ZYUS™

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TSX-V: ZYUS

2023

Annual Financial Statements and Notes

December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ZYUS Life Sciences Corporation.

Opinion

We have audited the consolidated financial statements of ZYUS Life Sciences Corporation (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2023 and December 31, 2022
- the consolidated statements of loss and comprehensive loss for the years then ended.
- the consolidated statements of changes in shareholders' equity for the years then ended.
- the consolidated statements of cash flows for the years then ended.
- and notes to the consolidated financial statements, including a summary of material accounting policy information.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company requires additional funding to finance its research, development and corporate activities in the next twelve months.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters as set forth in Note 1 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt as to the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the "Material Uncertainty related to Going Concern" section of the auditor's report, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the recoverable amount of the Revon health informatics platform

Description of the matter

We draw attention to Notes 4 (g)(ii), 6 (a) and 12 to the financial statements. Intangible assets not in use yet are tested annually for impairment in the fourth quarter or more often if events, facts or circumstances indicate that there may be an impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. At December 31, 2023, the Entity determined that there were indicators of impairment related to the Revon health informatics platform (the "technology") and estimated the recoverable amount to be $12.0 million, resulting in an impairment charge of $22.2 million. The recoverable amount of the technology is dependent on significant assumptions and judgments regarding cash flow projections of cost savings from use of the technology in planned clinical trials and the discount rate.

Why the matter is a key audit matter

We identified the assessment of the recoverable amount of the technology as a key audit matter. This matter represented a significant risk of material misstatement given the magnitude of and the high degree of judgment involved in determining the recoverable amount. Significant auditor judgment and the involvement of professionals with specialized skills and knowledge was required to evaluate the results of our procedures due to the sensitivity to the Entity's determination of the recoverable amount to minor changes in the Entity's significant assumptions.

How was the matter addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the appropriateness of the Entity's cash flow projections by comparing the cost savings assumptions to historical results and publicly available data.

We took into account changes in conditions and events affecting the planned clinical trials to assess the Entity's cash flow projections of the cost savings.

We involved valuation professionals with specialized skills and knowledge to assist in assessing the discount rate assumption used in the recoverable amount, by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities and considering the risk profile of the technology.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indicators that the other information appears to be materially misstated.

We obtained the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Brittany Walter.

Saskatoon, Canada
May 7, 2024

ZYUS LIFE SCIENCES CORPORATION
(Formerly Phoenix Canada Oil Company Limited)
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

	Note		**December 31, 2023**		December 31, 2022
Assets					
Current assets					
Cash		**$**	**3,978**	$	212
Short-term investments			**1,874**		-
Accounts receivable	7		**627**		243
Inventory	8		**2,042**		4,202
Prepaid expenses and other assets	9		**867**		1,609
			9,388		6,266
Non-current assets					
Property, plant and equipment	10		**11,481**		14,435
Right-of-use leased assets	11		**2,413**		2,597
Intangible assets	12		**12,322**		35,387
Goodwill	13		**5,871**		5,871
Other assets	9		**152**		156
Total assets		**$**	**41,627**	$	64,712
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	14	**$**	**6,691**	$	13,038
Loans and borrowings	15		**6,149**		899
Lease obligations	11		**404**		331
			13,244		14,268
Non-current liabilities					
Lease obligations	11		**2,616**		2,875
Loans and borrowings	15		**637**		30,799
Derivative liabilities	15		**-**		3,976
Deferred tax liability	22		**2,016**		8,053
Total liabilities			**18,513**		59,971
SHAREHOLDERS' EQUITY					
Share capital	16		**154,088**		92,673
Warrants	17		**3,808**		3,423
Contributed surplus			**5,393**		5,629
Deficit			**(140,187)**		(97,596)
Accumulated other comprehensive income (loss)			**12**		612
Total shareholders' equity			**23,114**		4,741
Total liabilities and shareholders' equity		**$**	**41,627**	$	64,712

Future operations and liquidity	1
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The accompanying notes are an integral part of these consolidated 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)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in thousands of Canadian dollars)

	Note		**Year Ended December 31, 2023**		Year Ended December 31, 2022
Sales		**$**	**351**	$	298
Cost of sales			**145**		101
Inventory write-off	8		**(35)**		(429)
Gross profit (loss)			**171**		(232)
Expenses					
General and administrative	18	**$**	**12,006**	$	8,683
Research and development			**1,309**		2,208
Depreciation and amortization	10,11,12		**3,106**		4,045
Provision for inventory impairment	8		**2,181**		406
Asset impairment	10		**570**		-
Share-based compensation	21		**266**		109
Medical education, branding and marketing			**324**		653
Impairment of intangible asset	12		**22,198**		2,091
Other expenses	19		**352**		365
			42,312		18,560
Loss from operations			**(42,141)**		(18,792)
Listing expense	2		**1,958**		-
Investment and other income			**(701)**		(215)
Finance costs	20		**3,845**		5,464
Derivative loss	24		**1,115**		661
Foreign exchange loss			**81**		13
			6,298		5,923
Loss before income tax			**(48,439)**		(24,715)
Income tax:					
Deferred income tax recovery	22		**5,848**		58
Net loss		**$**	**(42,591)**	$	(24,657)
Other comprehensive (loss) gain			**(600)**		1,701
Comprehensive (loss)		**$**	**(43,191)**	$	(22,956)
Net loss per share:					
Basic and diluted	23	**$**	**(0.76)**	$	(0.64)
Weighted average number of shares:					
Basic and diluted	23		**56,122,095**		38,486,396

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

ZYUS LIFE SCIENCES CORPORATION
(Formerly Phoenix Canada Oil Company Limited)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars)

	Note		Share Capital		Warrants		Contributed Surplus		Deficit		Accumulated Other Comprehensive Income (Loss)		Total Shareholders' Equity
Balance at January 1, 2023		$	92,673	$	3,423	$	5,629	$	(97,596)	$	612	$	4,741
Net loss			-		-		-		(42,591)		-		(42,591)
Issuance of shares	16		20,632		-		(502)		-		-		20,130
Conversion of convertible debt	16		31,235		-		-		-		-		31,235
Share issue costs	16		(2,072)		-		-		-		-		(2,072)
Deemed consideration pursuant to RTO Transaction	2		10,412		-		-		-		-		10,412
Issuance of shares for debt settlement	16		1,208		-		-		-		-		1,208
Share-based compensation	21		-		-		266		-		-		266
Issuance of warrants	17		-		385		-		-		-		385
Foreign currency translation gain			-		-		-		-		(600)		(600)
Balance at December 31, 2023		**$**	**154,088**	**$**	**3,808**	**$**	**5,393**	**$**	**(140,187)**	**$**	**12**	**$**	**23,114**
Balance at January 1, 2022		$	78,047	$	1,198	$	19,971	$	(72,939)	$	(1,089)	$	25,188
Net loss			-		-		-		(24,657)		-		(24,657)
Share-based compensation			-		-		109		-		-		109
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			-		-		-		-		1,701		1,701
Balance at December 31, 2022		$	92,673	$	3,423	$	5,629	$	(97,596)	$	612	$	4,741

