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TSX-V: ZYUS

Q3 2023

**CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2023**

ZYUS LIFE SCIENCES CORPORATION
(Formerly Phoenix Canada Oil Company Limited)
Condensed Consolidated Interim Statements of Financial Position
(Unaudited - Expressed in thousands of Canadian dollars, except share data or as otherwise noted)

	<i>Note</i>	September 30, 2023	December 31, 2022
Assets			
Current assets			
Cash	\$	7,320	\$ 212
Short-term investments	2	1,794	-
Accounts receivable		522	243
Inventory		3,952	4,202
Prepaid expenses and other assets		2,000	1,609
		15,588	6,266
Non-current assets			
Property, plant and equipment		12,570	14,435
Right-of-use leased assets		2,356	2,597
Intangible assets		35,292	35,387
Goodwill		5,871	5,871
Other assets		156	156
Total assets	\$	71,833	\$ 64,712
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	\$	6,252	\$ 13,038
Loans and borrowings	7	7,155	899
Lease obligations		346	331
		13,753	14,268
Non-current liabilities			
Lease obligations		2,658	2,875
Loans and borrowings	7	707	30,799
Derivative liabilities	7,13	-	3,976
Deferred tax liability		7,981	8,053
Total liabilities		25,099	59,971
SHAREHOLDERS' EQUITY			
Share capital	8	152,880	92,673
Warrants	9	3,808	3,423
Contributed surplus	11	5,158	5,629
Deficit		(115,702)	(97,596)
Accumulated other comprehensive income (loss)		590	612
Total shareholders' equity		46,734	4,741
Total liabilities and shareholders' equity	\$	71,833	\$ 64,712
Future operations and liquidity	1		
Commitments and contingent liabilities	15		
Related Party Transactions	16		
Subsequent events	18		

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

On behalf of the Board:

Original signed by Brent Zettl, President & CEO
Director

Original signed by John Knowles, Audit Committee Chair
Director

ZYUS LIFE SCIENCES CORPORATION
(Formerly Phoenix Canada Oil Company Limited)
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited - Expressed in thousands of Canadian dollars, except share data or as otherwise noted)

	<i>Note</i>	Three Months Ended		Nine Months Ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Sales		\$ 99	\$ 84	\$ 254	\$ 223
Cost of sales		46	26	100	73
Inventory write-off		(38)	(31)	(45)	(351)
Gross profit		15	27	109	(201)
Expenses					
General and administrative		2,837	2,208	8,421	6,925
Research and development		222	277	840	2,033
Depreciation and amortization		760	1,090	2,291	3,272
Share-based compensation		1	9	31	90
Medical education, branding and marketing		86	127	223	530
Impairment of intangible assets		-	2,091	-	2,091
Other (income) expenses		43	124	268	361
		3,949	5,926	12,074	15,302
Loss from operations		(3,934)	(5,899)	(11,965)	(15,503)
Listing expense	2	-	-	1,958	-
Investment and other income		(56)	(33)	(501)	(91)
Finance costs	10	301	1,487	3,565	3,855
Derivative loss (gain)	13	-	(11)	1,115	(548)
Foreign exchange loss		35	8	62	1
		280	1,451	6,199	3,217
Loss before income tax		(4,214)	(7,350)	(18,164)	(18,720)
Income tax:					
Deferred income tax recovery		21	17	58	57
Net loss		\$ (4,193)	\$ (7,333)	\$ (18,106)	\$ (18,663)
Other comprehensive gain (loss)		542	1,609	(22)	1,955
Comprehensive loss		\$ (3,651)	\$ (5,724)	\$ (18,128)	\$ (16,708)
Net loss per share:					
Basic and diluted	12	\$ (0.06)	\$ (0.19)	\$ (0.35)	\$ (0.49)
Weighted average number of shares:					
Basic and diluted		69,824,792	38,533,370	51,482,067	38,470,568

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

ZYUS LIFE SCIENCES CORPORATION

(Formerly Phoenix Canada Oil Company Limited)

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Unaudited - Expressed in thousands of Canadian dollars, except share data or as otherwise noted)

	<i>Note</i>	Share Capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2022		\$ 92,673	\$ 3,423	\$ 5,629	\$ (97,596)	\$ 612	\$ 4,741
Net loss		-	-	-	(18,106)	-	(18,106)
Issuance of shares	8	20,632	-	(502)	-	-	20,130
Conversion of convertible debt		31,235	-	-	-	-	31,235
Share issue costs		(2,072)	-	-	-	-	(2,072)
Deemed consideration pursuant to RTO Transaction	2	10,412	-	-	-	-	10,412
Share-based compensation		-	-	31	-	-	31
Issuance of warrants	9	-	385	-	-	-	385
Foreign currency translation gain		-	-	-	-	(22)	(22)
Balance at September 30, 2023		\$ 152,880	\$ 3,808	\$ 5,158	\$ (115,702)	\$ 590	\$ 46,734
Balance at December 31, 2021		\$ 78,047	\$ 1,198	\$ 19,971	\$ (72,939)	\$ (1,089)	\$ 25,188
Net loss		-	-	-	(18,663)	-	(18,663)
Share-based compensation		-	-	90	-	-	90
Issuance of warrants		-	2,225	-	-	-	2,225
Issuance of shares		14,318	-	(14,318)	-	-	-
Exercise of stock options		308	-	(133)	-	-	175
Foreign currency translation loss		-	-	-	-	1,955	1,955
Balance at September 30, 2022		\$ 92,673	\$ 3,423	\$ 5,610	\$ (91,602)	\$ 866	\$ 10,970

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

ZYUS LIFE SCIENCES CORPORATION
(Formerly Phoenix Canada Oil Company Limited)
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - Expressed in thousands of Canadian dollars, except share data or as otherwise noted)

	<i>Note</i>	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash flows from operating activities			
Net loss		\$ (18,106)	\$ (18,663)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization		2,291	3,272
Inventory write-off		45	351
Impairment of intangible asset		-	2,091
Derivative loss (gain)	7,13	1,115	(548)
Finance costs	10	3,565	3,855
Listing expense	2	1,958	-
Interest paid		(115)	(204)
Unrealized Foreign exchange loss		46	-
Share-based compensation expense		31	90
Deferred income tax recovery		(58)	(57)
Other adjustment		55	(643)
Changes in operating assets and liabilities:			
Short-term investments		16	-
Accounts receivable		(242)	(29)
Inventory		205	363
Prepaid expenses and other assets		(391)	(22)
Accounts payable and accrued liabilities		(5,611)	2,392
Net cash used in operating activities		(15,196)	(7,752)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(89)	(290)
Acquisition of Phoenix Canada Oil Company Limited, net of cash & cash equivalents		4,921	-
Net cash provided (used) in investing activities		4,832	(290)
Cash flows from financing activities			
Proceeds from convertible promissory notes, net	7	1,950	-
Proceeds from 2023 promissory notes, net	7	500	-
Proceeds from concurrent financing, net	8	18,443	-
Proceeds from issuance of common shares		-	175
Proceeds from unit offering, net	7	-	6,706
Proceeds from revolver	7	350	700
Proceeds from short-term loan	7	-	50
Repayment of short-term loans	7	(200)	-
Repayment of shareholder loan	7	(2,000)	-
Repayment of revolver	7	(1,090)	-
Repayment of promissory notes	7	(349)	-
Repayment of term loan	7	(2)	-
Lease payments		(130)	(185)
Net cash provided by financing activities		17,472	7,446
Net increase (decrease) in cash		7,108	(596)
Cash, beginning of year		212	750
Cash, end of period		\$ 7,320	\$ 154

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

ZYUS Life Sciences Corporation

(Formerly Phoenix Canada Oil Company Limited)

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited - expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

1. General Information

ZYUS Life Sciences Corporation, formerly Phoenix Canada Oil Limited (“Phoenix”) is a company domiciled in Canada that was incorporated under the Ontario Business Corporations Act on November 25, 1944.

On November 15, 2022, ZYUS Life Sciences Inc. and Phoenix entered into an agreement (the “Arrangement Agreement”), providing for a business combination of the two entities by way of a plan of arrangement (the Arrangement), in accordance with Section 186.1 of The Business Corporations Act (Saskatchewan) (the “SBCA”). Phoenix was incorporated under The Business Corporations Act (Ontario) (the “OBCA”). The resulting issuer has continued under the OBCA and exists as an OBCA corporation.

