)
Foreign currency adjustments	(7,122)	(5,438)	(10,408)	(54,992)	(77,960)
<b>As at December 31, 2024</b>	<b>79,237</b>	<b>60,369</b>	<b>118,359</b>	<b>559,618</b>	<b>817,583</b>
<b><u>Accumulated Depreciation</u></b>					
<b>As at January 1, 2023</b>	<b>42,505</b>	<b>44,026</b>	<b>99,301</b>	<b>106,978</b>	<b>292,810</b>
Depreciation	17,612	4,492	13,849	76,930	112,883
Disposals	(5,162)	-	-	(11,604)	(16,766)
Foreign currency adjustments	1,226	1,149	2,666	4,097	9,138
<b>As at December 31, 2023</b>	<b>56,181</b>	<b>49,667</b>	<b>115,816</b>	<b>176,401</b>	<b>398,065</b>
Depreciation	12,668	6,349	8,148	86,867	114,032
Disposals	(7,774)	(5,698)	-	(12,653)	(26,125)
Foreign currency adjustments	(4,895)	(4,058)	(9,787)	(7,542)	(26,282)
<b>As at December 31, 2024</b>	<b>56,180</b>	<b>46,260</b>	<b>114,177</b>	<b>243,073</b>	<b>459,690</b>
<b><u>Net Book Value</u></b>					
<b>As at December 31, 2023</b>	<b>\$ 29,444</b>	<b>\$ 18,329</b>	<b>\$ 12,951</b>	<b>\$ 348,863</b>	<b>\$ 409,587</b>
<b>As at December 31, 2024</b>	<b>\$ 23,057</b>	<b>\$ 14,109</b>	<b>\$ 4,182</b>	<b>\$ 316,545</b>	<b>\$ 357,893</b>

During the year ended December 31, 2024 and 2023, depreciation expense of \$114,032 and \$112,883, respectively, was recognized with \$9,716 included in general and administrative and \$104,316 included in research and development (\$13,277 and \$99,606 for general and administrative, and research and development in 2023, respectively).

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**6. RIGHT-OF-USE ASSET**

On May 13, 2024, the Company extended the lease of its office space until November 30, 2025. The lease extension increased the right-of-use asset by \$78,580. The following table presents details of movement in the carrying value of the right-of-use asset:

	<b>December 31, 2024</b>	<b>December 31, 2023</b>
<b>Balance, beginning</b>	\$ 46,660	\$ 87,286
Depreciation	(57,687)	(42,644)
Lease extension	78,580	-
Foreign exchange	(530)	2,018
<b>Balance, ending</b>	<b>\$ 67,023</b>	<b>\$ 46,660</b>

During the year ended December 31, 2024 and 2023, depreciation expense of \$57,687 and \$42,644, respectively, was recognized with \$20,708 included in general and administrative and \$36,979 included in research and development (\$15,740 and \$26,904 for general and administrative, and research and development in 2023, respectively).

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>December 31, 2024</b>	<b>December 31, 2023</b>
Research and development	\$ 573,465	\$ 1,968,263
General and administrative	943,376	1,040,204
Wages and payroll remittances	20,705	18,357
Employee bonus payable	1,493,981	858,628
Taxes payable	-	36,423
<b>Total</b>	<b>\$ 3,031,527</b>	<b>\$ 3,921,875</b>

**8. LOANS PAYABLE**

On September 10, 2021, the Company entered into a Master Loan and Security Agreement (“Loan Agreement”) whereby the Company borrowed \$235,000 to purchase production and test equipment (see Note 5 – Property and Equipment).

The Loan Agreement had a term of 36 months commencing September 13, 2021. The Loan Agreement accrued 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. The loan was repaid on September 19, 2024 with the first priority interest being removed.

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**8. LOANS PAYABLE (continued)**

Below is a breakdown of loan balance as at December 31, 2024 and December 31, 2023:

	<b>December 31, 2024</b>	<b>December 31, 2023</b>
<b>Balance, beginning</b>	\$ 62,709	\$ 142,127
Loan repayment	(62,651)	(79,441)
Foreign exchange adjustment	(58)	23
<b>Balance, ending</b>	<b>\$ -</b>	<b>\$ 62,709</b>
<b>Current portion</b>	<b>\$ -</b>	<b>\$ 62,709</b>
<b>Non-current portion</b>	<b>\$ -</b>	<b>\$ -</b>

**9. LEASE LIABILITY**

The Company entered into an operating lease agreement for its Victoria, BC facility (of approximately 4,900 square feet of office space). The Company signed an extension agreement on May 13, 2024 to extend the term of the lease by 12 months, expiring November 30, 2025.