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

ZYUS LIFE SCIENCES CORPORATION
(Formerly Phoenix Canada Oil Company Limited)
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

	Note		**Year Ended December 31, 2023**		Year Ended December 31, 2022
Cash flows from operating activities					
Net loss		**$**	**(42,591)**	$	(24,657)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization			**3,106**		4,045
Inventory write-off			**2,181**		429
Asset impairment			**570**		-
Impairment of intangible asset			**22,198**		2,091
Derivative loss	15		**1,115**		661
Finance costs	20		**3,845**		5,464
Listing expense	2		**1,958**		-
Interest paid			**(226)**		(114)
Unrealized Foreign exchange gain (loss)			**38**		(17)
Share-based compensation expense			**266**		109
Deferred income tax recovery			**(5,848)**		(58)
Other adjustment			**190**		(146)
Changes in operating assets and liabilities:					
Short-term investments			**(64)**		-
Accounts receivable			**(347)**		105
Inventory			**(21)**		450
Prepaid expenses and other assets			**736**		(272)
Accounts payable and accrued liabilities			**(5,118)**		2,336
Net cash used in operating activities			**(18,012)**		(9,574)
Cash flows from investing activities					
Acquisition of property, plant and equipment			**(281)**		(560)
Acquisition of Phoenix Canada Oil Company Limited, net of cash & cash equivalents	2		**4,921**		(32)
Net cash provided (used) in investing activities			**4,640**		(592)
Cash flows from financing activities					
Proceeds from convertible promissory notes, net	15		**1,950**		50
Proceeds from 2023 promissory notes, net	15		**500**		-
Proceeds from concurrent financing, net	16		**18,443**		-
Proceeds from issuance of common shares			**-**		175
Proceeds from unit offering, net	15		**-**		6,706
Proceeds from shareholder loan, net			**-**		2,000
Proceeds from revolver	15		**350**		840
Proceeds from short-term loan	15		**-**		200
Repayment of short-term loans	15		**(200)**		-
Repayment of shareholder loan	15		**(2,000)**		-
Repayment of revolver	15		**(1,090)**		(100)
Repayment of promissory notes	15		**(349)**		-
Repayment of term loan	15		**(2)**		-
Lease payments			**(464)**		(243)
Net cash provided by financing activities			**17,138**		9,628
Net increase (decrease) in cash			**3,766**		(538)
Cash, beginning of year			**212**		750
Cash, end of year		**$**	**3,978**	$	212

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

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" or "RTO").

The business combination resulting from the Arrangement Agreement has been accounted for as a reverse acquisition of Phoenix by ZYUS Life Sciences Inc. The consolidated financial statements as at December 31, 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, Saskatchewan, 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 consolidated financial statements have been prepared pursuant to IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board 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 and therefore there is material uncertainty regarding the Company's ability to raise additional funds to maintain sufficient financial resources to fund ongoing and future operations. Furthermore, the Company has significant purchase commitments where there is material uncertainty with respect to the negotiations with the licensed producer of the supply agreement that may result in an increase in the liability recorded by the Company as at December 31, 2023 (Note 26).

As at December 31, 2023, the Company had incurred an accumulated deficit of $140.2 million and has net current liabilities (current assets less current liabilities) of $3.9 million. The Company had $5.9 million of Cash and Short-term investments as at December 31, 2023 (December 31, 2022: $0.2 million), which is expected to be insufficient to fund research, development and corporate activities in the next 12 months.

Despite the additional financing received from the RTO (Note 2), 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. Failure to obtain additional financing on a timely basis may cause the Company to postpone its research and development activities or terminate its operations.

These consolidated 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 acquiror (legal subsidiary). Accordingly, Phoenix's shareholders' equity balances at December 31, 2023, have been eliminated in the consolidated 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 Concurrent Financing Private Placement price of $1.60 per share (Note 16) 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 consolidated 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 consideration paid to Phoenix shareholders has been recorded as a Listing expense, as presented on the Consolidated Statements of Loss and Comprehensive Loss of ZYUS as at December 31, 2023.

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

Listing Expense

Number of Pre-exchange Shares to acquire Phoenix [1]		**6,507,711**
Deemed equity Issuance (Note 16)	$	10,412
Settlement of Phoenix Unit [2]		(1,767)
		8,645
Consideration		
Cash and cash equivalents	$	4,931
Short-term investments		1,810
Other receivables		37
Accounts payable		(91)
Net Assets Acquired	$	6,687
Listing expense [1]	$	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 year ended December 31, 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 15), 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

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were authorized for issue by the Company's Board of Directors on May 7, 2024.

Details of the Company's material accounting policies, including future changes, are included in Notes 4 and 5. Significant accounting estimates, assumption and judgements are included in Note 6.

b) Reverse acquisition

As a result of the Arrangement Agreement and RTO Transaction described in Notes 1 and 2, these 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.

c) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except as detailed in the material accounting policies disclosed in Note 4. The accounting policies described in Note 4 have been applied consistently to all periods presented in these financial statements.

d) Functional and presentation currency

These consolidated 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 consolidated 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. Material Accounting Policies

The material accounting policies set out below have been applied consistently to all entities within the consolidated group and all periods presented in these consolidated financial statements.

a) Basis of Consolidation

These consolidated financial statements are comprised of the financial results of ZYUS and its subsidiaries, which are the entities over which the Company has control. Control exists when the Company has the power, directly and indirectly to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. These consolidated financial statements include the accounts of the following wholly owned subsidiaries:

Name of entity	Jurisdiction of incorporation
ZYUS Life Sciences Australia Pty Ltd.	Queensland, Australia
ZYUS S.H. Bio Manufacturing Pty Ltd. (1)	Queensland, Australia
ZYUS Life Sciences US Ltd.	Delaware, USA
ZYUS Life Sciences Europe S.à r.l	Luxembourg
ZYUS Portugal, Sociedade Unipessoal Limitada	Portugal
ZYUS Life Sciences Germany GmbH	Germany

(1) Subsequent to December 31, 2023, the operations of ZYUS S.H. Bio Manufacturing Pty Ltd. were wound up and consolidated with its parent company, ZYUS Life Sciences Inc. (Note 29).

Intercompany balances and transactions and income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

b) Foreign Currency Translation

In preparing the financial statements of individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at exchange rates in effect on the date of the transactions. At each reporting date monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates applicable at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Realized and unrealized exchange gains and losses are recognized in earnings or loss.