The Arrangement Agreement provided for Phoenix to acquire all of the outstanding common shares of ZYUS Life Sciences Inc. by issuing each ZYUS Life Sciences Inc. shareholder 0.704440586 Phoenix common shares for each ZYUS Life Sciences Inc. common share they held. The completion of the Arrangement resulted in a reverse takeover of Phoenix, as defined in the policies of the TSX Venture Exchange.

In accordance with the Arrangement Agreement, a special resolution of shareholders was passed to amend the articles of incorporation (the “Articles of Amendment”) of Phoenix to change the name of the Corporation from “Phoenix Canada Oil Company Limited” to “ZYUS Life Sciences Corporation”. On June 9, 2023, ZYUS Life Sciences Inc. became a wholly owned subsidiary of ZYUS Life Sciences Corporation in conjunction with a Reverse Takeover with Phoenix (the “Reverse Takeover Transaction”).

The business combination resulting from the Arrangement Agreement has been accounted for as a reverse acquisition of Phoenix by ZYUS Life Sciences Inc. The condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2023 comprise ZYUS Life Sciences Corporation and its subsidiaries (collectively, the “Company” or “ZYUS”). The Company’s head office is 407 Downey Road, Unit 204, Saskatoon, SK., Canada, S7N 4L8; its registered office is 3400-22 Adelaide Street W, Toronto, Ontario, Canada, M5H 4E3.

The Company is primarily engaged in the global development and commercialization of innovative cannabinoid-based therapeutics and product candidates. The Company is a licensed producer and distributor of medical cannabis pursuant to The Cannabis Act, which regulates the production, distribution and possession of cannabis for both medical and adult recreational access in Canada. The Company is also expanding to jurisdictions outside of Canada (where federally lawful and regulated for cannabis). ZYUS is considered to be an early-stage company, as most of its efforts have been devoted to ramp-up efforts on its pilot plant and to research and development.

The Company’s wholly owned subsidiary, ZYUS Life Sciences Inc., has a producer’s license, a research license, a license to sell to other licensed producers and its standard processing and sales license from Health Canada. The Company has maintained compliance with all Health Canada’s requirements under these licenses.

The Company does not engage in any U.S. cannabis-related activities as defined in Canadian Securities Administrators Staff Notice 51-352.

Future Operations and Liquidity

These condensed consolidated interim financial statements have been prepared pursuant to International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to a going concern, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company is an early development-stage company with limited operating history and negative historical cash flow from operating activities. Furthermore, the Company has significant purchase commitments (Note 15) as at September 30, 2023.

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(Formerly Phoenix Canada Oil Company Limited)

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

(Unaudited - expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

As at September 30, 2023, the Company had incurred an accumulated deficit of \$113.6 million and has net current assets (current assets less current liabilities) of \$1.8 million. The Company had \$9.1 million of Cash and Short-term investments (December 31, 2022: \$0.2 million) and as at September 30, 2023 needs to raise additional capital in the future to fund research, development and corporate activities.

As a part of its plan to fund its continuing operations and development activities, in addition to planned revenues from its product sales, on June 9, 2023, the Company and Phoenix completed the previously announced proposed business combination by way of plan of arrangement dated November 15, 2022, resulting in a reverse take-over (the “RTO”). As a result of which the Company is now a wholly-owned subsidiary of Phoenix, which has changed its name to ZYUS Life Sciences Corporation (“New ZYUS” and or the “Resulting Issuer”). As a result of the RTO, all convertible debt principal and accrued interest relating to the convertible debt was converted into shares of ZYUS Life Sciences Inc. and subsequently exchanged into shares of the Resulting Issuer in accordance with the Exchange Ratio contemplated in the Arrangement Agreement. Concurrent with the RTO, the Company organized and completed a private placement of subscription receipts for gross proceeds of \$20.1 million (Note 8).

Despite the additional financing received, the Company will require additional financing in the future to fund planned research and operating activities. The ability of the Company to continue as a going concern depends on the Company maintaining its licenses with Health Canada, the continued support of its lenders, its ability to achieve profitable operations and its ability to raise additional financing to fund current and future operating and investing activities. There is no assurance that the Company will be able to accomplish any of the foregoing objectives or at an acceptable cost. As a result of these factors, a material uncertainty exists that may cast significant doubt as to the Company’s ability to continue as a going concern.

These condensed consolidated interim financial statements do not include any adjustments to the amounts and classifications of assets and liabilities, and the reported revenues and expenses that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Arrangement Agreements and Reverse Takeover Transactions

Background

Arrangement Agreement

The Arrangement Agreement constitutes a reverse business acquisition and has been accounted for as a share-based payment transaction in accordance with IFRS 2, Share-based Payment, as Phoenix did not meet the definition of a business, as defined in IFRS 3, Business Combinations, with ZYUS Life Sciences Inc. as the accounting acquirer (legal subsidiary). Accordingly, Phoenix’s shareholders’ equity balances at September 30, 2023, have been eliminated in the condensed consolidated interim statement of financial position.

The fair value of the consideration provided by ZYUS was determined as follows:

- In accordance with IFRS 2, an assessment of the more reliable measure of fair value (between Phoenix and ZYUS) was completed. Due to the nominal number of trades of Phoenix shares during the period of January 1, 2023 to June 9, 2023, it was determined that the Subscription Receipt Private Placement price of \$1.60 per share was considered to be the more reliable measure of fair value.
- The fair value of the consideration paid to Phoenix shareholders (the “Deemed Consideration”), and to settle a pre-existing contractual arrangement (see below) was determined to be \$10.4 million and is recognized in the share capital balance of the condensed consolidated interim statement of financial position. From this amount, settlement of the Phoenix Units subscribed of \$1.8 million was deducted from the consideration paid for net consideration of \$8.6 million. As the transaction was determined to be in the scope of IFRS 2, the difference of \$2.0 million between the net assets of Phoenix and the fair value of the

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(Unaudited - expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

consideration paid to Phoenix shareholders has been recorded as a Listing expense, as presented on the Condensed Consolidated Interim Statements of Loss and Comprehensive Loss of ZYUS as at September 30, 2023.

Listing Expense

Number of Pre-exchange Shares to acquire Phoenix ⁽¹⁾		6,507,711
<hr/>		
Deemed equity Issuance (Note 8)	\$	10,412
Settlement of Phoenix Unit ⁽²⁾		(1,767)
		<hr/> 8,645
Consideration		
Cash and cash equivalents	\$	4,931
Short-term investments		1,810
Other receivables		37
Accounts payable		(91)
Net Assets Acquired	\$	<hr/> 6,687
Listing expense ⁽¹⁾	\$	<hr/> 1,958

⁽¹⁾ Listing expense has been calculated from the perspective of ZYUS Life Sciences Inc., in accordance with IFRS 2. Number of Pre-exchange shares to acquire ZYUS Life Sciences Inc. represent ZYUS Life Sciences Inc. shares priced at \$1.60 per share.

⁽²⁾ During the period ended September 30, 2022, ZYUS Life Sciences Inc. and Phoenix entered into a pre-existing contractual relationship whereby Phoenix subscribed for 17 units of ZYUS Life Sciences Inc.'s Unit Offering (Note 7), with each unit consisting of one secured convertible promissory note in the principal amount of \$0.1 million and 40,000 pre-exchange common share purchase warrants. Upon closing of the Arrangement Agreement, these convertible promissory notes pursuant to the Unit Offering (recorded as a Promissory Note receivable by Phoenix and Loan and borrowing by ZYUS) and accrued interest thereon (recorded as a Receivable by Phoenix and an Accrued payable by ZYUS Life Sciences Inc.) were settled upon consolidation of Phoenix and ZYUS Life Sciences Inc. In addition, the associated derivative liability attributable to the Phoenix promissory note pursuant to the Unit Offering has been derecognized. On settlement, a gain of \$0.1 million relating to the pre-existing contractual relationship was recorded. As a result, Phoenix's promissory note receivable pursuant to the Unit Offering and Interest receivable have been eliminated; in addition, ZYUS Life Sciences Inc.'s Promissory Note payable and Accrued interest payable has been eliminated.

