

**EUPRAXIA PHARMACEUTICALS INC.**

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

**For the three months ended March 31, 2021**

**EUPRAXIA PHARMACEUTICALS INC.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
March 31, 2021

---

---

CONTENTS

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION..... 3

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS..... 4

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY..... 5

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS ..... 6

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS..... 7-31

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

	March 31, 2021 (Unaudited)	December 31, 2020 (Audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 31,116,013	\$ 150,126
Prepaid expenses	666,416	367,523
Amounts receivable (Note 5)	479,087	620,606
<b>Total current assets</b>	<b>32,261,516</b>	<b>1,138,255</b>
<b>Non-current assets</b>		
Equipment (Note 6)	67,643	68,314
Right of use assets – leases (Note 13)	231,256	247,023
<b>Total assets</b>	<b>\$ 32,560,415</b>	<b>\$ 1,453,592</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 1,486,336	\$ 3,200,812
Convertible notes payable (Note 9)	-	8,592,751
Special warrants (Note 10)	-	1,715,000
Loans payable (Note 11)	6,117,530	3,924,698
Lease liability – current portion (Note 13)	54,367	52,529
Payable to Auritec Pharmaceuticals Inc. (Note 20)	-	5,056,482
<b>Total current liabilities</b>	<b>7,658,233</b>	<b>22,542,272</b>
<b>Non-current liabilities</b>		
Derivative warrant liability (Note 12)	-	376,308
Lease liability (Note 13)	183,693	198,665
	<b>7,841,926</b>	<b>23,117,245</b>
<b>Shareholders' Equity</b>		
Share capital (Note 14)	74,154,611	23,797,507
Contributed surplus (Note 14)	11,076,768	6,189,888
Deficit	(60,057,180)	(51,197,157)
<b>Equity attributable to the owners of the Company</b>	<b>25,174,199</b>	<b>(21,209,762)</b>
<b>Non-controlling interest</b>	<b>(455,710)</b>	<b>(453,891)</b>
<b>Total shareholders' equity (deficit)</b>	<b>24,718,489</b>	<b>(21,663,653)</b>
<b>Total liabilities and shareholders' equity (deficit)</b>	<b>\$ 32,560,415</b>	<b>\$ 1,453,592</b>

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

**Approved and authorized for issue on behalf of the Board of Directors on May 13, 2021:**

John Montalbano  
Director

James Helliwell  
Director

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

**EUPRAXIA PHARMACEUTICALS INC.**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**  
(Expressed in Canadian Dollars)  
(unaudited)

	3 months ended March 31, 2021		3 months ended March 31, 2020	
<b>Expenses</b>				
Depreciation of equipment (Note 6)	\$	4,471	\$	24,956
Depreciation of ROU assets (Note 13)		15,767		26,990
General and administrative		77,865		129,670
Professional fees		750,732		12,935
Public company costs		190,614		-
Research and development (Note 7)		669,704		451,454
Salaries and benefits (net) (Note 16)		775,116		301,128
Stock-based compensation (Notes 14, 16)		2,711,192		48,087
<b>Total expenses</b>		<u>5,195,461</u>		<u>995,219</u>
<b>Other income</b>				
Interest income		101		107
Interest expense (Note 19)		(452,109)		(553,439)
Loss on conversion of notes and special warrants (Notes 9, 10)		(1,935,916)		-
Foreign exchange gain (loss)		(5,238)		(562,150)
Change in fair value of warrant liability (Note 12)		(1,273,219)		(42,150)
		<u>(3,666,381)</u>		<u>(1,157,632)</u>
<b>Total loss and comprehensive loss</b>	\$	<u>(8,861,842)</u>	\$	<u>(2,152,851)</u>
<b>Loss and comprehensive loss attributable to:</b>				
Owners of the Company	\$	(8,860,023)	\$	(2,145,803)
Non-controlling interests		<u>(1,819)</u>		<u>(7,048)</u>
<b>Total loss and comprehensive loss</b>	\$	<u>(8,861,842)</u>	\$	<u>(2,152,851)</u>
Loss per share – basic and diluted (Owners of the Company)	\$	(1.13)	\$	(0.35)
Loss per share – basic and diluted (Non-controlling interests)		<u>(0.00)</u>		<u>(0.00)</u>
<b>Loss per share – basic and diluted (Total)</b>	\$	<u>(1.13)</u>	\$	<u>(0.35)</u>
<b>Weighted average shares outstanding – basic and diluted</b>		<u>7,814,446</u>		<u>6,118,002</u>

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

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

	Number of shares	Amount	Contributed surplus	Deficit	Non-controlling interest	Total
Balance, December 31, 2019	6,118,002	\$ 23,548,357	\$ 5,961,208	\$ (47,199,955)	\$ (440,455)	\$ (18,130,845)
Stock-based compensation	-	-	48,087	-	-	48,087
Total loss and comprehensive loss	-	-	-	(2,145,803)	(7,048)	(2,152,851)
Balance, March 31, 2020	6,118,002	23,548,357	6,009,295	(49,345,758)	(447,503)	(20,235,609)
Conversion of Note (Note 9)	62,288	249,150	-	-	-	249,150
Stock-based compensation	-	-	180,593	-	-	180,593
Total loss and comprehensive loss	-	-	-	(1,851,399)	(6,388)	(1,857,787)
Balance, December 31, 2020	6,180,290	23,797,507	6,189,888	(51,197,157)	(453,891)	(21,663,653)
Initial Public Offering (Note 14)	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 12)	-	-	2,175,688	-	-	2,175,688
Stock-based compensation	-	-	2,711,192	-	-	2,711,192
Total loss and comprehensive loss	-	-	-	(8,860,023)	(1,819)	(8,861,842)
Balance, March 31, 2021	12,865,475	\$ 74,154,611	\$ 11,076,768	\$ (60,057,180)	\$ (455,710)	\$ 24,718,489

