SATELLOS BIOSCIENCE INC.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2023 and 2022 (Unaudited)

SATELLOS BIOSCIENCE INC.

Condensed Consolidated Interim Statements of Financial Position
(Expressed in thousands of Canadian Dollars, except for share and per share amounts)
(Unaudited)

As at	Notes	September 30, 2023	December 31, 2022
		$	$
ASSETS			
Current			
Cash and cash equivalents	3	**44,263**	1,924
Sales tax and other receivables		**355**	260
Prepaid expenses and deposits		**74**	46
Derivatives, net	4	**6**	3
Total current assets		**44,698**	**2,233**
Equipment		**20**	8
Assets held for sale			
Intangible asset	4	**3,916**	3,916
Investments	4	**42**	42
		3,958	3,958
TOTAL ASSETS		**48,676**	**6,199**
LIABILITIES			
Current			
Accounts payable and accrued liabilities	5	**2,317**	2,830
Total current liabilities		**2,317**	**2,830**
Total Liabilities		**2,317**	**2,830**
SHAREHOLDERS' EQUITY			
Common shares	7	**61,916**	30,209
Pre-Funded Warrants	7	**17,772**	-
Warrants	7, 8	**3,659**	2,105
Contributed surplus	9	**3,991**	2,676
Accumulated deficit		**(40,968)**	(31,614)
Accumulated other comprehensive loss		**(11)**	(7)
Total shareholders' equity		**46,359**	**3,369**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**48,676**	**6,199**

Commitments and contingencies (Note 11)
The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Approved by the Board of Directors:

(signed) "Geoff MacKay"
_______________________________ Director

(signed) "Adam Mostafa"
_______________________________ Director

SATELLOS BIOSCIENCE INC.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(Expressed in thousands of Canadian Dollars, except for share and per share amounts)
(Unaudited)

	Notes	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
		$	**$**	**$**	**$**
EXPENSES					
Research and development expenses	10	**2,734**	898	**5,232**	2,715
General and administrative expenses	10	**1,754**	941	**3,983**	3,440
LOSS FROM OPERATING ACTIVITIES:		**(4,488)**	**(1,839)**	**(9,215)**	**(6,155)**
OTHER INCOME AND EXPENSES					
Finance income		**542**	2	**799**	7
Interest expense	6	**(56)**	-	**(177)**	-
Loss on debt extinguishment	6	**(426)**	-	**(426)**	-
Gain on derivatives	4	**4**	-	**3**	-
Foreign exchange gain (loss)		**850**	(62)	**(338)**	(87)
Research and development tax credits (reversal of claim)		**-**	-	**-**	(16)
		914	(60)	**(139)**	(96)
NET LOSS FOR THE PERIOD		**(3,574)**	**(1,899)**	**(9,354)**	**(6,251)**
OTHER COMPREHENSIVE (LOSS)/GAIN					
Items that may be reclassified to net loss					
Foreign currency translation adjustments		**(2)**	(1)	**(4)**	1
TOTAL COMPREHENSIVE LOSS		**(3,576)**	**(1,900)**	**(9,358)**	**(6,250)**
Basic and diluted loss per share		**$(0.03)**	$(0.05)	**$(0.12)**	$(0.19)
Weighted average number of common shares (basic & diluted) in thousands		**112,792**	34,898	**77,609**	33,641

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

SATELLOS BIOSCIENCE INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of Canadian Dollars, except for share and pre-funded warrant numbers)
(Unaudited)