The cost components of the operating lease were as follows for the years ended December 31, 2024 and 2023:

	<b>December 31, 2024</b>	<b>December 31, 2023</b>
<b>Lease Cost</b>		
Operating lease expense	\$ 65,739	\$ 64,996
Variable lease expense	71,147	68,584
<b>Lease term and Discount Rate</b>		
Weighted average remaining lease term (years)	0.92	0.92
Weighted average discount rate	9.02%	14.00%

Variable lease costs are payments that vary because of changes in facts or circumstances and include common area maintenance and property taxes related to the premises. Variable lease costs are excluded from the calculation of minimum lease payments.

The Company's future minimum lease payments as of December 31, 2024 are as follows:

<b>Year ending December 31:</b>	
2025	74,490
<b>Total undiscounted future minimum lease payments</b>	<b>\$ 74,490</b>
Less: imputed interest	(2,631)
<b>Present value of lease liabilities at December 31, 2024</b>	<b>\$ 71,859</b>

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**9. LEASE LIABILITY (continued)**

The lease liability balance is comprised as follows:

	<b>December 31, 2024</b>	<b>December 31, 2023</b>
<b>Current portion</b>	\$ 71,859	\$ 53,316
<b>Non-current portion</b>	-	-
	<b>\$ 71,859</b>	<b>\$ 53,316</b>

During the year ended December 31, 2024, the Company subleased approximately 616 square feet office space with amounts totaling \$24,436 (\$24,387 – year ended December 31, 2023) being recorded as a reduction to general and administrative expenses.

During the year ended December 31, 2024, Management identified that lease payments should be presented within cash flows from operating activities as opposed to cash flows from financing activities in the consolidated statements of cash flows. As such, Management changed the presentation for the current and comparative periods to conform to the requirements under U.S. GAAP with lease payments of \$65,739 for the year ended December 31, 2024 (\$64,996 for the year ended December 31, 2023) being presented within cash flows from operating activities as opposed to cash flows from financing activities.

**10. AURITEC LICENSE AGREEMENT**

Eupraxia Pharmaceuticals USA LLC (“Eupraxia LLC”) 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 LLC 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 LLC has paid \$5,000,000 to Auritec (the “Upfront Fee”). In addition, Eupraxia LLC has agreed to pay Auritec up to \$30,000,000 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 LLC or its affiliates, subject to certain reductions.

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**10. AURITEC LICENSE AGREEMENT (continued)**

The following table summarizes the remaining milestone payment schedule. During the year ended December 31, 2024, the Company paid \$5,000,000 to Auritec upon successful completion of the Phase 2b study.

<b>Milestone Event</b>	<b>Milestone Payment</b>
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 \$500,000,000	5,000,000
<b>Maximum amount payable</b>	<b>\$25,000,000</b>

Eupraxia LLC also agreed to pay to Auritec 20% of sublicensing royalties or other consideration based on net sales of Licensed Products. Eupraxia LLC 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 LLC 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 \$100,000,000. The following table summarizes the Non-Royalty Monetization Revenue percentage schedule:

<b>Date of Execution</b>	<b>Percentage of Non-Royalty Monetization Revenue</b>
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%

Either party may terminate the Amended and Restated License Agreement in the event of the other party's bankruptcy, liquidation, or dissolution. Auritec may also terminate upon a material breach of the Amended and Restated License Agreement by Eupraxia LLC that is not cured within 60 days (15 days in the case of a payment breach). Further, if Eupraxia LLC directly or indirectly challenges any claim in any Auritec patent licensed under the Amended and Restated License Agreement, or assist a third party in doing so, Auritec may immediately terminate the Amended and Restated License Agreement. If Auritec directly or indirectly challenges any Eupraxia patent contemplated in the Amended and Restated License Agreement other than as reasonably required to defend Auritec patents as a basis for such challenge, or assists a third party in doing so, Eupraxia LLC may immediately terminate the Amended and Restated License Agreement.

## 11. CONVERTIBLE DEBT

### a) Silicon Valley Bank

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

The Debt Agreement had a term of 36 months (or 48 months at SVB’s election) and accrued interest at the greater of 2.45% and the Canadian prime rate, requiring monthly interest payments. An additional payment in kind accrued interest at a rate of 7% per annum, which was partially settled at maturity. During the year ended December 31, 2024, the Canadian prime rate ranged from 5.45% - 7.20%. During the year ended December 31, 2023, the Canadian prime rate ranged from 6.45% - 7.20%.