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

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

	3 months ended March 31, 2021	3 months ended March 31, 2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Total loss and comprehensive loss	\$ (8,861,842)	\$ (2,152,851)
Items not affecting cash		
Accrued interest on convertible notes (Note 9)	136,253	167,250
Accrued interest on loans (Notes 11, 12)	266,868	252,526
Accrued interest and foreign exchange on payable to Auritec Pharmaceuticals Inc.	7,046	539,375
Depreciation of equipment	4,471	24,956
Depreciation of ROU assets (Note 13)	15,767	26,990
Interest – lease liability (Note 13)	8,792	11,435
Loss on conversion of notes and warrants	1,935,916	-
Stock-based compensation (Notes 14, 16)	2,711,192	48,086
Change in fair value of warrant liability (Note 12)	1,273,219	42,150
	<u>(2,502,318)</u>	<u>(1,040,083)</u>
Changes in non-cash working capital balances		
Accounts payable and accrued liabilities	(1,714,476)	207,097
Prepaid expenses	(298,893)	6,594
Amounts receivable	141,519	1,330,315
	<u>(4,374,168)</u>	<u>503,923</u>
<b>Cash used in operating activities</b>	<b>(4,374,168)</b>	<b>503,923</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of equipment	-	35,180
Acquisition of equipment	(3,800)	-
Payable to Auritec Pharmaceuticals Inc.	(5,063,528)	(56,687)
	<u>(5,067,328)</u>	<u>(21,507)</u>
<b>Cash provided by (used in) investing activities</b>	<b>(5,067,328)</b>	<b>(21,507)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipt (repayment) of loans (Note 11)	2,452,125	(1,000,000)
Convertible note issued for cash (Note 9)	100,000	-
IPO shares issued for cash (net of transaction costs)	37,877,184	-
Lease payments	(21,926)	(34,923)
	<u>40,407,383</u>	<u>(1,034,923)</u>
<b>Cash provided by (used in) financing activities</b>	<b>40,407,383</b>	<b>(1,034,923)</b>
<b>Change in cash</b>	<b>30,965,887</b>	<b>(552,507)</b>
<b>Cash, beginning of period</b>	<b>150,126</b>	<b>1,156,079</b>
<b>Cash, end of period</b>	<b>\$ 31,116,013</b>	<b>\$ 603,572</b>

Supplemental Disclosure with respect to cash flows (Note 21)

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

## **EUPRAXIA PHARMACEUTICALS INC.**

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

**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021**

(Expressed in Canadian Dollars)

---

---

#### **1. NATURE OF BUSINESS AND GOING CONCERN**

Eupraxia Pharmaceuticals Inc. (the “Company”) was incorporated under the laws of the province of Alberta on May 12, 2011 under the name Plaza Capital Partners Inc. On May 11, 2012 the Company changed its name to Eupraxia Pharmaceuticals Inc. and continued from the province of Alberta to the province of British Columbia.

On October 10, 2012, a wholly-owned subsidiary, Eupraxia Holdings, Inc. (“Holdings”) was incorporated under the laws of the State of Delaware, USA. On November 16, 2012, Holdings was registered as an extra-provincial corporation under the laws of the province of British Columbia, Canada. On October 10, 2012, Eupraxia Pharmaceuticals USA, LLC (“Eupraxia USA”) was incorporated under the laws of the State of Delaware. On November 16, 2012, Eupraxia USA was registered as an extra-provincial corporation under the laws of 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 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 have 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, we have modified our business practices with a focus on the health and safety of our employees, partners, service providers, and communities. At the onset of the outbreak of COVID-19, the Company implemented appropriate measures to allow our offices to remain open and operational while allowing employees to work from home where possible. While our Company remained open and operational, several of our partners were impacted by COVID-19 (including shutdown of some of their offices), which resulted in project delays. The effect of COVID-19 on other aspects of our results of operations and financial performance remains uncertain and may only be known in future periods.

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 March 31, 2021, the Company had cash of \$31,116,013 however the Company has not yet generated revenue from operations. The Company incurred a net loss of \$8,861,842 during the period ended March 31, 2021 and, as of that date the Company’s accumulated deficit was \$60,057,180. As the Company is in the research and development stage, the recoverability of the costs incurred to date is dependent upon the ability of the Company to obtain the necessary financing to complete the research and development of its projects and upon future profitable production or proceeds from the monetization of research activities to date. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. These events and conditions indicate a material uncertainty which may cast significant doubt about its ability to continue as a going concern. These condensed consolidated interim 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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(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 unaudited condensed consolidated interim 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 year ended December 31, 2020.

The same accounting policies and methods of computation are followed in these unaudited condensed consolidated interim financial statements as compared with the most recent annual consolidated financial statements as at and for the period ended December 31, 2020.