For the nine months ended September 30, 2023 and 2022

	Common Shares	Common Shares	Pre-Funded Warrants	Pre-Funded Warrants	Warrants	Contributed Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Number of	$	Number of	$	$	$	$	$	$
Balance – December 31, 2021	**32,997,613**	**28,316**	**-**	**-**	**1,223**	**1,235**	**(20,291)**	**(1)**	**10,482**
Shares issued for license amendment (Note 7)	50,000	23	-	-	-	-	-	-	23
Shares issued in Unit Offering, net of costs (Note 7)	8,750,000	1,980	-	-	-	-	-	-	1,980
Warrants issued to investors Unit Offering (Note 7)	-	-	-	-	779	-	-	-	779
Warrants issued to agents in Unit Offering (Note 7)	-	(103)	-	-	103	-	-	-	-
Stock-based compensation (Note 9)	-	-	-	-	-	1,191	-	-	1,191
Net loss		-	-	-	-	-	(6,251)	-	(6,251)
Other comprehensive loss	-	-	-		-	-	-	1	1
Balance – September 30, 2022	**41,797,613**	**30,216**	**-**	**-**	**2,105**	**2,426**	**(26,542)**	**-**	**8,205**
Balance - December 31, 2022	**41,797,613**	**30,209**	**-**	**-**	**2,105**	**2,676**	**(31,614)**	**(7)**	**3,369**
Common Shares issued in Debenture Offering (Note 6)	671,825	239	-	-	-	-	-	-	239
Cost of Common Shares issued in Debenture Offering (Note 6)		(13)	-	-	-	-	-	-	(13)
Exercise of broker warrants (Note 8)	25,000	14	-	-	(4)	-	-	-	10
Common Shares issued in Equity Offering, (Note 7)	70,297,220	35,149	-	-	-	-	-	-	35,149
Cost of Common Shares issued in Equity Offering: cost paid in cash (Note 7)		(2,686)	-	-	-	-	-	-	(2,686)
cost paid in warrants (Note 7)		(996)	-	-	996	-	-	-	-
Pre-Funded Warrants issued in Equity Offering (Note 7)	-	-	39,702,780	19,851	-	-	-	-	19,851
Cost of Pre-Funded Warrants issued in Equity Offering: paid in cash (Note 7)	-	-	-	(1,517)	-	-	-	-	(1,517)
paid in warrants (Note 7)	-	-	-	(562)	562	-	-	-	-
Stock-based compensation (Note 9)	-	-	-	-	-	1,315	-	-	1,315
Net loss	-	-	-	-	-	-	(9,354)	-	(9,354)
Other comprehensive loss	-	-	-	-	-	-	-	(4)	(4)
Balance – September 30, 2023	**112,791,658**	**61,916**	**39,702,780**	**17,772**	**3,659**	**3,991**	**(40,968)**	**(11)**	**46,359**

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

SATELLOS BIOSCIENCE INC.

Interim Condensed Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian Dollars, except for share and per share amounts)
(Unaudited)

	Notes	Nine months ended September 30, 2023	September 30, 2022
		$	$
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net loss		**(9,354)**	(6,251)
Items not affecting cash:			
Amortization of intangible asset		**-**	322
Depreciation of equipment		**5**	2
Stock-based compensation	9	**1,315**	1,191
Foreign exchange gain(loss)		**(338)**	-
Gain on derivatives	4	**(3)**	-
Net change in non-cash working capital balances:			
Sales tax and other receivables		**(95)**	187
Research and development tax credits receivable		**-**	130
Prepaid expenses		**(28)**	(15)
Accounts payable and accrued liabilities		**(567)**	(86)
		(9,065)	**(4,520)**
FINANCING ACTIVITIES			
Proceeds from issuance of Debenture Units, net of costs	6	**2,244**	-
Cash interest paid on long term debt	6	**(93)**	-
Cash repayment premium paid on long term debt	6	**(143)**	-
Accrued interest on long term debt	6	**177**	-
Loss on debt extinguishment	6	**426**	-
Repayment of Debenture Units	6	**(2,385)**	-
Proceeds from exercise of warrants, net of costs	7	**10**	-
Proceeds from Common Share issuance	7	**35,149**	-
Capitalized cost of Common Share issuance	7	**(2,686)**	-
Proceeds from Pre-Funded Warrant issuance	7	**19,851**	-
Capitalized cost of Pre-Funded Warrant issuance	7	**(1,517)**	-
Proceeds from share issuance as consideration for license amendment		**-**	23
Proceeds from Unit issuance, net of issuance costs	7	**-**	2,759
		51,033	**2,782**
INVESTING ACTIVITIES			
Purchase of equipment		**(17)**	(3)
		(17)	**(3)**
Effect of foreign currency exchange rates on cash and cash equivalents		**388**	**1**
INCREASE IN CASH AND CASH EQUIVALENTS		**42,339**	**(1,740)**
CASH AND CASH EQUIVALENTS – Beginning of period		**1,924**	**4,871**
CASH AND CASH EQUIVALENTS – End of period		**44,263**	**3,131**