For the purposes of presenting consolidated financial statements the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated into Canadian dollars at the exchange rates applicable at the date of the consolidated statements of financial position. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in other comprehensive income and accumulated in equity in the foreign currency translation account.

If the Company or any of its investments dispose of its entire interest in a foreign operation, or loses control, or significant influence over a foreign operation, the accumulated foreign currency translation gains or losses related to the foreign operation are recognized in net earnings.

c) Inventory

Inventories of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Products for resale and supplies and consumables are valued at lower of cost and net realizable value.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost is determined using the weighted average cost basis. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written down to net realizable value. The most significant judgements and estimates which management considers in determining the net realizable value of wholesale inventory are expected future selling prices and the age of the wholesale inventory.

d) Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation, less any recognized impairment losses. The cost of additions, betterments, renewals and interest during construction is capitalized. The cost of self-constructed assets includes the cost of materials, direct labor, other costs directly attributable to make the asset available for its intended use, as well as relevant borrowing costs on a qualifying asset. Each part of a component of property, plant and equipment with a cost that is significant in relation to the total cost of the component is depreciated separately. When the cost of replacing a portion of a component of property and equipment is capitalized, the carrying amount of the replaced component is derecognized.

Depreciation of construction in progress assets commences when the assets are ready for their intended use or when a Health Canada standard processing license is obtained. The assets' residual values and useful lives are reviewed, and adjusted as appropriate, at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by adjusting the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Any gain or loss arising on the disposal or retirement of a component of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the consolidated statements of loss and comprehensive loss.

Property, plant and equipment are depreciated as they become available for use. Production facilities are not depreciated until a producer's license is obtained. For assets available for use, depreciation is computed using the straight-line method over the estimated useful life of the assets, as described below:

Land ……………………………………………………………………………………..	NA
Production facilities ……………………………………………………………………………..	13 years
Equipment………... ……………………………………………………………………………..	5 to 10 years
Right-of-use assets ..…………………………………………………………………………….	2 to 13 years
Construction in progress ……….………………………………………………………………..	NA

e) Leases

At inception of a contract, the Company assesses whether such a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. A right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying assets or the site on which it is located, less any lease incentives received. Recognition exemptions permitted include short term leases or leases for which the underlying asset is of low value. If a contract meets these criteria the Company expenses the payments in the consolidated statements of loss and comprehensive loss.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

The lease liability is initially measured at the present value of the lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in a rate, if there is a change in the Company's estimate or the amount expected to be payable under the residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of comprehensive (income) loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities separately in the statement of financial position.

f) Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. In accordance with the Company's change in accounting policy in respect of configuration or customization costs in a cloud computing arrangement (*IAS 38 Intangible Assets*), configuration and customization costs in cloud computing / Software as Service arrangements are expensed as incurred.

Amortization of finite life intangibles is provided on a straight-line basis over their estimated useful lives, once the intangible asset is available for use, as described below. Amortization methods, useful lives and residual values are reviewed at each reporting period and adjusted if appropriate.

If the intangible asset is not yet available for use it will be tested for impairment on an annual basis in accordance with IAS 36 and IAS 38.

The Company's intangible assets are comprised of the following:

Health informatics platform and website .... 3 to 13 years
Below market lease. .... 12 years

g) Impairment

(i) Non-derivative financial assets

The Company applies an expected credit loss, or ECL, model to all debt financial assets not held at fair value through profit and loss, or "FVTPL", where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the statement of financial position date.

For trade receivables, the Company has applied the simplified approach under IFRS 9 and have calculated ECLs based on lifetime expected credit losses, taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. ECL's are a probability-weighted estimate of credit losses.

Credit losses are measured as the present value of the difference between the cash flows due in accordance with the contract and the cash flow the Company expects to receive. ECL's are discounted at the effective interest rate of the financial asset.

(ii) Non-financial assets

The carrying amounts of our property, plant and equipment and intangible assets are assessed for impairment indicators at each reporting period end to determine whether there is an indication that such assets have experienced impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Goodwill and intangible assets not yet in use are tested annually for impairment in the fourth quarter or more often if events, facts or circumstances indicate that there may be an impairment.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable independent cash inflows (a cash generating unit, or "CGU").). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's or CGU's' estimated fair value less costs to sell and its value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU. Fair value less cost to sell is defined as the amount obtainable form the sale of an asset or CGU in an arm's length transaction between knowledgeable parties, less the costs to dispose of the CGU.

Impairment losses are recognized in earning or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Where an impairment loss is subsequently determined to have reversed, the carrying amount of the asset (or CGU) is adjusted to the revised estimate of its recoverable amount but limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) previously. A reversal of an impairment loss is recognized immediately in the statements of comprehensive loss. Impairment losses taken on goodwill are not subsequently reversed.

h) Financial Instruments

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.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset or liability is measured initially at fair value plus, for an item not measured at FVTPL, transaction costs that are directly attributable to its acquisition or issuance.

(i) Financial assets

At initial recognition, a financial asset is classified and measured at: amortized cost, FVTPL or Fair Value Through Other Comprehensive Income ("FVOCI") depending on the business model and contractual cash flows of the instrument.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. A substantial modification to the terms of an existing financial asset results in the derecognition of the financial asset and the recognition of a new financial asset at fair value. In the event that the modification to the terms of an existing financial asset do not result in a substantial difference in the contractual cash flows the gross carrying amount of the financial asset is recalculated and the difference resulting from the adjustment in the gross carrying amount is recognized in earnings or loss.

(ii) Financial liabilities

Financial liabilities are initially measured at amortized cost or FVTPL. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less any required discount to reduce the payables to fair value. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are derecognized when the liability is extinguished. A substantial modification of the terms of an existing financial liability is recorded as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished and the consideration paid is recognized in earnings or loss. Where a financial liability is modified in a way that does not constitute an extinguishment, the modified cash flows are discounted at the liability's original effective interest rate. Transaction costs paid to third parties in a modification are amortized over the remaining term of the modified debt.

The Company's accounts payable and accrued liabilities and convertible debentures are measured at amortized cost. The liability portion of the Company's convertible debentures has been designated as other financial liability and is initially recognized at fair value. Subsequent to initial recognition, the convertible debenture is measured at amortized cost using the effective interest method. Loans and borrowings are classified as other financial liabilities and are measured at fair value at initial recognition and subsequently at amortized cost. Transactions costs are amortized over the term of the liability.

i) Compound Financial Instruments

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability which does not have an equity conversion option. The conversion option is assessed to determine if it meets the criteria to be classified as equity. If the fixed-for-fixed criteria is met, the value of the conversion is determined using the residual approach and is classified as equity. Any variability in the conversion option would result in a liability classification of the option as a derivative liability embedded with the host debt contract. The derivative is recognized initially at fair value. Any directly attributable transaction costs are allocated to the liability and derivative components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the derivative liability is bifurcated from the host debt. The host debt component is measured at amortized cost using the effective interest method. The derivative liability component is carried at fair value through the profit and loss account ("FVTPL").