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

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

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

<b>Entity</b>	<b>Jurisdiction of incorporation</b>	<b>Effective interest (Note 14 (e))</b>
Eupraxia Pharmaceuticals Inc.	British Columbia, Canada	
Eupraxia Pharma, Inc.	Delaware, USA	95%
Eupraxia Holdings Inc.	Delaware, USA	95%
Eupraxia Pharmaceuticals USA, LLC	Delaware, 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, 2021 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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021**

(Expressed in Canadian Dollars)

---

---

**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of the condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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

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.
- iii) Assessment of the appropriateness of the going concern assertion and any material uncertainties that may cast significant doubt thereon; and
- iv) Rights and obligations and all legal interpretations relating to the Auritec Pharmaceuticals Inc. License and Settlement Agreements (note 20).

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

**5. AMOUNTS RECEIVABLE**

	March 31, 2021	December 31, 2020
Government grants (Note 15)	\$ -	\$ 179,750
Scientific research and development ITCs	379,000	379,000
GST/HST recoverable	69,296	22,415
Rent receivable	30,791	33,590
Other (Note 16)	-	5,851
<b>Total</b>	<b>\$ 479,087</b>	<b>\$ 620,606</b>

**6. EQUIPMENT**

	Computers	Office	Leasehold Improvements	Lab	Total
<b>Cost</b>					
As at December 31, 2019	\$ 90,719	\$ 95,710	\$ 106,464	\$ 424,891	\$ 717,784
Disposals <sup>(1)</sup>	-	(11,193)	-	(378,948)	(390,141)
As at December 31, 2020	90,719	84,517	106,464	45,943	327,643
Additions	3,800	-	-	-	3,800
As at March 31, 2021	\$ 94,519	\$ 84,517	\$ 106,464	\$ 45,943	\$ 331,443
<b>Accumulated depreciation</b>					
As at December 31, 2019	\$ 66,254	\$ 49,667	\$ 98,905	\$ 178,063	\$ 392,889
Depreciation	11,011	7,710	7,559	16,237	42,517
Disposals <sup>(1)</sup>	-	(4,747)	-	(171,330)	(176,077)
As at December 31, 2020	77,265	52,630	106,464	22,970	259,329
Depreciation	1,728	1,594	-	1,149	4,471
As at March 31, 2021	\$ 78,993	\$ 54,224	\$ 106,464	\$ 24,119	\$ 263,800
<b>Carrying amount</b>					
As at December 31, 2020	\$ 13,454	\$ 31,887	\$ -	\$ 22,973	\$ 68,314
As at March 31, 2021	\$ 15,526	\$ 30,293	\$ -	\$ 21,824	\$ 67,643

(1) During the year ended December 31, 2020, the Company received proceeds of \$81,305 from the sale of lab and office equipment with a total net book value of \$214,064 and recorded a loss on sale of equipment of \$132,759. During the three months ended March 31, 2020 the Company received \$35,180 of proceeds in advance for the sale of equipment which is included in accounts payable and accrued liabilities for the period.

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

**7. RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses are comprised of the following:

<b>Research and development expenses</b>	3-month period ended March 31, 2021	3-month period ended March 31, 2020
<b>Arthritis Program (EP-104IAR)</b>		
Formulation	\$ -	\$ -
Preclinical	542	542
Clinical	5,750	175
Manufacturing & analytical	24,398	110,013
Consulting	5,681	35,850
Veterinary	-	-
	36,371	146,580
<b>Antibiotics Program (EP-201)</b>		
Formulation	-	162
Preclinical	-	80
Consulting	-	2,000
	-	2,242
<b>Pipeline Development</b>	-	(11,804)
<b>Other research and development</b>	27,120	35,166
<b>Salaries and benefits</b>	644,147	301,837
<b>Government grants (Note 15)</b>	(37,934)	(17,615)
<b>SRED adjustment from prior years</b>	-	(4,952)
<b>Total expenses during the period</b>	\$ 669,704	\$ 451,454

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31, 2021	December 31, 2020
Research and development	\$ 277,266	\$ 620,951
General and administrative	1,161,611	1,491,969
Wages and payroll remittances	47,459	163,984
Deferred salaries <sup>(1)</sup>	-	923,908
<b>Total</b>	\$ 1,486,336	\$ 3,200,812

(1) The Company entered into a salary deferral agreement with various employees. Contingent upon the Company closing an institutional financing of at least US\$25 million, the Company was to pay the employee a bonus of 20% of the deferred salary as of that date. Upon completion of the initial public offering on the TSX the Company paid the deferred salaries and associated bonus.

**EUPRAXIA PHARMACEUTICALS INC.**

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

**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021**

(Expressed in Canadian Dollars)

---

---

**9. CONVERTIBLE NOTES PAYABLE**

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

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

In the event of a Qualified Financing of greater than US\$15,000,000, the principal and any accrued interest converts into the same class of securities that was issued in the Qualified Financing at a 10% discount to the price paid per share. If the Company does not consummate a Qualified Financing prior to maturity, the principal and any accrued interest will convert into common shares at a conversion price of \$4.00 per share.

On March 10, 2020, the board approved a reduction in the conversion price from \$8.00 to \$4.00 per share.

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

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

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, the convertible notes were converted into common shares as a result of the Company's initial public offering on the TSX which constituted a Qualified Financing. Principal and interest totalling \$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 has been 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 has been recorded in other income as a loss on conversion of notes.