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

1. Description of Business

1.1 Description of Business

Satellos Bioscience Inc. ("**Satellos**" or the "**Company**") is a Canadian biotechnology and drug development company incorporated under the laws of Canada. The head office, principal address, and records of the Company are located at Royal Bank Plaza, South Tower, 200 Bay Street, Suite 2800, Toronto, Ontario M5J 2J1 Canada and the Company's common shares ("**Common Shares**") are listed on the TSXV under the symbol "MSCL".

The Company has a wholly owned subsidiary in Australia (Satellos Bioscience Australia Pty Ltd) and a wholly owned Canadian subsidiary (Amphotericin B Technologies, Inc., hereinafter "**AmpB Tech**") and a wholly-owned subsidiary in Delaware, USA (Satellos Bioscience US, Inc.).

2. Material Accounting Policies

2.1 Basis of Presentation

These condensed consolidated interim financial statements for the three months and nine months ended September 30, 2023 and 2022 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at December 31, 2022.

These condensed consolidated interim financial statements have been prepared on the basis of accounting principals applicable to a going concern which contemplates the realization of assets and the discharge of liabilities and commitments in the normal course of business.

These condensed consolidated interim financial statements of the Company were approved and authorized for issue by the Board of Directors on November 21, 2023.

2.2 Basis of Consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiaries as at September 30, 2023. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Company and its subsidiaries, or between subsidiaries, are eliminated in full-on consolidation.

2.3 Summary of Material Accounting Policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2022.

(Tabular amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

2. Material Accounting Policies (cont'd)

2.4 Material Accounting Judgements, Estimates, and Assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2.5 Functional and presentation currency

Items included in the condensed consolidated interim financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). These condensed consolidated interim financial statements are presented in Canadian Dollars ("Cdn"), which is the Company's functional and presentation currency for all periods presented.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	September 30, 2023	**December 31, 2022**
	$	**$**
Cash balances with banks:	**4,889**	813
Short term investments with initial terms of less than three months:		
US Treasury bills with yields from 5.00%-5.26%	**39,374**	-
Cashable Guaranteed Investment Certificates	**-**	1,111
Total cash and cash equivalents	**44,263**	**1,924**

4. Intangible Asset and Asset Held for Sale

a) Intangible asset consists of the Oral AmpB Delivery System held by AmpB Tech ("**OralTrans**"), which consists of (a) a license to three patents from the University of British Columbia; (b) title to several patents and patent applications; and (c) clinical and pre-clinical data. This intangible asset has a finite useful life that is estimated to run until the latest expected expiry date of the patent that is expected to issue from the latest-filed patent application either licensed to or filed by the Company.

On Oct 6, 2022, the Company licensed the OralTrans technology to NW Micelle Therapeutics (NWMT) in exchange for 15% of NWMT. Further, the Company entered into an agreement with NW Pharmatech Limited ("NWPT"), the entity that owns 85% of NWMT, in which NWPT acquired a time-limited option to acquire AmpB Tech from the Company for US$3.0 million subject to certain conditions (the "**Call Option**"); and the Company acquired a time-limited option (with the same term as the Call Option) to compel NWPT to acquire AmpB Tech from the Company for US$3.0 million subject to certain conditions (the "**Put Option**").