On June 21, 2024, the loan under the Debt Agreement matured and a portion of the balance of \$4,494,795 (CDN\$6,161,016) was paid to SVB representing principal and interest. On September 11, 2024, the remaining balance of \$4,580,018 (CDN\$6,204,092) was paid to SVB representing the remaining principal and interest. This payment extinguished the liability the Company had with SVB. The convertible debt balance is comprised of the following:

<b>Balance - December 31, 2022</b>	<b>\$</b>	<b>8,741,996</b>
Accrued interest		1,162,773
Interest paid		(591,170)
Change in fair value		836,595
Foreign exchange		185,809
<b>Balance - December 31, 2023</b>	<b>\$</b>	<b>10,336,003</b>
Accrued interest		601,637
Interest paid		(360,040)
Change in fair value		(1,200,541)
Loan repayment		(9,074,813)
Foreign exchange		(302,246)
<b>Balance - December 31, 2024</b>	<b>\$</b>	<b>-</b>

### b) Yabema Capital Limited

On August 1, 2024, the Company entered into a new CDN\$12 million convertible debt facility (the “Convertible Debt Facility”). Under the Convertible Debt Facility, Yabema Capital Limited and other current Eupraxia shareholders (together, the “Lenders”) made available for drawdown an aggregate amount of CDN\$12 million for a period of 120 days following entry into the agreement. The Convertible Debt Facility was to mature 24 months from August 1, 2024 (the closing date) and could be extended for an additional 12 months at the Lenders’ option. The decision to draw on the facility within 120 days of closing was at the discretion of Eupraxia and was subject to the full and final release of the Debt Agreement.

The aggregate unpaid principal amount and any accrued and unpaid interest thereon would be convertible at the discretion of the lenders into Eupraxia common shares at a conversion price equal to CDN\$4.84375 per common share.

The Company granted the Lenders a security interest in all of its assets, excluding its patents and other intellectual property. As a result of the closing of the Convertible Preferred Share Offering, on October 31, 2024 (see Note 12 – Convertible Preferred Shares), the Company entered into a Termination and Release Agreement with the Lenders to terminate the Convertible Debt Facility and discharge all security interests (the “Termination Agreement”).

## **11. CONVERTIBLE DEBT (continued)**

### b) Yabema Capital Limited (continued)

Commitment fees of \$355,582 (CDN\$480,000) have been included in the Consolidated Statement of Operations and Comprehensive Loss.

## **12. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY**

- 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.

b) Issued (Common Shares)

Capital transactions which took place during the year ended December 31, 2023 are as follows:

- i) During the year ended December 31, 2023, 2,385,484 common shares were issued on the exercise of warrants for gross proceeds of \$5,241,811. The weighted average share price during the period in which these warrants were exercised was CDN\$7.15. On exercise, \$733,177 was transferred from additional paid-in capital to share capital.
- ii) During the year ended December 31, 2023, 20,600 common shares were issued on the exercise of options for gross proceeds of \$30,059. The weighted average share price during the period in which these options were exercised was CDN\$2.00. On exercise, \$18,776 was transferred from additional paid-in capital to share capital.
- iii) On August 18, 2023, the Company closed a non-brokered private placement (the "Private Placement"). Pursuant to the Private Placement, the Company issued 3,183,875 common shares at a price of CDN\$7.00 per Common share for aggregate gross proceeds of \$16,445,635. The Company incurred cash costs of issuing shares of \$559,098. In addition, the Company issued 99,061 common shares as finder's fees which were valued at \$511,681.

Capital transactions (Common shares) which took place during the year ended December 31, 2024, are as follows:

- iv) During the year ended December 31, 2024, 80,243 common shares were issued on the exercise of warrants for gross proceeds of \$337,816. The weighted average share price during the period in which these warrants were exercised was CDN\$5.50. On exercise, \$214,125 was transferred from additional paid-in capital to share capital.
- v) During the year ended December 31, 2024, 18,760 common shares were issued on the exercise of options for gross proceeds of \$25,245. The weighted average share price during the period in which these options were exercised was CDN\$4.71. On exercise, \$15,904 was transferred from additional paid-in capital to share capital.
- vi) On March 15, 2024, the Company closed an overnight marketed public offering (the "Offering"). Pursuant to the Offering, the Company issued 8,260,435 common shares at a price of CDN\$4.10 for aggregate gross proceeds of \$25,026,073, which includes the issuance of 943,435 Shares upon exercise of the over-allotment option.

As consideration for the services rendered by the Underwriter in connection with the Offering, the Company paid the Underwriters a cash commission of \$1,501,564 which is equal to 6% of the gross proceeds raised under the Offering. An additional \$309,652 in legal and agents' expenses were also paid to the Underwriters. The Company incurred an additional \$361,466 in share issuance costs associated with the Offering.

## **12. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY (continued)**

### c) Issued (Preferred Shares)

On October 31, 2024, the Company issued convertible preferred shares in a non-brokered private placement. Pursuant to the Convertible Preferred Share Offering, the Company issued 8,905,638 convertible preferred shares ("Preferred Shares") at a price of CDN\$5.00 for aggregate gross proceeds of \$31,997,837 (CDN\$44,528,190).