Interest of \$136,253 (2020 - \$167,250) was accrued on the convertible notes during the period ended March 31, 2021.

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

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

As at March 31, 2021 and December 31, 2020, the following convertible notes were outstanding:

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Convertible notes <sup>(1)</sup> issued June 19, 2018	\$ 2,150,000	\$ 2,150,000
Convertible notes <sup>(1)</sup> issued November 13, 2018	975,000	975,000
Convertible notes <sup>(1)</sup> issued December 20, 2018	350,000	350,000
Convertible notes <sup>(1)</sup> issued April 1, 2019	1,500,000	1,500,000
Convertible notes <sup>(1)</sup> issued April 30, 2019	700,000	700,000
Convertible notes <sup>(1)</sup> issued May 23, 2019	815,000	815,000
Convertible notes <sup>(2)</sup> issued June 1, 2020	500,000	500,000
Convertible notes <sup>(2)</sup> issued July 22, 2020	121,000	121,000
Convertible notes <sup>(2)</sup> issued November 27, 2020	110,000	110,000
Convertible notes <sup>(2)</sup> issued January 5, 2021	100,000	-
Accrued interest	1,508,004	1,371,751
Loss on conversion	1,260,831	-
Conversion into common shares	(10,089,835)	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 8,592,751</b>

(1) Converted at 10% discount as a result of qualified financing

(2) Converted at 30% discount as a result of qualified financing

**EUPRAXIA PHARMACEUTICALS INC.**

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

**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021**

(Expressed in Canadian Dollars)

---

---

**10. SPECIAL WARRANTS**

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

The warrants originally had an expiry date of June 30, 2020 which was subsequently extended to December 31, 2021.

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

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

Where:

SW = Number of Special Warrants.

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

If the Company 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 numbers of days between the date the Special Warrants were issued and the date of the Qualified Financing.

PP = the per share purchase price of the equity securities issued and sold in the Qualified Financing.

The settlement of the special warrants 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, 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 has been 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 has been recorded in other income as a loss on conversion of special warrants.

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

**10. SPECIAL WARRANTS (continued)**

As at March 31, 2021 and December 31, 2020, the following special warrants were outstanding:

	March 31, 2021	December 31, 2020
Special warrants issued July 18, 2018 (590,000)	\$ 1,180,000	\$ 1,180,000
Special warrants issued November 13, 2018 (267,500)	535,000	535,000
Loss on conversion	675,085	-
Conversion into common shares	(2,390,085)	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 1,715,000</b>

**11. LOANS PAYABLE**

On January 4, 2021 and January 8, 2021, the Company borrowed an aggregate of US\$1,700,000 from certain shareholders and a director of the Company. The loans are unsecured, incur interest at a rate of 10% per annum and mature on December 31, 2021. Under the terms of the loans and following completion of an equity financing exceeding US\$15,000,000, each lender will have 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. As of March 31, 2021, none of the loans had been converted into common shares.

On January 4, 2021, the Company borrowed US\$250,000 from a director of the Company. The loan is unsecured, incurs interest at a rate of 15% per annum and matures on December 31, 2021. The Company intends to repay the loan using the proceeds of the Scientific Research and Experimental Development Tax Incentive Program (SR&ED) tax credits and/or refunds received by the Company 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.

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

**11. LOANS PAYABLE (continued)**

The terms and conditions of outstanding loans are as follows:

Type	Date	Principal	Currency	Security	Related Party	Interest Rate	Maturity
Secured <sup>(1)</sup>	Mar. 27, 2019	\$600,000	CAD	Company assets	N/A	14%	Dec. 31, 2021
Secured <sup>(1)</sup>	Jul. 13, 2019	\$250,000	CAD	Company assets	N/A	8%	Dec. 31, 2021
Secured <sup>(1)</sup>	Jul. 22, 2019	\$1,000,000	CAD	Company assets	N/A	8%	Dec. 31, 2021
Secured <sup>(1)</sup>	Aug. 30, 2019	\$250,000	CAD	Company assets	N/A	8%	Dec. 31, 2021
Secured <sup>(1)</sup>	Nov. 19, 2019	\$1,050,000	CAD	Company assets	N/A	8%	Dec. 31, 2021
Secured <sup>(1)</sup>	Nov. 19, 2019	\$200,000	CAD	Company assets	Director	8%	Dec. 31, 2021
Unsecured	Jan. 4, 2021	\$1,000,000	USD	N/A	N/A	10%	Dec. 31, 2021
Unsecured	Jan. 5, 2021	\$500,000	USD	N/A	N/A	10%	Dec. 31, 2021
Unsecured	Jan. 5, 2021	\$250,000	USD	N/A	Director	15%	Dec. 31, 2021
Unsecured	Jan. 8, 2021	\$200,000	USD	N/A	Director	10%	Dec. 31, 2021

(1) On January 20, 2021, the Company entered into an amending agreement with each of the lenders to which the maturity date under each loan agreement was extended to December 31, 2021. Each lender was also granted the right to convert the principal amount under the loan into Common Shares at a 10% discount to an equity financing. If the applicable lender elects to convert such principal amount, the remaining accrued interest will, at the election of the Company, either be paid to the applicable lender in cash or converted into Common Shares at a 10% discount to the initial public offering price. At the time of such repayment or conversion, all security interest under the loans will be discharged.