Due to the prospect of sale within one year, AmpB Tech (and its component assets, OralTrans and the investment in NWMT), are considered assets available for sale. Accordingly, the asset was recorded at its fair value, determined to be $3.9 million as of 31 December 2022, and no longer amortized.

In determining the fair value of the asset, the Company considered it likely that AmpB Tech would be sold to NWPT within one year of the transaction, i.e. on or by October 06, 2023. Resulting from a challenging biotech funding environment along with negative macroeconomic factors, the expected sale has not happened as of the date of these financial statements. In light of this, and following consultation with NWPT and NWMT, the Company continues to

(Tabular amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

4. Intangible Asset and Asset Held for Sale (cont'd)

consider it likely that, given additional time, AmpB Tech will be sold under the terms of the Call Option, which expires on November 05, 2024. Evaluation of the present value of the exercise price of the Call Option indicates that it does not differ materially from the current valuation and therefore the Company will continue to hold this valuation at $3.916 million.

b) Investments consist of the minority equity investment in NWMT, and have the following balances as of the periods ending:

	September 30, 2023 $	December 31, 2022 $
Investment in NWMT	42	42

The Company does not have control nor significant influence over NWMT and therefore has accounted for the investment in NWMT as an asset held at fair value. As of December 31, 2022, the fair value of the investment in NWMT was determined to be approximately $42 thousand. For the period ending September 30, 2023, the Company has concluded that there was no change in the fair value of the investment in NWMT.

c) The Company has recognized the net value of the fair values of the Put Option and the Call Option on the Statement of Financial Position as Derivatives, net. The exercise price of both the Call Option and the Put Option is US$3 million, and the Company considers it highly probable that the Call Option will be exercised within its term which expires on 5 November 5, 2024.

The table below presents the Derivative Asset and Derivative Liability:

	September 30, 2023 $	December 31, 2022 $
Fair value of Put Option	**1,193**	1,025
Fair value of Call Option	**1,187**	1,022
Derivatives, net	**6**	**3**

The fair value of the derivative asset and liability was estimated using the Black-Scholes option pricing model with the following inputs:

Revaluation date	September 30, 2023	December 31, 2022
Exercise Price	**$US3,000**	$US3,000
Expected life of Put and Call option	**1 year**	1 year
Expected volatility	**75.9%**	75.9%
Expected dividend yield	**nil**	nil
Risk free interest rate	**5.22%**	4.52%

5. Accounts Payable and Accrued Liabilities

	September 30, 2023	December 31, 2022
	$	$
Trade payables	**1,007**	1,466
Accrued liabilities	**1,310**	1,364
Total trade payables and accrued liabilities	**2,317**	**2,830**

(Tabular amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

6. Debentures

On March 24, 2023, the Company completed a non-brokered private placement offering of 2,385 10% unsecured non-convertible debenture units (the "**Debenture Units**") and raised gross proceeds of $2,385,000 (the "**Debenture Offering**"). Each Debenture Unit is comprised of: (i) $1,000 principal amount of unsecured non-convertible debentures of the Company (the "**Debentures**"); and (ii) for no additional consideration, such number of common shares in the capital of the Company (each whole common share, a "**Bonus Share**", and collectively, the "**Bonus Shares**") as is equal to $100 divided by $0.355, being the closing market price of the common shares of the Company on the TSX Venture Exchange on March 15, 2023, rounded to the nearest whole share. The Debentures would have matured on September 24, 2024 (the "Maturity Date") and bear interest on the principal amount at a rate of 10% per annum payable quarterly in arrears in cash. Accordingly, 671,825 Bonus Shares were issued in connection with the Debenture Units at a value of $0.355, resulting in an increase in capital stock of approximately $238 thousand, offset by share issuance costs of approximately $13 thousand. In addition, the company incurred expenses in the amount of approximately $140 thousand related to the Debenture Offering of which the Company has allocated $128 thousand to debt issuance cost and $13 thousand to share issuance cost. Net proceeds of the Debenture Offering were approximately $2.2 million and the effective annual interest rate on the principal of the Debentures was 21.6%.

