EUPRAXIA PHARMACEUTICALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and six months ended June 30, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

This management's discussion and analysis ("**MD&A**") has been prepared as of August 12, 2022 and should be read in conjunction with the interim condensed consolidated financial statements of Eupraxia Pharmaceuticals Inc. ("**Eupraxia**" or the "**Company**") as at and for the three and six months ended June 30, 2022 and the related notes thereto and in conjunction with the audited consolidated financial statements of the Company and related notes thereto for the year ended December 31, 2021 which are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All dollar amounts are expressed in Canadian dollars unless otherwise noted. In this MD&A, unless the context requires otherwise, references to "we" or "our" are references to Eupraxia. Additional information relating to the Company is available in our annual information form ("**AIF**"), filed on SEDAR on March 29, 2022.

Forward-Looking Statements

Certain statements and information in this MD&A contain forward-looking statements or forward-looking information under applicable Canadian securities legislation that may not be based on historical fact, including, without limitation, statements containing the words "may," "might," "will," "likely", "could," "would," "should," "expect," "intend," "plan," "objective," "goal," "outlook," "anticipate," "believe," "estimate," "predict," "project," "forecast," "estimate," "potential," "target," "seek," "contemplate," "continue," "design," and "ongoing," or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words and similar expressions. Forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance or other statements that are not statements of fact. Such forward-looking statements are made as of the date of this MD&A.

Forward-looking statements are necessarily based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as the factors we believe are appropriate. Forward-looking statements in this MD&A include, but are not limited to, statements relating to:

- the Company's business strategies and objectives, including current and future plans, expectations and intentions;
- the Company's ability to obtain sufficient funding for our operations, including funding for research, development and commercial activities;
- the Company's projected operating expenses and capital expenditures;
- the Company's ability to achieve profitability;
- projected revenues, future trends, opportunities and growth in the Company's industry and the drug development markets;
- the Company's ability to maintain and enhance its competitive advantages and technological advantages;
- the entry into commercial partnerships and commercialization of our technology;
- the Company's ability to enter into definitive agreements with its contract research organizations;
- the Company's ability to enter into co-development and/or collaborative partnerships;
- the Company's clinical development activities;
- the timing and results of clinical trials;
- the EP-104IAR Phase 2 study, including the number of patients enrolled in the study, its projected timeline and completion;
- the success of regulatory submissions, including the clinical trial application ("**CTA**") for EP-104IAR;
- potential regulatory approval;
- hiring of additional research and development team members;
- the potential for the Company's technology to impact the drug delivery process;
- the Company's ability to protect, expand upon and exploit its existing intellectual property;
- development of additional intellectual property, ability to patent or otherwise protect such developed intellectual property and licenses with third parties for intellectual property;
- entry into sponsored research agreements and the benefits therefrom;
- competitive advantages of the Company and its technology;

- application of regulations and standards to the Company's future products and services or research and development activities;
- the Company's retention of funds or payment of dividends;
- the translation of the Company's technologies and expansion of its offerings into clinical applications;
- the benefits to patients from Eupraxia's platforms;
- the value of the strategic relationship to Eupraxia's clients and investors;
- the Company's engagement with legal and regulatory authorities in various jurisdictions;
- the demand and commercial viability of the Company's technology; and
- the demand and market acceptance for products developed by the Company.

Forward-looking statements and information involve significant risks, assumptions, uncertainties and other factors that may cause actual future results or anticipated events to differ materially from those expressed or implied in any forward-looking statements or information and, accordingly, should not be read as guarantees of future performance or results. These risks and factors include, but are not limited to:

- we have a limited operating history;
- we have a novel technology with uncertain market acceptance;
- if we breach any of the agreements under which we license rights to our product candidates or technology from third parties, we could lose license rights that are important to our business. Our current license agreement may not provide an adequate remedy for its breach by the licensor;
- our technology may not be successful for its intended use;
- our future technology will require regulatory approval, which is costly and we may not be able to obtain it and we may fail to obtain regulatory approvals or only obtain approvals for limited uses or indications;
- until contained, a global pandemic, including the ongoing COVID-19 pandemic, could cause a slowdown in global economic growth, impact the Company's business, operations, financial condition and share price and cause delays or disruptions to the running of Eupraxia's Phase 2 study;
- we completely rely on third parties to provide supplies and inputs required for our products and services;
- we rely on external contract research organizations to provide clinical and non-clinical research services;
- if we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our drug candidates, if approved, we may be unable to generate any product revenue;
- we rely on key personnel;
- we may not be able to successfully execute our business strategy;
- we will require additional financing, which may not be available;
- we are in a highly competitive industry which is continuously evolving with technological changes;
- our future success will depend on our ability to continually enhance and develop our products and services;
- if we are unable to differentiate EP-104IAR from existing therapies for treatment of osteoarthritis ("**OA**"), or if the US Food and Drug Administration (the "**FDA**") or other applicable regulatory authorities approve new or generic products that compete with EP-104IAR, our ability to successfully commercialize EP-104IAR would be adversely affected;
- a variety of risks associated with potential international business relationships could materially adversely affect our business;
- core development and/or collaboration arrangements we may enter into in the future may not be successful;
- we may acquire businesses or products, or form strategic alliances in the future, and we may not realize the benefits of such acquisitions or alliances;
- we do not have any long-term customer commitments;
- we have traditionally relied on key collaborations and grants;
- our business and operations would suffer in the event of computer system failures, cyberattacks, or a deficiency in our cyber security;
- we may fail to manage our growth successfully which may adversely impact our operating results;
- any therapeutics we develop will be subject to extensive, lengthy and uncertain regulatory requirements, which could adversely affect our ability to obtain regulatory approval in a timely manner, or at all;
- we may not be able to obtain marketing approval;
- we rely on the protection of our intellectual property rights;
- we may not be able to enforce our intellectual property rights throughout the world;

