SATELLOS BIOSCIENCE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This management's discussion and analysis ("**MD&A**") has been prepared as of November 21, 2023, and provides an analysis of the financial results of Satellos Bioscience Inc. ("**Satellos**" or the "**Company**",) for the three and nine months ended September 30, 2023 and September 30, 2022. The MD&A should be read in conjunction with the condensed consolidated interim financial statements for the three and nine months ended September 30, 2023 and September 30, 2022 and the related notes thereto (together, the "**condensed consolidated interim financial statements**") and the audited annual consolidated financial statements for the years ended December 31, 2022 and December 31, 2021 and the related notes thereto (together, the "**audited annual consolidated financial statements**"). The condensed consolidated interim financial statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") as applicable to interim financial reports including IAS 34 *Interim Financial Reporting*. The audited annual consolidated financial statements were prepared in accordance with IFRS as issued by IASB. All dollar amounts are expressed in Canadian dollars unless otherwise noted. As applicable, the currency of the United States is referred to throughout as "US dollars" or "US$".

FORWARD-LOOKING STATEMENTS

Certain statements and information in this MD&A contain "forward-looking information" and "forward-looking statements", within the meaning of applicable Canadian securities laws (collectively herein referred to as "**forward-looking statements**"). These statements relate to future events or future performance and reflect the Company's expectations and assumptions regarding the growth, results of operations, performance and business prospects and opportunities of the Company. These forward-looking statements are made as of the date of this MD&A or, in the case of documents incorporated by reference herein, as of the date of such documents. Forward-looking statements are frequently, but not always, identified by words such as "expects", "expectation", "anticipates", "believes", "intends", "intention", "estimates", "predicts", "continues", "potential", "targeted", "plans", "possible", "goal", "seek", "project", "future", "likely" and similar expressions, or statements that events, conditions or results "will", "may", "could", "would" or "should" occur or be achieved. Any forward-looking statements or statements of "belief", including the statements made under "*Risks and Uncertainties*", represent the Company's estimates only as of the date of this MD&A and the documents incorporated by reference herein, respectively, and should not be relied upon as representing the Company's estimates as of any subsequent date. Forward-looking statements are necessarily based on estimates and assumptions made by Satellos in light of its experience and perception of historical trends, current conditions and expected future developments, as well as factors that Satellos believes are appropriate. Forward-looking statements in this MD&A include, but are not limited to, statements relating to:

- our belief that the Company will be successful in raising additional capital to continue as a going concern;
- the expected research and development timelines, therapeutic benefits, effectiveness and safety of our product candidates;
- our belief that the Company's products and research and development efforts are targeting diseases and conditions with significant unmet medical treatment needs;

- our belief that the Company has made, and will continue to make progress towards the achievement of certain milestones or objectives;
- our expectation with respect to meeting milestones and the minimum amount of funds the Company expects to need to raise in order to achieve such milestones and garner additional funding;
- the initiation, timing, cost, progress, outcomes, resource needs and success of our research and development activities, plans and programs;
- our expectations regarding our ability to design, test and patent novel drug products suitable for advancement into Investigational New Drug ("**IND**") enabling studies and clinical trials and the anticipated timelines surrounding such enabling studies;
- our belief that we will not receive substantive comments on our IND applications;
- our expectations that the Notch pathway and AAK1 drug target (both as further described herein) represent drug development opportunities similar or superior to PTPX (as defined below);
- our intentions of developing inhibitors to AAK1 (including but not limited to SAT-3247 and SAT-3153) and in showing such potential inhibitors have desirable effects in relevant models of Duchenne muscular dystrophy ("**Duchenne**");
- our expectations that predictive biomarkers as discussed herein will translate into or be useful in conducting human clinical trials;
- our belief that the results of Satellos' research and development activities, preclinical studies, safety studies or clinical trials being equivalent to or better than previous research and development activities, preclinical studies, safety studies or clinical trials conducted by other parties;
- discoveries in muscle stem cell regulation that may provide insight into a potential root cause of degenerative muscle disorders which has previously not been recognized and which may be treated therapeutically;
- our belief that the Company's technology can be commercialized, and that such commercialization could be done as effectively or more effectively than other technologies to treat degenerative muscle disorders and conditions or other medical disorders or conditions, or at all;
- our ability to discover, optimize, select and advance into clinical development our therapeutic drug development candidates in a timely, cost-efficient and effective manner, or at all;
- our ability to translate our discoveries in muscle stem cell regulation into safe and therapeutically effective drug products and the broad applicability of such products;
- our ability to enter into research and/or commercial development collaborations or partnerships to successfully and profitably advance our drug development candidates;
- our ability and our partners' ability to advance identified drug development candidates into, and successfully complete, clinical trials;
- our intention to identify and nominate one or more back-up drug candidates and the potential benefits of having such back-ups;
- our plans to utilize and deploy MyoRegenX™ in our programs and our continued relationship with OHRI (as defined below);
- our ability to develop the Company's novel discoveries into viable therapeutic treatments suitable for clinical development expectations, including, but not limited to, our ability to determine appropriate dosing regimens;
- the ability of our products to effectively and safely treat Duchenne and other degenerative muscle disorders and conditions or other medical disorders or conditions and the applicability of our products to other disorders and conditions;
- our expectations regarding future enrolment into clinical trials and the timing of future enrolment into clinical trials for our product candidates;
- our belief that our approach may reduce the risk, time and cost of developing therapeutics by avoiding some of the uncertainty associated with certain research and preclinical stages of drug development;

- our ability to establish and maintain relationships with collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts;
- our ability to enter into agreements or partnerships with pharmaceutical or biotechnology companies that have sales and marketing capabilities and the expected benefits that could be derived therefrom;
- our ability to protect our intellectual property;
- our ability to operate our business without infringing upon the intellectual property rights of others;
- our ability to engage third party services with specialized domain expertise for the drafting and submitting of regulatory applications to conduct clinical trials in humans;
- the manufacturing capacity of third-party manufacturers for our product candidates;
- our expectations regarding federal, provincial and foreign regulatory requirements;
- the timing of, and the costs of obtaining and maintaining, regulatory approvals in the United States, Canada and other jurisdictions;
- our plans to meet with the United States Food and Drug Administration (the "**FDA**"), file an application to obtain drug designations and initiate studies;
- the rate and degree of market acceptance and clinical utility of our future products, if any;
- existing and future corporate alliances and licensing transactions with third parties, and the receipt and timing of any payments to be made by us or to us pursuant to such arrangements;
- the implementation and execution of our commercial and operational strategy;
- our ability to engage and retain the consultants or employees required to grow our business;
- the potential revenue that may be generated from our products, pricing and reimbursement of the patient cost of our drug products by insurers or national health systems, as the case may be, in those jurisdictions where the Company intends to sell its drug products and our ability to achieve profitability;
- developments relating to our competitors and our industry, including the success of competing therapies that are or become available;
- the potential growth of the market and demand for our products as well as the estimated pricing and subsequent revenue generation of any potential therapeutics we discover;
- our belief that any discoveries by the Rudnicki Lab (as defined below) have the potential to have a positive impact on Satellos and our work;
- our future financial performance, including projected expenditures, future revenue, capital requirements and our needs for additional financing; and
- general business and economic conditions and outlook.