The Company paid \$242,116 (CDN\$336,928) in legal expenses and an additional \$50,502 (\$70,279) in listing fees were paid in association with the Preferred Share Offering. Each Preferred Share is convertible at the option of the holder at any time into one common share without additional consideration.

The Preferred Shares would also mandatorily convert into common shares on a one-to-one basis, without additional consideration, upon the earliest of: (i) the common shares of the Company trade at a price of \$15.00 per common share on the Toronto Stock Exchange or the Nasdaq Stock Market LLC based on an average daily trading volume of at least 50,000 common shares during the rolling six-month period, or (ii) the holders of the Preferred Shares representing 75% of the outstanding Preferred Shares vote or consent to convert all outstanding Preferred Shares, in the event a liquidating event such as an amalgamation, arrangement, merger, reorganization or similar transaction occurs, provided that the conversion ratio will not be adjusted unless the Company receives all necessary TSX and shareholder approvals.

The Preferred Shares have a redemption feature that is subject to the occurrence of certain events, all of which are in the control of the Company. Accordingly, the Preferred Shares are classified as permanent equity.

The Preferred Shares will not initially be entitled to any dividends. Following the third anniversary of closing of the Private Placement, and subject to shareholder approval, any unconverted Preferred Shares will be entitled to a quarterly dividend equal to 1.5% (6% annually) of the original issue price, payable in additional Preferred Shares (the "PIK Preferred Shares"). If shareholder approval for the PIK Preferred Shares is not obtained by the third anniversary of closing, the quarterly dividends will be paid in cash at a rate of 2% (8% annually). No dividends will be payable on Common Shares while any Preferred Shares remain issued and outstanding. The Preferred Shares were not issued at a discount, so the impact of this feature is limited to the amounts allocable to common shareholders in calculating earnings per share.

### d) 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.

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**12. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY (continued)**

d) Options (continued)

The following table summarizes the Company's option transactions:

	Number of options	Weighted average exercise price (CDN\$)
<b>Outstanding, December 31, 2022</b>	<b>3,306,450</b>	<b>6.18</b>
Exercised	(20,600)	2.00
Cancelled	(24,800)	3.73
Granted	257,200	6.91
<b>Outstanding, December 31, 2023</b>	<b>3,518,250</b>	<b>6.27</b>
Exercised	(18,760)	1.90
Cancelled	(220,500)	5.15
Granted	2,028,880	4.10
<b>Outstanding, December 31, 2024</b>	<b>5,307,870</b>	<b>\$ 5.50</b>

Grant Date	Options Outstanding	Options Exercisable	Exercise Price (CDN\$)	Expiry Date	Remaining Contractual Life (years)
Sep 27, 2015	181,250	181,250	\$8.00	Mar 31, 2025	0.25
Nov 2, 2015	95,000	95,000	\$8.00	Nov 2, 2025	0.85
Mar 5, 2018	446,000	446,000	\$8.00	Mar 5, 2028	3.18
Mar 9, 2021	736,950	736,950	\$8.00	Mar 9, 2031	6.20
Mar 9, 2021	326,800	326,800	\$8.00	Mar 9, 2031	6.20
May 3, 2021	257,000	257,000	\$8.00	May 3, 2031	6.35
Dec 9, 2021	60,000	60,000	\$2.02	Dec 9, 2031	6.95
Mar 31, 2022	359,490	266,115	\$1.90	Mar 31, 2032	7.26
Dec 9, 2022	734,300	574,475	\$3.85	Dec 9, 2032	7.95
May 18, 2023	180,000	90,000	\$6.84	May 18, 2033	8.39
May 30, 2023	17,200	8,600	\$6.75	May 30, 2033	8.42
Sep 27, 2023	60,000	30,000	\$7.16	Sep 27, 2033	8.75
May 13, 2024	1,456,880	576,720	\$3.96	May 13, 2034	9.62
May 28, 2024	50,000	25,000	\$3.82	May 28, 2034	9.66
August 9, 2024	82,000	25,500	\$3.48	Aug 9, 2034	9.86
November 25, 2024	350,000	175,000	\$4.91	November 25, 2034	9.91
December 10, 2024	90,000	90,000	\$4.66	December 10, 2034	9.95
	<b>5,307,870</b>	<b>3,964,410</b>	<b>\$5.52</b>		<b>7.22</b>

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**12. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY (continued)**

d) Options (continued)

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:

<b>Options granted during the year ended</b>	<b>December 31, 2024</b>	<b>December 31, 2023</b>
Expected dividend yield	0.00%	0.00%
Expected forfeiture rate	0.00%	0.00%
Weighted average annual volatility	78.00%	79.60%
Weighted average risk-free interest rate	3.58%	3.54%
Weighted average expected option life	5.57 years	5.75 years
Weighted average share price (CDN\$)	\$4.13	\$6.91
Weighted average exercise price (CDN\$)	\$4.13	\$6.91
Weighted average fair value of options granted (CDN\$)	\$2.62	\$4.78

Share-based payments for the year ended December 31, 2024, were \$3,223,464 (2023 - \$1,412,257) (See Note 13 – General & Administrative Expenses and Note 14 – Research & Development Expenses for breakdown by function).