Interest on the host debt and losses and gains on remeasurement of the derivative liability are recognized in the consolidated statements of loss and comprehensive loss.

j) Business Combinations

Business combinations are accounted for using the acquisition method of accounting when the acquired assets meet the definition of a business. The acquired identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as cash paid and the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Any excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in net income (loss). Transactions costs associated with business combinations are expensed as incurred.

k) Goodwill

The Company initially recognizes goodwill relating to a business combination at cost, measured as the excess of the purchase price over the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is subsequently measured at cost less any accumulated impairment.

l) Revenue

The Company follows a five-step model to determine the amount and timing of revenue to be recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognizing revenue when/as performance obligations are satisfied.

Revenue from the direct sale of medical cannabis for a fixed price is recognized when the Company transfers control of the goods to the customer. The transfer of control is specific to each contract and can range from the point of delivery to a specified length of time for the customer to accept the goods.

Revenue earned in Canada includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Revenue is recognized to the extent that it is highly probable that a significant reversal will not occur. Therefore, revenue is stated net of expected price discounts, allowances for customer returns and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing.

m) Research and Development

Research costs are charged against earnings when incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets the generally accepted criteria for deferral and amortization of intangible assets. Research and development costs consist primarily of:

- salaries, benefits and other related costs for personnel engaged in research and development functions;
- expenses incurred in connection with the preparation of our preclinical and clinical trials of our product candidates, including under agreements with third parties, such as consultants, and contractors;

- laboratory costs, including lab equipment and consumables;
- leased facility costs, equipment depreciation and other expenses; and
- intellectual property costs, including legal and administration expenses, incurred in connection with application and maintenance of patent applications and other intellectual property.

No development costs have been capitalized as at December 31, 2023 or December 31, 2022.

n) Share-based Compensation

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense, with a corresponding increase to equity, over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in earnings or loss such that the cumulative expense reflects the revised estimate.

For share-based payments granted to non-employees the compensation expense, with corresponding increase to liabilities, is measured at the fair value of the good and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted.

Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from contributed surplus to share capital.

o) Income Taxes

Income taxes are recognized in the consolidated statements of loss and comprehensive loss, except to the extent that they relate to items recognized directly in equity, in which case the tax is recognized in equity.

Current taxes are generally the expected income tax payable or receivable on taxable income for the reporting period, calculated using rates enacted or substantively enacted at the consolidated statements of financial position dates, and includes any adjustment to income tax payable or recoverable in respect of previous periods.

Uncertain income tax positions are accounted for using the standards applicable to current income tax assets and liabilities. Liabilities and assets are recorded to the extent they are deemed to be probable.

Deferred tax is recognized using the asset and liability method, based on temporary differences between financial statement carrying amounts of assets and liabilities, and their respective income tax bases. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the consolidated statements of financial position date and are expected to apply when the related deferred tax asset is realized, or the deferred tax liability is settled. Deferred tax is not accounted for where it arises from initial recognition of an asset or liability in a transaction other than a business combination which, at the time of the transaction, affects neither accounting nor taxable income (loss).

The amount of deferred tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities. Deferred tax assets are recognized only to the extent that it is probable that future taxable income will be available for which the temporary differences can be utilized. Deferred tax assets are reviewed at each consolidated statements of financial position date and adjusted to the extent that it is no longer probable that the related tax benefit will be realized.
Current tax assets and liabilities are offset when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

p) Loss Per Share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the net loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share, if applicable, is determined by adjusting the net income attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants, share options issued, preferred shares, convertible debentures and contingent shares.

q) Related Party Transactions

In the normal course of business, the Company has, and may, enter into transactions with related parties. The related party transactions are measured initially at the exchange amount.

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.

Disclosure of Accounting Policies

In February 2021, the IASB issued an amendment to IAS 1, Disclosure of Accounting Policies (IAS 1). The amendment was effective for annual reporting periods beginning on or after January 1, 2023 and provided requirements and guidance to help entities make more effective accounting policy disclosures. We have reviewed our disclosures in Note 4 and amended them to only include accounting policy information that we considered material based on the new guidance.

New Standards and Interpretations Not Yet Adopted

A number of amendments to existing standards are not yet effective for the annual period ended December 31, 2023, and have not been applied in preparing these consolidated 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 preparation of these consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Judgement is used mainly in determining whether a balance or transaction should be recognized in the consolidated financial statements. Estimates and assumptions are mostly used in determining the measurement of recognized transactions and balances. However, judgements and estimates are often interrelated. Judgements, estimates and assumptions are continually evaluated and are based on factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Judgements, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment include the following:

a) Impairment

CGU's are defined as the lowest grouping on integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into CGUs requires significant judgement and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Company's operations. The Company has one CGU being its medical cannabis business ("MC CGU").

The recoverable amounts of CGU's and individual assets are determined as the higher of the CGU's or the asset's fair value less costs of disposal and its value in use. The recoverable amounts require the use of estimates and assumptions and are subject to changes as new information becomes available. The recoverable amount of the Revon health informatics platform (the "technology") is dependent on significant assumptions and judgments regarding cash flow projections of cost savings from use of the technology in planned clinical trials and the discount rate. Recoverability of the CGU is dependent on assumptions and judgments regarding the replacement cost of the assets in the CGU. Material changes in assumptions used in determining the recoverable amount could affect the carrying value of the related technology and CGU.

b) Inventories

An assessment of net realizable value is performed at each reporting date and represent the estimated future sales price of the product the Company expects to realize when the product is processed and sold, less estimated costs to complete production and bring the product to sale. The Company must also determine if the carrying value of any inventory exceeds its net realizable value or if inventory has spoiled, been damaged, been subject to obsolescence and or is slow moving.

c) Convertible Instruments

Convertible notes are hybrid financial instruments which are accounted for separately by their components: a financial liability and an embedded derivative instrument.

The identification of the components of convertible notes is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component.

d) Derivative Liability

The Company's convertible debenture and convertible promissory notes are hybrid instruments consisting of a host financial instrument and embedded derivatives. The embedded derivative is separated from the host contract and accounted for separately as the economic characteristics and risks of the host contract and the embedded derivative are not closely related. The conversion option contains a variable conversion price; as such, the conversion feature has been classified as a derivative liability at fair value through profit or loss. The embedded conversion option was measured at fair value by third party valuation specialists using an industry standard methodology. The methodology requires management and its third-party valuation specialists to make significant judgments about the value of the redemptive feature within the convertible debenture including the appropriate credit spread and volatility for the Company at each valuation date.