Such forward-looking 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 Satellos 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, achievements, prospects or opportunities 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:

- obtaining positive results from our research and development activities, including clinical trials;
- our ability to obtain regulatory approvals;
- assumptions regarding general business, market and economic conditions;
- assumptions regarding the cost and timing of each study;
- the Company's ability to successfully advance its preclinical and clinical development programs and execute its plans substantially as currently envisioned;
- the Company's ability to identify and advance a suitable drug candidate;

- assumptions related to the pricing and reimbursement of its drug products in jurisdictions in which the Company intends to sell its drug products;
- the Company's current positive relationships with third parties will be maintained and the potential to develop new partnerships;
- our ability to continue to use existing licenses for the development of our product(s);
- the availability (and sources) of financing on reasonable terms;
- future expenditures to be incurred by the Company, including research and development and operating costs;
- the Company's ability to attract and retain skilled consultants and employees;
- assumptions regarding market competition, market capture and pricing;
- the products and technology offered by the Company's competitors; and
- the Company's ability to protect patents and proprietary rights;

In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks outlined under the headings "*Foreign Currency Risk"*, "*Liquidity Risk*", "*Credit Risk*" and "*Risks and Uncertainties*" in this MD&A and the risks outlined in the Company's annual information form for the year ended December 31, 2022 dated April 27, 2023 (the "**AIF**"). Certain risks and uncertainties that could cause such actual events or results expressed or implied by such forward-looking statements and information to differ materially from any future events or results expressed or implied by such statements and information include, but are not limited to:

- risks related to the early stage of our products;
- uncertainties related to preclinical product development activities and clinical trial outcomes;
- uncertainties related to current economic conditions;
- risks related to rapid technological change;
- uncertainties related to forecasts and timing of clinical trials and regulatory approval;
- competition in the market for therapeutic products, including those to treat Duchenne and related diseases;
- risks related to potential product liability claims;
- availability of financing and access to capital and the risks associated with the Company's ability to continue as a going concern;
- market acceptance and commercialization of products;
- the availability, costs and supply of materials;
- risks related to the effective management of our growth;
- risks related to the reliance on partnerships and licensing agreements;
- risks related to our reliance on key personnel;
- risks related to the regulatory approval process for the manufacture and sale of therapeutic products;
- risks related to the reimbursement process in various jurisdictions where the Company plans to sell its drug products; and
- our ability to secure and protect our intellectual property.

The Company cautions that the foregoing list of important factors and assumptions is not exhaustive. Although the Company has attempted to identify on a reasonable basis important factors and assumptions related to forward-looking statements, there can be no assurance that forward-looking statements will prove to be accurate, as events or circumstances or other factors could cause actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. Other than as specifically required by law, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results or otherwise. Accordingly, readers should not place undue reliance on forward-looking statements.

NATURE OF BUSINESS AND OVERVIEW OF OPERATIONS

Overview of the Business

Satellos Bioscience Inc. was incorporated under the *Canada Business Corporation Act* (the "**CBCA**") on July 27, 2012 ("**Pre-Arrangement Satellos**"). iCo Therapeutics Inc. ("**iCo**") was incorporated under the *Business Corporations Act* (British Columbia) on April 20, 2006 and completed a reverse take-over transaction by way of statutory arrangement onto the TSX Venture Exchange.

On August 13, 2021, Pre-Arrangement Satellos and iCo completed a plan of arrangement (the "**Arrangement**") under section 192 of the CBCA, pursuant to which, among other things, iCo acquired all of the issued and outstanding shares of Pre-Arrangement Satellos. In connection with the Arrangement, iCo (now, Satellos): (a) was continued under the CBCA; (b) amalgamated with Satellos to form the Company as it now exists, which continues to carry on the pre-Arrangement business of Pre-Arrangement Satellos and iCo; and (c) consolidated its outstanding Common Shares on a 20:1 basis. The Common Shares trade on the TSXV under the trading symbol "MSCL".

As at September 30, 2023, the Company had three wholly owned subsidiaries, Amphotericin B Technologies, Inc. (an entity incorporated under the *Business Corporations Act* (British Columbia)) ("**Amp B**"), Satellos Bioscience Australia Pty Ltd. (an entity incorporated under the laws of Australia) and Satellos Bioscience US, Inc. (incorporated under the laws of Delaware, USA).

The Company's head office is located at Royal Bank Plaza, South Tower, 200 Bay St., Suite 2800, Toronto, Ontario, M5J 2J3, and the Company's registered and records office is located at Royal Bank Plaza, South Tower, 200 Bay St., Suite 2800, Toronto, Ontario, M5J 2J3.

Satellos is a publicly traded (TSXV: MSCL) biotechnology company dedicated to developing life-improving medicines to treat degenerative muscle diseases. Satellos has incorporated breakthrough research in muscle stem cell polarity into a proprietary discovery platform, called MyoReGenX™, to identify degenerative muscle diseases where deficits in this process affect muscle regeneration and are amenable to therapeutic intervention. With this platform, Satellos is building a pipeline of novel therapeutics to correct muscle stem cell polarity and promote the body's innate muscle repair and regeneration process. The Company's lead drug candidate is an oral, small molecule drug candidate in development as a potential disease-modifying treatment for Duchenne muscular dystrophy.

Achievements and Highlights since Dec 31, 2022

On January 3, 2023, Satellos nominated SAT-3153 as its pre-IND lead development candidate ("DC"). Subsequently, as described below, SAT-3247 was promoted as lead DC. Throughout 2023 the Company has continued to advance both SAT-3247 and SAT-3153 and to develop additional potential inhibitors of AAK1 as back-up compounds as detailed below.

On March 24, 2023, the Company closed the Debenture Offering (see the **Debenture Offering** below) pursuant to which the Company issued 2,385 Debenture Units and raised gross proceeds $2,385,000. On August 14, 2023, the Company exercised its option to repay all of the Debentures.

On May 17, 2023, the Company closed the Equity Offering (see the **Equity Offering in May 2023** below), issuing either Common Shares at $0.50 per Common Share or pre-funded common share purchase warrants (Pre-Funded Warrants) with no expiry date for $0.49999 per Pre-Funded Warrant. Investors purchased 70,297,220 Common Shares and 39,702,780 Pre-Funded Warrants for gross proceeds of $55 million.

On June 7, 2023, Satellos announced the appointment of Alan K. Jacobs, MD as Chief Medical Officer (CMO) of the Company. Dr. Jacobs joins Satellos from Boston Pharmaceuticals, where as Vice President, Clinical Development, Neuroscience he oversaw early and late-stage development programs, led integrated development and biomarker plan creation, created and oversaw clinical trials, and contributed to business development collaborations. Prior to that he held progressively senior leadership roles with Immunovant and Sanofi Genzyme, including strategic coordination of multiple successful IND submissions and development and execution of Phase 2 and 3 clinical trials. Previously, Dr. Jacobs was Medical Director with both the Ohio Center for Treatment and Research in Multiple Sclerosis and the Center for Neuroscience Research in Dayton, Ohio. He was concurrently a Professor of Neurology at the Wright State University Boonshoft School of Medicine. Dr. Jacobs is a Fellow of the American Academy of Neurology.

On August 02, 2023, Satellos announced that U.S. FDA granted Orphan Drug Designation and Rare Pediatric Disease Designation to SAT-3153 for the potential treatment of Duchenne muscular dystrophy as described in more detail below.

On September 5, 2023, Satellos announced the appointment of Elizabeth Williams, CPA, CA as Chief Financial Officer (CFO) of the Company and that Warren Whitehead, CPA, CMA, who has served as CFO for Satellos for two years, will now become Head of Corporate Strategy. Ms. Williams has nearly 20 years of experience in biotech, working with publicly listed entities in both Canada and the United States.

Subsequent to the quarter end, on November 14, 2023, the Company disclosed for the first time that the drug target for the Duchenne program is AAK1 (formerly K9), a protein kinase in the Notch pathway, which the Company discovered can be modulated to enable muscle regeneration. Satellos also announced that SAT-3247 would be nominated as the lead DC based on results generated by the Company during its preclinical studies. Preclinical data generated by Satellos demonstrated that SAT-3153 and SAT-3247 have a similar capacity to affect muscle regeneration and functional benefit in the mdx mouse model of Duchenne. SAT-3247 also exhibited improved oral bioavailability, target specificity and tissue distribution when compared directly to SAT-3153 in preclinical studies. Satellos is conducting IND-enabling studies and GMP manufacturing for SAT-3247 and remains on track to initiate clinical trials in 2024. The Company intends to apply for Orphan Drug and Rare Pediatric Disease designations for SAT-3247 based on these data.