3. Basis of Presentation

Statement of compliance

These condensed consolidated interim financial statements for the three and nine month periods ended September 30, 2023 and 2022 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), following the same accounting policies and methods of application as those used in preparing the audited consolidated financial statements of ZYUS Life Sciences Inc. for the year ended December 31, 2022, except as disclosed in Note 4. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the ZYUS Life Sciences Inc.'s annual consolidated financial statements for the year ended December 31, 2022 ("2022 Annual Financial Statements") which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

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(Unaudited - expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on November 29, 2023.

Details of the Company's accounting policies, including future changes, are included in Notes 4 and 5.

Reverse acquisition

As a result of the Arrangement Agreement and RTO Transaction described in Notes 1 and 2, these condensed consolidated financial statements are a continuation of the financial statements of ZYUS Life Sciences Inc. As such, the comparative figures prior to the Arrangement Agreement represent those of ZYUS Life Sciences Inc.

Basis of measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, as detailed in Note 13 of these condensed consolidated interim financial statements and in the notes to the ZYUS Life Sciences Inc.'s 2022 Annual Financial Statements.

Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars ("CAD"), which is the Company's functional and presentation currency. Functional currencies for the Company's subsidiaries in these financial statements are their respective local currencies, including the United States Dollar, Australian Dollar and the Euro.

ZYUS Life Sciences US Ltd. uses the U.S. Dollar as its functional currency. ZYUS Life Sciences Europe S.à r.l., ZYUS Portugal, Sociedade Unipessoal Limitada and ZYUS Life Sciences Germany GmbH use the European Euro as their functional currency. ZYUS Life Sciences Australia Pty Ltd. and ZYUS S.H. Bio Manufacturing Pty Ltd. use the Australian dollar as their functional currency. Transactions in currencies other than the functional currency are translated at the rate prevailing at the date of transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Income and expense amounts are translated at the dates of the transactions.

In preparing the Company's condensed consolidated interim financial statements, the financial statements of foreign subsidiaries are translated into Canadian dollars, the reporting currency of the Company. The assets and liabilities of foreign subsidiaries that do not have a functional currency of Canadian dollars, are translated into Canadian dollars using exchange rates at the reporting date. Revenues and expenses of foreign operations are translated into Canadian dollars using foreign exchange rates that approximate those on the date of the underlying transactions. Foreign exchange differences from the translation of foreign subsidiaries into Canadian dollars are recognized in Other Comprehensive Income.

4. Significant Accounting Policies

These condensed consolidated interim financial statements, except as noted in Note 5, are prepared using accounting policies consistent with the ZYUS Life Sciences Inc.'s 2022 Annual Financial Statements. The accounting policies utilized by management for the Company and its subsidiaries have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

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

(Unaudited - expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

5. Accounting Standards

Changes in Accounting Policies

A number of amendments to existing standards became effective January 1, 2023, but they did not have an effect on the Company's financial statements.

New Standards and Interpretations Not Yet Adopted

A number of amendments to existing standards are not yet effective for the period ended September 30, 2023, and have not been applied in preparing these condensed consolidated interim financial statements. ZYUS does not intend to early adopt any of the amendments and does not expect them to have a material impact on its financial statements.

6. Significant Accounting Estimates, Assumptions and Judgements

The accounting policies, estimates, assumptions and judgements used in the preparation of the Company's wholly owned subsidiary's, ZYUS Life Sciences Inc.'s, 2022 Annual Financial Statements have been applied in the preparation of these condensed consolidated interim financial statements.

7. Loans and Borrowings

	September 30, 2023		December 31, 2022
Current liabilities			
Revolver	\$ -	\$	697
Short-term Loan	-		200
Promissory Notes	6,905		-
Term Loan	250		2
	\$ 7,155	\$	899
Non-current liabilities			
Convertible Debentures	\$ -	\$	12,601
Promissory Notes	-		6,797
Term Loan	507		721
Unit Offering	-		8,912
Shareholder Promissory Note	-		1,720
Convertible Promissory Notes	-		48
Promissory Notes (2023 Issuance)	200		-
	\$ 707	\$	30,799
Total loans and borrowings	\$ 7,862	\$	31,698

Revolver

On May 10, 2022, the Company entered into a revolving loan agreement ("Revolver") with the Company's CEO (the "Revolving Loan Lender") dated May 10, 2022, which was amended on June 6, 2022, September 13, 2022, December 5, 2022, May 23, 2023 and June 6, 2023. Pursuant to the Revolver, the Company may request an advance by delivering a drawdown notice to the Revolving Loan Lender in accordance with the terms of the

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Revolver, provided the principal amount outstanding under the Revolver does not exceed the amount of \$1.1 million. Amounts outstanding pursuant to the Revolver shall bear interest at a rate of one percent per annum, with the principal, together with any unpaid but accrued interest outstanding thereunder, due and payable on demand.

On May 23, 2023, the Company and the Revolving Loan Lender agreed to extend the Facility Limit of the Revolver from \$0.8 million to \$1.0 million. On that date, a drawdown notice was delivered to the Revolver Lender for an additional \$0.2 million. In addition, on June 6, 2023, the Facility Limit of the Revolver was extended from \$1.0 million to \$1.1 million and an additional drawdown notice for \$0.15 million was delivered to the Revolver Lender. During the second quarter of 2023, all principal and accrued interest pursuant to the Revolver was repaid. At September 30, 2023, the principal amount outstanding under the Revolver is \$nil (December 31, 2022 - \$0.7 million).

Initial recognition of this below-market interest rate loan was measured in accordance with IFRS 9 (*Financial Instruments*), which requires this loan to be initially measured at its fair value. Fair value has been calculated as the present value of the expected future cash flows discounted using a market-related interest rate (determined to be 12 percent), resulting in an effective rate of 12.4 percent. Subsequent measurement is at amortized cost.

	September 30, 2023	December 31, 2022
Revolver, beginning of year	\$ 697	\$ -
Funds drawn	350	740
Less: Fair value discount of funds drawn	(21)	(75)
	1,026	665
Accretion	17	32
Loss on settlement	47	-
Repayment	(1,090)	-
Revolver, end of period	\$ -	\$ 697

Upon completion of the Subscription Receipt Financing and RTO Transaction, all principal and accrued interest outstanding on the Revolver was repaid to the Revolving Loan Lender.

Short-term Loan

On September 13, 2022, ZYUS entered into an interest free promissory note agreement in the amount of \$0.05 million with a Director of the Company. The principal was repaid on October 4, 2022. On December 6, 2022, the Company entered into a new promissory note agreement with the same Director in the amount of \$0.05 million. In addition, on December 20, 2022, the Company entered into another promissory note agreement with 102042227 SK Ltd. (“102 Sask”), a corporation owned by the Company’s CEO, in the amount of \$0.15 million. Given the short-term nature of this debt instrument, fair value approximates carrying value. During the third quarter of 2023, all amounts owing pursuant to the Short-term Loan were repaid to the Director (\$0.05 million) and the Company’s CEO (\$0.15 million). At September 30, 2023, principal outstanding under the Short-term Loan was \$nil (December 31, 2022 - \$0.2 million).

Convertible Debentures

During the year ended December 31, 2020, the Company completed four tranche offerings of a convertible debenture (“Debenture”) totaling 15,515 units for gross proceeds of \$15.5 million with interest of nine percent per annum.

The Debentures had an original maturity date of December 31, 2021 (“Maturity Date”). During the fourth quarter of 2021, the Company obtained approval to amend the Maturity Date of the Debentures from December 31, 2021 to June 30, 2022. During the second quarter of 2022, the Company received approval to extend this

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Maturity Date to December 31, 2022. During the fourth quarter of 2022, the Company obtained approval to amend the Debenture Maturity date from December 31, 2022 to June 30, 2023, upon which date the Debentures and any unpaid accrued interest thereon would be converted into common shares of ZYUS, subject to the option of the holders to convert the principal amount of the Debentures and any unpaid accrued interest thereon into a five-year term loan in certain circumstances defined within the Debenture Indenture Agreement. If converted to a five-year term loan, interest would increase to 12.0 percent per annum with the loan payable on the fifth anniversary of the Maturity Date.