As at March 31, 2021 and December 31, 2020, the loan balance is comprised of the following:

<b>Total, December 31, 2019</b>	\$	4,249,105
Loan repayment		(1,029,584)
Interest accrued		328,673
Financing cost accreted		376,504
<b>Total, December 31, 2020</b>		3,924,698
Receipt of cash loans		2,452,125
Transaction costs		(526,161)
Interest accrued		135,328
Financing cost accreted		131,540
<b>Total, March 31, 2021</b>	\$	6,117,530

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

**12. 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 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 has closed any time prior to or including the expiry date then the exercise price is the per share purchase price of equity securities issued and sold in the Qualified Financing. 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.

Loan financing costs of \$131,540 (2020 - \$179,110) are included in interest expense for the period.

At issuance the warrants issued as part of the loan financings were derivative liabilities given that the warrant exercise price was subject to change if a Qualified Financing occurred. The derivative warrant liabilities were 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 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 December 31, 2020</b>	<b>At Issuance dates (Jan. 4, 2021 to Jan. 8, 2021)</b>	<b>At March 9, 2021</b>
Annual volatility <sup>(1)</sup>	71.35	71.35%	72.50%
Risk free interest rate	0.20%	0.25%	0.39%
Warrant life	1.53 - 1.96 years	3 years	2.22 years
Share price	\$3.76	\$3.77	\$8.00
Exercise price <sup>(2)</sup>	\$4.00	\$4.00	\$6.86
Number of warrants issued	289,172	310,803	599,975

(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

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

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

Details related to the warrant liability are as follows:

	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Fair value of warrants issued on July 13, 2019	\$ 67,306	\$ 31,285
Fair value of warrants issued on July 22, 2019	264,117	122,708
Fair value of warrants issued on August 30, 2019	68,341	31,703
Fair value of warrants issued on December 16, 2019	412,123	190,612
Fair value of warrants issued on January 4, 2021	1,221,587	-
Fair value of warrants issued on January 8, 2021	142,216	-
Fair value of warrants reclassified to contributed surplus	(2,175,690)	-
<b>Total fair value of warrants</b>	<b>\$ -</b>	<b>\$ 376,308</b>

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

**13. LEASES**

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

**Right-of-Use Assets**

	Property
<b>Cost</b>	
Balance, January 1, 2020	\$ 371,462
Additions	-
Disposals	-
Balance, December 31, 2020 and March 31, 2021	\$ 371,462
<b>Accumulated Depreciation</b>	
Balance, January 1, 2020	\$ 50,147
Depreciation charge	74,292
Disposals	-
Balance, December 31, 2020	124,439
Depreciation charge	15,767
Balance, March 31, 2021	\$ 140,206
<b>Carrying amount as at December 31, 2020</b>	<b>\$ 247,023</b>
<b>Carrying amount as at March 31, 2021</b>	<b>\$ 231,256</b>

**Lease Liabilities**

	March 31, 2021	December 31, 2020
<b>Opening balance</b>	<b>\$ 251,194</b>	<b>\$ 309,241</b>
Interest expense	8,792	42,648
Payments	(21,926)	(100,695)
<b>Ending balance</b>	<b>\$ 238,060</b>	<b>\$ 251,194</b>
<b>Non-current portion</b>	<b>\$ 183,693</b>	<b>\$ 198,665</b>
<b>Current portion</b>	<b>\$ 54,367</b>	<b>\$ 52,529</b>

The incremental borrowing rate on lease liabilities is 14%. Variable lease payments comprised of operating, maintenance and property tax fees totaling \$13,381 (2020 - \$21,098) are included in rent expense and recognized in profit or loss for the period.

During the period ended March 31, 2021, the Company subleased a portion of its office space. An amount totaling \$7,998 (March 31, 2020 - \$2,666) has been recorded as a reduction to rent expense in profit or loss.

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

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Office	\$65,772	\$87,696	\$87,696	\$80,388

**EUPRAXIA PHARMACEUTICALS INC.**

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

**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021**

(Expressed in Canadian Dollars)

---

---

**14. SHARE CAPITAL and CONTRIBUTED SURPLUS**

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

- b) Issued

Capital transactions which took place during the prior year are as follows:

On December 31, 2020, the Company issued 62,288 common shares at \$4.00 per share on the conversion of convertible notes totaling \$249,150 of principal and accrued interest at maturity.

Capital transactions which took place during the current period are as follows:

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 has 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 also paid to the Underwriters. The Company also 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 263,775 Warrants to the Agents at a price of \$0.002 per Warrant for gross proceeds of \$528.

On March 9, 2021, the Company converted outstanding Convertible Notes into 1,261,387 common shares as outlined in Note 9.

On March 9, 2021, the Company converted outstanding Special Warrants into 298,798 common shares as outlined in Note 10.

- c) Options

Under the Stock Option Plan (the "Plan"), approved by the Board of Directors on September 27, 2015, the Board of Directors may grant stock options to directors, officers, employees and consultants of the Company up to an aggregate of 12.5% of the Company's then issued and outstanding common shares. On March 9, 2021, the Board of Directors amended and restated the Plan (the "Amended Plan") to comply with the applicable requirements of the TSX and to ensure the terms and conditions of the Amended Plan are consistent with those of other public companies. The number of shares available for directors, officers, employees and consultants to acquire pursuant to stock options granted under the Amended Plan was also increased to 15% of the aggregate of the Company's issued and outstanding shares.