In addition, Satellos announced the appointment of Ms. Courtney Wells as Senior Vice President of Clinical Development Operations to lead and implement the clinical trial plans. Ms. Wells has more than 20 years of experience in clinical development for large pharmaceutical companies and innovative biotech companies, including orphan diseases and Duchenne.

Description of Business Strategy and Programs

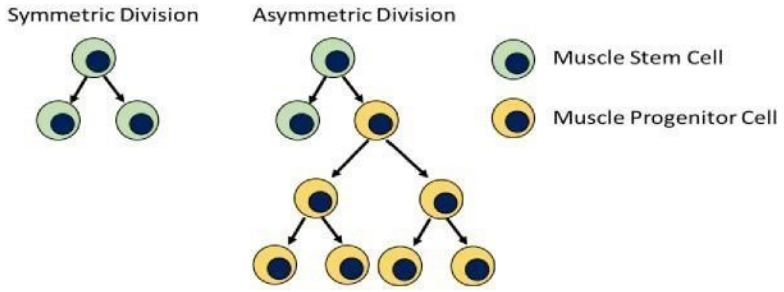
Satellos is a drug discovery and development company with a focus on muscle regeneration. Since completion of the Arrangement, Satellos is generally comprised of two broad drug development portfolios: (1) intellectual property, trademarks and know-how which was previously owned and under development by Pre-Arrangement Satellos (the "**Satellos Portfolio**"); and (2) intellectual property and assets which were previously owned and under development by iCo (the "**iCo Portfolio**"). The Company devotes its efforts to research and development, raising capital, recruiting personnel and long-term planning efforts to advance the Satellos Portfolio. Each portfolio is described below.

The Satellos Portfolio

The Company's primary goal is the development of disease modifying therapeutic drugs for the treatment of severe muscle conditions of unmet medical need. Our core technology stems from the Satellos Portfolio, which is based on discoveries by the Company's scientific founder and Chief Discovery Officer, Dr.

Michael Rudnicki, into understanding and modulating muscle stem cell function and its role in muscle regeneration. Multiple peer reviewed publications from Dr. Rudnicki's lab (the "**Rudnicki Lab**") at the Ottawa Hospital Research Institute (the "**OHRI**") have advanced the understanding of the identity and behavior of muscle stem cells including their role in health and disease. For instance, the Rudnicki Lab was the first to define so called muscle stem cells (a.k.a. 'satellite stem cells') and characterize a sub-population as bona fide multipotent stem cells capable of both self-renewal and regeneration (Source: Kuang et al., 2007, Cell). Dr. Rudnicki was also first to demonstrate that such stem cells exist as a special body of cells capable of regeneration, and subsequently elucidate their biological mechanism of action and identify means to modulate their activity. He further linked deficiencies in muscle stem cell function directly to the pathology of Duchenne as a potential causal factor in the progressive muscle destruction that occurs in this lethal disease (Source: Dumont et al., 2015, Nature Medicine). The basic principle governing how muscle stem cells functionally contribute to muscle regeneration and homeostasis is depicted below in Figure 1.

Figure 1: Muscle stem cells undergo symmetric or asymmetric divisions in response to injury stimuli. Muscle progenitor cells are generated to produce new muscle tissue or repair injured muscle.



Fundamentally, symmetric divisions result in two identical copies of the stem cell through the process of self-renewal. Asymmetric stem cell divisions, by contrast, result in one stem cell being produced and one daughter cell, committed to eventual differentiation, called a progenitor muscle cell. Progenitor muscle cells then undergo normal mitosis to generate potentially thousands of new cells that ultimately incorporate into functional muscle tissue. Findings from the research of Dr. Rudnicki have linked deficits in either symmetric or asymmetric division to multiple muscle wasting and degenerative diseases. Related to this research, the Company has licensed issued patents and pending patent applications from the OHRI pursuant to a license agreement (the "**License Agreement**").

To advance and expand our therapeutic development programs for degenerative muscle conditions or disorders, Satellos has created a proprietary discovery platform, MyoReGenX™, an automated microscopy system which recapitulates the muscle stem cell environment *ex-vivo* (i.e., outside the body). MyoReGenX™ enables Satellos to identify molecular regulators of stem cell polarity that are capable of rescuing the defective regeneration process by tracking, classifying and quantitating the divisions of individual muscle stem cells in response to stimuli such as drug candidates or small interfering ribonucleic acid ("**siRNA**").

Lead Development Program: Duchenne

The Company's first application of its technology (the "**Lead Program**") is directed towards the discovery and development of a small molecule drug for the treatment of Duchenne, the most common fatal genetic disorder diagnosed in childhood affecting approximately one in 4,000 male births per year, worldwide. Early signs of motor impairment and delays in motor related milestones emerge in Duchenne between the ages of two to five years. Rapid disease progression and muscle weakening typically ensue, resulting in

patients generally being wheelchair bound by the age of 12. Generally, by the third decade of life, these patients may experience respiratory failure, the inability to breathe due to weakness in the muscles of the diaphragm, and heart failure, the leading causes of death in Duchenne. There is no known cure for Duchenne and existing treatments are largely palliative or only partially effective.

Duchenne is caused by a change or mutation in the dystrophin gene that results in the loss of the dystrophin protein. Recently, Dr. Rudnicki demonstrated that muscle stem cells, as a direct result of the loss of the dystrophin protein, are unable to divide properly – affecting their innate function of regenerating muscle (Source: Dumont et al. 2015, Nature Medicine.). These findings suggest that, in addition to its commonly recognized role in stabilizing muscle, the dystrophin protein has a second, previously unrecognized role as a signal transduction molecule which provides the rationale for attempting to restore this signaling role by drug treatment of another protein, inhibition of which we believe has the capacity to compensate for the loss of the signaling role of the dystrophin protein.

In support of this concept, the Rudnicki Lab initially reported on experimental proof of concept ("**POC**") it generated that modulation of the EGFR (Epidermal Growth Factor Receptor) signaling pathway could achieve restoration of muscle stem cell asymmetric division in the absence of the dystrophin protein (Source: Feige et al. 2018. Cell Stem Cell). Deploying MyoReGenX™ to build on the identification and discovery of the potential for EGFR modulation to rescue asymmetric stem cell divisions, Satellos undertook a systematic assessment of additional molecular pathways for their potential to rescue asymmetric stem cell divisions. The Company then evaluated and prioritized these pathways and potential drug targets therein based on their capacity to safely and effectively regulate muscle stem cell driven regeneration. From this exercise conducted over a multi-year period, the Company has identified and selected a particular protein kinase in the molecular signaling pathway known as **"Notch"**. For reasons of competitive secrecy and confidentiality this protein kinase was previously codenamed as "**K9**" but has subsequently been disclosed as AAK1. We believe modulating the Notch molecular signaling pathway via inhibition of AAK1 has equivalent if not superior potential to EGFR modulation in the treatment of Duchenne.

Supporting our assertion that dysregulation of muscle stem cells is relevant to Duchenne pathogenesis, it was recently reported that amongst a large cohort of over 400 Duchenne patients – some of whom maintained ambulation for a decade or longer than the majority of their peers – genetic factors implicating effects on polarity and the regulation of muscle stem cell regeneration were identified within the ambulatory population. (Source: Flanigan et al. European Journal of Human Genetics). In further independent case reports, which we also believe support our thesis, Drs. L. Kunkel and M. Zatz have postulated that random genetic mutations affecting Notch signaling may be responsible for the existence of Duchenne humans who exhibit a milder disease course and who have continued to ambulate into their twenties despite the complete absence of the dystrophin protein (Sources: Zatz et al., Neuromuscular Disorders, 11/2014; Kunkel and Zatz (unpublished). They also have previously associated the Notch signaling with muscle regeneration as published in the journal *Cell* in 2015 by Vieira et al in a paper titled "Jagged 1 Rescues the Duchenne Muscular Dystrophy Phenotype". The authors associated Jagged 1, a ligand (or binder/activator) of Notch signaling, with the process of regeneration and as explaining how two (2) Golden Retriever Muscular Dystrophy dogs were able to escape the Duchenne phenotype and live a normal life.