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

e) Additional Accounting Estimates and Assumptions

In addition to the above general disclosure on estimates and judgments, the Company has disclosed additional information relating to estimates and assumptions recognized in the consolidated financial statements throughout the following notes:

Note 3	Basis of Presentation (Functional Currency)
Note 10	Property, Plant and Equipment
Note 11	Leases
Note 12	Intangible Assets
Note 13	Goodwill
Note 21	Share-based Compensation
Note 24	Financial Instruments

7. Accounts Receivable

As at December 31,		**2023**		2022
Recoverable sales taxes	**$**	**463**	$	44
Trade receivables		**161**		199
Other		**3**		-
	$	**627**	$	243

At December 31, 2023, $nil (December 31, 2022 - $nil) has been recognized for doubtful accounts or impairments as collections are reasonably assured on all outstanding accounts.

8. Inventory

As at December 31,		**2023**		2022
Raw materials	**$**	**368**	$	2,917
Finished goods – cannabis extracts		**1,171**		743
Packaging and other		**441**		504
Work-in-process – cannabis extracts		**62**		38
	$	**2,042**	$	4,202

During the year ended December 31, 2023, $0.1 million of inventory was expensed through cost of sales (December 31, 2022 - $0.1 million). For the year ended December 31, 2023, there were impairments of $0.03 million related to inventory (December 31, 2022 - $0.4 million) and provisions totaling $2.2 million (December 31, 2022 - $0.4 million).

9. Prepaid Expenses and Other Assets

As at December 31,		**2023**		2022
Current Portion				
Prepaid expenses	**$**	**311**	$	861
Prepaid insurance and other		**556**		748
	$	**867**	$	1,609
Non-current				
Other	**$**	**152**	$	156

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

Other assets at December 31, 2023 and 2022 consisted of security deposits**.**

10. Property, Plant and Equipment

Details of the Company's property, plant and equipment are as follows:

	Land	Leasehold Improvements	Equipment	Vehicles	Construction in progress ("CIP")	Total
Cost						
Balance, January 1, 2022	881	10,478	10,593	144	1,313	23,409
Additions	-	34	178	-	348	560
Transfers from CIP	-	-	-	-	(987)	(987)
Translation adjustment	-	-	-	-	1	1
Balance, December 31, 2022	**881**	**10,512**	**10,771**	**144**	**675**	**22,983**
Additions	-	183	78	-	20	281
Translation adjustment	-	-	-	-	(9)	(9)
Balance, December 31, 2023	**881**	**10,695**	**10,849**	**144**	**686**	**23,255**

	Land	Leasehold Improvements	Equipment	Vehicles	Construction in progress ("CIP")	Total
Depreciation						
Balance, January 1, 2022	-	1,497	4,412	42	-	5,951
Depreciation	-	1,505	1,074	18	-	2,597
Balance, December 31, 2022	-	3,002	5,486	60	-	8,548
Depreciation	-	1,592	1,047	17	-	2,656
Impairment and other	-	-	-	-	570	570
Balance, December 31, 2023	**-**	**4,594**	**6,533**	**77**	**570**	**11,774**

Carrying amounts

	Land	Leasehold Improvements	Equipment	Vehicles	Construction in progress ("CIP")	Total
December 31, 2022	881	7,510	5,285	84	675	14,435
December 31, 2023	**881**	**6,101**	**4,316**	**67**	**116**	**11,481**

Additions to construction in progress primarily related to the construction of our pilot plant, oils bottling line, topical line, laboratory space and a bottling facility.

For the years ended December 31, 2023 and 2022, there was $nil of capitalized interest.

At December 31, 2023, the Company identified impairment indicators specific to construction activities completed by its Portuguese subsidiary and recorded a provision of $0.6 million. The provision was recognized in the Medical Cannabis CGU.

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

11. Leases

Right-of-use asset

	Office Space	Production Facility	Other	Total
Cost				
Balance, January 1, 2022	2,606	1,061	311	3,978
Additions	-	-	-	-
Balance, December 31, 2022	**2,606**	**1,061**	**311**	**3,978**
Additions	**69**	**-**	**153**	**222**
Balance, December 31, 2023	**2,675**	**1,061**	**464**	**4,200**

Accumulated depreciation				
Balance, January 1, 2022	610	307	11	928
Depreciation	330	82	41	453
Balance, December 31, 2022	**940**	**389**	**52**	**1,381**
Depreciation	**290**	**82**	**34**	**406**
Balance, December 31, 2023	**1,230**	**471**	**86**	**1,787**

Carrying amounts

December 31, 2022	1,666	672	259	2,597
December 31, 2023	**1,445**	**590**	**378**	**2,413**

Lease liabilities

The following is the Company's maturity analysis for office, production and other premises contractual undiscounted cash flows and a summary of the discounted cash flows disclosed on the statement of financial position.

As at December 31,		**2023**		2022
Less than 1 year	**$**	**681**	$	599
Between 2 and 5 years		**2,179**		2,187
More than 5 years		**1,373**		1,898
Total undiscounted lease payments	**$**	**4,233**	$	4,684

Lease liabilities in the statement of financial position:

As at December 31,		**2023**		2022
Current	**$**	**404**	$	331
Non-current		**2,616**		2,875
	$	**3,020**	$	3,206

During the year ended December 31, 2023, total interest on lease liabilities recognized in Finance costs was $0.3 million (December 31, 2022 - $0.3 million); this interest was determined utilizing an incremental borrowing rate of 10 percent. The total expense recognized during the year ended December 31, 2023 for short term and low value lease obligations was $nil (December 31, 2022 - $nil).

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

12. Intangible Assets

Cost

		Information Technology (1)		Below Market Lease (2)		Total
Balance, January 1, 2021	$	37,137		547		37,684
Additions		32		-		32
Currency translation adjustment		2,239		-		2,239
Balance, December 31, 2022		39,408	$	547	$	39,955
Additions		-		-		-
Currency translation adjustment		(824)		-		(824)
Balance, December 31, 2023	$	38,584	$	547	$	39,131

Accumulated amortization

		Information Technology (1)		Below Market Lease (2)		Total
Balance, January 1, 2022	$	1,313		134		1,447
Impairment (3)		2,091		-		2,091
Amortization		984		45		1,029
Balance, December 31, 2022	$	4,388	$	179	$	4,567
Impairment (1)		22,198		-		22,198
Amortization		-		44		44
Balance, December 31, 2023	$	26,586	$	223	$	26,809

Carrying amounts

		Information Technology (1)		Below Market Lease (2)		Total
December 31, 2022	$	35,020	$	368	$	35,387
December 31, 2023	**$**	**11,998**	**$**	**324**	**$**	**12,322**

(1) Related to 2019 acquisition of Revon Systems Inc. asset acquisition, health informatics platform and website.
(2) Related to the acquisition of POS BPC Manufacturing Corp. during 2018.
(3) Related to health informatics platform acquired from Ehave, internal use software and website.

