



SATELLOS BIOSCIENCE INC.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2024 and 2023 (Unaudited)

SATELLOS BIOSCIENCE INC.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in thousands of Canadian Dollars)

(Unaudited)

As at,	Notes	September 30, 2024	December 31, 2023
		\$	\$
ASSETS			
Current			
Cash and cash equivalents	3	23,422	22,067
Short-term investments	4	-	17,520
Sales tax and other receivables		191	583
Prepaid expenses and deposits		579	148
Derivatives, net	5	-	4
Total current assets		24,192	40,322
Equipment		17	19
Assets held for sale			
Intangible asset	5	-	3,916
Investment	5	-	41
		-	3,957
TOTAL ASSETS		24,209	44,298
LIABILITIES			
Accounts payable and accrued liabilities	6	3,622	3,624
Total current liabilities		3,622	3,624
Total Liabilities		3,622	3,624
SHAREHOLDERS' EQUITY			
Common shares	8	62,253	61,916
Pre-funded warrants	8	17,772	17,772
Warrants	9	2,334	2,470
Contributed surplus	10	7,735	6,033
Accumulated deficit		(69,495)	(47,502)
Accumulated other comprehensive loss		(12)	(15)
Total shareholders' equity		20,587	40,674
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		24,209	44,298

Commitments and contingencies (Note 12)

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

SATELLOS BIOSCIENCE INC.

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

		Three months ended		Nine months ended	
		September 30,		September 30,	
	Notes	2024	2023	2024	2023
		\$	\$	\$	\$
EXPENSES					
Research and development expenses	11	3,263	2,734	14,072	5,232
General and administrative expenses	11	1,799	1,754	5,923	3,983
LOSS FROM OPERATING ACTIVITIES:		(5,062)	(4,488)	(19,995)	(9,215)
OTHER INCOME AND EXPENSES					
Finance income		314	542	1,114	799
Impairment of intangible asset	5	(3,961)	-	(3,961)	-
Interest expense	7	-	(56)	-	(177)
Loss on debt extinguishment		-	(426)	-	(426)
Gain (loss) on derivatives	5	-	4	(3)	3
Foreign exchange gain (loss)		(339)	850	852	(338)
NET LOSS FOR THE PERIOD		(9,048)	(3,574)	(21,993)	(9,354)
OTHER COMPREHENSIVE LOSS					
Items that may be reclassified to net loss					
Foreign currency translation adjustments		12	(2)	3	(4)
TOTAL COMPREHENSIVE LOSS		(9,036)	(3,576)	(21,990)	(9,358)
Basic and diluted loss per share					
		\$(0.08)	\$(0.03)	\$(0.19)	\$(0.12)
Weighted average number of common shares					
(basic & diluted)	8	113,027,202	112,791,658	112,872,225	77,609,130

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

SATELLOS BIOSCIENCE INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Expressed in thousands of Canadian Dollars, except for share and pre-funded warrant numbers)

(Unaudited)

For the three and nine months ended September 30, 2024 and 2023

	Common Shares	Common Shares	Pre-Funded Warrants	Pre-Funded Warrants	Warrants	Contributed Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Number	\$	Number	\$	\$	\$	\$	\$	\$
Balance - December 31, 2022	41,797,613	30,209	-	-	1,092	3,688	(31,614)	(7)	3,369
Expiry of warrants unexercised (Note 9)	-	-	-	-	(175)	175	-	-	-
Common shares issued in									
Debenture offering, net of costs (Note 7)	671,825	226	-	-	-	-	-	-	226
Exercise of broker warrants	25,000	14	-	-	(4)	-	-	-	10
Common shares issued in equity offering (Note 8)	70,297,220	35,149	-	-	-	-	-	-	35,149
Cost of common shares issued in equity offering									
Cash (Note 8)	-	(2,687)	-	-	-	-	-	-	(2,687)
Warrants (Note 8)	-	(996)	-	-	996	-	-	-	-
Pre-funded warrants issued in equity offering (Note 8)	-	-	39,702,780	19,851	-	-	-	-	19,851
Cost of pre-funded warrants issued in equity offering									
Cash (Note 8)	-	-	-	(1,517)	-	-	-	-	(1,517)
Warrants (Note 8)	-	-	-	(562)	562	-	-	-	-
Stock-based compensation (Note 10)	-	-	-	-	-	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	2,471	5,178	(40,968)	(11)	46,359
Balance – December 31, 2023	112,791,658	61,916	39,702,780	17,772	2,470	6,033	(47,502)	(15)	40,674
Exercise of warrants (Note 9)	589,156	337	-	-	(100)	-	-	-	237
Expiry of warrants unexercised (Note 9)	-	-	-	-	(36)	36	-	-	-
Stock-based compensation (Note 10)	-	-	-	-	-	1,666	-	-	1,666
Net loss	-	-	-	-	-	-	(21,993)	-	(21,993)
Other comprehensive loss	-	-	-	-	-	-	-	3	3
Balance – September 30, 2024	113,380,814	62,253	39,702,780	17,772	2,334	7,735	(69,495)	(12)	20,587