Satellos has generated POC experimental data modulating either the EGFR or Notch pathways in the *Mdx* mouse, a gold standard research model bearing the same genetic defect as patients with Duchenne, demonstrating that treatment of these research mice via either pathway has potential to restore the process by which stem cells enable ongoing muscle regeneration. After evaluating its dataset from both pathways and taking into consideration projected development timelines and risk factors, the Company decided

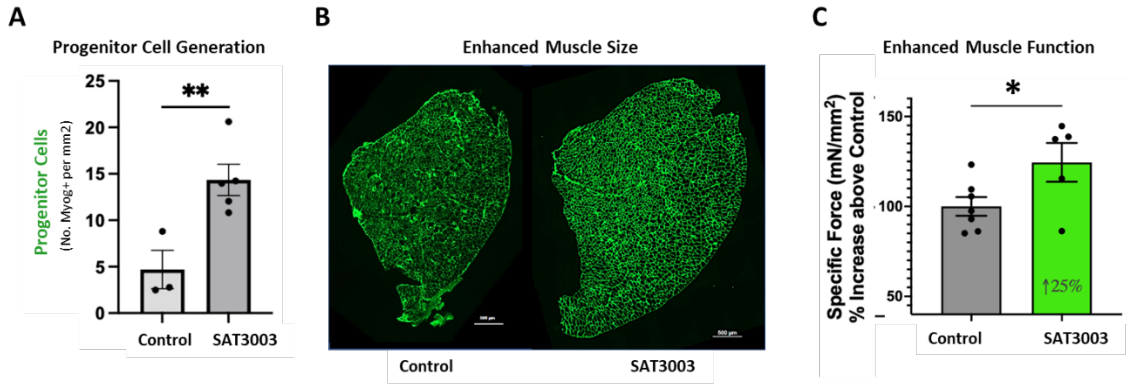
during 2022 to deprioritize the work on the EGFR pathway and focus further development activities onto the "AAK1 Program" described in the section below.

- ***AAK1 Program in Duchenne***

From preliminary experimental work by the Company, in which AAK1 was inhibited using genetic means, we demonstrated that modulation of Notch signaling in muscle stem cells via AAK1 inhibition could be achieved, leading to restoration of asymmetric divisions, muscle stem cell polarity and regeneration of skeletal muscle. Of interest to Satellos from a de-risking perspective, small molecule inhibitors of AAK1 have previously been described for non-muscle related disease indications and have demonstrated acceptable safety profiles thus far in two Phase 1 and two Phase 2 human clinical trials spanning hundreds of patients. Not only does this provide some initial indications of the potential safety of AAK1 inhibition, but the existence of small molecule inhibitors of AAK1 provided (a) valuable starting points for the Company to develop its own, proprietary small molecule inhibitors of AAK1 and (b) an opportunity to quickly generate useful proof of concept data.

As a first step, the Company has synthesized known small molecule inhibitors of AAK1 as 'reference' compounds **(i.e., not compounds owned or controlled by Satellos)** to be used for the purpose of informing its in-house drug discovery and development efforts, with a particular emphasis on generating POC data it could use to confirm its hypothesis and establish benchmarks for developing its own, proprietary drug candidates. Treating *Mdx* mice with one such reference compound**,** which the Company named SAT-3003 solely for the purposes of confidentiality and internal tracking, produced similar results as previously seen with SAT-732 (a compound targeting an enzyme in the EGFR molecular signaling pathway) though in a shorter time frame of only two (2) versus four (4) weeks of treatment. Effects on progenitor generation, muscle size and muscle function with SAT-3003 are shown in Figure 3 below.

Figure 2: SAT-3003 (i.e., <u>reference compound</u>) Exemplar Efficacy Data.



Panel A: Resulting changes in Mdx tibialis anterior (limb) muscle. Statistically significant increase in progenitor cells as measured by Myogenin expression after treatment with SAT-3003 versus placebo control. **Panel B**: Representative images of Mdx Tibialis anterior muscle showing statistically increased muscle fiber area after treatment with SAT-3003 versus placebo control. **Panel C**: Resulting changes in Mdx tibialis anterior muscle specific force generation. Muscles from mice treated with SAT-3003 versus placebo generate more force per unit area, indicative of healthy and functional muscle tissue.

In parallel to the POC studies with the third-party reference compound named SAT-3003, Satellos applied artificial intelligence ("**AI**") tools and incorporated data generated therefrom into its existing drug discovery and development infrastructure to inform its strategic efforts to identify novel chemical matter as quickly as possible. This effort has yielded three distinct chemical scaffolds from which the Company has designed, synthesized, tested and prioritized hundreds of compounds.

As a result of this progress coupled with the overall similarity of POC results to modulation of the EGFR molecular signaling pathway, the overall attractiveness of AAK1 as a potentially safe and known drug target, the association of Notch signaling by others in the field with the potential to rescue regeneration, Satellos elected to prioritize the development of small molecule inhibitors of AAK1.

The Company, in collaboration with the OHRI, arranged for the filing of patent applications to provide intellectual property protection for selected pathways, prospective drug targets and inhibitors related thereto. On June 29, 2022, the Company amended its License Agreement with OHRI to add a specific patent application related to Notch, AAK1 (previously described as K9) and inhibitors thereof for the purpose of regeneration. The Company has filed for patent protection of its novel small molecule inhibitors of AAK1, including but not limited to SAT-3153 and SAT-3247 in consultation with its IP counsel, Cooley LLP.

On January 3, 2023, the Company indicated that results from preclinical ADME, PK and in vivo studies led to designation of SAT-3153 as its lead DC for the treatment of Duchenne. In a subsequent study with SAT-3153, in an acute injury model intended to determine if drug is acting rapidly on mechanism, Mdx mice treated with SAT-3153 displayed a statistically significant effect on polarity through new progenitor muscle cell formation versus placebo controls (n=5 per group), after one (1) week. In a further in vivo study, Mdx mice treated with SAT-3153 four times per week versus placebo controls (n=8 per group) showed a 19% increase in muscle force after two weeks. Additional preclinical studies have shown SAT-3153 to have no binding of the hERG channel (a key requirement to rule out possible cardiac toxicity), a plasma protein binding level of < 90% (indicating significant levels of free drug are available to initiate a therapeutic effect), and oral bioavailability. Subsequently, as further described below, the Company has nominated SAT-3247 as its lead DC while maintaining SAT-3153 as a back-up molecule.

On August 02, 2023, Satellos announced that U.S. Food and Drug Administration (FDA) granted Orphan Drug Designation and Rare Pediatric Disease Designation to SAT-3153 for the potential treatment of Duchenne muscular dystrophy. The FDA grants Orphan Drug Designation to support development of medicines for underserved patient populations, or rare disorders, that affect fewer than 200,000 people in the U.S. Orphan Drug Designation provides certain benefits, including the potential for a seven-year market exclusivity upon regulatory approval, exemption from FDA application fees, tax credits for qualified clinical trials, and a priority review voucher. The FDA grants Rare Pediatric Disease Designation for serious and life-threatening diseases that primarily affect children ages 18 years or younger and fewer than 200,000 people in the United States. The Rare Pediatric Disease Priority Review Voucher Program is intended to address the challenges that drug companies face when developing treatments for these unique patient populations. Under this program, a sponsor who receives an approval for a drug or biologic for a "rare pediatric disease" may be eligible for a voucher that can be redeemed to receive priority review of a subsequent marketing application for a different product or sold to another sponsor for priority review of their marketing application. As noted previously in this document, the Company intends to file for both Orphan Drug and Rare Pediatric Designations for SAT-3247. The Company is compiling the results of its preclinical studies into a suitable dossier for submission to the FDA as it had previously and successfully done for SAT-3153.

Subsequent to the quarter end, on November 14, 2023, Satellos announced that SAT-3247 would be nominated as the lead DC. Preclinical data generated by Satellos demonstrated that SAT-3153 and SAT-3247 have a similar capacity to affect muscle regeneration and functional benefit in the mdx mouse model of Duchenne. SAT-3247 also exhibited improved oral bioavailability, target specificity and tissue distribution when compared directly to SAT-3153.