- guidelines and recommendations published by various organizations can reduce the use of products that we may commercialize;
- patent reform legislation in the United States;
- risk of reduced or eliminated patent protection from non-compliance with regulatory requirements;
- we may infringe the intellectual property rights of others;
- we may be subject to claims arising from consultants or contractors misappropriating intellectual property;
- we use hazardous chemicals and biological materials in our business. Any claims relating to improper handling, storage or disposal of these materials could be time consuming and costly;
- if product liability lawsuits are brought against us, then we may incur substantial liabilities and may be required to limit commercialization of EP-104IAR, if approved, and any other future products;
- our employees, independent contractors, principal investigators, consultants, commercial partners and vendors may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements and insider trading, which could significantly harm our business;
- we may be subject to securities litigation, which is expensive and could divert management attention;
- we may be unable to adequately prevent disclosure of trade secrets and other proprietary information;
- lawsuits relating to intellectual property infringement will be costly and time consuming;
- intellectual property disputes could distract the Company's personnel from their normal responsibilities;
- our directors may serve as directors of other biotech companies and may have conflicts of interest;
- our business may be affected by macroeconomic conditions;
- our business may be affected by global geopolitical risks, including the current conflict between Russia and Ukraine;
- we may be responsible for corruption and anti-bribery law violations;
- we are subject to foreign exchange risks;
- we are subject to taxation risks and changing rules by different tax authorities;
- we have had negative operating cash flows since inception and expect to incur losses for the foreseeable future;
- we are subject to a number of risks and hazards, of which not all of them may be sufficiently insured for;
- we will devote significant resources to regulatory compliance as a public entity;
- coverage and reimbursement may be limited or unavailable in certain market segments for our product candidates, if approved, which could make it difficult for us to sell any product candidates or therapies profitably;
- our relationships with healthcare providers and physicians and third-party payors will be subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings;
- ongoing healthcare legislative and regulatory reform measures may have a material adverse effect on our business and results of operations;
- investing in the Common Shares of the Company is speculative, and investors could lose their entire investment;
- we may experience fluctuations in our market value;
- our Common Shares could be subject to large price and volume volatility;
- we will need to raise additional financing in the future which may dilute our share capital;
- we have no history of dividends;
- there is no established market for certain securities;
- our existing executive officers and directors own a significant percentage of Common Shares and will be able to exert a significant control over matters submitted to the Company's shareholders for approval;
- future sales of Common Shares by our existing shareholders could cause the Company's share price to decline;
- we may issue, without shareholder approval, Preferred Shares (as defined in the Base Shelf Prospectus dated January 10, 2022 (the "Shelf Prospectus")) that have rights and preferences potentially superior to those of the Common Shares; and
- if equity research analysts do not publish research or reports about our business or if they issue unfavourable commentary or downgrade our Common Shares, the price of the Common Shares could decline.

Such statements reflect our current views with respect to future events, are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Eupraxia as of

the date of such statements, are inherently subject to significant medical, scientific, business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to (i) the Company's ability to attract and retain skilled staff; (ii) future research and development plans for the Company proceeding substantially as currently envisioned; (iii) industry growth trends, including with respect to projected and actual industry sales; (iv) the Company's ability to obtain positive results from the Company's research and development activities, including clinical trials; (v) sufficient working capital[1] and the Company's ability to control costs and raise additional financing going forward; (vi) obtaining regulatory approvals and the potential benefits of our products, if approved; (vii) general business and economic conditions; (viii) the Company's ability to achieve profitability; (ix) the Company's ability to successfully commercialize its current products, enter into commercial partnerships and develop new products; (x) the availability of financing on reasonable terms; (xi) market competition; (xii) the products and technology offered by the Company's competitors; (xiii) the Company's ability to protect patents and proprietary rights; (xiv) the impact of the COVID-19 pandemic on our business, our industry and the economy; and (xv) the availability and cost of personnel, materials and supplies.

In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks outlined herein under the headings "*Credit risk*", "*Liquidity risk*", "*Market risk*", *"Price risk", "Interest rate risk"* and "*Foreign currency risk*" and under the heading "*Risk Factors*" in the Shelf Prospectus and the AIF. Should one or more of these risks or uncertainties, or a risk that is not currently known to us materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by applicable securities laws. Investors are cautioned that forward-looking statements are not guarantees of future performance and are inherently uncertain. Accordingly, investors are cautioned not to put undue reliance on forward-looking statements.

COVID-19

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. However, 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.

Overview of the Company

Eupraxia is a clinical stage biotechnology company focused on the development of locally delivered, extended-release alternatives to existing pharmaceuticals. Leveraging our proprietary and innovative delivery technology, Eupraxia's goal is to provide the right dose of drug, in the right place, for the right amount of time in indications with a high unmet medical need. Each of Eupraxia's product candidates are designed to achieve improved patient benefit by providing longer term activity than currently available treatments, combined with precisely targeted local delivery. We believe a product with this profile could offer the dual potential of providing long-lasting treatment while minimizing tolerability complications in target and non-target tissues. The Company strategy is to develop a portfolio of product candidates based on this delivery technology.

Eupraxia's lead product candidate, EP-104IAR, is designed to meet the significant unmet medical need and market demand for long-lasting pain relief for knee OA. Knee OA accounts for approximately 80% (US$5.6 billion) of the

[1] Working Capital is a non-IFRS financial measure. Management believes Working Capital is a meaningful indicator of the operating liquidity available to the Company and is comprised of current assets less current liabilities.

global US$7.3 billion OA therapeutics market[2], which is currently underserved by the available approved pharmaceuticals.

Overview of Osteoarthritis

OA is a chronic progressive disease characterized by deterioration of joint cartilage and inflammation[3] which results in pain and stiffness, usually in the morning or after a period of inactivity; and loss of joint function which limits daily activities. In normal joints, cartilage acts as a cushion between bones and provides a smooth gliding surface for movement[4]. In OA, the inflammatory processes integral to disease progression damages the cartilage, and over time cartilage wears away, causing bone to rub directly against bone resulting in joint damage, severe pain and disability[5].

Globally, OA is the leading cause of disability in older adults[6]. Estimates of prevalence and incidence vary according to the definition of OA used (i.e., radiographic (X-Ray) versus symptomatic) and the joints assessed. Approximately 10-15% of all adults over the age of 60 have some form of OA, with the knees being the most commonly affected joints. Knee OA is a leading cause of lower extremity disability in the developed world[7,8] OA is estimated to affect more than 30 million patients in the United States alone[8], including an estimated 14 million people with symptomatic knee OA[9]. It is also often associated with depression and loss of sleep which can greatly affect quality of life, causing further impact on the public health system.

Current evidence-based OA treatment guidelines aim to manage signs and symptoms, with the goal of slowing progression if possible. Recommended pharmacological interventions include topical and oral non-steroidal anti-inflammatory drugs, and IA corticosteroids. IA corticosteroid injections have been used for decades to manage pain and stiffness associated with inflammation in knee OA and have been approved by regulatory authorities as safe and effective[10]. However, IA corticosteroid injections often result in suboptimal patient outcomes due to their short duration of activity and systemic side effects such as flushing, glucose alterations and cortisol suppression due to the high peak exposures required to maintain efficacious concentrations for prolonged durations. Evidence is also emerging regarding the risk of adverse joint findings and/or OA progression following frequent/repeated immediate release IA corticosteroid injections[11].