Subject to the holders' right to convert the Debentures into a loan as contemplated in the Debenture indenture agreement, on the earlier of the Maturity Date or the occurrence of certain events defined in the Debentures (a "Triggering Event"), the Debentures plus accrued and unpaid interest converted into Common Shares, subject to adjustment in certain circumstances, at a price equal to the lesser of ("Conversion Price"):

- i. 85 percent of the deemed value of the Common Shares of the private / Target company as valued for the Triggering Event; or
- ii. \$3.75 (CAD) per Common Share.

The Company incurred transaction costs of \$0.3 million associated with the completion of this Debenture offering; for accounting purposes, with a portion of these costs being deemed related to the Debenture and a portion of these costing being deemed related to the embedded derivative liability. The portion of these costs related to the Debenture have been netted against the proceeds allocated to the Debenture, reducing the carrying value of the Debenture; these costs will be amortized using the effective interest rate method at an effective rate of approximately 20 percent over the remaining term of the liability. The portion of these costs related to the embedded derivative liability were expensed.

	September 30, 2023	December 31, 2022
Debenture payable, beginning of year ⁽¹⁾	\$ 12,601	\$ 11,805
Accretion	305	796
	12,906	12,601
Conversion into common shares due to Triggering Event	(12,906)	-
Debenture payable, long-term portion ⁽²⁾	\$ -	\$ 12,601

⁽¹⁾ Beginning of year balance represents issuance of \$15.5 million of Debenture issued net of transaction costs, derivative liability at issuance and cumulative accretion.

⁽²⁾ At December 31, 2022, under certain conditions, the Debentures were convertible into either equity or a five-year term loan; the above presentation reflects conversion into a term loan.

Derivative Liability Relating to Convertible Debt

On the Statement of Financial Position, related to the Convertible Debentures noted above, was a non-current derivative liability relating to the conversion to equity feature of the Convertible Debentures. Upon completion of the RTO, this derivative liability was revalued and then reclassified to Share capital, resulting in a value of \$nil at September 30, 2023 (December 31, 2022 - \$2.3 million).

Conversion Due to Triggering Event

On June 9, 2023, the Arrangement pursuant to the Reverse Takeover with Phoenix triggered the automatic conversion provisions of the Convertible Debentures, so that the principal and accrued interest outstanding thereon which was outstanding at Closing under the Convertible Debenture converted into ZYUS Common Shares.

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Promissory Notes

	September 30, 2023	December 31, 2022
Promissory Notes, beginning of year	\$ 6,797	\$ 6,339
Interest and accretion ⁽¹⁾	358	458
Repayment ⁽²⁾	(250)	-
Promissory Notes payable, end of period	6,905	6,797
Current portion	(6,905)	-
Promissory Notes payable, long-term portion	\$ -	\$ 6,797

(1) Reflects an effective interest rate of 16.0 percent (December 31, 2022 - 15.0 percent), with the compounding portion owing on the notes being added to the principal.

(2) For the repayment noted above, \$0.05 million was paid to principal and \$0.2 million was for accrued but unpaid interest.

On March 31, 2021, the Company entered into a series of promissory note agreements (“Promissory Notes”) with the Company’s CEO and a Director of the Company, (the “Lenders”) in the amounts of \$5.0 million and \$1.0 million respectively (the “Principal Amount”), bearing an interest rate of seven percent per annum compounding annually. Interest on the Principal Amount was payable annually within 30 days of December 31, or within 30 days of the Company electing to prepay the Promissory Note in full in accordance with its terms. During the fourth quarter of 2021, the Lenders agreed to waive the Promissory Note Interest Payment in perpetuity until such time that the Company deems it appropriate to pay the interest owing.

The Principal Amount, together with any accrued but unpaid interest, were originally due and payable on March 31, 2024 (the “Maturity Date”). During the first quarter of 2023, the Company and the Lenders agreed to further extend the Maturity date from March 31, 2024 to June 30, 2024; this amendment resulted in the effective rate of the Promissory Notes being updated to 16.0 percent (December 31, 2022 – 15.0 percent). ZYUS may prepay this Promissory Note in any amount at any time without penalty or premium. During the third quarter of 2023, the Company elected to prepay \$0.25 million of principal and interest on the Promissory Notes.

The obligations of the Company are secured by security comprised of (i) a security interest against the movable production and manufacturing equipment owned by the Company on the Security Date, and (ii) a mortgage over certain real property owned by the Company. If the Promissory Note is prepaid in full, any interest accrued but unpaid shall be paid to the Lender within 30 days of such prepayment.

Term Loan

On August 5, 2021, ZYUS entered into an Agreement whereby the Minister responsible for Western Economic Diversification Canada (the “Minister”) offered the Company a financial contribution of \$1.0 million (the “Contribution”), subject to certain terms and conditions, under the Regional Relief and Recovery Fund (“RRRF”). The Company shall repay the Contribution to the Minister, as amended on December 21, 2022 (the “Amendment”), by 12 consecutive monthly installments of two hundred dollars commencing on January 31, 2023 and ending on December 31, 2023 followed by 35 payments of \$0.03 million and one final installment of \$0.03 million commencing January 31, 2024, and ending December 31, 2026, when any principal and interest then outstanding shall be repaid. Interest is calculated and compounded monthly at the average bank rate plus three percent and accrues during the period beginning on the due date and ending on the day before the day on which the monthly payment is received.

At any time during this Agreement, the Company will have the right to repay the outstanding amount of the Contribution (net of any payments made in accordance with the repayment terms including any interest and administration charges due, if any). Full repayment of the Contribution by the Company to the Minister and receipt of various documentation will terminate this Agreement.

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Initial recognition of this below-market interest rate loan was measured in accordance with IFRS 9 (*Financial Instruments*), which requires this loan to be initially measured at its fair value. Fair value has been calculated as the present value of the expected future cash flows discounted using a market-related interest rate (determined to be 12 percent), resulting in an effective rate of 12.7 percent up to the Amendment (and of 10.5 percent subsequent to the Amendment). Subsequent measurement is at amortized cost.

	September 30, 2023	December 31, 2022
Term loan, beginning of year	\$ 721	\$ 638
Accretion	36	85
Term loan, end of period	757	723
Current Portion	(250)	(2)
Term loan, long-term portion	\$ 507	\$ 721

Unit Offering

During the years ended December 31, 2022 and December 31, 2021, the Company entered into a series of Unit Offerings (“Unit Offering”). Each Unit consisted of a convertible promissory note in the amount of \$0.1 million and 40,000 common share purchase warrants (28,177 common share purchase warrants after adjusting for the impact of the RTO and Exchange Ratio).

	September 30, 2023	December 31, 2022
Convertible Promissory Notes, beginning of year	\$ 8,912	\$ 3,268
2022 Tranche closings ⁽¹⁾	-	7,374
Less:		
Value attributable to warrants pursuant to Unit Offering ⁽²⁾	-	(1,922)
Derivative liability at issuance relating to conversion feature ⁽²⁾	-	(728)
	8,912	7,992
Accretion	605	920
	9,517	8,912
Settlement of Phoenix Note through reverse takeover transaction (Note 2)	(1,336)	-
	8,181	8,912
Conversion into common shares due to Triggering Event	(8,181)	-
Convertible Promissory Notes payable, long-term portion	\$ -	\$ 8,912

⁽¹⁾ Closing of the Unit Offering during 2022 occurred in various tranches between January 14, 2022 and August 5, 2022.

⁽²⁾ Value attributable to warrants and derivative liability noted above represents the value at inception.

Convertible Promissory Notes

During 2021 and 2022, the Company entered into a series of unsecured convertible promissory note agreements (“Convertible Promissory Notes”) totaling \$4.6 million and \$7.4 million, respectively, (collectively, the “Principal Amount”), bearing an interest rate of 12 percent per annum in connection with the unit offerings. Interest shall accrue daily and shall be payable quarterly, or within 30 days of the Company electing to prepay the Indebtedness in full in accordance with its terms. During 2022, \$0.7 million of the Convertible Promissory Notes in respect of the Unit Offering were issued to settle accrued liabilities of the Company. The Convertible Promissory Notes, together with any accrued but unpaid interest, are due and payable two and one-half years from the issuance date (the “Maturity Date”, which ranges from February 23, 2024 to February 5, 2025, respectively, depending on the issuance date of the Convertible Promissory Notes). The Principal Amount and interest accrued but unpaid thereon shall be

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due and payable on the Maturity Date, unless converted into Common Shares of the Company earlier in accordance with certain terms in relation to a Triggering Event.