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

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

## c) Options (continued)

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 as 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 options transactions:

	Number of options	Weighted average exercise price
<b>Outstanding, December 31, 2019</b>	766,000	\$ 8.00
Cancelled	(32,500)	(8.00)
<b>Outstanding December 31, 2020</b>	733,500	8.00
Issued	1,083,750	8.00
<b>Outstanding March 31, 2021</b>	1,817,250	\$ 8.00

As at March 31, 2021, 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	4.00
Sep 27, 2015	67,500	67,500	8.00 <sup>(3)</sup>	Mar 31, 2025	4.00
Nov 2, 2015	62,500	62,500	8.00 <sup>(3)</sup>	Nov 2, 2025	4.59
Nov 2, 2015	32,500	32,500	8.00 <sup>(3)</sup>	Nov 2, 2025	4.59
Mar 5, 2018	198,750	198,750	8.00 <sup>(3)</sup>	Mar 5, 2028	6.93
Mar 5, 2018	253,500	253,500	8.00 <sup>(3)</sup>	Mar 5, 2028	6.93
Mar 9, 2021	756,950	189,237 <sup>(1)</sup>	8.00	Mar 9, 2031	9.95
Mar 9, 2021	326,800	326,800 <sup>(2)</sup>	8.00	Mar 9, 2031	9.95
	<b>1,817,250</b>	<b>1,249,537</b>	<b>8.00</b>		<b>8.31</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.

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

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

## c) Options (continued)

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 period/year ended	March 31, 2021	December 31, 2018	December 31, 2015
Expected dividend yield	0.00%	0.00%	0.00%
Expected forfeiture rate	0.00%	0.00%	0.00%
Weighted average annual volatility	72.5%	71.35%	78.90%
Weighted average risk-free interest rate	0.91%	0.97%	0.66%
Weighted average option life	5.5 years	7 years	4.61 years
Weighted average share price	\$8.00	\$8.00	\$8.00
Weighted average exercise price	\$8.00	\$8.00	\$8.00
Weighted average fair value of options granted	\$4.92	\$5.33	\$4.87

The total cost of the option modification is \$174,352 which has been included in stock-based compensation expense for the period. 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.

Options granted during the year ended	December 31, 2018		December 31, 2015	
	Amended	Original	Amended	Original
Expected dividend yield	0.00%	0.00%	0.00%	0.00%
Expected forfeiture rate	0.00%	0.00%	0.00%	0.00%
Weighted average annual volatility	71.35%	71.35%	78.90%	78.90%
Weighted average risk-free interest rate	0.97%	0.97%	0.66%	0.66%
Weighted average option life	7.01 years	7.01 years	4.61 years	4.61 years
Weighted average share price	\$8.00	\$8.00	\$8.00	\$8.00
Weighted average exercise price	\$8.00	\$10.00	\$8.00	\$8.68
Weighted average fair value of options granted	\$5.33	\$5.02	\$4.87	\$4.75

## d) Warrants

The following table summarizes the Company's warrant transactions:

	Number of warrants	Weighted average exercise price
<b>Outstanding December 31, 2019 and 2020</b>	<b>985,593</b>	<b>\$ 1.63</b>
Issued	3,137,078	10.67
<b>Outstanding March 31, 2021</b>	<b>4,122,671</b>	<b>\$ 8.78</b>

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

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

## d) Warrants (continued)

As at March 31, 2021, the following warrants were outstanding:

<b>Expiry date</b>	<b>Exercise price</b>	<b>Remaining contractual life (years)</b>	<b>Warrants outstanding and exercisable</b>
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>	1.28 – 1.71	289,172
January 4, 2024	5.5993	2.76	239,080
January 4, 2024	7.1991	2.76	39,846
January 8, 2024	5.5993	2.78	31,877
March 9, 2026	11.20	4.94	2,826,275
	<b>\$ 8.50</b>		<b>4,122,671</b>

1 – Upon completion of the Company's initial public offering, the exercise price of these options was adjusted pursuant to the terms of the option agreements.

## e) Class B Non-Voting shares

On January 31, 2021, the Company entered into a contribution agreement with Amanda Malone, the Chief Scientific Officer of the Company, and certain of the Company's subsidiaries (the "Contribution Agreement"). Pursuant to the Contribution Agreement, the Company acquired AMDM Holdings Inc., a corporation wholly-owned by Ms. Malone, which held 5% of the equity interest in the Company's subsidiary, Eupraxia USA. In exchange, the Company issued to Ms. Malone 225 non-voting Class B shares (the "Class B Shares") in Eupraxia Pharma Inc. ("Eupraxia Pharma"), representing 5% of the outstanding securities of Eupraxia Pharma. The Company holds the remaining 95% of such securities, which consists of 4,275 voting Class A shares.

Each Class B Share is exchangeable into common shares based on an exchange rate of 2,500 common shares for each Class B Share, subject to adjustments upon the occurrence of certain events, for a total of 562,500 common shares. The Class B Shares are exchangeable by Ms. Malone at her election, provided that the Company may force the exchange of the Class B Shares into common shares at any time on or after January 31, 2031, or on or after January 31, 2026 if the Company is listed on a stock exchange and is a reporting issuer in Canada at such time. The Company may also force the exchange of the Class B Shares into common shares if there is a change of control transaction involving the Company, a change in law which makes the exchange necessary or desirable or if there are a *de minimis* number of Class B Shares outstanding. If the Company is listed on a stock exchange at the time of the applicable exchange, the Company may elect to pay Ms. Malone cash in lieu of issuing common shares, with such cash amount to be determined based on the then current market price of the common shares.