Composition of EP-104IAR

EP-104IAR contains a solid core of the active ingredient Fluticasone Propionate ("**FP**") with an outer layer of the biocompatible polymer, PVA. The PVA-coated FP particles are heat-treated to form the extended-release product EP-104IAR.

The active ingredient of EP-104IAR is FP, a synthetic trifluorinated corticosteroid with potent anti-inflammatory activity and a well-established systemic safety record in the form of widely used inhaled, intranasal and topical agents. FP has shown to be locally active, and what little is absorbed is rapidly metabolized. Relative to other corticosteroids (including triamcinolone acetonide or "TCA"), FP has a high affinity for the glucocorticoid receptor, low solubility,

[2] Market and Markets. Osteoarthritis Therapeutics Market: Global forecast to 2025. 2022.
[3] Chow, Y.Y., Chin, K.Y. The Role of Inflammation in the Pathogenesis of Osteoarthritis. *Mediators of Inflammation*, 2020, DOI: 10.1155/2020/8293921.
[4] Michael, J.W.P; Schluter-Brust, K.U.: Eysel, P. The Epidemiology, Etiology, Diagnosis, and Treatment of Osteoarthritis of the Knee. *Dtsch Arztebel Int.* 2010, 107(9): 152-62. DOI: 10.3238/arztebl.2010.0152.
[5] Sinusas, K. Osteoarthritis: Diagnosis and Treatment. *Am Fam Physician.* 2012, 85(1): 49 – 56.
[6] WHO Department of Chronic Diseases and Health Promotion. Available at: http://www.who.int/chp/topics/rheumatic/en/.
[7] Cross, M, et al. The global burden of hip and knee osteoarthritis: estimates from the Global Burden of Disease 2010 study. *Ann Rheum Dis*. 2014, 73 :1323 – 1330. DOI: 10.1136/annrheumdis-2013-204763.
[8] Osteoarthritis Fact Sheet. Centers for Disease Control and Prevention. Available at www.cdc.gov/arthritis/basics/osteoarthritis.htm. January 10, 2019.
[9] Vina, E.R.; Kwoh, C.K. Epidemiology of osteoarthritis: literature update. *Curr Opin Rheumatol*. 2018, 30(2):160 – 167. DOI:10.1097/BOR.0000000000000479.
[10] Bellamy N. et al. Intraarticular corticosteroid for treatment of osteoarthritis of the knee (Review). Cochrane Database of Systematic Reviews 2006, Issue 2. Art. No.: CD005328. DOI: 10.1002/14651858.CD005328.pub2.
[11] McAlindon T.E., et al. Effect of intra-articular triamcinolone vs saline on knee cartilage volume and pain in patients with knee osteoarthritis: a randomized clinical trial. *JAMA*. 2017. 317(19):1967 - 1975. DOI: 10.1001/jama.2017.5283.

a low rate of dissociation, and a comparatively long half-life. The Company believes these characteristics make the drug an excellent candidate for prolonged anti-inflammatory activity.

FP is currently approved by the FDA, Health Canada, European Medicines Agency ("**EMA**") and many other regulatory agencies around the world for the treatment of symptoms of asthma, rhinitis, nasal polyps and a variety of inflammatory skin conditions. It has an established history of clinical efficacy and safety in its marketed inhaled and topical formulations in the form of Flovent®, Advair® and Cutivate®, amongst others. To the Company's knowledge, EP-104IAR is the only extended-release formulation of FP in development. FP is not currently approved for use in any formulation for the treatment of OA pain.

EP-104IAR Development

Eupraxia has completed Investigational New Drug ("**IND**") enabling non-clinical studies, which demonstrated EP-104IAR has a potentially favourable tolerability profile, and a Phase 1 clinical study in 32 knee OA patients. See "*Clinical Development*" below. Eupraxia initiated a Phase 2 efficacy and safety study in 2021, under a CTA in Denmark, Poland and the Czech Republic. The open IND application related to this Phase 2 study protocol remains in effect with the US FDA. The first patient was dosed in the second half of 2021.

Eupraxia anticipates submitting a New Drug Application ("**NDA**") under the *Federal Food, Drug, and Cosmetic Act* (the "**FDCA**"), Section 505(b)(2) with the FDA, for approval of EP-104IAR, which is required before marketing a new drug in the United States. A 505(b)(2) NDA will rely in part on non-clinical studies and clinical trials conducted by Eupraxia, and in part on third-party findings of safety and efficacy for the active ingredient for which Eupraxia does not have a right of reference or which have been established in the scientific literature in the public domain. Eupraxia intends to conduct activities to support marketing approval and commercialisation of EP-104IAR in the United States and globally.

Eupraxia's Pipeline Product Candidates

Eupraxia's technology platform is potentially suitable for a wide range of indications and drugs that may be improved by an extended-release profile. The technology takes advantage of controlled diffusion of drug from the central core across a polymer-based membrane. Eupraxia can alter the polymer amount, composition and manufacturing parameters with the intent of achieving drug release rates that are designed to maximize disease treatment and reduce side effects. Unlike other technologies in which the drug is less than 20% of the injected material, with Eupraxia's technology the drug comprises more than 90% of the formulation given to patients.

In addition to EP-104IAR, Eupraxia is developing a pipeline of earlier-stage long-acting formulations. Eupraxia may develop pipeline candidates for a range of indications such as post-surgical pain (EP-105), and post-surgical site infections (EP-201), each designed to improve on the activity and tolerability of approved drugs. Eupraxia continues to seek a partner for the development, regulatory approval and commercialization of the veterinary version of EP-104IAR.

Clinical Development

Phase 1

Eupraxia completed a Phase 1, double-blind, placebo-controlled clinical study at three sites in Canada[12]. Thirty-two patients with moderate to severe knee OA pain were given a single dose of 15 mg EP-104IAR (n=24) or placebo (n=8) and evaluated for up to 42 weeks or until the patient returned to baseline pain. The final median post-administration follow-up in the study was 23 weeks. The primary outcome measures were safety and pharmacokinetics ("**PK**"). The study was not powered to detect efficacy; however, patient reported outcome measures were collected and analyzed to evaluate pain and symptom relief. Despite the limitations of this study (the small size, the low dose, nine subjects received significantly less than the target dose, and that two placebo subjects demonstrated a delayed high reduction

[12] Details of the Phase 1 clinical study can be found on the US National Institutes of Health ("**NIH**") database Clinicaltrials.gov, reference number NCT02609126.

in pain), the Company believes it provides tolerability and PK data, and preliminary clinical activity data that support future development of EP-104IAR.