Derivative Liability Relating to Convertible Promissory Note

On the Statement of Financial Position, related to the Convertible Promissory Notes noted above, was a non-current derivative liability relating to the conversion to equity feature of the Convertible Promissory Notes. In the second quarter of 2023, this derivative liability was reclassified to share capital due to the Triggering Event, resulting in a value of \$nil at September 30, 2023 (December 31, 2022 - \$1.7 million).

Conversion Due to Triggering Event

On June 9, 2023, the Arrangement pursuant to the Reverse Takeover with Phoenix triggered the automatic conversion provisions of the 2021/2022 Unit Offerings, so that the principal and accrued interest outstanding thereon which was outstanding at Closing under the 2021/2022 Unit Offerings converted into ZYUS Common Shares and reclassified to share capital.

Shareholder Promissory Note

On September 29, 2022, the Company entered into a promissory note agreement (“Shareholder Promissory Note”) with 102 Sask, a corporation owned by the Company’s CEO (the “Shareholder Promissory Note Lender”) bearing an interest rate of CIBC Prime Rate plus one percent per annum, calculated and compounded monthly, with interest on overdue interest at the same rate. “CIBC Prime Rate” means a fluctuating annual interest rate equal at all times to the greater of (i) the reference rate of interest (however designated) of CIBC for determining interest chargeable by it on loans in Canadian dollars made in Canada and (ii) one percent per annum above the CDOR for 30-day bankers’ acceptances from time to time. Interest is payable on the indebtedness until it has been paid, both before and after default, demand, maturity and judgement. The Principal Amount, together with any accrued but unpaid interest, is due and payable on September 29, 2025 (the “Maturity Date”).

The Company could elect to prepay this Shareholder Promissory Note in any amount at any time without penalty or premium. If the Company elects to prepay this Shareholder Promissory Note in full, any interest and fees accrued but unpaid shall be paid to Shareholder Promissory Note Lender within 30 days of such prepayment. If the Company defaults in the payment of this promissory note, Demand Promissory Note Lender may declare the unpaid principal balance, and any other amounts owed on the note immediately due. The Company waives all demand for payment, presentation for payment, notice of intention to accelerate maturity, notice of acceleration of maturity, protest, and notice of protest, to the extent permitted by law, in connection with the delivery, acceptance, performance and enforcement of this Shareholder Promissory Note.

In conjunction with the Shareholder Promissory Note between the Company and 102 Sask, the Company granted a total of 250,000 warrants for common shares of ZYUS as an inducement for the Shareholder Promissory Note Lender into the loan transaction (Note 9). These warrants have a term of three years and have an expiration date of September 29, 2025. The Shareholder Promissory Note and warrants have been deemed a compound financial instrument; as such, value was bifurcated between the debt (\$1.7 million) and warrants (\$0.3 million), utilizing a discount rate of 12.0 percent and a term of three years.

Upon completion of the Subscription Receipt Financing and RTO transaction, the Company elected to repay the entire balance of the \$2.0 million Shareholder promissory note plus accrued interest thereon prior to maturity.

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	September 30, 2023	December 31, 2022
Shareholder Promissory Note, beginning of year	\$ 1,720	\$ -
Contribution	-	2,000
Less: Discount to fair value	-	(302)
	1,720	1,698
Accretion	40	22
Loss on settlement	240	-
Shareholder Promissory Note, end of period	2,000	1,720
Repayment	(2,000)	-
Convertible Promissory Notes payable, long-term portion	\$ -	\$ 1,720

Convertible Promissory Notes (2022, 2023 Issuance)

During the fourth quarter of 2022, the Company initiated a private placement (the “Private Placement”) to certain subscribers (the “Subscribers”) of convertible promissory notes (the “Notes”) each being in the principal amount of \$0.1 million (CAD) per Note for gross proceeds up to \$3.0 million, bearing an interest rate of 12 percent per annum in connection with the Note offerings. During 2022 and 2023, gross proceeds of \$2.0 million was raised from the Private Placement. The Notes, together with any accrued but unpaid interest, was due and payable two and one-half years from the issuance date (the “Maturity Date”). The Principal Amount and interest accrued but unpaid thereon was due and payable on the Maturity Date, unless converted into Common Shares of the Company earlier, at a price equal to \$1.60 per Common Share (the “Conversion Price”) in accordance with certain terms in relation to a Triggering Event.

	September 30, 2023	December 31, 2022
Convertible Notes, beginning of year	\$ 48	\$ -
2022 Tranche closing ⁽¹⁾	-	50
2023 Tranche closing ⁽²⁾	1,950	-
Less:		
Transaction costs	-	-
Derivative liability at issuance relating to conversion feature ⁽³⁾	(67)	(2)
	1,931	48
Accretion	7	-
Convertible Notes, as at Triggering Event	\$ 1,938	\$ 48
Conversion into Common Shares due to Triggering Event	(1,938)	-
Convertible Promissory Notes payable, end of period	\$ -	\$ 48

⁽¹⁾ The 2022 tranche closing of the Private Placement occurred on December 29, 2022.

⁽²⁾ Closing of the Private Placement during 2023 occurred in various tranches between January 4, 2023 and February 24, 2023.

⁽³⁾ Value attributable to derivative liability noted above represents the value at inception.

Convertible Promissory Notes

During the first quarter of 2023, \$1.95 million in tranche closing was raised by the Company (December 31, 2022 - \$0.05 million); total proceeds raised pursuant to the Private Placement was \$2.0 million. During the quarter ended June 30, 2023, in conjunction with closing of the RTO (Note 1), the Arrangement pursuant to the Reverse Takeover with Phoenix triggered the automatic conversion provisions of the 2022/23 Convertible Promissory Notes, so that

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the principal and accrued interest outstanding thereon which was outstanding at Closing under the 2022/23 Convertible Promissory Notes converted into ZYUS Common Shares.

Derivative Liability Relating to Convertible Promissory Note

On the Statement of Financial Position, related to the Convertible Promissory Notes noted above, was a non-current derivative liability relating to the conversion to equity feature of the Convertible Promissory Notes. This derivative liability was revalued and reclassified to Share capital due to the Triggering Event.

Conversion Due to Triggering Event

On June 9, 2023, the Arrangement pursuant to the Reverse Takeover with Phoenix triggered the automatic conversion provisions of the Convertible Promissory Notes, so that the principal and accrued interest outstanding thereon which was outstanding at Closing under the Convertible Promissory Notes converted into ZYUS Common Shares.

2023 Promissory Notes

During the first quarter of 2023, the Company initiated a private placement (the “Promissory Note Private Placement”) to certain subscribers (the “Promissory Note Subscribers”) of promissory notes (the “ZYUS 2023 Promissory Notes”) each being in the principal amount of \$0.1 million (CAD) per Note for gross proceeds of \$0.5 million, bearing an interest rate of 12 percent per annum. The ZYUS 2023 Promissory Notes, together with any accrued but unpaid interest, are due and payable two and one-half years from the issuance date (the “ZYUS 2023 Promissory Note Maturity Date”), at which point the Principal Amount and interest accrued but unpaid thereon shall be due and payable.

	September 30, 2023	December 31, 2022
Promissory Notes, beginning of year	\$ -	\$ -
2023 Tranche closings ⁽¹⁾	500	-
Less:		
Transaction costs	-	-
	\$ 500	\$ -
Repayment ⁽²⁾	(300)	-
Promissory Notes payable, end of period	\$ 200	\$ -

⁽¹⁾ Closing of the Promissory Note Private Placement during 2023 occurred in various tranches between January 16, 2023 and February 27, 2023, resulting in maturity dates between July 16, 2025 and August 27, 2025.

⁽²⁾ The Company elected to prepay \$0.3 million of the ZYUS Life Sciences Inc.’s 2023 Promissory Notes and accrued interest thereon, originally maturing on July 16, 2025, during the third quarter of 2023.

8. Share Capital

The authorized share capital of the Company consists of common shares. The rights, privileges, restrictions and conditions attached to each series of shares are determined by the Board of Directors at the time of creation of such series. The common shares of the Company are entitled to vote at all meetings of the shareholders and, upon dissolution or any other distribution of assets, to receive such assets of the Company as are distributable to the holders of the common shares.