Satellos is conducting IND-enabling studies and GMP manufacturing for SAT-3247 and remains on track to initiate and complete a Phase 1 clinical trial in healthy volunteers during 2024. Further, the Company has

advanced its plans to request consultative meetings to discuss and seek input on its plans for preparing an IND and Clinical Trial Application ("**CTA**") submissions with the FDA and Health Canada, respectively. As is customary in the industry, Satellos aims to first demonstrate the safety and pharmacokinetic properties of SAT-3247 in healthy human volunteers before advancing to the treatment of Duchenne patients in clinical trials where the potential for efficacy may also be explored (i.e., Phase Ib/IIa). The Company intends to initiate and complete its initial Phase 1 safety study in healthy volunteers and seek regulatory approval to advance into Duchenne patients before the end of 2024. Please refer to the Company's Annual Information form dated April 27, 2023 section "Overview of the Typical Drug Development Process in the United States and Canada" for further details on the clinical drug development process.

Upcoming milestones for the Duchene program in 2024 include:

Development Milestone	Estimated Completion	YTD Update	YTD Q3 2023 Costs (thousands)	YTD Q3 2022 Costs (thousands)	Estimated Total Costs (thousands)
Complete CMC Development	1H 2024	This work was initiated during Q3 2023 and is ongoing.	$511	$0	$3,000
Complete pre-clinical activities and IND enabling studies	1H 2024	This work is ongoing.	$1,273	$0	$10,500
Submit IND and CTA	1H 2024	Planning for a pre-IND meeting with the FDA is underway, development of regulatory submissions to support approval to commence clinical trials in healthy human volunteers has been initiated	$0	$0	$500*
Complete a Phase 1a Safety and PK clinical trial in healthy human volunteers	2H 2024	The Company expects enrollment to be complete before the end of Q3/2024	$237	$0	$5,000*
Seek approval to initiate a Phase Ib/IIa clinical trial in Duchenne patients	To be determined	N/A	$0	$0	$11,000*

* These three amounts total $16,500, consistent with disclosure in the Use of Proceeds section of the Company's short form Prospectus dated May 9, 2023, for Phase 1 Clinical Studies. The Use of Proceeds included a Phase 1 safety and PK study in healthy volunteers as well as a Phase 1b safety, PK and dose-finding study in Duchenne Patients. The Estimated Total Costs disclosed are subject to the outcome of dialog with regulators such as the FDA and HC and the Phase 1b/2a trial expected costs are subject to the results of the Phase 1a study. All Estimated Costs are subject to change.

Some of the stated timelines have been delayed from those previously disclosed, including the timeline to submit an IND and CTA. These delays have been due to time needed to refine and optimize the clinical

strategy as well as additional time needed to secure the funding to complete the necessary clinical development and hire the personnel to oversee it and manufacture drug substance or clinical development.

It is anticipated that following successful completion of a Phase 2 study, the Company will be in position to consider licensing the program to one or more potential partners with the capacity to continue further clinical development and commercialization of SAT-3247. Alternatively, the Company may raise additional capital to fund Phase 2b and/or Phase 3 clinical trials in order to seek regulatory authorization to advance SAT-3247 to market itself. A decision of this nature would be dependent on numerous factors at the time, including the data generated in the clinical trials, the capital markets conditions at the time, the attractiveness of licensing opportunities and shareholder expectations, among others. The Company would expect the completion of clinical development through to obtaining regulatory authorization, if undertaken by the Company, to last until at least 2027, with a projected aggregate cost of approximately US$150 million, incremental to the current funds available to the Company. Additional time and capital would also be required to obtain pre-market approval for SAT-3247 and to complete business development, marketing and other pre-commercialization activities related to commercial launch.

Follow-On Program

There are more than 30 types of muscular dystrophy that affect humans. Each of these dystrophies has different causes that manifest into conditions ranging in severity from benign, small impairments to motor function, to the full loss of ambulation, or even death. Satellos is particularly interested in a subset of dystrophies associated with a multiprotein complex expressed in muscle and other tissues known as the Dystrophin-associated Glycoprotein Complex ("**DGC**"). Satellos has initially identified several forms of muscular dystrophy where it believes the Company's mechanism of action may provide a therapeutic benefit to patients. Satellos considers some of these dystrophies to have potential as new indications to expand and grow the market.

On January 3, 2022, as part of the Company's plan to explore the potential for its drug candidates in other dystrophic conditions, Satellos entered into a sponsored research agreement (the "**UdeS Agreement**") with the Université de Sherbrooke ("**UdeS**"). Under the UdeS Agreement, the parties assessed Satellos' candidate drug molecules in disease models of rare or ultra-rare dystrophies which are believed to display signs of muscle regeneration failure, including Lama-2 Related Muscular Dystrophy (prevalence estimates between one in 50,000 and one in 400,000 births) and Collagen-VI Related Muscular Dystrophy (prevalence of severe form of the disease estimated to be one in 1,000,000 births). Both disease indications are highly underserved. During the period from Q2 2022 to Q4 2022 the research team at UdeS generated initial POC indicating that modulation of polarity in a disease model of Lama-2 Related Muscular Dystrophy showed a positive effect on asymmetric stem cell divisions, muscle regeneration and muscle force. As of July 1, 2023 this agreement has come to a natural completion.

Exclusivity Development Strategy

As a developer of therapeutics to treat a number of rare diseases, Satellos is eligible and intends to apply for specific US government sponsored development programs that have potential in certain circumstances to accelerate approval timelines and enhance market exclusivity. These programs include (but may not be limited to):

(1) Orphan Drug Designation

The Orphan Drug Designation program of the FDA provides status to drugs which are defined as those intended for the treatment, prevention or diagnosis of a rare disease or condition, such as Duchenne. Benefits for drugs that are bestowed 'orphan status' may include tax credits on clinical testing, waiving of

the new drug application ("**NDA**") user fee, and eligibility for a seven-year market exclusivity upon approval of the drug. Orphan Drug Designation applications are often submitted alongside applications for Rare Pediatric Disease Designations. On August 02, 2023, Satellos announced that the FDA awarded SAT-3153 with Orphan Drug Designation. As previously noted in this document, the Company is preparing to file for Orphan Drug Designation with SAT-3247.

(2) Rare Pediatric Disease Designation

As a developer of a therapeutic for Duchenne, a rare pediatric disease, Satellos is eligible and intends to apply for Rare Pediatric Disease Designation. Benefits for this designation include the potential for receiving a priority review voucher that is awarded after approval of the drug. This priority review voucher can be utilized to reduce the review process timeframe for a separate future drug development program. There is also an aftermarket for these vouchers which have been monetized by others for substantial sums. On August 02, 2023, Satellos announced that the FDA awarded SAT-3153 with Rare Pediatric Disease Designation**.** As previously noted in this document, the Company is preparing to file for Rare Pediatric Disease Designation with SAT-3247.

(3) Accelerated Approval

The FDA instituted its Accelerated Approval Program to allow for earlier approval of drugs that treat serious conditions, and that fill an unmet medical need based on a surrogate endpoint. A surrogate endpoint is a marker, such as a laboratory measurement, radiographic image, physical sign or other measure that is thought to predict clinical benefit but, is not itself a measure of clinical benefit. The use of a surrogate endpoint can considerably shorten the time required prior to receiving FDA approval. It is unknown at this time whether the Company will be eligible for accelerated approval.