As of December 31, 2024, the unrecognized stock-based compensation expense related to the non-vested stock options was \$1,291,570, which is expected to be recognized over a weighted-average period of 2.12 years.

e) Warrants

The following table summarizes the Company's warrant transactions:

	<b>Number of warrants</b>	<b>Weighted average exercise price (CDN\$)</b>
<b>Outstanding December 31, 2022</b>	<b>11,504,814</b>	<b>\$ 4.95</b>
Exercised	(2,385,484)	2.90
<b>Outstanding December 31, 2023</b>	<b>9,119,330</b>	<b>\$ 5.49</b>
Exercised	(80,243)	5.61
Expired	(231,110)	5.88
<b>Outstanding December 31, 2024</b>	<b>8,807,977</b>	<b>\$ 5.48</b>

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**12. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY (continued)**

e) Warrants (continued)

As at December 31, 2024, the following warrants were outstanding:

<b>Expiry date</b>	<b>Exercise price (CDN\$)</b>	<b>Remaining contractual life (years)</b>	<b>Warrants outstanding and exercisable</b>
120 days after holder 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 <sup>(1)</sup>	0.4984	N/A	315,500
March 9, 2026	11.20	1.19	2,826,024
April 20, 2026	3.00	1.30	5,196,250
April 20, 2026	2.05	1.30	50,054
April 29, 2026	11.20	1.33	39,228
	<b>\$ 5.48</b>		<b>8,807,977</b>

(1) Represents warrants to acquire 315,500 units consisting of one Common Share and one additional warrant at an exercise price of \$0.75CDN. These underlying warrants expire two years from the date of exercise of the primary warrant.

**12. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY (continued)**

f) 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 of the Company 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 of the Company 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 of the Company.

g) Earnings (loss) per Share

As a result of the Preferred Shares being classified as increasing rate preferred stock with dividends not being declared until the third anniversary of closing of the Private Placement, the Company has calculated an implied dividend in determining the loss attributable to common shareholders. The impact on loss per share on the Consolidated Statements of Operations and Comprehensive Loss is as follows:

<b>Year ended December 31,</b>	<b>2024</b>	<b>2023</b>
Loss attributable to the Owners of the Company	\$ (25,502,536)	\$ (28,220,796)
Less: implied dividend on Preferred Shares	425,557	-
Adjusted Loss attributable to the Owners of the Company	(25,928,093)	(28,220,796)
Weighted average shares outstanding - basic and diluted	33,930,575	24,146,623
<b>Loss per Share - Basic and Diluted (Owners of the Company)</b>	<b>\$ (0.76)</b>	<b>\$ (1.17)</b>

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**13. GENERAL AND ADMINISTRATIVE EXPENSES**

a) General and administrative expenses are comprised of the following:

<b>Year ended December 31,</b>	<b>2024</b>	<b>2023</b>
Office expenses	\$ 457,600	\$ 389,210
Insurance	954,392	367,472
Travel	373,171	345,992
Professional fees (Note 13(b))	2,355,278	3,021,899
Public company costs	1,569,780	404,073
Salaries and benefits	3,093,027	2,241,079
Share based payments (Note 12(c))	2,120,887	714,380
<b>Total expenses during the year (Note 13(b))</b>	<b>\$ 10,924,135</b>	<b>\$ 7,484,105</b>

b) During the year ended December 31, 2024, the Company determined that patent legal costs of \$200,101 had been incorrectly recorded in Research and Development costs in 2023. As a result, an adjustment was made to the prior period professional fees of \$2,821,798 and general and administrative expenses of \$7,284,004 that had been previously reported. An adjustment was also made to the prior period other research and development expenses of \$672,295 and total research and development expenses of \$20,563,225 that had been previously reported (Note 14 – Research and Development Expenses). This adjustment had no effect on net loss or on the previously reported consolidated balance sheet, statement of shareholders' equity or statement of cash flows.

**14. RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses are comprised of the following:

<b>Year ended December 31,</b>	<b>2024</b>	<b>2023</b>
Preclinical	\$ 2,264,151	\$ 1,616,238
Clinical	2,330,529	4,595,597
Manufacturing & analytical	5,550,178	4,986,502
Regulatory	221,453	341,589
<b>Direct research and development</b>	<b>10,366,311</b>	<b>11,539,926</b>
Pipeline development	-	83,637
Other research and development (Note 13(b))	578,814	472,194
Salaries and benefits	4,181,715	2,794,891
Share based payments (Note 12(c))	1,102,577	697,877
License costs (Note 10)	-	5,000,000
Government grants (Note 15)	-	(122,542)
SR&ED and other R&D tax incentives	(150,141)	(102,859)
<b>Total expenses during the year (Note 13(b))</b>	<b>\$ 16,079,276</b>	<b>\$ 20,363,124</b>

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**15. GOVERNMENT GRANTS AND ASSISTANCE**

National 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 \$553,185. During the year ended December 31, 2024, the Company claimed \$nil pertaining to this agreement (2023 - \$122,542).