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

**15. GOVERNMENT GRANTS**National Research Council – Industrial Assistance Program (IRAP)

On April 1, 2020, the Company entered into an agreement with the National Research Council Canada via the Industrial Research Assistance Program (NRC-IRAP) for funding support from the Innovation Assistance Program (IAP) commencing April 1, 2020 and ending June 24, 2020. On June 25, 2020, the Company entered into a subsequent agreement with NRC-IRAP for funding support from the IAP commencing June 25, 2020 and ending December 19, 2020. On March 12, 2021, the Company entered into a third agreement for funding support from the IAP commencing December 20, 2020 to 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.

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

Government of Canada - 10% Temporary Wage Subsidy

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

At March 31, 2021 there was \$nil (December 31, 2020 - \$179,750) of government grants recorded in amounts receivable and collected subsequent to period end.

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

	<b>March 31, 2021</b>	<b>March 31, 2020</b>
NRC-IRAP	\$ 65,030	\$ 17,615
Temporary wage subsidy	-	5,044
<b>Total</b>	<b>\$ 65,030</b>	<b>\$ 22,659</b>

Government assistance of \$37,934 (2020 - \$17,615) relating to research and development (“R&D”) activities has been offset against R&D costs, and \$27,096 (2020 - \$5,044) relating to general and administrative activities has been offset against salaries and benefits.

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

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

Related parties include directors, companies controlled by directors, and senior management comprising the CEO, CFO, and CSO.

As at March 31, 2021, \$11,904 (December 31, 2020 - \$725,486) is due to Key Management Personnel (as defined below) representing accrued salaries and bonuses and the reimbursement of expenses. This amount is included in accounts payable and accrued liabilities.

As at March 31, 2021, a loan payable of \$567,362 (December 31, 2020 - \$238,121) is due to a Director of the Company representing principal and interest as outlined in Note 11.

As at March 31, 2021, a loan payable of \$257,150 (December 31, 2020 - \$nil) is due to a Director of the Company representing principal and interest as outlined in Note 11.

As at March 31, 2021, \$nil (December 31, 2020 - \$869,534) of convertible notes are held by a director of the Company representing principal and interest as outlined in Note 9. On March 9, 2021 \$882,575 of convertible notes held by a Director of the Company representing principal and interest as outlined in Note 9 were converted into 122,595 common shares.

As at March 31, 2021, \$nil (December 31, 2020 - \$5,851) is due from a company controlled by common directors. This amount is included in amounts receivable.

*Compensation for Key Management Personnel*

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

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

<b>Compensation, during the period ended</b>	March 31, 2021	March 31, 2020
Salaries - senior management	\$ 250,000	\$ 155,000
Retroactive salary adjustment and deferred compensation bonus – senior management	696,282	-
Stock-based compensation – options granted, senior management	2,042,602	39,534
Stock-based compensation – options granted, directors	425,066	-
<b>Total</b>	<b>\$ 3,413,950</b>	<b>\$ 194,534</b>

**EUPRAXIA PHARMACEUTICALS INC.**

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

**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021**

(Expressed in Canadian Dollars)

---

---

**17. FINANCIAL INSTRUMENTS**

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

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

*Credit risk*

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

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2021, the Company had a cash balance of \$31,116,013 (December 31, 2020 - \$150,126) and current liabilities of \$7,509,167 (December 31, 2019 - \$22,542,272). Management is currently working on certain strategic alternatives including, but not limited to, financing arrangements. There is no assurance, however, that any or all of these alternatives will materialize or that additional funding will be available, if and when needed.

*Market risk*

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

*Price risk*

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

*Interest rate risk*

Interest rate risk consists of two components; to the extent that payments are made or received on the Company's monetary assets or liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that the prevailing market interest rates differ from the interest rate on the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk. The Company is not exposed to significant interest rate risk with respect to its financial assets or liabilities.

**EUPRAXIA PHARMACEUTICALS INC.**

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

**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021**

(Expressed in Canadian Dollars)

---

---

**17. FINANCIAL INSTRUMENTS (continued)**

*Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign currency risk due to its frequency of transactions in US dollars. The Company does not use derivatives to hedge against this risk however, it has purchased sufficient US dollars to cover the anticipated costs of the Company's Phase 2 clinical trial. At March 31, 2021, the Company held cash of USD\$10,155,467 (December 31, 2020 - USD\$473) and had accounts payable of USD\$228,206 (December 31, 2020 - USD\$839,212) and had an amount owing to Auritec of USD\$nil (December 31, 2020 - USD\$3,971,475) which were translated to Canadian dollars at 1.2575 (December 31, 2020 - 1.2732). The impact of a 10% change in the exchange rates would have an impact of approximately \$1,248,000 (2020 - \$612,000) 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 fair value of other financial instruments, including cash, deposits, other and rent receivables, accounts payable and accrued liabilities, payable to Auritec Pharmaceuticals Inc. and loans payable, approximates their carrying values due to the short-term nature of these instruments.

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

**18. 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. The Company is not subject to any externally imposed capital requirements. There have been no changes to the Company's capital management during the period ended March 31, 2021.