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

SATELLOS BIOSCIENCE INC.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in thousands of Canadian Dollars)

(Unaudited)

For the nine months ended,	Notes	September 30, 2024	September 30, 2023
		\$	\$
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net loss		(21,993)	(9,354)
Items not affecting cash:			
Impairment of intangible asset		3,961	-
Depreciation of equipment		8	5
Stock-based compensation	10	1,666	1,315
(Gain) loss on derivatives	5	3	(3)
Unrealized foreign exchange gain		(775)	(338)
Net change in non-cash working capital balances:			
Sales tax and other receivables		392	(95)
Prepays and deposits		(431)	(28)
Accounts payable and accrued liabilities		2	(567)
		(17,167)	(9,065)
FINANCING ACTIVITIES			
Proceeds from issuance of debenture units, net of costs	7	-	2,244
Cash interest paid on long term debt		-	(93)
Cash repayment premium paid on long term debt		-	(143)
Accrued interest on long term debt		-	177
Loss on debt extinguishment		-	426
Repayment of debenture units		-	(2,385)
Proceeds from exercise of warrants, net of costs	8	237	10
Proceeds from issuance of common shares, net of costs	8	-	32,463
Proceeds from issuance of pre-funded warrants, net of costs	8	-	18,334
		237	51,033
INVESTING ACTIVITIES			
Purchase of equipment		(6)	(17)
Sale of short-term investments, net	4	17,964	-
		17,958	(17)
Effect of foreign currency exchange rates on cash and cash equivalents		327	388
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,355	42,339
CASH AND CASH EQUIVALENTS – Beginning of period		<u>22,067</u>	<u>1,924</u>
CASH AND CASH EQUIVALENTS – End of period		<u>23,422</u>	<u>44,263</u>

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

SATELLOS BIOSCIENCE INC.

Notes to the condensed consolidated interim financial statements (unaudited)

For the three and nine months ended September 30, 2024 and 2023

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

1. Description of Business

Satello Bioscience Inc. (“**Satello**” 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 Toronto Stock Exchange (“**TSX**”).

The Company has wholly owned subsidiaries in Australia (Satello Bioscience Australia Pty Ltd), in Canada (Amphotericin B Technologies, Inc., hereinafter “**AmpB**”) and in Delaware, USA (Satello Bioscience US, Inc.).

To date, the Company has financed its operations primarily through public offerings of common shares, private placements, the issuance of convertible notes, and proceeds from research tax credits. The Company has incurred significant operating losses and negative cash flows from operations since inception. With current finance income only consisting of return earned on excess cash, cash equivalents and marketable securities, losses are expected to continue as the Company’s drug development programs are advanced. The Company plans to finance its operations through the sale of equity or pursue non-dilutive funding sources available to the Company in the future.

The ability of the Company to ultimately achieve future profitable operations is dependent upon the successful development of its projects, our ability to successfully finance development activities, obtaining regulatory approval in various jurisdictions and successful sale or commercialization of the Company’s products and technologies.

2. Material Accounting Policies

2.1 Basis of Presentation and Going Concern

These condensed consolidated interim financial statements for the three and nine months ended September 30, 2024 and 2023 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 audited consolidated financial statements as at December 31, 2023.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS accounting principles applicable to a going concern using the historical cost basis. The going concern basis contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due for the foreseeable future. The Company incurred a loss of \$22.0 million for the nine-month period ended September 30, 2024, reported a deficit of \$69.5 million and had working capital of \$20.6 million as at September 30, 2024.

Our ability to raise additional funds could be affected by adverse market conditions, the status of our product pipeline, and various other factors and we may be unable to raise capital when needed, or on terms favorable to us. If necessary funds are not available, we may have to delay, reduce the scope of, or eliminate some of our development programs, potentially delaying the time to market for any of our product candidates.

The Company’s ability to continue as a going concern is dependent upon its ability to fund its research and development programs and defend its patent rights. These interim condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statements of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

These condensed consolidated interim financial statements of the Company were approved and authorized for issue by the Board of Directors on **November 12, 2024**.