During the third quarter of 2022, the Company took steps to discontinue the use of the Ehave information technology assets. As a result, an impairment of $2.1 million (representing the remaining net book value of the discontinued intangible assets) was recognized.

At December 31, 2023, the information technology intangible asset consisted of the Revon health informatics platform (the "Technology") intended for research and product enhancement purposes. At December 31, 2023, the Company determined that there were indicators of impairment of the Technology including its age and anticipated use and estimated the recoverable amount to be $12.0 million (December 31, 2022 - $35.0 million), which impacted the CGU recoverable amount (Note 13) and resulted in an impairment charge of $22.2 million. The recoverable amount was based on a value in use model, which estimated the cost savings of utilizing the technology in the Company's planned clinical trials. The discount rate used in the value in use calculation was 19.5 percent.

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

13. Goodwill

Net book value		
Balance at December 31, 2022	**$**	**5,871**
Balance at December 31, 2023	**$**	**5,871**

At December 31, 2023 and December 31, 2022, goodwill was comprised of the goodwill acquired in respect of historical acquisitions.

For purposes of impairment testing, goodwill is attributable to the MU CGU. The recoverable amount of the CGU, after considering impairments recorded for individual assets (Notes 10 and 12) was estimated based on a fair value less costs of disposal calculation under the cost approach, which involved estimating the replacement cost of the asset base in the CGU. In estimating the fair value less costs of disposal, given the uncertainty surrounding future cash flow estimates and the low level of goodwill included within the carrying value of the CGO, Management considered an asset-based valuation approach, which sufficiently supported the recoverability of the assets of the CGU. In determining the fair value less costs of disposal under an asset approach:

- The fair value of net tangible assets was assumed to approximate net book value;
- The fair value of the Revon technology was assumed to approximate the recoverable amount (Note 12); and
- The fair value of incremental intangible / goodwill value was determined on a replacement cost basis.

Based on this assessment, the recoverable amount of the Company's CGU of $36.8 million was higher than its carrying amount and no impairment of goodwill was required.

14. Accounts Payable and Accrued Liabilities

As at December 31,		**2023**		2022
Accounts payable	**$**	**3,435**	$	8,512
Accrued and other liabilities		**3,256**		4,526
	$	**6,691**	$	13,038

At December 31, 2023, included in Accrued and other liabilities at December 31, 2023 is a provision relating to a dispute with a supplier (Note 26). Included in Accrued and other liabilities at December 31, 2022 was $2.2 million of interest payable on convertible debt (December 31, 2021 - $0.4 million). Subsequent to December 31, 2022, interest payable on the convertible debt was converted into common shares of ZYUS in conjunction with completion of the RTO in the second quarter of 2023 (Note 2).

15. Loans and Borrowings

		December 31, 2023		December 31, 2022
Current liabilities				
Revolver	**$**	**-**	$	697
Short-term Loan		**-**		200
Promissory Notes		**5,816**		-
Term Loan		**333**		2
	$	**6,149**	$	899

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

		December 31, 2023		December 31, 2022
Non-current liabilities				
Convertible Debentures	**$**	**-**	$	12,601
Promissory Notes		**-**		6,797
Term Loan		**437**		721
Unit Offering		**-**		8,912
Shareholder Promissory Note		**-**		1,720
Convertible Promissory Notes		**-**		48
Promissory Notes (2023 Issuance)		**200**		-
	$	**637**	$	30,799
Total loans and borrowings	**$**	**6,786**	$	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 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 December 31, 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.

		December 31, 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		**38**		32
Loss on settlement		**26**		-
Repayment		**(1,090)**		-
Revolver, end of year	**$**	**-**	$	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.

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

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 December 31, 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 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.

		December 31, 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

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

(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 upon the Debenture Maturity date of June 30, 2023. At December 31, 2023, the above presentation reflects conversion into a term loan as a result of the completion of the RTO transaction (Note 2).

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 to $3.0 million and then reclassified to Share capital (Note 16), resulting in a value of $nil at December 31, 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 (Note 16).

Promissory Notes

		December 31, 2023		December 31, 2022
Promissory Notes, beginning of year	**$**	**6,797**	$	6,339
Interest and accretion (1)		**477**		458
Repayment (2)		**(250)**		-
Repayment (3)		**(1,208)**		
Promissory Notes payable, end of year		**5,816**		6,797
Current portion		**(5,816)**		-
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.
(3) For the repayment noted above, ZYUS Life Sciences Corporation issued 1,000,000 common shares at a deemed price of $1.00 per Common Shares to settle a $1.0 million Promissory Note; accrued interest on the promissory note was forgiven in exchange for early settlement (Note 16).

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

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

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.

During the fourth quarter of 2023, ZYUS Life Sciences Inc. assigned payment of a $1.0 million Promissory Note, plus accrued interest outstanding to its parent company ZYUS Life Sciences Corporation. In exchange for early settlement of the Promissory Note prior to the Amended Maturity Date by the Borrower (the "Early Promissory Note Settlement"), the Lender agreed to amend the Promissory Note and forego all interest payable thereunder. The Early Promissory Note Settlement was completed through the issuance of 1,000,000 common shares of ZYUS Life Sciences Corporation (the "Common Shares") at a deemed price of $1.00 per Common Share (the "Transaction") (Note 16). As part of the Transaction, the Lender holding the Promissory Note provided the Company with full and final releases with respect to the Promissory Note. In that the holder of the Promissory Note was acting in the capacity of a shareholder of the Company, the forgiveness is treated as a capital transaction. As such, the outstanding financial liability (consisting of principal and accrued interest) was reclassified to equity and no gain or loss recognized on the Consolidated Statement of Loss and Comprehensive Loss.

The obligations of the Company for the remaining Promissory Note 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.

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.

		December 31, 2023		December 31, 2022
Term loan, beginning of year	**$**	**723**	$	638
Accretion		**49**		85
Repayment		**(2)**		-
Term loan, end of year		**770**		723
Current Portion		**(333)**		(2)
Term loan, long-term portion	**$**	**437**	$	721

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

Subsequent to December 31, 2023 (Note 29), on January 31, 2024, the Company and the Minister agreed to a further amendment whereby the Company will make one payment of $0.03 million on January 31, 2024, 11 consecutive monthly installments of 0.01 million commencing on February 28, 2024 and ending on December 31, 2024 followed by 35 payments of $0.02 million and one final installment of $0.02 million commencing January 31, 2025, and ending December 31, 2027, when any principal and interest then outstanding shall be repaid.

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).

		December 31, 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 due and payable on the Maturity Date, unless converted into Common Shares (Note 16) 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 revalued to $1.9 million (net of the portion attributable to the PCO Note that was retired) and reclassified to share capital (Note 16) due to the Triggering Event, resulting in a value of $nil at December 31, 2023 (December 31, 2022 - $1.7 million).