The following table summarizes the government grants and assistance the Company received or accrued during the years ended December 31, 2024 and 2023:

<b>Year ended December 31,</b>	<b>2024</b>	<b>2023</b>
NRC-IRAP	\$ -	\$ 122,542
BioTalent Canada	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 122,542</b>

Government assistance of \$nil (2023 - \$122,542) relating to research and development activities has been offset against research and development expense.

**16. INCOME TAXES**

For financial reporting purposes, loss before taxes includes the following components:

<b>Year ended December 31,</b>	<b>2024</b>	<b>2023</b>
Canadian	\$ (25,501,790)	\$ (28,810,717)
Foreign	(240,895)	(118,866)
<b>Total</b>	<b>\$ (25,742,685)</b>	<b>\$ (28,929,583)</b>

The income tax expense consists of the following:

<b>Year ended December 31,</b>	<b>2024</b>	<b>2023</b>
<b>Canadian</b>		
Current	\$ -	\$ -
Deferred	\$ -	\$ -
	\$ -	\$ -
<b>Foreign</b>		
Current	\$ 1,804	\$ 36,423
Deferred	\$ -	\$ -
	\$ 1,804	\$ 36,423
<b>Total</b>		
Current	\$ 1,804	\$ 36,423
Deferred	\$ -	\$ -
	\$ 1,804	\$ 36,423

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**16. INCOME TAXES (continued)**

<u>Year ended December 31,</u>	<u>2024</u>	<u>2023</u>
Loss before taxes	\$ (25,742,685)	\$ (28,929,583)
Statutory Canadian corporate tax rate	27%	27%
Expected tax recovery at statutory rates	(6,950,525)	(7,810,987)
Change in unrecognized deferred tax assets	4,653,840	9,523,404
Non-deductible share-based payments	874,812	381,285
Other items not deductible for tax purposes and other	(268,273)	242,460
Adjustments related to prior years	(956,732)	(624,973)
Share issue costs	(659,822)	(290,289)
Foreign exchange arising on translation to reporting currency	3,308,504	(1,384,477)
<b>Income tax expense</b>	<b>\$ 1,804</b>	<b>\$ 36,423</b>

Income tax expense for the year ended December 31, 2024 arose from the operations of Eupraxia Pharma USA Inc., the Company's wholly-owned subsidiary in the United States.

Deferred income tax assets and liabilities result from the temporary differences between the amount of assets and liabilities recognized for financial statement and income tax purposes. The significant components of the Company's net deferred income tax assets are as follows:

	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Convertible debt	\$ -	\$ 733,756
Depreciable assets	2,680,667	3,092,163
Lease obligation	1,306	4,925
Non-capital losses	22,217,470	18,348,349
Share issue costs	932,557	728,046
Scientific research and experimental development pool	3,131,664	2,093,085
Tax credits - Federal	1,664,384	1,058,417
Tax credits - Provincial	680,589	488,417
Other	14,206	121,846
Less: valuation allowance	(31,322,843)	(26,669,004)
<b>Net deferred income tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

In assessing the realizability of the Company's deferred income tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which temporary differences become deductible and the loss carry-forwards or tax credits can be utilized. A full valuation allowance continues to be applied against deferred income tax assets as the Company has assessed that the realization of such assets does not meet the more likely than not criteria.

There are no unrecognized income tax benefits as of December 31, 2024, or 2023. Due to the net operating loss carryover position coupled with the lack of any unrecognized tax benefits, no provision has been made for any interest or penalties associated with any uncertain tax positions. It is not anticipated that there will be any significant changes to unrecognized tax benefits within the next 12 months.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**16. INCOME TAXES (continued)**

The Company and its foreign subsidiaries have available non-capital losses for Canadian, Australian and US income tax purposes which may be carried forward to reduce taxable income in future years. If not utilized, the non-capital losses in each jurisdiction will expire as follows (all amounts expressed in USD):