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	Notes	Number of Common Shares		Amount
Balance – December 31, 2022		38,533,356	\$	92,673
Deemed consideration in RTO Transaction	2	5,314,103		10,412
Equity issue		8,862,768		20,130
Issue costs		-		(2,072)
Conversion of convertible debt and interest		17,070,085		31,235
Revon Holdback Shares	15	67,084		502
Balance – September 30, 2023		69,847,396	\$	152,880

In connection with the RTO Transaction (Notes 1 and 2), the Company completed the reverse acquisition of Phoenix and consolidated its share capital. The RTO Transaction had the following impacts on Share capital:

- The number of common shares has been adjusted retrospectively for all periods presented to reflect that all ZYUS Life Sciences Inc. shares were exchanged for ZYUS Life Sciences Corporation shares on the basis of 0.704440586 of a ZYUS Life Science Corporation share for each ZYUS Life Sciences Inc. Share (the “Share Exchange”); and
- All amounts presented for number of outstanding common shares and number of outstanding common stock options, warrants and their respective weighted average exercise prices, have been adjusted retrospectively for all periods presented to give effect to the Share Exchange.

RTO Transaction

Immediately prior to the RTO Transaction, there were 54,700,754 common shares of ZYUS Life Sciences Inc. issued and outstanding. After giving effect to the RTO Transaction and the Share Exchange, these common shares were exchanged for 38,533,356 Resulting Issuer common shares.

Equity Issue – Concurrent Financing

In conjunction with the RTO, ZYUS Life Sciences Inc. completed a private placement issuing 12,581,332 pre-exchange Subscription Receipts at a price of \$1.60 per Subscription Receipt. After giving effect to the RTO Transaction and the Share Exchange, 8,862,768 common shares of ZYUS Life Sciences Corporation were issued. In connection with the Subscription Receipt Financing, ZYUS has agreed to pay the Agent a commission (the “Agent’s Fee”) equal to seven percent of the gross proceeds from the Subscription Receipt Financing (including any gross proceeds raised on exercise of the over-allotment option granted by ZYUS to the Agent (“Over-Allotment Option”) except that the fee shall be two percent on sales to purchasers designated by ZYUS to the Agent (“President’s List Purchasers”).

Equity Issue – Conversion of Convertible Debt

On June 9, 2023, the Arrangement pursuant to the RTO Transaction with Phoenix triggered the automatic conversion provisions of the ZYUS Life Sciences Inc. Convertible Debenture Notes, Convertible Promissory Notes (2021, 2022 Issuances) and Convertible Promissory Notes (2022, 2023 Issuances) so that the principal and accrued interest outstanding thereon which was outstanding at Closing under the ZYUS Convertible Debenture converted into ZYUS Life Sciences Inc. Common Shares. These common shares were then exchanged for shares of ZYUS Life Sciences Corporation utilizing an exchange ratio of 0.704440586.

Based upon the principal and interest amount outstanding, and after giving effect to the exchange ratio, an aggregate of 17,070,085 ZYUS Life Sciences Corporation Common Shares were issued upon conversion of the Company’s Convertible Debt.

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Equity Issue – Contingent Consideration

On July 31, 2019, ZYUS Life Sciences Inc. acquired all issued and outstanding shares of Revon Systems, Inc. (Note 15), a Kentucky-based healthcare technology company. During the second quarter of 2023, immediately prior to the RTO Transaction, additional contingent consideration of 95,271 common shares of ZYUS Life Science Inc. remained outstanding. These common shares were issued and held in escrow prior to the closing of the RTO transaction. After giving effect to the exchange ratio, 67,084 common shares of ZYUS Life Sciences Corporation were issued and held in escrow. These common shares were released from escrow and distributed to former shareholders of Revon Systems, Inc. during the third quarter of 2023 (Note 15).

9. Share Purchase Warrants

	September 30, 2023		December 31, 2022 ⁽¹⁾	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Beginning of year	3,558,303	\$3.49	1,304,561	\$3.55
Granted ⁽¹⁾	366,398	\$2.27	2,253,742	\$3.45
Outstanding, end of period	3,924,701	\$3.37	3,558,303	\$3.49
Exercisable, end of period	3,924,701	\$3.37	3,558,303	\$3.49

⁽¹⁾ Historical figures and current year grants have been adjusted retrospectively to reflect the impact of the exchange ratio defined in the Arrangement Agreement pursuant to the RTO Transaction.

Broker Warrants

During the period ended September 30, 2023, as adjusted for the impact of the RTO Transaction and exchange ratio, there were 366,398 warrants issued by the Company pursuant to the RTO Transactions (the “RTO Broker Warrants”). The RTO Broker Warrants have an exercise price of \$2.27 per warrant, have a term of two years and have an expiration date of June 9, 2025 (the “RTO Broker Warrant Expiration Date”). In determining compensation expense associated with the RTO Broker Warrants, the Company used the Black-Scholes option pricing model to estimate the fair value (\$0.4 million) of the warrants granted through application of the following assumptions:

	2023
Risk-free interest rate	4.49%
Expected life of units (years)	2.0
Expected annualized volatility	81.5%
Expected dividend yield	Nil
Weighted average Black-Scholes value of each unit	\$1.05

Unit Offering Warrants

During the year ended December 31, 2022, as adjusted for the impact of the RTO Transaction and exchange ratio, the Company granted 2,077,632 warrants in relation to tranche closings of its Unit Offering with an exercise price of \$3.55 per warrant (the “Unit Offering Warrants”). The Unit Offering Warrants have a term of two and one-half years and have expiration dates ranging from February 23, 2024 to February 5, 2025 (the “Expiry Date”). If the volume-weighted average price (“VWAP”) of the Common Shares of the Company is greater than \$5.00 for a period of five consecutive Trading Days (the “Acceleration Event”), the Expiry Date may be accelerated by the Company providing a notice to Holders of the Unit Offering Warrants and, in such case, the Expiry Date shall be the date which is 30 days following the date on which such notice is provided.

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The weighted average fair value of warrants issued during 2022 was \$0.65 and was estimated using FINCAD with assumptions of a two- and one-half-year weighted average expected option life, volatility between 92.5 and 96.0 percent and a risk-free interest rate between 2.7 and 3.9 percent.

Shareholder Promissory Loan Warrants

In conjunction with the Shareholder Promissory Note between the Company and 102 Sask, as adjusted for the impact of the RTO Transaction and Exchange Ratio, the Company granted a total of 176,110 warrants, with an exercise price of \$2.27 per warrant, for common shares of ZYUS as an inducement for the Shareholder Promissory Note Lender into the loan transaction (Note 7). These warrants have a term of three years and have expiration date of September 29, 2025.

10. Finance Costs

	Three Months Ended September 30,	
	2023	2022
Interest expense (loans and borrowings)	\$ 130	\$ 816
Interest expense (leases)	77	84
Accretion	12	558
Other	82	29
	\$ 301	\$ 1,487

	Nine Months Ended September 30,	
	2023	2022
Interest expense (loans and borrowings)	\$ 1,795	\$ 2,159
Interest expense (leases)	236	259
Accretion	1,029	1,334
Loss of settlement of loans and borrowings	206	-
Other	299	103
	\$ 3,565	\$ 3,855

11. Share-based Compensation

The Company has established an omnibus equity compensation plan (the “Omnibus Plan”) under which common share purchase options may be granted to directors, officers and key employees. The Omnibus Plan is a “rolling” plan whereby the maximum number of Common Shares that may be reserved for issue pursuant to the Omnibus Plan cannot exceed 10 percent of the Company’s issued Common Shares at the time of the award grant. Vesting terms of options granted under the Company’s Omnibus Plan vary on a grant-by-grant basis, at the discretion of the Company’s Board of Directors.

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The following table summarizes stock option changes during the period ended September 30, 2023 and year ended December 31, 2022:

	September 30, 2023 ⁽¹⁾		December 31, 2022 ⁽¹⁾	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning of year ⁽¹⁾	2,234,206	\$2.00	2,780,088	\$2.23
Exercised	-	-	(123,277)	\$1.42
Forfeited	(3,287)	\$5.32	(72,635)	\$5.69
Expired	(34,717)	\$2.07	(349,970)	\$3.22
Outstanding, end of period	2,196,202	\$2.00	2,234,206	\$2.00
Exercisable, end of period	2,174,834	\$1.96	2,182,634	\$1.93

⁽¹⁾ Historical figures and stock option grants have been adjusted retrospectively to reflect the impact of the exchange ratio defined in the Arrangement Agreement pursuant to the RTO Transaction.