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

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 (Note 16).

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 17). 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.

		December 31, 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 year		**2,000**		1,720
Repayment		**(2,000)**		-
Convertible Promissory Notes payable, long-term portion	**$**	**-**	$	1,720

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

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.

		December 31, 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 year	**$**	**-**	$	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 2), the Arrangement pursuant to the Reverse Takeover with Phoenix triggered the automatic conversion provisions of the 2022/23 Convertible Promissory Notes, so that the principal and accrued interest outstanding thereon which was outstanding at Closing under the 2022/23 Convertible Promissory Notes converted into ZYUS Common Shares (Note 16).

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 to $nil with no further reclassification to Share capital due to the Triggering Event (Note 16).

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

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 (Note 16).

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.

		December 31, 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 year	**$**	**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.

16. 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.

	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	15	17,070,085		31,235
Revon Holdback Shares	26	67,084		502
Equity issue due to settlement of Promissory Note	15	1,000,000		1,208
Balance – December 31, 2023		**70,847,396**	**$**	**154,088**

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 (Unit Offering) (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.

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 26).

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

Equity Issue – Settlement of Promissory Note (2021)

During the fourth quarter of 2023, ZYUS Life Sciences Corporation issued 1,000,000 common shares at a deemed price of $1.00 per Common Shares to settle a $1.0 million Promissory Note (Note 15). As part of the Transaction, the Lender holding the Promissory Note provided the Company with full and final releases with respect to the Promissory Note. In that the holder of the Promissory Note was acting in the capacity of a shareholder of the Company, the forgiveness is treated as a capital transaction. As such, the outstanding financial liability (consisting of principal and accrued interest) was reclassified to equity and no gain or loss recognized on the Consolidated Statement of Loss and Comprehensive Loss.

17. Share Purchase Warrants

	December 31, 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 year	**3,924,701**	**$3.37**	3,558,303	$3.49
Exercisable, end of year	**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 year ended December 31, 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.

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

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

During the year ended December 31, 2022, 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 15). These warrants have a term of three years and have expiration date of September 29, 2025.

18. General and Administrative Expenses

For the years ended December 31,		**2023**		2022
Salaries	**$**	**4,710**	$	5,421
Facility costs and other		**2,486**		2,502
Professional fees and other		**4,810**		760
	$	**12,006**	$	8,683

For the year ended December 31, 2023, included in Professional fees and other and other is a provision relating to a dispute with a vendor (Note 26).

19. Other Expenses

For the years ended December 31,		**2023**		2022
Lab and sample	**$**	**76**	$	206
Scrap		**216**		121
Travel and other		**60**		38
	$	**352**	$	365

20. Finance Costs

For the years ended December 31,		**2023**		2022
Interest expense (loans and borrowings)	**$**	**1,919**	$	3,047
Interest expense (leases)		**311**		341
Accretion		**1,042**		1,855
Other		**573**		221
	$	**3,845**	$	5,464

At December 31, 2023, included in Interest expense was $1.7 million of interest relating convertible debt instruments (2022 - $2.6 million). During the second quarter of 2023, in conjunction with completion of the RTO (Note 2), this interest along with the respective principal balances owing converted into common shares of the Company (Note 16).

21. 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.

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

The following table summarizes stock option changes during the years ended December 31, 2023 and 2022:

	December 31, 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
Granted	**1,640,000**	**$1.45**	-	-
Exercised	**-**	**-**	(123,277)	$1.42
Forfeited	**(10,787)**	**$2.63**	(72,635)	$5.69
Expired	**(101,403)**	**$2.35**	(349,970)	$3.22
Outstanding, end of year	**3,762,016**	**$1.75**	2,234,206	$2.00
Exercisable, end of year	**2,618,148**	**$1.85**	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.

In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to estimate the fair value of units granted during the year ended December 31, 2023 through application of the following assumptions:

For the years ended December 31,	**2023**
Risk-free interest rate	**3.7%**
Expected life of units (years)	**5**
Expected annualized volatility	**94.4%**
Expected dividend yield	**Nil**
Weighted average Black-Scholes value of each unit	**$0.40**

For stock options outstanding at December 31, 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	3,520,396	4.73	$1.43	2,397,896	4.65	$1.42
$5.32 - $7.85	143,001	2.04	$5.32	121,633	1.99	$5.32
$7.86 - $8.09	98,619	5.02	$7.88	98,619	5.02	$7.88
	3,762,016	4.64	$1.75	2,618,148	4.54	$1.85

The foregoing options have expiry dates ranging from January 23, 2024 to Jul 29, 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.

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

22. Income Taxes

ZYUS operates in a number of different tax jurisdictions and, as such, it is subject to income taxes in the jurisdictions where it operates or otherwise has a taxable presence. Consequently, income tax expenses are driven by the allocation of taxable income (loss) to those jurisdictions. Activities performed in each jurisdiction impact the magnitude and timing of taxable events.

Rate Reconciliation

The income tax recovery for the year is reconciled to the accounting net income at December 31 as follows:

For the years ended December 31,		**2023**		**2022**
Loss before income tax	**$**	**(48,439)**	$	(24,657)
Income tax recovery calculated at 27%		**(13,079)**		(6,657)
Non-deductible stock-based compensation expense		**72**		30
Other non-deductibles		**67**		-
Foreign rate differential		**225**		-
Reverse takeover debt settlement		**1,167**		-
Deferred tax asset not recognized in current period		**5,700**		6,569
Net income tax recovery recognized	**$**	**(5,848)**	$	(58)

Income Tax Recognized in Earnings

The income tax expense (recovery) for the year includes the following at December 31:

For the years ended December 31,		**2023**		**2022**
Deferred income tax recovery		**(5,848)**		(58)
Net income tax recovery recognized	**$**	**(5,848)**	$	(58)

Deferred Taxes

Deferred taxes recognized in the statement of financial position includes the following:

As at December 31,		**2023**		**2022**
Deferred tax liabilities	**$**	**(2,016)**	$	**(8,053)**
	$	**(2,016)**	$	**(8,053)**

For the year ended December 31, 2023	**Opening balance**	**Recognized in earnings**	**Cumulative Translation Adjustments**	**Effects of Acquisitions**	**Closing Balance**
Property, plant, and equipment, net	(1,962)	617	-	-	(1,345)
Intangible assets and other	(9,140)	5,787	189	-	(3,164)
SRED	98	-	-	-	98
Share issuance costs	-	513	-	-	513
Non-capital losses	2,951	(1,069)	-	-	1,882
	(8,053)	5,848	189	**-**	**(2,016)**

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

For the year ended December 31, 2022	**Opening balance**	**Recognized in earnings**	**Cumulative Translation Adjustments**	**Effects of Acquisitions**	**Closing Balance**
Property, plant, and equipment, net	(1,395)	(567)	-	-	(1,962)
Intangible assets and other	(8,404)	(220)	(516)	-	(9,140)
SRED	57	41	-	-	98
Share issuance costs	251	(251)	-	-	-
Non-capital losses	1,896	1,055	-	-	2,951
	(7,595)	58	(516)	**-**	**(8,053)**

Income Tax Losses

At December 31, 2023 the Company has income tax losses carried forward of $101.5 million from Canadian operations (December 31, 2022 - $85.2 million); $4.1 million from United States operations (December 31, 2022 - $3.8 million); and $5.5 million from international jurisdictions (December 31, 2022 - $3.6 million). These losses are available to reduce future taxable income and expire starting in 2030. Note that since the Company does not have a history of earnings, it has recognized these losses only to the extent that it has sufficient taxable temporary differences in that jurisdiction to offset. As a result, the only losses recognized by the Company in 2023 relate to operations in the United States.