Expiry date	Non-capital losses— Canada	Non-capital losses – US	Non-capital losses – Australia
2031	\$ 258,504	\$ -	\$ -
2032	529,083	322,050	-
2033	2,281,023	1,111,122	-
2034	2,698,268	160,000	-
2035	2,266,948	160,000	-
2036	3,490,580	160,048	-
2037	6,704,838	160,000	-
2038	3,928,374	-	-
2039	1,547,689	-	-
2040	132,460	-	-
2041	8,414,520	-	-
2042	11,796,725	-	-
2043	16,163,548	-	-
2044	20,184,338	-	-
Unlimited	-	131,667	157,604
	<b>\$ 80,396,898</b>	<b>\$ 2,204,887</b>	<b>\$ 157,604</b>

The Company also has approximately \$11,598,757 of SR&ED expenditures that may be carried forward indefinitely to be deducted against future Canadian taxable income. It also has federal investment tax credits of approximately \$2,279,978 available to offset future Canadian federal income taxes payable as well as provincial investment tax credits of approximately \$706,218. The federal tax credits are available to be carried forward 20 years (expiring in 2036 to 2044) to offset future Canadian federal income taxes payable and the provincial tax credits are available to be carried forward 10 years (expiring in 2026 to 2034) to offset future BC income taxes payable. The benefit of the investment tax credits has not been recognized as their realization is not reasonably assured.

The Company files income tax returns in Canada, United States and Australia, the jurisdictions in which the Company believes that it is subject to tax. In jurisdictions in which the Company does not believe it is subject to tax and therefore does not file income tax returns, the Company can provide no certainty that tax authorities in those jurisdictions will not subject one or more tax years (since the inception of the Company) to examination. Further, while the statute of limitations in each jurisdiction where an income tax return has been filed generally limits the examination period, as a result of loss carry-forwards, the limitation period for examination generally does not expire until several years after the loss carry-forwards are utilized. Other than routine audits by tax authorities for tax credits and tax refunds that the Company claims, the Company is not aware of any other material income tax examination currently in progress by any taxing jurisdiction. Tax years ranging from 2012 to 2024 remain subject to examinations in Canada and the United States 2022 to 2024 for Australia.

## **17. COMMITMENTS AND CONTINGENCIES**

- i. The Company may be required to make milestone, royalty, and other research and development funding payments under agreements with third parties (see Note 10 – Auritec License Agreement). These payments are contingent upon the achievement of specific development, regulatory and/or commercial milestones. The Company has not accrued these payments as at December 31, 2024 due to the uncertainty over whether these milestones will be achieved.
- ii. Eupraxia has entered into a number of service contracts with its vendors. Some of those contracts have cancellation clauses which state Eupraxia would pay a cancellation fee of between 15% and 100% of the next service milestone if it terminates the contract. During the year ended December 31, 2024, the Company cancelled a contract with one of its vendors which triggered a cancellation fee of \$87,598 which was expensed during the year ended December 31, 2024. There were no cancelled contracts during the year ended December 31, 2023.
- iii. The Company has entered into service agreements with third parties that include indemnification provisions that are customary in the industry. These indemnification provisions generally require the Company to compensate the other party for certain damages and costs incurred as a result of third-party claims or damages arising from these transactions.

The maximum amount of potential future indemnification is unlimited; however, the Company currently holds commercial general liability insurance. This insurance limits the Company's exposure and may enable it to recover a portion of any future amounts paid. Historically, the Company has not made any indemnification payments under such agreements and the Company believes that the fair value of these indemnification obligations is minimal. Accordingly, the Company has not recognized any liabilities relating to these obligations for any period presented.

## **18. SEGMENTED INFORMATION**

The Company operates as a single reportable segment with the CODM being the Company's Chief Executive Officer who manages the Company's operations on a consolidated basis. The accounting policies of the segment are the same as those described in the summary of significant accounting policies.

As the Company does not currently generate revenue, the CODM assesses Company performance through the achievement of pre-clinical and clinical research goals while evaluating the Company's performance and allocates resources to the operations of the Company on a total company basis. This enables the CEO to assess the overall level of resources available and how to best deploy these resources.

The CODM uses net loss to monitor budget versus actual results and to analyze cash flows in assessing performance of the segment and allocating resources. The measure of segment assets is reported on the consolidated balance sheet as total consolidated assets, with a majority of these assets located in Canada.

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**18. SEGMENTED INFORMATION (continued)**

The following table presents information about significant segment expenses and segment loss:

Year ended December 31,	2024	2023
Direct external research and development costs		
EP-104IAR	\$ 2,945,435	\$ 8,463,722
EP-104GI	5,156,725	1,459,966
Pre-clinical	2,264,151	1,616,238
Salaries and benefits	7,274,742	5,035,970
Share based payments	3,223,464	1,412,257
License costs	-	5,000,000
Other Research and Development expenses	428,673	330,430
Other General and Administrative expenses	5,710,221	4,528,646
Total segment expenses	27,003,411	27,847,229
Reconciling items:		
Interest income	1,159,943	862,969
Interest expense	(603,573)	(1,170,173)
Gain (loss) on sale of equipment	18,611	(4,846)
Foreign exchange gain (loss)	(159,214)	66,291
Convertible debt costs	(355,582)	-
Change in fair value of financial instruments	1,200,541	(836,595)
Tax expense	(1,804)	(36,423)
<b>Net loss for the year</b>	<b>\$(25,744,489)</b>	<b>\$(28,966,006)</b>

**19. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, amounts receivable, accounts payable and accrued liabilities, payable to Auritec, loans payable and convertible debt.