**19. INTEREST EXPENSE**

Interest expense for the three-month periods ended March 31, 2021 and 2020 is comprised of the following:

	Three months ended March 31,	
	2021	2020
Interest on convertible notes (Note 9)	\$ 136,253	\$ 167,250
Interest and accretion on loans payable (Note 11)	266,868	282,110
Interest on lease liabilities (Note 13)	8,792	11,435
Interest on amount payable to Auritec (Note 20)	28,515	82,041
Other interest on accounts payable	11,681	10,603
<b>Total</b>	<b>\$ 452,109</b>	<b>\$ 553,439</b>

**EUPRAXIA PHARMACEUTICALS INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021**

(Expressed in Canadian Dollars)

**20. 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 was to pay US\$5,000,000 to Auritec (the “Upfront Fee”). In addition, Eupraxia USA has agreed to pay Auritec up to US\$30 million upon achievement of certain regulatory and commercial milestones related to products licensed under the Amended and Restated License Agreement (“Licensed Products”) as well as a royalty of 4% of net sales of Licensed Products by Eupraxia USA or its affiliates, subject to certain reductions. Eupraxia USA also agreed to pay to Auritec 20% of sublicensing royalties or other consideration based on net sales of Licensed Products. Eupraxia USA further agreed to pay Auritec a percentage of Non-Royalty Monetization Revenue (as defined in the Amended and Restated License Agreement), which includes payments received for a sale of Eupraxia USA or sale or sublicense of a Licensed Product, which percentage ranges from 30% to 15% depending on the development stage of the most-advanced Licensed Product, up to a maximum of US\$100 million.

Eupraxia USA had made a partial payment of US\$1,200,000 towards the Upfront Fee as of December 31, 2020. On January 6, 2021, Eupraxia USA and Auritec entered into the seventh amendment to the Amended and Restated License Agreement, pursuant to which the parties agreed to extend the deadline for the US\$3,800,000 balance of the Upfront Fee such that US\$1,650,000 would be paid on or prior to the earlier of January 8, 2021. Eupraxia USA paid such amount on January 6, 2021. The deadline for the remaining US\$2,150,000 balance plus outstanding interest was due on or prior to the earlier of December 31, 2021 or three days after which Eupraxia received aggregate proceeds of debt and/or equity financing of US\$12,000,000 or more. The remaining balance, including principal and accrued interest totalling US\$2,343,999, was paid to Auritec on March 9, 2021 following completion of the Company’s initial public offering.

**EUPRAXIA PHARMACEUTICALS INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

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

The following table summarizes the payments made with respect to the Upfront Fee in US dollars and Canadian dollars:

Upfront Fee payable	US\$	5,000,000	\$	6,480,500
Principal repayments		(1,200,000)		(1,604,151)
Monthly interest accrued		303,119		402,210
Monthly interest paid		(303,119)		(402,210)
Foreign exchange		-		59,091
<b>Balance payable at December 31, 2019</b>		<b>3,800,000</b>		<b>4,935,440</b>
Monthly interest accrued		214,225		284,255
Monthly interest paid		(42,750)		(56,687)
Foreign exchange		-		(106,526)
<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 March 31, 2021</b>	US\$	<b>-</b>	\$	<b>-</b>

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

FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2021

(Expressed in Canadian Dollars)

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

There were no income taxes paid during the three months ended March 31, 2021 and 2020.

The Company paid interest of \$257,419 (2020 - \$67,290) during the three months ended March 31, 2021.

The Company received interest of \$421 (2020 - \$423) during the three months ended March 31, 2021.

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 12.

The Company did not have any significant non-cash transactions for the three months ended March 31, 2020.

**22. SUBSEQUENT EVENTS****Partnership with Nordic Bioscience Clinical Development**

On April 14, 2021, the Company entered into an agreement with NBCD A/S ("NBCD"), a contract research organisation dedicated to clinical drug development and research in Osteo Arthritis, to conduct Eupraxia's EP-104IAR Phase 2 clinical trial that will initiate later this year. NBCD has also agreed to make a US\$500,000 investment in the Company on the same terms as the Company's initial public offering. NBCD's subscription for the investment was satisfied by setting off US\$500,000 of service fees otherwise payable by Eupraxia to NBCD and allows Eupraxia to expand enrollment in its EP-104IAR Phase 2 clinical trial. The Company has issued to NBCD 78,456 units of the Company at a price of \$8.00 per unit. Each unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant of the Company. Each warrant is exercisable into one common share of the Company at an exercise price of \$11.20 per warrant share at any time prior to April 14, 2026, 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. The warrants will be transferable but will not be listed on the TSX.

**Amended and Restated Stock Option Plan and Options Granted**

On May 3, 2021, the Company amended its amended and restated stock option plan (as amended, the "Amended Plan") to: (i) amend the maximum number of common shares that may be reserved and available for issuance upon exercise of stock options, from 15% of the aggregate of the Company's issued and outstanding common shares to 17% of the total number of issued and outstanding common shares (on a non-diluted basis), at the relevant time; and (ii) remove the overall common share limitation for all security based compensation arrangements contained in the Company's existing amended and restated stock option plan.

On May 3, 2021, the Board subsequently approved the grant of 257,000 options with an exercise price of \$8.00 per share. The options vest 25% as of the date of grant, 25% on the one year anniversary of the date of grant, 25% the two year anniversary of the date of grant and 25% on the three year anniversary of the date of grant.