The Company and its subsidiaries file corporate income tax returns in Canada, the United States and other foreign jurisdictions. The Company has open tax years with various taxing jurisdictions. The 2019-2023 fiscal years are considered open tax years with the Canadian taxing jurisdiction.

23. Loss Per Share

Loss per share was calculated based on the following:

For the years ended December 31,		**2023**		2022
Loss attributable to common shareholders	**$**	**(42,591)**	$	(24,657)
Weighted average shares outstanding (basic) [(1)]		**56,122,095**		38,486,396
Dilutive effect of stock options and warrants		-		-
Weighted average shares outstanding (diluted)		**56,122,095**		38,486,396
Loss per share (basic and diluted)	**$**	**(0.76)**	$	(0.64)

(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 December 31, 2023, after adjusting for the impact of the RTO Transaction and Exchange Ratio, there were 7,686,717 common share equivalents in the form of:

- 3,924,701 common share purchase warrants (Note 17); and
- 3,762,016 stock options (Note 21).

As of December 31, 2022, after adjusting for the impact of the RTO Transaction and Exchange Ratio, there were 5,859,593 common share equivalents in the form of:

- 3,558,303 common share purchase warrants;
- 2,234,206 stock options; and
- 67,084 holdback shares with potential dilutive impact.

In addition, at December 31, 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 years ended December 31, 2023 and 2022; as such, there was no effect of applying the if converted method to the weighted average number of shares outstanding as the inclusion of common stock equivalents would be anti-dilutive.

24. 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:

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 December 31, 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).

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

The timing of expected cash outflows relating to financial liabilities at December 31, 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	$ 6,691	-	-	-	**$ 6,691**
Promissory Notes [1]	4,951	-	-	-	**4,951**
Interest on Promissory Notes [1]	865	-	-	-	**865**
Term Loan [2]	333	665	-	-	**998**
Interest on Term Loan [2]	86	71	-	-	**157**
Promissory Notes (2023 Issuance)	-	200	-	-	**200**
Interest on Promissory Notes (2023 Issuance)	-	60	-	-	**60**
Lease obligations	681	1,127	1,052	1,373	**4,233**
	$ 13,607	**$ 2,123**	**$ 1,052**	**$ 1,373**	**$ 18,155**

(1) Includes Interest that has compounded and been added to principal balance owing (Note 15).
(2) Amounts presented in the above table are the principal balances owing; the amortized cost of this debt instrument is outlined in Note 15.

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.

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.

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

- **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 investments are based on quoted market prices (Level 1).

Financial instruments measured at fair value are as follows:

		Fair value measurement using		
December 31, 2023	Carrying Amount	Level 1	Level 2	Level 3
Recurring measurements:				
Short-term investments	$1,874	$1,874	-	-
Financial liabilities				
Derivative liabilities (Note 15)	$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.

		Fair value measurement using		
December 31, 2022	Carrying Amount	Level 1	Level 2	Level 3
Recurring measurements:				
Financial liabilities				
Derivative liabilities (Note 15)	$3,976	-	-	$3,976

There were no transfers between Levels 1, 2 and 3 inputs during the year ended December 31, 2023.

25. 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 consolidated 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 year ended December 31, 2023. The Company is not subject to externally imposed capital requirements.

At December 31, 2023, there were no covenants associated with the Loans and Borrowings.

26. 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 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. Upon the release of these shares from escrow, all consideration relating to the Revon acquisition has been issued and no further obligation remains.

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. During the fourth quarter of 2023, the Company received an invoice for $5.8 million which it disagrees with and is engaged in negotiation with the licensed producer; the Company has recorded a provision relating to this dispute (Note 18). Subsequent to December 31, 2023, the Company received an updated invoice for $3.2 million and has continued with negotiations with the licensed producer (Note 29).

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

27. Related Party Transactions

Key Management Personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors, who control approximately 54 percent of the outstanding shares of the Company as at December 31, 2023. Compensation provided to key management is as follows:

For the years ended December 31,		**2023**		**2022**
Salary and short-term benefits	**$**	**1,615**	$	1,383
Share-based payments		**115**		42
Other long-term benefits		**37**		44
	$	**1,767**	$	1,469

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 year ended December 31, 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.

<u>Promissory Notes (2021)</u>

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.

<u>Revolver</u>

During the years ended December 31, 2023 and 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 15).

<u>Unit Offering</u>

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.

Shareholder Promissory Note

On September 29, 2022, the Company entered into a Promissory Note agreement with its CEO (Note 15), 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 15). 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.

28. 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

(Expressed in thousands of Canadian Dollars, except share data or as otherwise noted)

As at December 31, 2023 [1]		Canada		United States		European Union		Total
Non-current assets	$	20,225	$	12,000	$	14	$	32,239

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 years ended December 31, 2023 and 2022, all revenue is attributable to Canada.

29. Subsequent Events

Supply Agreement

During the fourth quarter of 2023, the Company received an invoice for $5.8 million which it disagrees with and is engaged in negotiation with the licensed producer (Note 26). Subsequent to December 31, 2023, the Company received a revised invoice for $3.2 million and has continued to engage in negotiations with the licensed producer.

Wind-up of Subsidiary Operations

Subsequent to December 31, 2023, the operations of ZYUS S.H. Bio Manufacturing Pty Ltd. were wound up and consolidated with its parent Company, ZYUS Life Sciences Inc. (Note 4).

Term Loan Amendment

Subsequent to December 31, 2023, on January 31, 2024, the Company and the Minister agreed to a further amendment whereby the Company will make one payment of $0.03 million on January 31, 2024, 11 consecutive monthly installments of 0.01 million commencing on February 28, 2024 and ending on December 31, 2024 followed by 35 payments of $0.02 million and one final installment of $0.02 million commencing January 31, 2025, and ending December 31, 2027, when any principal and interest then outstanding shall be repaid.

30. Comparative Figures

Certain prior year balances have been reclassified to conform to the current year financial statement presentation.

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2023