Phase 2

Eupraxia is conducting a Phase 2 clinical study for EP-104IAR which began in 2021[13]. The study is evaluating the efficacy, safety and PK of 25 mg EP-104IAR over six months in patients with moderate knee OA as defined by Kellgren Lawrence Grading. The primary endpoint in the trial will be difference from placebo in change from baseline Western Ontario and McMaster Universities Osteoarthritis Index (WOMAC) pain scores at 12 weeks. Secondary endpoints include comparative measures of pain and function at 12 and 24 weeks. The trial is being run by Nordic BioScience Clinical Development ("**NBCD**"), who have a proven track record in OA clinical trials. An active CTA is in place in Denmark, Poland and Czech Republic. An open IND is also in effect in the United States should the need arise to expand subject recruitment to additional sites. The trial anticipates enrolling 300 patients. Patient screening began in Q3 2021 with top-line data readout anticipated in Q1 of 2023.

Phase 3

In order to seek marketing approval for EP-104IAR, the Company will be required to carry out at least one Phase 3 study with at least several hundred patients. The target patient population will be dependent on the advice of our clinical advisors, key opinion leaders, discussions with the FDA and EMA, and the results from the Phase 2 study. In the Phase 3 program, Eupraxia anticipates patients will participate in the trial over a 12-month period. In addition to efficacy and safety assessments, Eupraxia plans to evaluate the impact of EP-104IAR on cartilage health (e.g., via X-Ray and/or MRI).

Clinical Development

The FDA requires two adequate and well-controlled clinical trials demonstrating the safety and efficacy of any proposed new treatment as part of the NDA. For EP-104IAR, this will require data from the proposed Phase 2 study and at least one other Phase 3 study. To fulfil requirements under the 505(b)(2) pathway, Eupraxia may also be required to conduct a clinical trial to establish PK equivalence between EP-104IAR and Flovent® HFA. Additional clinical studies and/or analyses may be required for alternate regulatory jurisdictions.

Development Timelines

Eupraxia currently anticipates advancing the development of EP-104IAR through to completion of Phase 2 within the next two years. The figure below summarizes our current estimates of development timelines for EP-104IAR.

Eupraxia's Estimated Product Development Timelines to End of Phase 2

Program	Development Milestones	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4
EP-104IAR	Phase 2 Efficacy Study												
	Manufacturing Optimisation for Phase 3												
	Non-clinical Studies to support Phase 3												
	End of Phase 2 Meeting												
	Phase 3 Efficacy Study												

[13] Details of the Phase 2 trial can be found on the US NIH database Clinicaltrials.gov; reference number NCT04120402.

Eupraxia Business Strategy

Eupraxia's goal is to deliver long-acting medications based on proven treatments in areas of high unmet medical need.

Our focus over the 24 months following the date of this MD&A will be the execution of the EP-104IAR development program, including:

- Initiation and completion of the Phase 2 clinical study to evaluate the safety and efficacy of EP-104IAR to support a new drug application;
- Manufacturing optimization to simplify the supply chain, reduce the cost of goods and manufacture Phase 3 material;
- Complete non-clinical studies to support subsequent Phase 3 clinical studies that would enhance the EP-104IAR label (e.g., a multi-dose study) and evaluate the safety and biocompatibility of all excipients;
- Conduct an End of Phase 2 meeting with the FDA; and
- Initiate a Phase 3 clinical study to demonstrate the safety and efficacy of EP-104IAR to support a new drug application.

Additional EP-104IAR development activities will include interactions with key regulatory authorities, such as the FDA and the EMA, to obtain program guidance and explore expedited review program options (e.g., Fast Track, Breakthrough Therapy) as well as the continued strengthening of the intellectual property (IP) portfolio around the technology.

In parallel, the Company will seek out licencing, co-development or marketing partners for its technology, with the potential to expand and exploit its application fully. It is the Company's intention to put in place conditions and resources that support the success of the development program, marketing authorization(s) and commercialization across multiple jurisdictions, as well as exploitation of any opportunities for lifecycle and patent extension. Depending on market conditions, this may take the form of co-development or commercialization partnerships, transactional opportunities and/or public financing options.

Pipeline programs are another area of potential growth in the 24 months following the date of this MD&A. Eupraxia's technology is potentially compatible with a wide variety of drugs and therapeutic indications. Our pipeline strategy focusses on modulating the release of existing drugs to achieve better clinical outcomes in areas of high medical need. The technology has the potential to be particularly suitable for diseases requiring precisely targeted and controlled localized therapy where broader tissue or systemic exposure should be avoided (e.g., tumour oncology).

We currently have several pipeline candidates in development. Our goal is to add a further 1-2 new pipeline product candidates over the 24 months following the date of this MD&A to allow for sustained corporate growth. Eupraxia expects that this will involve a multidisciplinary review of candidate drugs, formulation development, *in vitro* screening to identify the most promising lead candidates and non-clinical proof-of-concept studies. Information generated from these inquiries will be used to determine whether the Company proceeds with further development.

Selected Financial Information

The financial information reported here-in has been derived from the interim condensed consolidated financial statements prepared in accordance with IFRS as issued by the IASB including IAS 34 "Interim Financial Reporting". The Canadian dollar is the Company's functional and presentation currency. From time to time, the Company may deal with manufacturers and consultants in other countries (primarily the United States). Our financial results may be subject to fluctuations between the Canadian dollar and other international currencies, primarily the U.S. dollar.

Selected Interim Condensed Consolidated Statement of Financial Position Data

	June 30, 2022	December 31, 2021
	$	$
Cash and cash equivalents	17,392,481	20,892,069
Short-term investments	18,062,571	9,008,855
Net working capital	32,803,417	28,333,840
Total assets	37,060,462	31,222,067
Total non-current financial liabilities	9,858,892	9,401,343
Equity attributable to owners of the Company	24,702,119	20,386,772
Non-controlling interest	(1,092,236)	(833,836)
Total shareholders' equity	23,609,883	19,552,936

Cash and cash equivalents decreased by $3,499,588 to $17,392,481 as at June 30, 2022. The decrease is due primarily to the net loss of $10,039,270 for the six months ended June 30, 2022 offset by funds received as a result of the April 20, 2022 financing.