For stock options outstanding at September 30, 2023, the range of exercise prices, the weighted average exercise price and the weighted average remaining life are as follows:

Options Outstanding				Options Exercisable (Vested)		
	Quantity	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Quantity	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
\$1.42 - \$5.31	1,940,729	4.94	\$1.42	1,940,729	4.94	\$1.42
\$5.32 - \$7.85	149,810	2.30	\$5.32	128,442	2.25	\$5.32
\$7.86 - \$8.09	105,663	5.39	\$7.88	105,663	5.39	\$7.88
	2,196,202	4.78	\$2.00	2,174,834	4.80	\$1.96

The foregoing options have expiry dates ranging from September 24, 2023 to December 5, 2029.

The expected life of the stock options represents the period of time stock options are expected to be outstanding and is estimated considering vesting terms. For those stock options granted prior to the RTO Transaction, expected volatility was based on historical volatilities of public companies operating in a similar industry to ZYUS. The risk-free rate is based on the Canada Benchmark Bond Yield Rates in effect at the time of grant. The expected dividend yield was determined based on the stock option's exercise price and expected annual dividend rate at the time of grant.

12. Loss Per Share

Loss per share for the three and nine months ended September 30, 2023 and 2022 was calculated based on the following:

	Three Months Ended September 30,	
	2023	2022 ⁽¹⁾
Loss attributable to common shareholders	\$ (4,193)	\$ (7,333)
Weighted average shares outstanding (basic)	69,824,792	38,533,370
Dilutive effect of convertible debentures, stock options and warrants	-	-
Weighted average shares outstanding (diluted)	69,824,792	38,533,370
Loss per share (basic and diluted)	\$ (0.06)	\$ (0.19)

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	Nine Months Ended September 30,	
	2023	2022⁽¹⁾
Loss attributable to common shareholders	\$ (18,106)	\$ (18,663)
Weighted average shares outstanding (basic)	51,482,067	38,470,568
Dilutive effect of convertible debentures, stock options and warrants	-	-
Weighted average shares outstanding (diluted)	51,482,067	38,470,568
Loss per share (basic and diluted)	\$ (0.35)	\$ (0.49)

(1) Historical weighted average shares outstanding figures have been adjusted retrospectively to reflect the impact of the exchange ratio defined in the Arrangement Agreement pursuant to the RTO Transaction.

As of September 30, 2023, after adjusting for the impact of the RTO Transaction and Exchange Ratio, there were 6,121,087 common share equivalents in the form of:

- 3,924,885 common share purchase warrants (Note 9); and
- 2,196,202 stock options (Note 11).

As of September 30, 2022, after adjusting for the impact of the RTO Transaction and Exchange Ratio, there were 5,708,708 common share equivalents in the form of:

- 3,375,336 common share purchase warrants;
- 2,266,288 stock options; and
- 67,084 holdback shares with potential dilutive impact.

In addition, at September 30, 2022, Common Shares were reserved for issuance in respect of the conversion of previously issued:

- \$15.5 million principal amount of convertible debentures and interest accrued and unpaid thereon at a conversion price equal to the lesser of (i) \$3.75 or (ii) 85 percent of the deemed price of Common Shares of ZYUS Life Sciences Inc. in a “Triggering Event” (as defined in the convertible debenture trust indenture); and
- \$12.0 million principal amount of convertible promissory notes and interest accrued and unpaid thereon at a conversion price equal to 85 percent of the deemed price of Common Shares of ZYUS Life Sciences Inc. in a “Triggering Event” (as defined in the convertible promissory note).

The Company’s results of operations were in a loss position for the three and nine months ended September 30, 2023 and September 30, 2022; as a result, there was no effect of applying the treasury-stock method to the weighted average number of shares outstanding as the inclusion of common stock equivalents would be anti-dilutive.

13. Financial Instruments

The financial instruments recognized on the consolidated statement of financial position are comprised of cash, short-term investments, accounts receivable (excluding recoverable sales taxes), accounts payable and accrued liabilities, loans and borrowings and derivative liabilities. The Company is exposed to various risks through its financial instruments, as follows:

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Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks and financial institutions and foreign exchange transactions.

The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance. At September 30, 2023 and December 31, 2022, the Company did not have material exposure to credit risk on cash and cash equivalents or counterparty performance of outstanding accounts receivable.

Liquidity Risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. In addition to its sales, the Company has relied on financings to fund its activities. The Company monitors its cash balances and cash flows generated from operations and financing activities to meet its requirements. The Company controls liquidity risk by management of working capital, cash flows and the issuance of debt or share capital.

Liquidity risk is the risk that the Company cannot meet its financial obligations when due. The Company manages liquidity risk by monitoring operating and growth requirements. Management believes its current capital resources and working capital levels will require the Company to seek future additional financing to allow it to meet its obligations, to make debt service requirements, and to fund the other needs of its business. However, no assurance can be given that future sources of capital will be available. The ability of the Company to continue as a going concern is dependent on raising capital to fund its business plan and ultimately to attain profitable operations. Any delay or failure to complete any additional financing would have a significant negative impact on the Company's business, results of operations and financial condition, and the Company may be forced to reduce or cease its operations or seek relief under applicable bankruptcy laws (see Note 1 – Future Operations and Liquidity).

The timing of expected cash outflows relating to financial liabilities at September 30, 2023 is as follows:

Payments / Commitments due by Period					
	Less than 1 year	2-3 Years	4-5 Years	More than 5 years	Total
Account payable and accrued liabilities	\$ 5,657	-	-	-	\$ 5,657
Promissory Notes ⁽¹⁾	6,820	-	-	-	6,820
Interest on Promissory Notes ⁽¹⁾	363	-	-	-	363
Term Loan	250	665	83	-	998
Interest on Term Loan	93	87	1	-	181
Lease obligations	627	1,078	1,053	1,373	4,131
	\$ 13,810	\$ 1,830	\$ 1,137	\$ 1,373	\$ 18,150

⁽¹⁾ Includes Interest that has compounded and been added to principal balance owing (Note 7).

Market Risk

Market risk is the potential for loss from adverse changes in the market value of financial instruments. The level of market risk that the Company is exposed to varies depending on the composition of its short-term investment portfolio, as well as current and expected market conditions.

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Categories of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company considers the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 and 3 based on the degree to which the fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows.

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instruments:

- **Level 1** – unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** – quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3** – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying value of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the short-term nature of those instruments. In addition, the Company's Loans and borrowings approximate their carrying value as there has been no material change in the Company's credit risk since the issuance of these instruments. Short-term and long-term investments are based on quoted market prices (Level 1).

Financial instruments measured at fair value are as follows:

September 30, 2023	Carrying Amount	Fair value measurement using		
		Level 1	Level 2	Level 3
Recurring measurements:				
Short-term investments	\$1,794	\$1,794	-	-
Financial liabilities				
Derivative liabilities (Note 7)	\$nil	-	-	\$nil

On June 9, 2023, the Arrangement pursuant to the RTO Transaction with Phoenix triggered the automatic conversion provisions of the ZYUS Life Sciences Inc. Convertible Debenture Notes, Convertible Promissory Notes (2021, 2022 Issuances) and Convertible Promissory Notes (2022, 2023 Issuances). As a result of these conversions, derivative liabilities relating to the ZYUS Life Sciences convertible debt were revalued at June 9, 2023 and reclassified to Share capital.

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December 31, 2022	Carrying Amount	Fair value measurement using		
		Level 1	Level 2	Level 3
Recurring measurements:				
Financial liabilities				
Derivative liabilities (Note 7)	\$3,976	-	-	\$3,976

There were no transfers between Levels 1, 2 and 3 inputs during the three- or nine-months periods ended September 30, 2023.

14. Capital Management

The Company defines its capital as its shareholder's equity and loans and borrowings. The Company's objective when managing its capital is to safeguard its ability to continue as a going concern so that it can provide adequate returns to shareholders and benefits to other stakeholders. Except as otherwise disclosed in these condensed consolidated interim financial statements, there are no restrictions on the Company's capital. The Company's objectives with respect to the management of capital are to:

- Maintain financial flexibility in order to preserve its ability to meet financial obligations;
- Deploy capital to provide an appropriate investment return to its shareholders; and,
- Maintain a capital structure that allows various financing alternatives to the Company as required.