The Company had the option to redeem the Debentures prior to maturity in part or in full subject to an early repayment premium. The repayment premium was calculated as follows: (i) 6% of the principal amount of the Debentures being redeemed if the redemption occurs prior to six months from the date of issuance; (ii) 5% of the principal amount of the Debentures being redeemed if the redemption occurs between the six and twelve month period following the debt issuance; or (iii) 4% of the principal amount of the being redeemed if the redemption occurred after the first anniversary of the debt issuance but prior to the Maturity Date. Effective August 14, 2023, the Company redeemed all the outstanding Debentures and paid a 6 % early repayment premium of approximately $143 thousand.

The following table presents the amounts recorded related to the Debenture offering and its repayment during the nine month period ended September 30, 2023:

	$
Proceeds from issuance of Debenture Units on March 24, 2023	2,385
Discount due to Bonus Shares	(238)
Debt issue costs	(128)
Interest expense, from March 24, 2023 to August 14, 2024	177
Loss on debt extinguishment	426
Repayment of interest and Principal	(2,622)
Debentures balance September 30, 2023	**-**

7. Share Capital and Pre-Funded Warrants

On May 17, 2023, the Company completed a public offering (the "Equity Offering"), issuing 70,297,220 Common Shares at $0.50 per common share (the "Common Shares") and 39,702,780 pre-funded common share purchase warrants (Pre-Funded Warrants) the with no expiry date for $0.49999 per pre-funded common share purchase warrant for gross proceeds of $55 million.

The costs associated with the Equity Offering were $5.8 million, including cash costs for commissions to the agents of approximately $3.7 million, professional fees and regulatory costs of $510 thousand and 7,383,919 compensation warrants to the agents valued at $1.6 million. Each Compensation Warrant is exercisable into one Common Share at an exercise price of $0.50 until expiry on May 17, 2025.

The fair value of the broker warrants was a non-cash cost charged to share issuance costs and pre-funded warrant costs proportionately to the number of each Security issued.

Bloom Burton Securities Inc., ("**BBSI**"), an entity jointly controlled by a director of Satellos, acted as exclusive agent and book running manager for both the Unit Offering and the Equity Offering. See Related Party disclosures Note 12.

(Tabular amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

7. Share Capital and Pre-Funded Warrants (cont'd)

On September 13, 2022, the Company completed a public offering (the "Unit Offering") of 8,750,000 units ("Units") of the Company at a price of $0.40 per Unit for gross proceeds of $3.5 million. Each Unit consisted of one Common Share of the Company and one-half of one Common Share purchase warrant of the Company (each whole Common Share purchase warrant, a "Warrant"), with each Warrant being exercisable into one Common Share, for a total of 4,375,000 Warrants at an exercise price of $0.60 until expiry on September 13, 2025. The Warrants were valued at $779 thousand.

The costs associated with the Unit Offering were $843 thousand, including cash costs for commissions to the agents of approximately $245 thousand, professional fees and regulatory costs of $496 thousand and 612,500 compensation warrants to the agents valued at $103 thousand. Each Compensation Warrant is exercisable into one Common Share at an exercise price of $0.40 until expiry on September 13, 2024.

On July 12, 2022, the Company issued 50,000 Common Shares to the Ottawa Hospital Research Institute ("OHRI") as part of an amendment to an existing license agreement between the parties completed on June 29, 2022. The shares were valued at approximately $23 thousand, or $0.455 per share, the closing price per Common Share on the TSXV on June 29, 2022.

8. Warrants

Warrants have been issued as part of equity financings and include compensation to agents and brokers of the Company, and also as components of equity units along with common shares as described in Note 7. "**Pre-Funded Warrants**" are defined in Note 7 above and are listed separately on the Statement of Financial.