Short-term investments increased by $9,053,716 to $18,062,571. This increase reflects funds received as a result of the April 20, 2022 financing and subsequent investment in short term investment vehicles.

Working capital increased by $4,469,577 to $32,803,417 as at June 30, 2022. The increase is due primarily to the funds received as a result of the April 20, 2022 financing and an increase in accounts payable and accruals of $1,315,285 offset by net loss of $10,039,270 for the six months ended June 30, 2022.

Total assets increased by $5,838,395 to $37,060,462 as at June 30, 2022. The increase is due primarily to the funds received as a result of the April 20, 2022 financing offset by the cash used in operating activities during the six months ended June 30, 2022.

Total non-current financial liabilities increased by $457,549 to $9,858,892 as at June 30, 2022. This increase was attributable to accrued interest and accretion on the convertible debt facility obtained from Silicon Valley Bank ("SVB").

The Company did not pay any dividends or make any distributions to shareholders in any of the above periods.

Selected Interim Condensed Consolidated Statements of Operations and Comprehensive Loss Data

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
	$	$	$	$
Revenue	-	-	-	-
Total comprehensive income (loss) – Owners of the Company	(6,090,088)	(5,437,025)	(9,780,870)	(14,297,048)
Total comprehensive income (loss) – Non-controlling interest	(189,636)	(158,040)	(258,400)	(159,859)
Weighted average shares outstanding, basic and diluted	19,900,173	13,232,891	17,087,013	10,538,637
Loss per share, basic and diluted – Owners of the Company	(0.31)	(0.41)	(0.57)	(1.36)
Loss per share, basic and diluted – Non-controlling interest	(0.01)	(0.01)	(0.02)	(0.02)

The comprehensive loss for the three months ended June 30, 2022 increased by $684,659 when compared to the three months ended June 30, 2021, primarily due to the following:

- Increase in general and administration costs of $106,469 over the comparative period. This was due an increase in headcount related costs and insurance fees;
- Increase in research and development expenses of $1,285,073resulting from the continued activities associated with the Phase 2 clinical trial for EP-104IAR;
- Increase in depreciation and amortization of $28,585 due to an increase in equipment purchases;
- Decrease in stock-based compensation of $255,900 due to fewer options granted and vested during the period; and
- Decrease in other income (expenses) of $479,567 due primarily to a loss on conversion of notes of $324,561 which occurred during the three months ended June 30, 2021.

The comprehensive loss for the six months ended June 30, 2022 decreased by $4,417,637 when compared to the six months ended June 30, 2021, primarily due to the following:

- Decrease in general and administration costs of $807,816 over the comparative period. This was due to significant costs associated with the Company going public in March 2021;
- Increase in research and development expenses of $2,561,135 resulting from the continued activities associated with the Phase 2 clinical trial for EP-104IAR;
- Increase in depreciation and amortization of $47,712 due to an increase in equipment purchases;
- Decrease in stock-based compensation of $2,440,749 due to fewer options granted and vested during the period; and
- Decrease in other income (expenses) of $3,777,918 due primarily to the loss on conversion of notes of $2,260,477 and change in fair value of warrant liability of $1,273,221 which occurred during the six months ended June 30, 2021.

Comparison of the Three and Six Months Ended June 30, 2022 and 2021

Results of Operations

	Three months ended June 30, 2022 $	Three months ended June 30, 2021 $	Six months ended June 30 2022 $	Six months ended June 30, 2021 $
General and administrative expenses	910,822	804,353	1,790,864	2,598,680
Research and development expenses	4,910,791	3,625,718	6,856,557	4,295,422
Depreciation and amortization	48,898	20,313	88,263	40,551
Stock-based compensation	272,027	527,927	798,369	3,239,119
Other income (expense)	(137,186)	(616,754)	(505,217)	(4,283,135)
Total comprehensive loss	**(6,279,724)**	**(5,595,065)**	**(10,039,270)**	**(14,456,907)**

General and Administrative

General and administrative expenses consist of office and administrative costs, professional fees, public company costs, salaries and benefits.

Comparing the three months ended June 30, 2022, to the same period in 2021, general and administrative activities increased by $106,469. This increase is due to the following items:

- A decrease of $91,436 related to professional fees. Fees in the comparative period were much higher due to increased legal fees associated with the Initial Public Offering and the transition to being a public company.
- An increase related to staff compensation of $128,382. This increase is primarily due to an increase in director's fees and increase in staff during the three months ended June 30, 2022.
- A decrease of $978 related to public company costs that were incurred as a result of listing on the TSX in March 2021.
- An increase of $70,501 related to general and administrative costs in the form of increased director and officers' liability insurance premiums, travel costs and office expenses.

Comparing the six months ended June 30, 2022, to the same period in 2021, general and administrative activities decreased by $807,816. This decrease is due to the following items:

- A decrease of $744,882 related to professional fees. Fees in the comparative period were much higher due to increased legal fees associated with the Initial Public Offering and the transition to being a public company.
- A decrease related to staff compensation of $167,245. This decrease is primarily due to a one-time retroactive pay adjustment that occurred during the six months ended June 30, 2021 offset by an increase in staff during the six months ended June 30, 2022.
- A decrease of $127,565 related to public company costs that were incurred as a result of listing on the TSX in March 2021.
- An increase of $231,876 related to general and administrative costs in the form of increased director and officers' liability insurance premiums, travel costs and office expenses.

Research and Development

Comparing the three months ended June 30, 2022, to the same period in 2021, research and development activities increased by $1,285,073. This increase is due to the following items:

- An increase of $556,023 related to costs associated with EP-104IAR for the Phase 2 clinical trial offset by an increase in government grants of $88,922.

- An increase related to staff compensation of $204,934. This increase is due to an increase in staff during the three months ended June 30, 2022.
- Increase of $524,116 related to pipeline development and other costs offset by an increase in government grants

Comparing the six months ended June 30, 2022, to the same period in 2021, research and development activities increased by $2,561,135. This increase is due to the following items:

- An increase of $1,886,767 related to an increase in costs associated with EP-104IAR for the Phase 2 clinical trial offset by an increase in government grants of $203,172.
- An increase related to staff compensation of $179,381. This increase is due to a one-time retroactive pay adjustment that occurred during the six months ended June 30, 2021 offset by an increase in staff during the six months ended June 30, 2022.
- Increase of $494,987 related to pipeline development and other costs offset by an increase in government grants.