The iCo Portfolio

Through its business combination with iCo the Company acquired the iCo Portfolio. There are two technologies within the iCo Portfolio: Oral Amp B Delivery System, a patented oral transport technology licensed exclusively by iCo from the University of British Columbia ("UBC") in 2008, trade-marked OralTrans™ and described as iCo-019; and Bertilimumab, a human monoclonal antibody described as iCo-008 which was discovered by Cambridge Antibody Technology Limited in 2001 and exclusively licensed by iCo in 2006 and for which patents have expired (the "**CAT License**").

iCo sublicensed the commercial development rights to Bertilimumab for all disease indications outside of the ocular field to Immune Pharmaceuticals Ltd. through a product sublicense agreement dated December 7, 2010 (the "**Bertilimumab Sublicense**"). Subsequently Alexion Pharma International Operations Limited ("**Alexion**") obtained the rights and obligations to the Bertilimumab Sublicense. On October 7, 2022, Alexion notified the Company that it was terminating the Bertilimumab Sublicense as of November 7, 2022. The Company is exploring monetization options for this product; however, the Company believes it is unlikely that material, or any, value can be realized for Bertilimumab.

Amphotericin B Technologies Inc. ("**Amp B**") was established as a wholly owned subsidiary of the Company as part of a renewed strategy to create value and attract partnerships and/or funding. OralTrans™ and the UBC license agreement were assigned to Amp B with the consent of UBC.

On August 18, 2021, Satellos announced that Amp B had entered into a Joint Development Agreement (the "**JDA**") with NW PharmaTech Limited ("**NW PharmaTech**"). The purpose of the JDA was to collaborate on the development of an oral formulation of cannabidiol to be targeted at the global market as an over-the-counter sleep aid. Under the agreement, NW PharmaTech provided an up-front payment of $25 thousand

to partially fund costs of developing the formulation and testing for safety, toxicity and pharmacokinetics. Effective February 4, 2022, pursuant to the JDA, Satellos and the University of Toronto ("**UT**") entered into a Sponsored Research and Collaboration Agreement to develop Amp B Tech's formulation technology for cannabidiol-based sleep aid products (the "**UT SRA**"). During 2022, NW PharmaTech or NWMT (defined below) paid $126 thousand to Satellos to fund the UT SRA, and a further $42 thousand was provided to the Company, and paid by the Company to UT, in Q1 2023. These payments were a reimbursement of funds paid to UT, and so amounts received by the Company are offset against amounts paid, netting to zero. There have been no payments of this type in Q2 2023 or in Q3 2023.

On October 6, 2022, NW Micelle Therapeutics Inc. ("**NWMT**") was established for the purpose of developing an oral formulation of cannabidiol using OralTrans™ technology for the treatment of insomnia and other indications relating to mental health ("**Oral CBD**"). NW PharmaTech will provide the funding required for the development of Oral CBD, already underway at the University of Toronto. NW PharmaTech holds 85% of the shares in NWMT and Amp B holds 15%. Amp B is entitled to a seat on the board of NWMT and receives certain anti-dilution protections. NW PharmaTech Ltd. obtained a call option to acquire Amp B from Satellos for US$3 million while Satellos received a put option to trigger a sale of Amp B to NWPT, also for US$3 million. NWMT has agreed to reimburse Satellos for all remaining amounts due to UT under the UT SRA, and Satellos has granted its rights under the UT SRA to NWMT.

The Company is no longer incurring development costs associated with the iCo Portfolio nor does it anticipate doing so in the future.

REVIEW OF FINANCIAL RESULTS

All tabular amounts below are presented in thousands of Canadian dollars, except for per share amounts.

The financial information reported herein was derived from the condensed consolidated interim financial statements and the audited annual consolidated financial statements. Satellos' functional and presentation currency is the Canadian dollar. From time to time, the Company may deal with several contract research organizations, consultants and suppliers in other countries (primarily the United States and China; our suppliers in China are generally paid in US dollars). Our financial results may be subject to fluctuations between the Canadian dollar and other international currencies, primarily the US dollar.

Selected Financial Information

	Three Months ended Sept. 30, 2023	**Three Months ended Sept. 30, 2022**	**Nine Months ended Sept. 30, 2023**	**Nine Months ended Sept 30, 2022**
	$	$	**$**	$
R&D expenses	**2,734**	898	**5,232**	2,715
G&A expenses	**1,754**	941	**3,983**	3,440
Other (income) and expenses	**(914)**	60	**139**	96
Net loss	**(3,574)**	(1,899)	**(9,354)**	(6,251)
Basic and diluted net loss per share	**(0.03)**	(0.05)	**(0.12)**	(0.19)
Total assets	**48,676**	10,223	**48,676**	10,223
Total liabilities	**2,317**	2,018	**2,317**	2,018

We have not earned revenue in any of the previous fiscal years, other than income from interest earned on our cash and cash equivalents.

For the three months ended September 30, 2023, we reported a net loss of $3.6 million ($0.03 loss per share), compared to a net loss $1.9 million ($0.05 loss per share) for the three months ended September 30, 2022. For the nine months ended September 30, 2023, we reported a net loss of $9.4 million ($0.12 loss per share) compared with $6.3 million ($0.19 loss per share) in the same period in the prior year. The increase in net loss for the three and nine months ended September 30, 2023, compared with the three months ended September 30, 2022, was primarily a result of increased R&D expenses associated with increased headcount and activity as well as increased G&A expenses due to increased personnel, recruitment, travel and professional fees.

Cash utilized in operating activities for the nine months ended September 30, 2023, was $9.1 million, compared to the nine months ended September 30, 2022, of $4.5 million. The increase in cash utilized in the current year period is primarily as a result of the increased net loss.

Results of Operations for the Three and Nine Months ended September 30, 2023

Research and development expenses:

Research and development expenses consist primarily of costs to support our lead products and also early-stage research, and include external research and development incurred under agreements with third parties

such as agreements with research institutes, contract manufacturing organizations, external labs, and employee related expenses for personnel directly supporting research and development programs.

We expect our research and development expenses to continue to increase for the foreseeable future as we advance our lead candidate.

	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

Research and development expenses increased by approximately $1.8 million to $2.7 million for the three months ended September 30, 2023, as compared to $0.9 million for the comparative period in 2022. Changes to the components for research and development expenses presented in the table above are primarily the result of the following:

- Salaries and management fees increased by approximately $471 thousand related to new hires to advance our research programs.
- Discovery expenditures decreased by approximately $301 thousand. The Company selected its lead candidate in January 2023. Ongoing Discovery expenses reflect OHRI discovery and supporting work.
- Preclinical pre-IND-enabling expenses for the period were $947 thousand. Preclinical pre-IND-enabling studies began in Q1 2023 and so there was no relevant amounts incurred in the prior year period.
- Chemistry and manufacturing controls ("CMC") expenses were $486 thousand. CMC activities began in Q3 2023 and so there was no amount incurred in the comparable period.

Stock-based compensation increased by approximately $233 thousand in the current period related to more grants in the current period.

Research and development expenses increased by approximately $2.5 million to $5.2 million for the nine months ended September 30, 2023, as compared to $2.7 million for the comparative period in 2022. Changes to the components for research and development expenses presented in the table above are primarily the result of the following:

- Salaries and management fees increased by approximately $857 thousand related to new hires to advance our research programs.
- Discovery expenditures decreased by approximately $1.1 million. The Company selected its lead candidate in January 2023. Ongoing Discovery expenses reflect OHRI discovery and supporting work.

- Preclinical pre-IND enabling expenses for the period were $2.0 million. Preclinical pre-IND enabling studies began in 2023 and so there were no relevant amounts incurred in the prior year period with which to compare.
- CMC expenses were $486 thousand. CMC activities began in Q3 2023 and so there were no amounts incurred the comparable period.
- Stock-based compensation increased by approximately $241 thousand in the current period related to more grants in the current period.

General and administrative:

General and administrative expenses consist primarily of salaries and management fees for our directors, executive, business development, finance and support functions, professional fees for auditing, recruitment and legal services, investor relations, and insurance and travel and listing fees.

We expect our general and administrative expenses to increase for the foreseeable future as we incur additional expenses to support increased research and development activities and public company related costs.