The following is a summary of changes in Warrants:

	Nine months to September 30, 2023		**Nine months to September 30, 2022**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding, beginning of period	5,245,816	$0.63	2,159,074	$1.34
Issued	7,383,919	$0.50	4,987,500	$0.58
Exercised	(25,000)	$0.40	-	-
Expired	(258,316)	$1.69	(1,896,711)	$1.29
Outstanding, end of period	**12,346,419**	**$0.53**	**5,249,863**	**$0.63**

The table below presents the outstanding warrants as at September 30, 2023:

Exercise Price	**Number of Warrants**	**Expiry Date**
$0.40	587,500	September 13,2024
$0.60	4,375,000	September 13, 2025
$0.50	7,383,919	May 17,2025
Total warrants	**12,346,419**	

The fair value of Warrants issued in the nine-month periods ending September 30, 2023 was estimated using the Black-Scholes option pricing model with the following assumptions:

Date of Issue	**May 17, 2023**	**September 13, 2022**
Number of warrants	7,383,919	4,962,500
Expected life of options	2 years	2-3 years
Expected volatility	73.7%	73%-81%
Expected dividend yield	nil	nil
Risk free interest rate	4.04%	3.53%-3.583%
Fair value of warrants	$1,558	$882

(Tabular amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

9. Stock-Based Compensation

Under the Amended and Restated Incentive Stock Option Plan of the Company (the "SOP"), equity-settled stock options of the Company are granted to certain directors, officers, employees, key employees of academic institutions employed by that institution on Company-sponsored research and development, consultants and advisors providing services to the Company. The exercise price of the stock options is equal to or greater than the market price of the underlying share on the date of grant. The stock options vest based on the terms of each award, over a period of 18 months to four years, and only if the individual remains employed (or under contract) by the Company (or the academic institution) on the vesting date. The contractual term of stock options is 10 years from grant date.

Under the stock option plan adopted at the most recent annual general meeting, the aggregate number of common shares reserved for issuance is limited to 18,300,000.

The following is a summary of changes in options:

	Nine months ended September 30, 2023		Nine months ended, September 30, 2022	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding, beginning of period	3,991,201	$1,18	2,987,051	$1.46
Granted	9,824,531	$0.55	200,000	$0.33
Forfeited and expired	(237,550)	$1.00	(9,600)	$1.70
Outstanding, end of period	**13,578,182**	**$0.72**	**3,177,451**	**$1.39**

As at September 30, 2023, the Company had the following outstanding options:

	Options Outstanding			Options Exercisable	
Exercise Prices	**Number of options**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
$0.33-$0.50	4,005,484	9.70	$0.41	153,336	$0.35
$0.51-$0.66	7,265,628	9.41	$0.60	492,831	$0.66
$0.67-$1.70	2,307,070	7.71	$1.66	1,431,128	$1.67
	13,578,182	**9.21**	**$0.72**	**2,077,295**	**$1.33**

The following table presents the assumptions that were used in the Black-Scholes option pricing model to determine the fair value of stock options granted during the period, and the resultant average fair values:

	Nine months ended September 30, 2023	**Nine months ended September 30, 2022**
Expected life of options	10 years	10 years
Expected volatility	94%	94%
Expected dividend yield	nil	nil
Weighted average risk free interest rate	3.32%	3.32%
Weighted average fair value of options granted in the period	$0.48	$0.29

Options granted in the periods had the following vesting terms: on the first anniversary, 25% of the options are vested, with 2.08% vesting monthly thereafter.

In the nine months ended September 30, 2023, $1,315 thousand (2022 - $1,191 thousand) has been recognized as stock-based compensation expense and credited to contributed surplus.