Other income (expenses)

Comparing the three months ended June 30, 2022, to the same period in 2021, other income (expenses) decreased by $479,568. This decrease is due to the following items:

- A decrease of $324,561 related to a loss on the conversion of Convertible Notes and Special Warrants. Upon conversion, the difference between the financial liability and the fair market value was recorded in other income (expenses) during the three months ended June 30, 2021.
- An increase of $99,401 to interest income as a result of interest earned on cash as well as short term investments.
- An increase of $185,427 to interest expense primarily due to interest accrued on the convertible debt facility.
- An increase of $249,411 related to foreign exchange loss. The increase in foreign exchange loss is a result of fluctuations in the US dollar exchange rate versus the Canadian dollar on our US denominated cash and liabilities during the current period.
- Loss on disposal of assets of $8,380.

Comparing the six months ended June 30, 2022, to the same period in 2021, other income (expenses) decreased by $3,777,918. This decrease is due to the following items:

- A decrease of $2,260,477 related to a loss on the conversion of Convertible Notes and Special Warrants. Upon conversion, the difference between the financial liability and the fair market value was recorded in other income (expenses) during the six months ended June 30, 2021.
- A decrease of $1,273,221 related to the change in fair value of warrant liability. As a result, the financial liability was reclassified as equity as of March 9, 2021 and the difference in fair value was recorded in other income (expenses) during the six months ended June 30, 2021.
- An increase of $134,603 to interest income as a result of interest earned on cash equivalents as well as short term investments.
- An increase of $67,908 to interest expense as a result of the conversion of convertible notes, special warrants and loans payable which occurred during the six months ended June 30, 2021. This was partially offset by interest accrued on the convertible debt facility.
- An increase of $185,903 related to foreign exchange gain. The increase in foreign exchange loss is a result of fluctuations in the US dollar exchange rate versus the Canadian dollar on our US denominated cash and liabilities during the current period.

Summary of Quarterly Results

The information in the tables below has been derived from the Company's unaudited interim condensed consolidated financial statements. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter. All dollar amounts are expressed in Canadian dollars.

	Jun 30, 2022 $	Mar 31, 2022 $	Dec 31, 2021 $	Sep 30, 2021 $	Jun 30, 2021 $	Mar 31, 2021 $	Dec 31, 2020 $	Sep 30, 2020 $
Total Revenue	-	-	-	-	-	-	-	-
Total comprehensive income (loss)	(6,279,724)	(3,759,546)	(3,777,460)	(5,135,184)	(5,595,065)	(8,861,842)	(139,842)	(728,218)
Loss per share, basic and diluted	(0.32)	(0.26)	(0.27)	(0.36)	(0.42)	(1.13)	(0.02)	(0.12)

The net loss of the Company has increased since the completion of the Initial Public Offering in the first quarter of 2021. This is a result of the commencement of activities associated with the Phase 2 clinical trial for EP-104IAR, and general and administration expenses and other expenses that were associated with the Initial Public Offering. This trend is expected to continue into the future. Research and development expenses are expected to remain high as we undertake our Phase 2 clinical trial and incur significant costs for contract research organizations and consultants, and further investment in additional drug candidates in support of broader pipeline development. General and administrative expenses are likely to increase in the future as a result of increased costs associated with public company compliance.

Use of Proceeds

The following table shows the estimated use of net proceeds for each financing, compared with the actual use of net proceeds:

March 2021 Financing

	Estimated Amount to be Expended $	Actual Amount Expended $
Research and Development	26,078,000	20,773,000
General and administrative expenses	11,742,000	9,765,000
Total	**37,820,000**	**30,538,000**

April 2022 Financing

	Estimated Amount to be Expended $	Actual Amount Expended $
Research and Development	8,500,000	-
General and administrative expenses	5,100,000	-
Total	**13,600,000**	**-**

There have been no material variances to the way the Company intended to use proceeds from the Offerings.

Liquidity, Capital Resources and Outlook, Management of Cash Resources

As of June 30, 2022, the Company had cash and cash equivalents of $17,392,481 (December 31, 2021 - $20,892,069), short-term investments of $18,062,571 (December 31, 2021 - $9,008,855) and a working capital balance of $32,803,417 (December 31, 2021 – working capital balance of $28,333,840).

The Company's business currently does not generate revenue or positive cash flows from operations and is reliant on equity and debt financing to provide the necessary cash to continue its research and development activities and ongoing operations. There can be no assurance that equity financings will be available in the future with terms that are satisfactory to the Company.

The Company's cash flow forecasts are continually updated to reflect actual cash inflows and outflows so to monitor the requirements and timing for additional financial resources. Given the volatility of the Canadian and U.S. dollar ("**USD**") exchange rate, the Company estimates its USD expenses for the year and sets aside appropriate levels of USD cash. By holding USD, the Company remains subject to currency fluctuations which effect its loss during any given year.

Further, we continue to monitor additional opportunities to raise equity capital and/or secure additional funding through non-dilutive sources such as government grants and additional license agreements. However, it is possible that our cash and working capital position may not be enough to meet our business objectives in the event of unforeseen circumstances or a change in our strategic direction.

The Company completed an Initial Public Offering for gross proceeds of $41,000,000 and entered into a Debt Agreement for an additional $10,000,000 during the course of 2021. In addition, the Company completed an Offering of approximately $14,700,000 on April 20, 2022. These funds will be used to fund our Phase 2 clinical trial and advance other drugs in the Company's pipeline. The remainder of the net proceeds will be used for working capital

and general corporate purposes and based on current forecasts, will be sufficient to fund the Company through to Q4 of 2023.

Comparison of Cash Flow

Net cash provided by (used in):	Six months ended June 30, 2022 $	Six months ended June 30, 2021 $
Operating activities	(7,609,369)	(8,608,193)
Investing activities	(9,163,224)	(5,068,661)
Financing activities	13,207,337	49,664,084
Net increase (decrease) in cash and cash equivalents	**(3,565,256)**	**35,987,230**
Foreign exchange effect on cash and cash equivalents	65,668	(61,500)

Cash used in operating activities for the six months ended June 30, 2022 decreased by $998,824 compared to the same period in the prior year. There were increased costs associated with EP-104IAR for the Phase 2 clinical trial during the six months ended June 30, 2022. In addition, the company incurred fewer costs professional fees and costs related to public company fees for publicly listing.

Cash used in investing activities for the six months ended June 30, 2022 increased by $4,094,563 compared to the same period in the prior year. During the six months ended June 30, 2022, the Company's use of cash for investing activities consisted of the purchase of computer and lab equipment and purchasing short term investments compared to the six months ended June 30, 2021 in which cash was used primarily for the settlement of the amount payable to Auritec in relation to the licensing agreement.