	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

General and administrative expenses increased by approximately $0.8 million to $1.8 million for the three months ended September 30, 2023, as compared to $0.9 million for the comparative period in 2022. Changes to the components for general and administrative expenses presented in the table above are primarily the result of the following:

- Salaries and management fees increased by approximately $411 thousand mostly related to new hires in the period.
- Professional fees increased by approximately $210 thousand mostly related to higher legal fees and investor relations expenses
- Other operating expenses increased by approximately $98 thousand mostly related to higher travel expenses.
- Stock-based compensation increased by approximately $202 thousand related to new grants issued in the current fiscal year.
- There is no amortization of intangibles in the current period as the asset has been identified as available for sale and therefor no longer amortized.

General and administrative expenses increased by approximately $0.6 million to $4.0 million for the nine months ended September 30, 2023, as compared to $3.4 million for the comparative period in 2022. Changes to the components for general and administrative expenses presented in the table above are primarily the result of the following:

- Salaries and management fees increased by approximately $485 thousand mostly related to new hires in the period.
- Professional fees increased by approximately $398 thousand mostly related to higher legal fees, higher recruitment fees and higher investor relations expenses.
- Other operating expenses increased by approximately $96 thousand mostly related to higher travel expenses.
- Stock-based compensation decreased by approximately $116 thousand mostly related to higher compensation in the comparative period for grants issued in the 2022 fiscal year offset by option grants issued in the current fiscal year.
- There is no amortization of intangibles in the current period as the asset has been identified as available for sale and therefor no longer amortized.

Summary of Quarterly Results

The table below is derived from unaudited quarterly results and was prepared by management for the eight previous quarters to September 30, 2023.

	Q3 2023	**Q2 2023**	**Q1 2023**	**Q4 2022**	**Q3 2022**	**Q2 2022**	**Q1 2022**	**Q4 2021**
	$	$	$	$	$	$	$	$
R&D Expense	2,734	1,565	935	997	898	865	950	1,056
G&A Expense	1,754	1,497	732	1,271	941	1,342	1,157	1,073
Other (income) and expenses	(914)	1,053	-	2,810	60	26	10	(5)
Net Loss	(3,574)	(4,115)	(1,667)	(5,078)	(1,899)	(2,233)	(2,117)	(2,124)
Loss per Share	(0.03)	(0.05)	(0.04)	(0.12)	(0.05)	(0.07)	(0.06)	(0.06)

The net loss for the periods Q4 2021 to Q3 2022 were reasonably consistent quarter to quarter. The net loss increased in Q4 2022 as a result of a $2.9 million impairment recorded in the period related to the Company's OralTrans™ technology held in its Amp B subsidiary. Following the Company's $55 million equity raise in May 2023, the Company increased research and development activities for its lead compound and increased general and administrative activities to support the business growth and also to support its public company reporting obligations, resulting in higher net losses in these periods. Other income and expenses recorded in Q2 and Q3 2023 reflect mostly foreign exchange gains and losses on the Company's cash and cash equivalents held following the equity raise in May 2023.

FINANCIAL CONDITION

Liquidity and Capital Resources

Since inception, the Company has devoted its resources to funding R&D programs, including securing intellectual property rights and licenses, conducting discovery research, manufacturing drug supplies, initiating preclinical studies, and providing administrative support to R&D activities, which has resulted in an accumulated deficit of $41 million as of September 30, 2023. With current revenues only consisting of interest earned on excess cash and cash equivalents, losses are expected to continue while the Company's R&D programs are advanced. We currently do not earn any revenues from our product candidates and are therefore considered to be in the development stage. As required, the Company will continue to finance its operations through the sale of equity or pursue non-dilutive funding sources available to the Company in the future. The continuation of our research and development activities for our muscle regeneration platform is dependent upon our ability to successfully finance and complete our research and development programs through a combination of equity financing and revenues from strategic partners. We have no current sources of revenues from strategic partners. Management has forecasted that the Company's current level of cash will be sufficient to execute its current planned expenditures for more than the next 12 months without further financing. The Company's cash is expected to fund operations through Q4 2025.

Cash Management

Net Working Capital was $42.4 million as of September 30, 2023, compared to a net working capital deficit of $597 thousand as of December 31, 2022. The improvement is due to cash inflows from the Equity Offering.

At September 30, 2023, the Company had cash and cash equivalents of $44.3 million, compared $1.9 million at December 31, 2022. The Company invests cash in excess of operational requirements in highly rated and liquid investments.

Satellos' main objectives in managing capital are to ensure cash resources are preserved and provide sufficient liquidity to finance research and development activities, ongoing administrative costs and working capital. Since inception, Satellos has financed its operations from private sales of equity, public sales of equity, convertible debt financing, non-convertible debenture financing, government grants and investment tax credits. Since Satellos has not generated net earnings from operations, its ongoing liquidity depends on its ability to access capital markets, which depends on the success of Satellos' ongoing research and development programs, as well as capital market conditions.

Satellos uses cash flow forecasts to estimate cash requirements for the ensuing twelve-month period and beyond. Based on these requirements, Satellos plans to raise capital as required to provide the necessary financial resources for operations. The timing of financings will depend on market conditions and Satellos' cash requirements. Satellos' cash flow forecasts are continually updated to reflect actual cash inflows and outflows to monitor the requirements and timing for additional financial resources. Given the volatility of the Canadian and US dollar exchange rate, the Company estimates its US dollar expenses for the year and sets appropriate levels of US dollar cash and cash equivalent balances. By holding US dollars, Satellos remains subject to currency fluctuations which affect its loss and comprehensive loss during any given year.

Satellos will continue to pursue various funding options and opportunities; however, no assurances can be made that Satellos will be successful in raising additional investment capital, to continue as a going concern. If Satellos is not able to raise capital, Satellos will have to reduce its cash requirements by eliminating or deferring spending on research, development and corporate activities.

Debenture Offering in March 2023

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 was 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 mature 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 $238 thousand, offset by share issuance costs of $13 thousand. In addition, the Company incurred expenses in the amount of $141 thousand, related to the Debenture Offering of which $128 thousand was allocated to debt issuance cost and $13 thousand to share issuance cost. Net proceeds of the Debenture Offering were $2.2 million and the effective annual interest rate on the principal of the Debentures was 21.6%.

The Company could 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 occurs 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 $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	**-**

Equity Offering September 2022

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 for 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 such compensation warrant is exercisable for one Common Share at an exercise price of $0.40 until expiry on September 13, 2024.

Equity Offering May 2023

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 and 39,702,780 pre-funded common share purchase warrants ("Pre-Funded Warrants") with no expiry date for $0.49999 per Pre-Funded Warrant for gross proceeds of $55 million. Each Pre-Funded Warrant is exercisable for one Common Share at an exercise price of $0.00001 per share.

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 such 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 Common 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 **Transactions with Related Parties** disclosures below.

Use of Proceeds

September 2022 Financing

The following table provides an update on the anticipated use of proceeds raised as part of the 2022 Offering, along with amounts actually expended. As of September 30, 2023, the following expenditures had been incurred:

Item	Amount to Spend	Spent to Date	Adjustments	Remaining to Spend
	$	$	$	$
Nominating a DC	923	1,487	564	—
Preclinical development	540	728	188	—
Initiation of pre-IND activities	524	136	(388)	—
General and administrative	491	232	(259)	—
	2,478	**2,583**	**(105)**	—

The higher-than-expected expenses relating to nominating a DC and lower than expected expenses for initiation of pre-IND activities were attributable to the fact that it took slightly longer than expected to nominate a DC. The Company estimates that as of the end of March 2023, it has spent the proceeds of the 2022 Prospectus offering in full.