(Tabular amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

10. Component Expenses:

Research and development expenses:

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
	$	$	**$**	$
Salaries and management fees	**668**	197	**1,362**	505
Discovery expenses	**320**	621	**856**	1,925
Preclinical expenses	**947**	-	**2,002**	-
Chemistry, manufacturing controls	**486**	-	**486**	-
Stock-based compensation	**313**	80	**526**	285
Total research and development expenses	**2,734**	**898**	**5,232**	**2,715**

General and administrative:

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
	$	$	**$**	$
Salaries and management fees	**664**	253	**1,255**	770
Professional fees	**464**	254	**1,545**	1,147
Other operating expenses	**192**	94	**389**	293
Stock-based compensation	**432**	230	**789**	905
Amortization of intangibles	**-**	108	**-**	322
Depreciation	**2**	2	**5**	3
Total general and administrative expenses	**1,754**	**941**	**3,983**	**3,440**

11. Commitments and Contingencies

The Company enters into contracts in the normal course of business, including for research and development activities. As at September 30, 2023, the Company has commitments for research and development activities in the amount of approximately $4.3 million, of which all are due within a 12 month period.

The Company entered into a collaboration research agreement with the Ottawa Health Research Institute (OHRI) in May, 2018, with the Company's Chief Scientific Officer as Principal Investigator. This agreement has been amended from time to time. Under the current amendment, effective April 1, 2022, the Company is providing funding of approximately $842 thousand annually. The contract is cancellable upon 60 days notice.

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 of September 30, 2023 because the milestones have not yet been achieved.

(Tabular amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

12. Related Party Balances and Transactions

The following related parties have engaged in transactions with the Company during the nine months ended September 30, 2023 and September 30, 2022. All related party transactions have been recorded at the amount of consideration established and agreed upon by the related parties in the normal course of business.

a) BBSI - an entity that is jointly controlled by Brian Bloom, a director of the Company.

BBSI acted as lead agent for two equity offerings (see Note 7 above). Related to the Unit Offering of September 13, 2022, the Company issued 208,688 compensation warrants, paid approximately $63 thousand in commissions and reimbursed BBSI for $101 thousand in legal and related fees. Related to the Equity Offering on May 17, 2023, the Company issued 6,560,474 compensation warrants, paid approximately $3.3 million in commissions and reimbursed BBSI for $176 thousand in legal and related fees related to the prospectus agreement.

The Company engaged BBSI in a consulting agreement in November of 2022. The Company recorded $40 thousand in expenses during the three months period ended December 31, 2022 and a further $60 thousand in the three month period ended March 31, 2023 for work completed under this agreement. This agreement is completed and there are no amounts owing to BBSI as of September 30, 2023.

b) William Jarosz

Mr. Jarosz, previously the Chief Executive Officer of iCo Therapeutics Inc. ("iCo"), the entity Satellos acquired as part of a reverse takeover transaction on August 13, 2021, and now a Director of the Company, had provided consulting services to iCo that were unpaid as of the date of the reverse takeover and this liability was assumed by Satellos. Following the reverse takeover, Mr. Jarosz provided consulting services to Satellos. On September 13, 2022, Mr. Jarosz participated in the Unit Offering and purchased 325,000 Units in exchange for a reduction in amounts owing to him of US$99 thousand (C$130 thousand). The following table presents the related party transactions between Mr. Jarosz and the Company:

	$
Liability assumed by Company from iCo upon closing of reverse take-over, August 13, 2021	US$289
Director and consulting services to Satellos,, August 21,2021 to September 30, 2023	US$316
Less, partial settlement of liability with purchase of Units, September 13, 2022 financing	US$(99)
Amount owing as at September 30, 2023	US$506
Amount owing as at September 30, 2023	**C$646**

c) Debenture offering
Certain directors participated in the Debenture Offering described in Note 6. A total of 450 of the 2,385 units were purchased by directors of the Company.

d) Key management personnel:

Key management personnel consists of the Company's Chief Executive Officer, Chief Scientific Officer, Chief Medical Officer, Chief Technology Officer and Chief Financial Officer and the Directors of the Corporation. The remuneration of key management personnel is as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Salaries and management fees	**583**	380	**1,714**	1,073
Stock-based compensation	**593**	277	**1,042**	1,010
Total compensation for key management personnel	**1,176**	657	**2,756**	2,083

(Tabular amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

12. Related Party Balances and Transactions (cont'd)

Amounts owing to related parties and included in accounts payable and accrued liabilities:

As at:	September 30, 2023	December 31,2022
	$	$
Due to BBSI	**-**	40
Due to directors and officers	**660**	553
Total due to related parties	**660**	593

All amounts due to related parties are non-interest bearing and have no specified terms of repayment. The amounts in the above table include the $646 thousand owing to Mr. Jarosz and $14 thousand owed to one director for fees accrued prior to the end of the fiscal quarter.