The condensed consolidated interim financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the Company’s functional currency.

SATELLOS BIOSCIENCE INC.

Notes to the condensed consolidated interim financial statements (unaudited)

For the three and nine months ended September 30, 2024 and 2023

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

2.2 Basis of Consolidation

The condensed consolidated interim financial statements comprise of the financial statements of the Company and its subsidiaries as at September 30, 2024. The subsidiaries are fully consolidated from the date at which control is determined to have occurred and are deconsolidated from the date that the Company no longer controls the entity. Intercompany transactions, balances, and gains and losses on transactions between subsidiaries are eliminated.

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 audited consolidated financial statements for the year ended December 31, 2023.

2.4 Material Accounting Judgements, Estimates, and Assumptions

The preparation of these condensed consolidated interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The condensed consolidated interim financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements and may require accounting adjustments based on future occurrences. The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are accounted for prospectively.

The key assumptions concerning the future, and other key sources of estimation uncertainty, as of the date of the condensed consolidated interim statement of financial position, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next fiscal year arise in connection with valuation of the intangible assets held for sale and related impairment, valuation of stock-based compensation and warrants, valuation of derivatives, accruals for research and development activities, stock-based compensation, contingent repayment of grant funding and the determination of the functional currency of the Company.

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" or "\$C"), 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, 2024	December 31, 2023
	\$	\$
Cash balances with banks	7,789	609
Short term cashable instruments	15,633	21,458
Total cash and cash equivalents	23,422	22,067

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Notes to the condensed consolidated interim financial statements (unaudited)

For the three and nine months ended September 30, 2024 and 2023

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

4. Short-term Investments

Short-term investments with initial maturities greater than three months and less than one year consist of the following:

	September 30, 2024	December 31, 2023
	\$	\$
Short-term investments with initial terms of greater than three months and less than one year with yields from 5.09%-5.32% (2023 – 5.20% - 5.35%)	-	17,520
Total short-term investments	-	17,520

5. Intangible Asset and Asset Held for Sale

- a) Intangible asset consisted of the Oral AmpB Delivery System held by AmpB (“OralTrans”), which consisted of (a) a license to three patents; (b) title to several patents and patent applications; and (c) clinical and pre-clinical data.

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 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 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 (and its component assets, OralTrans and the investment in NWMT), were considered assets available for sale. Accordingly, the asset was recorded at its fair value, determined to be \$3.9 million as of December 31, 2022.

During the period ended September 30, 2024, management determined that it was no longer likely that the sale of AmpB (and its component assets, OralTrans and the investment in NWMT) would be completed through the exercise of the Call Option or completion of the Put Option. As such, the AmpB assets no longer qualified as held for sale and accordingly should be measured at the lower of the carrying value and the recoverable amount. The Company recognized an impairment of \$3.9 million to fully write down the remaining carrying value of the intangible asset. The factor leading this to this impairment was the lack of financing obtained by NWMT to advance the technology. Subsequent to the quarter ended September 30, 2024, on October 7, 2024, the Company exercised its Put Option. NWPT were not able to fulfil their obligations under the terms of the agreement.

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

	September 30, 2024	December 31, 2023
	\$	\$
Investment in NWMT	-	41

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 described above, during the period ended September 30, 2024, the Investment in NWMT no longer met the definition of an asset held for sale and was remeasured to its recoverable amount. This was determined to be nil, as the AmpB technology, the advancement of which was the purpose of NWMT have a fair value of nil. The company recorded an impairment loss of \$43 thousand related to this remeasurement.

- 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 was US\$3 million. Based on management’s determination as of September 30, 2024, that it was no longer likely that the sale of the AmpB technology would be completed through the exercise of the Call or satisfaction of the Put Options, the values of both Options have been recorded at nil. Subsequent to the quarter ended September 30, 2024, on October 7, 2024, the Company exercised its Put Option. NWPT were not able to fulfil their obligations under the terms of the agreement.