In order to maintain or adjust the capital structure, the Company (upon approval from its Board of Directors, as required) may issue new shares through private placements, sell assets or incur debt. The Board of Directors reviews and approves any material transaction out of the ordinary course of business, including proposals on acquisitions, major investments, as well as annual capital and operating budgets. The Company believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended September 30, 2023. The Company is not subject to externally imposed capital requirements.

At September 30, 2023, there were no covenants associated with the Loans and Borrowings.

15. Commitments and Contingent Liabilities

Legal Claims and Regulatory Matters

In the normal course of business, the Company may occasionally be named as a party in various claims and legal proceedings. The Company reviews each of these claims, including the nature of the claim, the amount in dispute or claimed, and the availability of insurance coverage. There can be no assurance that any particular claim will be resolved in the Company's favor or that such claims may not have a material effect on the Company. Inquiries from regulatory bodies may also arise in the normal course of business, to which the Company responds as required.

Contingent Consideration Pursuant to Acquisition

On July 31, 2019, ZYUS acquired all issued and outstanding shares of Revon Systems, Inc. ("Revon"), a Kentucky-based healthcare technology company. The purchase consideration included 1,953,050 common shares issued on closing. Additional contingent consideration up to 2,715,217 common shares was due on successful completion of a performance condition; these common shares were issued during the first quarter of 2022. Additional contingent consideration of 95,271 ZYUS Life Sciences Inc. common shares were issued and held in trust during the

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completion of the RTO Transaction. After giving effect to the RTO Transaction and exchange ratio, these shares were exchanged for 67,084 common shares of ZYUS Life Sciences Corporation; in the third quarter of 2023, these common shares were released from escrow and issued to former Revon shareholders on the fourth anniversary of the transaction.

Supply Agreements

During the year ended December 31, 2020, the Company entered into a five-year supply agreement for dried cannabis raw material. Under the terms of the supply agreement, which is subject to certain conditions and annual negotiation of price, a licensed producer will deliver minimum volumes of dried bulk cannabis. Over the remaining term of the agreement, the Company conditionally has purchase commitments of up to 23,000 kgs. Subsequent to September 30, 2023, the Company received an invoice for \$5.8 million which it disagrees with and is engaged in negotiation with the licensed producer (Note 18).

16. Related Party Transactions

Related Party Transactions

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member, or close family member of a member, of the key management personnel of the Company. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties. During the nine months ended September 30, 2023 and the year ended December 31, 2022, in addition to key management personnel, the following related parties were identified:

- 102042227 Saskatchewan Ltd., a company subject to common control.

Promissory Notes

On March 31, 2021, the Company entered into a series of promissory note agreements (“Promissory Notes”) with the Company’s CEO (the “Lender”) in the amount of \$5.0 million (the “Principal Amount”), bearing an interest rate of seven percent per annum compounding annually. During the third quarter of 2023, the Company elected to prepay \$0.25 million of principal and interest on the Promissory Note.

Revolver

During the nine months ended September 30, 2023 and year ended December 31, 2022, ZYUS entered into a series of drawdowns in respect of the Revolver Agreement with the Company’s CEO. Upon completion of the RTO during the second quarter of 2023, all amounts owed under the Revolver, including accrued interest thereon, were repaid to the Revolving Loan Lender (Note 7).

Unit Offering

During the year ended December 31, 2022, ZYUS entered into Unit Offerings totaling \$1.2 million with 102042227 Saskatchewan Ltd. and certain Executives. Upon completion of the RTO during the second quarter of 2023, all principal and accrued interest relating to the convertible promissory notes in respect of the unit offering were converted into shares of ZYUS Life Sciences Inc., which were subsequently converted into shares of ZYUS Life Sciences Corporation.

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Shareholder Promissory Note

On September 29, 2022, the Company entered into a Promissory Note agreement with its CEO (Note 6), which included the issuance of 176,110 common share purchase warrants, as adjusted to reflect the impact of the RTO Transaction and Exchange Ratio. During the second quarter of 2023, upon completion of the RTO, all principal and interest owing with respect to the Promissory Note was repaid to ZYUS' CEO.

Short-Term Loan

On September 29, 2022, the Company entered into a Short-Term Loan agreement with a Director of the Company (Note 6). On October 4, 2022, the Company repaid the entire principal of \$0.05 million owing on the Short-term loan that was entered into during the third quarter of 2022. On December 6, 2022, the Company entered into a new promissory note agreement with the same Director in the amount of \$0.05 million. In addition, on December 20, 2022, the Company entered into another promissory note agreement with 102 Sask., a corporation owned by the Company's CEO, in the amount of \$0.15 million.

In the third quarter of 2023, all amounts owing pursuant to these Short-Term Loans were repaid to the Director and Company's CEO.

Warrants

During the year ended December 31, 2022, in conjunction with the Unit Offering Agreements entered into by the Company and as adjusted retroactively to reflect the impact of the RTO Transaction and Exchange Ratio, a total of 346,920 common share purchase warrants were issued to 102042227 Saskatchewan Ltd. and certain Executives.

17. Segment Information

Reportable Segments

Operating segments are components of the Company that engage in business activities which generate revenues and incur expenses (including intercompany revenues and expenses related to information reported to the chief operating decision maker ("CODM")) for the purposes of resource allocation and assessment of segment performance focuses on the sale of biopharmaceutical operations. No operating segments have been aggregated in arriving at the reportable segments of the Company.

Entity-wide Disclosures

The Company has one reportable segment: Bio-pharmaceutical Products (including medical cannabis derivatives).

Geographic Information

The Company operates in four principal geographical areas:

- Canada;
- United States
- Australia; and
- European Union

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As at September 30, 2023 ⁽¹⁾	Canada	United States	European Union	Total
Non-current assets	\$ 20,708	\$ 34,958	\$ 579	\$ 56,245

As at December 31, 2022 ⁽¹⁾	Canada	United States	European Union	Total
Non-current assets	\$ 22,841	\$ 35,020	\$ 585	\$ 58,446

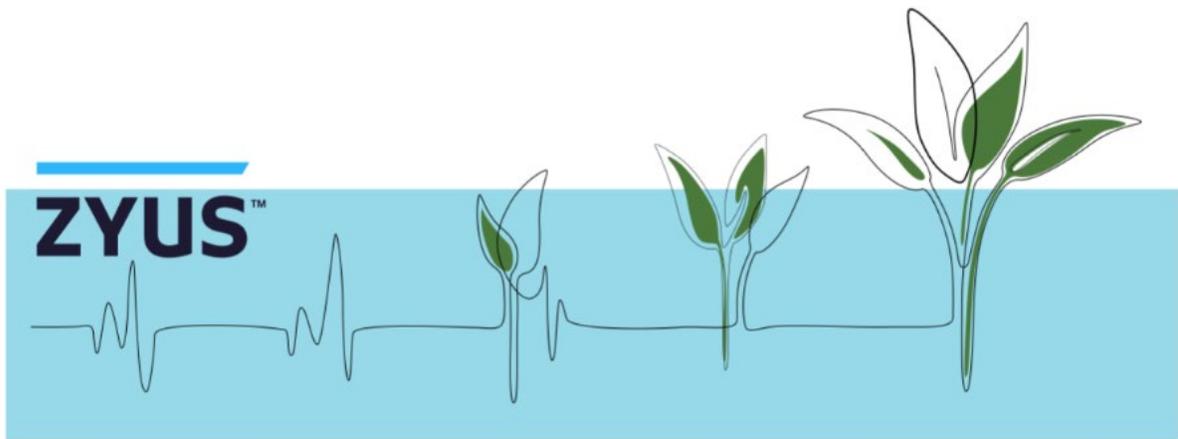
⁽¹⁾ The Company does not have any long-term assets in Australia.

For the three and nine months ended September 30, 2023 and September 30, 2022, all revenue is attributable to Canada.

18. Subsequent Events

Supply Agreement

Subsequent to September 30, 2023, the Company received an invoice for \$5.8 million which it disagrees with and is engaged in negotiation with the licensed producer (Note 15).



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