Cash used in financing activities for the six months ended June 30, 2022 decreased by $36,456,747 compared to the same period in the prior year. During the six months ended June 30, 2022, the Company's cash provided for financing activities was primarily due to net funds of $13,297,848 received as a result of the April 20, 2022 financing as compared to cash provided by financing activities for the same period in the prior year, of which $37,877,184 was due to the proceeds received from the Initial Public Offering in addition to $11,730,748 received from various loans as well as the convertible debt.

Going Concern

The interim condensed consolidated financial statements have been prepared on a going concern basis with the assumption that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. At June 30, 2022, the Company had cash and cash equivalents of $17,392,481, short term investments of $18,062,571 and working capital of $32,803,417 and the Company has not yet generated revenue from operations. The Company incurred a net loss of $10,039,270 during the six months ended June 30, 2022 and, as of that date, the Company's accumulated deficit was $83,967,633. As the Company is in the research and development stage, the recoverability of the costs incurred to date is dependent upon the ability of the Company to obtain the necessary financing to complete the research and development of its projects and upon future profitable production or proceeds from the monetization of research activities to date. The Company is active in its pursuit of additional funding through partnering, and other strategic activities, as well as via grants, to fund future research and development activities and will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future, especially with recent developments in Russia and Ukraine affecting the global capital markets in addition to the ongoing impact of COVID-19. These events and conditions indicate a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The interim condensed consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

Long-Term Obligations and Other Contractual Commitments

The Company may be required to make milestone, royalty, and other research and development funding payments under research and development collaboration and other agreements with third parties. These payments are contingent upon the achievement of specific development, regulatory and/or commercial milestones. The Company has not accrued for these payments as at June 30, 2022 due to the uncertainty over whether these milestones will be achieved. The Company's significant contingent milestone, royalty and other research and development commitments are as follows:

Auritec License Agreement

Auritec is a privately held clinical-stage drug delivery company that holds patents in the field of extended-release delivery of drug products utilizing its proprietary drug delivery platform, the "Plexis Platform". Eupraxia, through its subsidiary, Eupraxia USA, is a party to an amended and restated license agreement dated effective October 9, 2018 (as further amended, the "**Amended and Restated License Agreement**") with Auritec.

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 the Plexis Platform for the delivery of fluticasone in all medical fields (except for the Excluded Fields), to develop, make, have made, manufacture, use, commercialize, sell, sub-license, offer for sale, import, and have imported the Licensed Products.

Pursuant to the terms of the Amended and Restated License Agreement, in consideration for the rights and exclusive license granted to Eupraxia USA, Eupraxia USA was required to pay an Upfront Fee (as defined in the Amended and Restated License Agreement) of USD5,000,000. As of the date of this MD&A, Eupraxia USA has fully paid the Upfront Fee.

In addition to the Upfront Fee, pursuant to the Amended and Restated License Agreement, Eupraxia USA has agreed to pay Auritec up to USD30,000,000 upon achievement of certain regulatory and commercial milestones related to Licensed Products under the Amended and Restated License Agreement as well as a royalty of 4% of net sales of Licensed Products by Eupraxia USA or its affiliates, subject to certain reductions.

The following table summarizes the milestone payment schedule:

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

Eupraxia USA has also agreed to pay to Auritec 20% of sublicensing royalties or other consideration based on net sales of Licensed Products. Eupraxia USA has 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 its assets or sale or sublicense of a Licensed Product, which percentage ranges from 15% to 30% depending on the development stage of the most-advanced Licensed Product, up to a maximum of USD100,000,000.

Lease Agreement

On October 21, 2019, the Company entered into a lease agreement for its head office located at Suite 201 – 2067 Cadboro Bay Road, Victoria BC. The lease is for a period of 5 years, expiring November 30, 2024. The annual base

rent for the lease is $87,696 with anticipated additional annual rent of $86,478 to cover the Company's share of property taxes and operating costs. Additional rent is subject to adjustment at the end of each lease year based on actual costs incurred.

Convertible Debt Facility

On June 21, 2021, the Company entered into a Debt Agreement with SVB and concurrently drew down, in full, the $10,000,000 principal amount under the Debt Agreement.

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

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

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

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

ii. 150% of the principal amount of the convertible debt (less principal amounts previously repaid), if the Call Right is exercised after the 18 month anniversary of the date of the Debt Agreement,

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

The Company was required, on or prior to June 30, 2022, to raise additional net new capital, as defined in the Debt Agreement, in the aggregate amount of $10 million. This net new capital could originate from, but was not restricted to, a variety of sources as outlined in the Debt Agreement and could include up to $5 million in reduced project expenses. On April 20, 2022, the Company closed an Offering for gross proceeds of $14.7 million that satisfied this requirement.

Summary of Contractual Obligations

As of June 30, 2022, and in the normal course of business, the Company has the following obligations to make future payments, representing contracts and other commitments that are known and committed.

Contractual Obligations	Total $	Less than 1 year $	1 - 3 years $
Convertible Debt	$ 9,622,578	$ -	$ 9,622,578
Loans Payable	232,034	99,338	132,696
Leases	211,932	87,696	124,236
Total Contractual Obligations	**$ 10,066,544**	**$ 187,034**	**$ 9,879,510**

Transactions with Related Parties

There were no ongoing contractual commitments and transactions with related parties during the three and six months ended June 30, 2022, other than those disclosed in Note 20 - Related Parties of the interim condensed consolidated financial statements.

Off-Balance Sheet Arrangements

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations or financial condition.

Critical Accounting Estimates and Judgments

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

Critical accounting estimates

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

i) The valuation of stock-based compensation and other non-cash stock-based payments; and
ii) The determination of the amount allocated to the liability and equity components (for those financial instruments that are comprised of both). This requires management to estimate various components and characteristics of present value calculations used in determining the fair value of the instrument.

Critical accounting judgments

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

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

Accounting Standards Issued and Adopted

No new standards, amendments to standards, or interpretations to existing standards were adopted during the three and six months ended June 30, 2022.

Accounting Standards and Amendments Issued but Not Yet Adopted

There are new accounting standards, amendments to accounting standards and interpretations that are effective for annual periods beginning on or after January 1, 2023 that have not been applied in preparing the interim condensed consolidated financial statements. These standards and interpretations are not expected to have a material impact on the Company's interim condensed consolidated financial statements.