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Notes to the condensed consolidated interim financial statements (unaudited)

For the three and nine months ended September 30, 2024 and 2023

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

The table below presents the Derivative Asset and Derivative Liability:

	September 30, 2024	December 31, 2023
	\$	\$
Fair value of Put Option	-	1,191
Fair value of Call Option	-	(1,187)
Derivatives, net	-	4

6. Accounts Payable and Accrued Liabilities

	September 30, 2024	December 31, 2023
	\$	\$
Trade payables	1,371	1,040
Accrued liabilities	2,251	2,584
Total Accounts Payables and Accrued Liabilities	3,622	3,624

7. 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**”). 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%. 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:

	\$
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, 2023	177
Loss on debt extinguishment	426
Repayment of interest and Principal, August 14, 2023	(2,622)
Debentures balance, December 31, 2023 and September 30, 2024	-

8. Share Capital and Pre-Funded Warrants

Authorized

The authorized share capital of the Company consists of an unlimited number of common shares.

On May 17, 2023, the Company completed a public offering (the “**Equity Issuance**”), 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**”) with no expiry date and an exercise price of \$0.00001 for \$0.49999 per pre-funded common share purchase warrant for gross proceeds of \$55 million.

The costs associated with the Equity Issuance 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 broker warrants issued 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 compensation 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 and calculated using Black-Scholes option valuation techniques.

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Notes to the condensed consolidated interim financial statements (unaudited)

For the three and nine months ended September 30, 2024 and 2023

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

Loss per Share

Loss per share is calculated using the weighted average number of common shares outstanding. For the three and nine months ended September 30, 2024, the calculation was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Common shares issued and outstanding, beginning of period	112,832,189	112,791,658	112,791,658	41,797,613
Common Shares issued in Debenture Offering (Note 7)	-	-	-	470,690
Common Shares issued in Equity Issuance (Note 8)	-	-	-	35,326,796
Effect of warrant exercises	195,013	-	80,567	14,031
Weighted average common shares, end of period	113,027,202	112,791,658	112,872,225	77,609,130
Common shares issued and outstanding, end of period	113,380,814	112,791,658	113,380,814	112,791,658

9. 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. “Pre-Funded Warrants” are defined in Note 8 above and are listed separately on the Statement of Financial Position. The following is a summary of changes in warrants:

	Number of warrants	Weighted average exercise price
Balance outstanding at December 31, 2023	12,346,419	\$0.53
Issued	-	\$ -
Exercised	(589,156)	\$0.40
Expired	(12,094)	\$0.40
Balance outstanding at September 30, 2024	11,745,169	\$0.54

The table below presents the outstanding warrants as at September 30, 2024:

Exercise Price	Number of Warrants	Expiry Date
\$0.60	4,375,000	September 13, 2025
\$0.50	7,370,169	May 17, 2025
Total warrants	11,745,169	

During the nine months ended September 30, 2024, 589,156 warrants were exercised for cash proceeds of \$237 thousand. In addition to the cash proceeds received, the original fair value related to these warrants of \$100 thousand, was transferred from warrants to share capital.

10. Stock-Based Compensation

Effective May 14, 2024, the Company adopted a new omnibus equity incentive plan (“Omnibus Plan”) which authorizes the Board of Directors to administer the Omnibus Plan to provide equity-based compensation in the form of stock options and restricted stock units.

The Corporation currently maintains its existing Amended and Restated Incentive Stock Option Plan (“Option Plan”) but effective May 14, 2024 no further grants will be made under this plan though existing grants under the Option Plan will remain in effect in accordance with their terms.

The aggregate number of common shares that may be issued under all awards under the Omnibus Plan and the Option Plan is 15% of our issued and outstanding common shares on a rolling basis.

Under both the Omnibus Plan and the Option Plan, the exercise price of each option equals the closing trading price of the

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Notes to the condensed consolidated interim financial statements (unaudited)

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Company's stock on the day prior to the grant. Vesting is provided for at the discretion of the Board of Directors and the expiration of options is to be no greater than 10 years from the date of grant.

The Company uses the fair value-based method of accounting for employee awards granted under both plans. The Company calculates the fair value of each stock option grant using the Black-Scholes option pricing model at the grant date. The stock-based compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options using an estimate of the number of options that will eventually vest.

Stock option transactions for the nine months ended September 30, 2024, are set forth below:

	Number of shares issuable under options	Weighted average exercise price
Balance outstanding at December 31, 2023	14,134,363	\$0.71
Granted	430,000	\$0.53
Forfeited/Expired	(1,417,274)	\$0.56
Balance outstanding at September 30, 2024	13,147,089	\$0.72

As at September 30, 2024, 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	4,287,810	8.74	\$0.42	1,453,437	\$0.39
\$0.51-\$0.66	6,576,809	8.44	\$0.60	2,381,761	\$0.61
\$0.67-\$1.70	2,282,470	6.76	\$1.66	1,863,028	\$1.65
	13,147,089	8.25	\$0.72	5,698,226	\$0.90

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, 2024	Nine months ended, September 30, 2023
Expected life of options	10 years	10 years
Expected volatility	79.9%	94%
Expected dividend yield	nil	nil
Expected forfeiture rate	6.0%	0%
Risk-free interest rate	3.38%	3.32%
Weighted average fair value of options granted in the period	\$0.44	\$0.48

Options granted in the period 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, 2024, \$1,666 thousand (2023 - \$1,315 thousand) has been recognized as stock-based compensation expense and credited to contributed surplus.