There were no changes to the Company's risk exposures or management of risks during the year ended December 31, 2024. 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 and short-term investments, being its primary exposure to credit risk, are held with a large Canadian bank. The Company's maximum exposure to credit risk is the carrying value of these financial assets.

*Liquidity risk*

Liquidity risk is the risk that 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 the extent possible to meet liabilities when due. As at December 31, 2024, the Company had cash of \$33,101,294 (2023 - \$19,341,756) in addition to current liabilities of \$3,103,386 (2023 - \$19,373,903). Management is currently working on certain strategic alternatives including, but not limited to raising additional capital.

## 19. FINANCIAL INSTRUMENTS (continued)

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.

### *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 does purchase US dollars to cover anticipated costs that will be denominated in US dollars.

At December 31, 2024, the Company held cash of \$3,740,799 (2023 – \$933,816), had accounts payable and accrued liabilities of \$376,541 (2023 – \$1,292,128), a payable to Auritec of \$nil (2023 - \$5,000,000) and a loan payable of \$nil (2023 – \$62,709) denominated in US dollars which were translated to Canadian dollars at 1.4389 (2023 – 1.3226). The impact of a 10% change in the exchange rates would have an impact of approximately \$336,426 (2023 – \$542,102) on profit or loss. The Company held cash of \$149,736 (2023 - \$67,124), accounts payable and accrued liabilities of \$120,361 (2023 - \$63,509) and had \$258,074 in accounts receivable (2023 - \$153,749) denominated in Australian Dollars which were translated into Canadian Dollars at 0.8915 (2023 – 0.9001). The impact of a 10% change in the exchange rate would have an impact of approximately \$17,810 (2023 - \$10,710) on profit or loss. The Company also has cash in accounts payable in Great British pounds and Euros. The impact of a 10% change in the exchanges of these currencies would have an immaterial effect on future cash flows.

### *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.

**19. FINANCIAL INSTRUMENTS (continued)**

**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, amounts receivable, accounts payable and accrued liabilities and 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 following table summarizes information regarding the classification and carrying values of the Company's financial instruments measured at amortized cost:

<b>Financial assets/liabilities</b>	<b>December 31, 2024</b>	<b>December 31, 2023</b>
Cash	\$ 33,101,294	\$ 19,341,756
Amounts receivable	\$ 228,872	\$ 190,612
Accounts payable and accrued liabilities	\$ 3,031,527	\$ 3,921,875
Payable to Auritec	\$ Nil	\$ 5,000,000
Loans payable	\$ Nil	\$ 62,709

See Note 11(a) – Convertible Debt to see the movement in the SVB debt facility (there were no key inputs that affected the valuation since the balance was paid via cash during the year ended December 31, 2024).

**20. INTEREST EXPENSE**

Interest expense is comprised of the following:

	<b>December 31, 2024</b>	<b>December 31, 2023</b>
Interest on SVB debt facility (Note 11(a))	\$ 601,637	\$ 1,162,773
Other interest and accretion	1,936	7,400
<b>Total</b>	<b>\$ 603,573</b>	<b>\$ 1,170,173</b>

## **21. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The Company paid interest of \$393,739 during the year ended December 31, 2024 (2023 - \$598,046).

The Company received interest of \$1,159,943 during the year ended December 31, 2024 (2023 - \$912,033).

The Company had the following significant non-cash transaction for the year ended December 31, 2024:

- Entered into a lease extension for a further twelve months (see Note 9 – Lease Payable). As such, there was an increase in right-of-use assets and lease liability of \$78,580.

The Company had the following significant non-cash transaction for the year ended December 31, 2023:

- 99,061 common shares (valued at \$511,678) were issued as part of the financing on August 18, 2023, as a payment of finder's fees (see Note 12(b)(iii)).

## **22. SUBSEQUENT EVENTS**

- a) On February 18, 2025, the Company announced that it had appointed Alex Rothwell as the Company's new Chief Financial Officer, effective immediately. Bruce Cousins, the Company's outgoing CFO, is retiring and will remain in a consultant role in the near-term to ensure an orderly transition of the CFO responsibilities.
- b) On March 13, 2025, the Company issued 200,000 common shares upon the exercise of 200,000 outstanding warrants. The warrants were exercised at price of CDN\$3.00 per share, generating total cash proceeds of \$416,406 (CDN\$600,000).