Financial Instruments

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

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

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2022, the Company had cash and cash equivalents of $17,392,481 (December 31, 2021 - $20,892,069) in addition to short-term investments of $18,062,571 (December 31, 2021 - $9,008,855) and current liabilities of $3,591,687 (December 31, 2021 - $2,267,788). Management is currently working on certain strategic alternatives including, but not limited to, financing arrangements. There is no assurance, however, that any or all of these alternatives will materialize or that additional funding will be available, if and when needed.

Market risk

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

Interest rate risk

Interest rate risk consists of two components; to the extent that payments are made or received on the Company's monetary assets or liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that the prevailing market interest rates differ from the interest rate on the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk. At June 30, 2022, the Company maintains a Convertible Debt facility totaling $10,000,000 (the "Debt") as well as having a loan of USD235,000 (the "Loan").

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

As at June 30, 2022, management has determined the effect on the future results of operations due to increased interest expense paid on the Convertible Debt Facility of the Company if the Canadian prime rate were to increase by 1%. An impact of a 1% increase in the Canadian prime rate would increase the amount of interest to be paid over the remaining term of the Convertible Debt facility by approximately $201,250. There would be no impact with a 1% decrease in the prime rate.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign currency risk due to its frequency of transactions in US dollars. The Company does not use derivatives to hedge against this risk however, it has purchased US dollars to cover the majority of anticipated costs of the Company's Phase 2 clinical trial. At June 30, 2022, the Company held cash of USD2,661,268 (December 31, 2021 – USD5,179,699) had accounts payable of USD1,054,785 (December 31, 2021 – USD623,478) and a loan payable of USD180,067 (December 31, 2021 – USD216,994) which were translated to Canadian dollars at 1.2886 (December 31, 2021 – 1.2678). The impact of a 10% change in the exchange rates would have an impact of approximately $184,000 (December 31, 2021 – $550,100) on profit or loss.

Price risk

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

Risks and Uncertainties

The primary risk factors affecting the Company are set forth under the heading "*Risk Factors*" in the AIF.

Outstanding Share Capital

As of the date of this MD&A, the Company had 21,393,145 Common Shares issued and outstanding. The maximum number of additional Common Shares issuable, should all convertible rights be exercised are as follows:

Common Shares Issuable:	As of the date of MD&A
Options [1]	2,547,750
2013 Warrants [2]	380,921
Founders Warrants [3]	315,500
Underlying Founders Warrants [4]	315,500
2019 Warrants [5]	163,445
2021 30% Warrants [6]	270,957
2021 10% Warrants [7]	39,846
Class B Shares [8]	562,500
Warrants – Listed EPRX.WT[9]	2,826,274
Warrants – Listed EPRX.WT.A[10]	7,331,550
Compensation Warrants[11]	513,208
Nordic Warrants [12]	39,228
SVB Debt Facility [13]	1,901,360
Total Common Shares Issuable	**17,208,039**

Notes:

(1) Represents options outstanding under the Company's stock option plan, each having an exercise price between $1.90 and $8.00 and expiry dates ranging from March 31, 2025 to March 31, 2032.
(2) Represents common share purchase warrants to acquire up to 380,921 Common Shares at an exercise price of $0.7572 per share, with each such common share purchase warrant expiring 120 days after the warrant holder or the holder's spouse ceases to be a director, officer or consultant of the Company.
(3) Represents common share purchase warrants to acquire 315,500 units, with each unit consisting of one Common Share and one underlying common share purchase warrant (an "**Underlying Founder Warrant**") at an exercise price of $0.4984 per unit, expiring 120 days after the warrant holder ceases to be a director, officer or consultant of the Company.
(4) Represents Underlying Founder Warrants to acquire up to 315,500 Common Shares, at an exercise price of $0.75 per share, expiring two years from the date of issuance of the Underlying Founder Warrant.
(5) Represents common share purchase warrants to acquire up to 163,445 Common Shares at an exercise price $7.999 per share, being the per share price of the Common Shares issued and sold in the Offering, with expiry dates ranging from August 30, 2022 to December 16, 2022.
(6) Represents common share purchase warrants to acquire up to 270,957 Common Shares at an exercise price of $5.5993 per share, being a 30% discount to the per share price of the Common Shares issued and sold in the Offering, with expiry dates ranging from January 4, 2024 to January 8, 2024.
(7) Represents common share purchase warrants to acquire up to 39,846 Common Shares at an exercise price of $7.1991, being a 10% discount to the per share price of the Common Shares issued and sold in the Offering, with an expiry date of January 4, 2024.
(8) Represents 562,500 Common Shares that are issuable upon conversion of the 225 Class B Shares of Eupraxia Pharma held by Amanda Malone, the Chief Scientific Officer of the Company. 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.
(9) Each Warrant is exercisable into one common share of the Company (each, a "**Warrant Share**") at an exercise price of $11.20 per Warrant Share at any time prior to 5:00 p.m. (Eastern time) on the date that is 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.

(10) Each Warrant entitles the holder thereof to acquire one Common Share at an exercise price of $3.00 per Common Share for a period of 48 months following the closing date of the Offering, being April 20, 2022..

(11) 513, 208 Compensation Warrants were issued to the Agents and represents 7% of the Units issued in the Offering including the Over-allotment option. Each Compensation Warrant shall entitle the Agents to acquire a Common Share at the Offering Price of $2.05 for a period of 48 months following completion of the Offering, being April 20, 2022.

(12) Each Nordic Warrant is exercisable into one Common Share at an exercise price of $11.20 per share at any time prior to 5:00 p.m. (Eastern time) on April 29, 2026, subject to adjustment in certain events. The Nordic 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.

(13) SVB may elect to convert the principal amount of the convertible debt into Common Shares at a conversion price equal to $5.68 per Common Share. SVB may also elect to convert accrued and unpaid interest, the conversion price of the accrued and unpaid interest will be subject to the minimum pricing requirements of the TSX, to the extent applicable at the time of conversion.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding the Company is accumulated and communicated to the Company's management, including its CEO and CFO, in a timely manner.

In addition, the CEO and CFO have designed or caused to be designed under their supervision internal controls over financial reporting ("**ICFR**") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. The control framework used to design the Company's ICFR uses the framework and criteria established in the *Internal Control-Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our ICFR are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.

The CEO and the CFO have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the three months ended June 30, 2022 that have materially affected or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation and concluded that as at June 30, 2022, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information regarding required disclosures was made known to them on a timely basis. The Company's CEO and CFO will certify Eupraxia's annual filings with the Canadian securities regulatory authorities.

Additional Information

Additional information about the Company is available on SEDAR at www.sedar.com.