May 2023 Financing

The following table provides an update on the anticipated use of proceeds raised as part of the 2023 Offering, along with amounts actually expended. As of September 30, 2023, the following expenditures had been incurred:

Item	Amount to Spend	Spent to Date	Adjustments	Remaining to Spend
	$	$	$	$
CMC Activities	3,000	511	-	2,489
Pre-clinical, including IND Enabling Studies	10,500	1,273	-	9,227
Discovery research	2,500	400	-	2,100
Phase 1 Clinical Studies	16,500	237	-	16,263
General and administrative	17,050	1,322	-	15,728
	49,550	**3,743**	**-**	**45,807**

License Agreements

Ottawa Hospital Research Institute

Effective May 1, 2018, Pre-Arrangement Satellos and OHRI entered into the OHRI License Agreement whereby OHRI granted Pre-Arrangement Satellos an exclusive, world-wide, sublicensable, royalty bearing right and license to a body of technology and patents comprised of five patent families to develop, make, have made, import, use, offer for sale, sell and have sold or otherwise commercialize licensed products. At the same time the parties entered into a sponsored research agreement, during the term of which OHRI has agreed to carry out specific research and development activities according to a prescribed statement of work, as may be amended from time to time, under the direction of the Company's co-founder, Dr. Michael A. Rudnicki (the "**OHRI SRA**"). Under the OHRI SRA, Dr. Rudnicki leads a dedicated R&D team who are engaged solely to execute the agreed R&D program of Satellos, under his direction and as defined in the statement of work.

University of British Columbia

On July 27, 2007, iCo entered into an option agreement with UBC which granted an option to negotiate a license for the exclusive rights to the Oral Amp B Delivery System to be used for potential systemic fungal infections. iCo exercised the option on February 26, 2008 and on May 6, 2008 signed the UBC License Agreement. In consideration for the UBC License Agreement, iCo paid UBC an initial license fee of $20,000 and is required to pay annual fees to UBC for maintaining the license until such time as an NDA for the Oral Amp B Delivery System is approved by the FDA or other regulatory body. The Company is required to make additional contingent payments of up to $1.85 million in aggregate upon the achievement of certain development and commercialization milestones and is also required to pay royalties contingent on future revenues.

AstraZeneca PLC

Following a series of corporate mergers and acquisitions since 2006, the assets licensed under the CAT License are owned by AstraZeneca. Should the Company advance Bertilimumab into clinical development, it may be required to make additional contingent payments and to pay royalties to AstraZeneca upon the

achievement of certain development and commercialization milestones. Please refer to the section titled "*The iCo Portfolio*" above.

Long-Term Obligations and Other Contractual Commitments

The Company may be required to make annual, milestone, royalty, and other research and development funding payments to OHRI under the OHRI SRA and the OHRI License. These payments are contingent upon the achievement of specific development, regulatory and/or commercial milestones. The Company's significant contingent milestone, royalty and other research and development commitments are as follows:

- Royalties on net sales of any products covered by patents licensed from OHRI ("**Licensed Products**") of 1% or 2% (depending on which patents cover a particular product), during the period when the applicable patents have valid, unexpired claims, subject to certain royalty stacking provisions;

- The following payments to OHRI may be triggered by specified events:

    - $50 thousand - each time a Licensed Product is the subject of an approved IND in the US or equivalent in any other industrialized country (maximum one payment per new drug candidate);

    - $150 thousand - each time a Licensed Product first enters Phase II human clinical trials in the US or equivalent in any other industrialized country (maximum one payment per new drug candidate);

    - $300 thousand - each time a Licensed Product first enters Phase III human clinical trials in the US or equivalent in any other industrialized country (maximum one payment per new drug candidate); and

    - $1 million - each time a Licensed Product is the subject of a regulatory approval in the US (such as NDA and BLA) or equivalent in any other industrialized country (maximum one payment per new drug candidate).

- 2% of sublicensing income received by Satellos from the grant of sublicenses.

The Company is required to pay annual fees to UBC under the UBC License Agreement for maintaining the license until such time as a NDA for the Oral Amp B Delivery System is approved by the FDA or other regulatory body, or the license expires or is terminated. The Company may be required to make milestone, royalty, and other payments. 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 September 30, 2023 due to the uncertainty over whether these milestones will be achieved. The Company is required to make additional contingent payments of up to $1.85 million in aggregate contingent upon the achievement of certain development and commercialization milestones and is also required to pay royalties on future revenues.

As described above under *License Agreements*, the Company may be required to make additional contingent payments to AstraZeneca related to iCo-008 upon the successful achievement of certain development and commercialization milestones. The Company may be required to pay royalties on future revenues.

TRANSACTIONS WITH RELATED PARTIES

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.

(1) 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.

(2) 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, 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**

(3) Debenture Offering

Certain directors participated in the Debenture Offering described in Note 7 of the Financial Statements. A total of 450 of the 2,385 units were purchased by directors of the Company.

(4) Equity Offering

Frank Gleeson, CEO of the Company, William Jarosz, a director of the Company, William McVicar, a director of the Company, J. Robert Hall, an officer of the Company, and Bloom Burton & Co. Inc., a related party of the Company and an affiliate of BBSI, purchased an

aggregate of 3,323,070 Common Shares under the Equity Offering or 3.0% of the securities issued under the Equity Offering. Subscriptions for Common Shares by such insiders are related party transactions within the meaning of applicable Canadian securities laws

(5) Key management personnel

Key management personnel consists of the Company's Chief Executive Officer, Chief Scientific Officer, Chief Medical Officer, Chief Technology Officer, 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

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

	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.

OFF-BALANCE SHEET ARRANGEMENTS

Satellos has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations or arrangements with respect to any obligations under a variable interest equity arrangement.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Satellos is exposed to various risks through its financial instruments as at September 30, 2023. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

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.

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. The following are the carrying values and contractual maturities of financial liabilities at September 30, 2023:

	September 30, 2023	**Term to Maturity**
Accounts payable and accrued liabilities	$ 2,317	Less than one year

Foreign 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 dollars in cash on hand to fund its short-term foreign currency expenditures,

Balances in foreign currencies at September 30, 2023 and December 31, 2022 were as follows:

	September 30, 2023 (US$)	**December 31, 2022 (US$)**
Cash and cash equivalents	31,198	393
Deposits (included in Prepaid expenses and deposits)	-	6
Accounts payable and accrued liabilities	1,071	1,057

Based on the US$ balance sheet exposure at September30, 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 liabilities 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 liabilities would be approximately $3.7 million less.

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, the Call Option, the Debentures 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 quarter ended September 30, 2023.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our condensed consolidated interim financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The reported amounts and note disclosures reflect management's best estimate of the most probable set of economic conditions and planned course of actions. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying our accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2022.

Refer to the audited consolidated financial statements for the year ended December 31, 2022 for discussions on our accounting policies and estimates that are most important in assessing, understanding and evaluating our consolidated financial statements. Change in these estimates and assumptions could have a significant impact on our consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

The accounting policies and basis of measurement applied in our condensed consolidated interim financial statements as at September 30, 2023 are the same as those applied in our consolidated financial statements for the year ended December 31, 2022.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

There have been no changes in our ICFR that occurred during the period beginning January 1, 2023 and September 30, 2023 that have materially affected, or are reasonably likely to materially affect our ICFR.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had the following issued and outstanding securities:

Security	Number
Common shares	112,791,658
Prefunded Warrants	39,702,780
Warrants	12,346,419
Stock options	13,578,182

For a detailed summary of the outstanding securities convertible into, exercisable or exchangeable for voting or equity securities of Satellos as at September 30, 2023, refer to notes 7,8 and 9 of the Interim Financial Statements of the Company.

RISKS AND UNCERTAINTIES

We are a development stage biopharmaceutical company that operates in an industry that is dependent on a number of factors that include the capacity to raise additional capital on reasonable terms, obtain positive results of clinical trials, obtain positive results of clinical trials without serious adverse or inappropriate side effects, and obtain market acceptance of its product. An investment in our common shares is subject to a number of risks and uncertainties. An investor should carefully consider the risks described in our AIF, as well as our other public filings with the securities regulators before investing in our common shares. If any of such described risks occur, or if others occur, our business, operating results and financial condition could be seriously harmed, and investors may lose a significant proportion of their investment. There are important risks which management believes could impact our business. For information on risks and uncertainties, please refer to the "Risk Factors" section of our most recent AIF filed on SEDAR+ at www.sedarplus.ca.

ADDITIONAL INFORMATION

Additional information related to Satellos, including the AIF, is available by accessing the Company's SEDAR profile at www.sedarplus.ca**.**