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Notes to the condensed consolidated interim financial statements (unaudited)

For the three and nine months ended September 30, 2024 and 2023

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

11. Component Expenses

Research and development:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Salaries and management fees	775	668	2,812	1,362
Discovery expenses	299	320	776	856
Preclinical expenses	1,217	947	5,463	2,002
Chemistry, manufacturing controls	590	486	3,266	486
Clinical	441	-	1,176	-
Stock-based compensation	(59)	313	579	526
Total research and development expenses	3,263	2,734	14,072	5,232

General and administrative:

	Three months ended September 30,		Six months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Salaries and management fees	1,046	664	2,797	1,255
Professional fees	344	464	1,495	1,545
Other operating expenses	110	192	536	389
Stock-based compensation	296	432	1,087	789
Depreciation	3	2	8	5
Total general and administrative expenses	1,799	1,754	5,923	3,983

12. Commitments and Contingencies

The Company enters into contracts in the normal course of business, including agreements related to the conduct of preclinical tests and assays, long-term toxicology, manufacturing of drug substance, manufacturing of drug product, and a clinical study. These contracts are typically cancellable by the Company with 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 any amounts for these payments as of September 30, 2024, because the milestones have not yet been achieved.

13. Related Party Balances and Transactions

Key management personnel, consisting of the Company's Board of Directors and Corporate Officers, received the following compensation for the following periods:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	\$	\$	\$	\$
Salaries and management fees	401	583	2,442	1,714
Stock-based compensation	139	593	1,330	1,042
	540	1,176	3,772	2,756

As at September 30, 2024, the Company had amounts owing or accrued to key management personnel of \$49 thousand (December 31, 2023 - \$712 thousand) pertaining to expense reimbursements and accrued vacation.

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For the three and nine months ended September 30, 2024 and 2023

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

14. 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 three geographic areas, Canada, the United States and Australia. All of the Company's assets are located in Canada except for cash held in the bank account of the Company's US subsidiary and cash held in the bank account of the Company's Australian subsidiary.

15. 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.

16. Financial Instruments and Risk Management

The Company is exposed to various risks through its financial instruments including the following at September 30, 2024:

a) Credit Risk

Credit risk arises from cash and cash equivalents held at banks and financial institutions, as well as outstanding receivables. As at September 30, 2024, the Company invested its excess cash in interest-bearing operating accounts held at a Schedule 1 Canadian bank and in US government treasury bills. The Company limits its exposure to credit risk, with respect to cash and cash equivalents, by placing funds with high quality credit financial institutions. The Company's cash equivalents consist primarily of operating funds, US government treasury bills and deposit investments 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 liquidity risk by monitoring cash flows and investments regularly, comparing actual results with budgets and future cash requirements. As at September 30, 2024, the Company's liabilities consist of accounts payable and accrued liabilities with contracted maturities of less than one year.

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 and in Australian 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:

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For the three and nine months ended September 30, 2024 and 2023

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

As at:	September 30, 2024	December 31, 2023
	US\$	US\$
Cash and cash equivalents	16,854	16,522
Short-term investments	-	13,246
Prepaid expenses and deposits	100	-
Accounts payable and accrued liabilities	(1,165)	(1,071)
Net monetary assets (liabilities)	15,789	28,697

Assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase or decrease in loss and comprehensive loss for the nine months ended September 30, 2024, of \$2.1 million.

As at:	September 30, 2024	December 31, 2023
	Australian \$	Australian \$
Cash and cash equivalents	256	2
Prepaid expenses and deposits	342	nil
Accounts payable and accrued liabilities	(255)	(88)
Net monetary assets (liabilities)	343	(86)

A 10% depreciation or appreciation of the Canadian dollar against the Australian dollar would result in an increase or decrease in loss and comprehensive loss for the nine months ended September 30, 2024, of \$32 thousand.

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, 2024, the Company's financial instruments included cash and cash equivalents, accounts receivable, 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 their 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-month periods ended September 30, 2024 and 2023.

17. Comparative Figures

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