13. Segmented Information

The Company operates within a single operating segment, being the research and development of drug therapeutics, which is the Company's only reportable segment, which is consistent with the internal reporting provided to the chief operating decision-maker. The Company operates in two geographic areas, Canada and Australia. All of the Company's assets are located in Canada except for cash held in the bank account of the Company's Australian subsidiary.

14. Capital Management

The Company manages its capital structure in an endeavour to ensure sufficient resources are available to meet day-to-day operational requirements, further develop its existing technology, and continue as a going concern.

In order to maintain or adjust the capital structure, the Company may issue new shares or issue debt (secured, convertible and/or other types of available debt instruments) or sell assets. Total capital is calculated as the Company's own equity.

The Company is not subject to any externally imposed capital requirements.

15. Financial Instruments and Risk Management

The Company is exposed to various risks through its financial instruments including the following at September 30, 2023:

a) Credit Risk
Credit risk arises from cash and cash equivalents held at banks and financial institutions, as well as outstanding receivables. In the nine months ending September 30, 2023 the Company invested its excess cash in interest-bearing operating accounts held at a Schedule 1 Canadian bank. The Company limits its exposure to credit risk, with respect to cash and cash equivalents, by placing them with high quality credit financial institutions. The Company's cash equivalents consist primarily of operating funds, deposit investments and guaranteed investment certificates with commercial banks.

b) Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet cash flow requirements associated with financial instruments. The Company continues to manage its liquidity risk by monitoring its cash flows and investments regularly, comparing actual results with budgets and future cash requirements. As at September 30, 2023, the Company's liabilities consist of accounts payable and accrued liabilities that have contracted maturities of less than one year.

(Tabular amounts expressed in thousands of Canadian Dollars, except for share and per share amounts)

15. Financial Instruments and Risk Management (cont'd)

c) Market Risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and price risk. The Company is mainly exposed to currency risk as follows:

I) Currency Risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to this risk changes as the exchange rate fluctuates.

Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar, primarily expenses for research and development incurred in US dollars. The Company manages foreign exchange risk by maintaining US$ cash on hand to fund its short-term foreign currency expenditures. Balances in foreign currencies were:

	September 30, 2023	December 31, 2022
	US$	US$
Cash and cash equivalents	**31,198**	393
Deposits	**-**	6
Accounts payable and accrued liabilities	**1,071**	1,057

Based on the US$ balance sheet exposure at September 30, 2023, with other variables unchanged, if the Canadian dollar were to weaken against the US dollar by 10%, relative to the rate at September 30, 2023, the net monetary assets would be approximately $4.1 million greater. If the Canadian dollar were to strengthen against the US dollar by 10%, relative to the rate at September 30, 2023, the net monetary assets would be approximately $3.7 million less.

II) Fair Value
Financial assets and liabilities are recognized on the statement of financial position at amortized cost in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs)

At September 30, 2023, the Company's financial instruments included cash and cash equivalents, accounts receivable, the Put Option (Note 5(c)), the Call Option (Note 5 (c)), and accounts payable and accrued liabilities.

Due to the short-term maturities of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities, the carrying amounts approximate fair value at the respective statement of financial position date.

There were no transfers of assets or liabilities between levels during the three and nine months ended September 30, 2023 and 2022.

16. Comparative Figures

Certain comparative figures have been reclassified to conform to the current period presentation.