



LSL PHARMA GROUP INC.

Annual Report

Fiscal year ended on

December 31, 2024

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The following document is Management's Discussion and Analysis ("MD&A") of the financial condition and operating results of LSL Pharma Group Inc. ("LSL Pharma" or the "Corporation") for the three and twelve-month periods ended December 31, 2024 and 2023 and should be read in conjunction with the audited annual consolidated financial statements and notes thereto for the fiscal year ended on December 31, 2024, which have been prepared in accordance with *IFRS Accounting Standards* ("*IFRS*"). All amounts herein are expressed in thousands of Canadian dollars (unless otherwise indicated) except for share, units and per share amounts. All other currencies are in thousands, unless otherwise stated. This MD&A was prepared by management from information available as at April 30, 2025. Further information about LSL Pharma Group Inc., is available online on SEDAR+ at www.sedarplus.ca.

Non-IFRS Financial Measures

The non-IFRS measures included in this MD&A are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. When used, these measures are defined in such terms as to allow the reconciliation to the closest IFRS measure. These measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from our perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. Despite the importance of these measures to management in goal setting and performance measurement, we stress that these are non-IFRS measures that may have limits in their usefulness to investors.

We use non-IFRS measures, such as Adjusted Gross Profit, EBITDA and Adjusted EBITDA to provide investors with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the valuation of issuers. We also use non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets, and to assess our ability to meet our future debt service, capital expenditure and working capital requirements.

The definition and reconciliation of Adjusted Gross Profit, EBITDA and Adjusted EBITDA used and presented by the Corporation to the most directly comparable IFRS measures are detailed below:

Non-IFRS Measures	Definition
Adjusted Gross Profit	is defined as Gross Profit from product sales less amortization charges relating to intangible assets and depreciation charges relating to property, plant and equipment, as well as special provisions outside of the normal course of business such as plant shutdown and moving costs. Management believes that adjusted Gross Profit better reflects the impact of gross profit contribution on cash flow.
EBITDA	is defined as net income or loss adjusted for income taxes, depreciation of property, plant and equipment, amortization of intangible assets, interest on short-term and long-term debt, and other financing costs such as foreign exchange gains or losses, interest income and other. Management uses EBITDA to assess the Company's operating performance.
Adjusted EBITDA	<p>is defined as EBITDA less non-recurring gains or expenses such as gains on business acquisitions, special provisions and expenses outside of the normal course of business, special recruitment and severance costs, stock-based compensation, costs of issuing warrants or options, moving/relocation expenses and other expenses related to the Company's listing on the TSX Venture Exchange.</p> <p>We use Adjusted EBITDA as a key indicator to assess the performance of our business when comparing results to budgets, forecasts and prior years. Management believes that Adjusted EBITDA is a more accurate measure of cash flow generation than, for example, cash flow from operations, as it eliminates cash flow fluctuations caused by unusual changes in working capital.</p>

A reconciliation of Gross Profit to Adjusted Gross Profit, as well as net income (loss) to EBITDA (and Adjusted EBITDA) are presented later in this document.

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

Use of Estimates and Judgments

The preparation of these audited annual consolidated financial statements requires management to undertake several judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from these judgements and estimates. These estimates and judgements are based on management's best knowledge of the events or circumstances and actions the Corporation may take in the future. The estimates are reviewed on an ongoing basis. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in Note 3 of the Corporation's 2024 audited annual consolidated financial statements.

Cautionary note regarding forward-looking statements

This MD&A may contain some forward-looking information as defined under applicable Canadian securities laws. Forward looking information can generally be identified using forward-looking terminology such as "may", "anticipate", "expect", "intend", "estimate", "continue" or similar terminology. Forward looking information is subject to various known and unknown risks and uncertainties, many of which are beyond the ability of the Corporation to control or predict, that may cause the Corporation's actual results or performance to be materially different from actual results and are developed based on assumptions about such risks and other factors set out herein.

GLOSSARY TERMS

Calendar & Financial			
CAGR	Compounded Annual Growth Rate	Q4-23	Fourth quarter FY-23
COGS	Cost of Goods Sold (or Cost of Sales)	Q3-23	Third quarter FY-23
EBITDA	Earnings before Interest Tax Depreciation and Amortization	Q2-23	Second quarter FY-23
(A)EBITDA	Adjusted EBITDA	Q1-23	Fourth quarter FY-23
FY	Fiscal Year	QoQ	Quarter over quarter
G&A	General and Administrative	S&M	Sales and Marketing
GP	Gross Profit	SBC	Share-Based Compensation
LTD	Long-term debt	YE	Year-end
Q4-24	Fourth quarter FY-24	YTD	Year to date
Q3-24	Third quarter FY-24	YoY	Current FY results vs last FY results
Q2-24	Second quarter FY-24	W/C	Working Capital, defined as short-term assets less short-term liabilities
Q1-24	First quarter FY-24		

Corporate & Operations			
CMO	Contract Manufacturing Organization	Îledor	Corporation Exploration Îledor
Dermolab	Dermolab Pharma Ltd.	LSL Labs	LSL Laboratory Inc.
FDA	United States Food and Drug Administration	RTO	Reverse takeover
Fera	Fera Pharmaceuticals, LLC	Steri-Med	Steri-Med Pharma
HC	Health Canada	TSXV	Toronto Stock Venture Exchange
HO	Head Office	VSI	Virage Santé Inc.

SEGMENT REPORTING

LSL Pharma Group, formerly Îledor (see RTO of Îledor below) is an integrated Canadian pharmaceutical company. The Company has two reportable segments. This reflects our management structure and the way key strategic, operating commercial decisions are made.

1) Business segment #1 - CMO activities

LSL Pharma's first reportable segment represents its contract manufacturing operations ("CMO") which currently includes three operating companies, namely:

- LSL Laboratory, manufacturer of natural health products in solid dosage forms, mainly for third-party pharmaceutical clients, as well as a wide list of private labelled products;
- Dermolab, which manufactures liquid and semi-solid pharmaceutical, natural health and cosmetic products; and

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

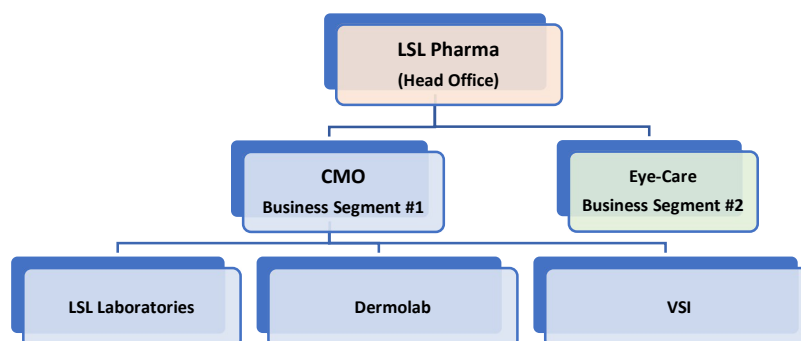
- c. VSI which manufactures a range of natural products in liquid, powder, as well as in capsule forms, some of which are sold under its own brands or as private labels.

2) **Business segment #2 – Integrated Eye-care pharmaceutical company**

The Corporation's second business segment includes Steri-Med, our sterile Eye-care manufacturing operation. Steri-Med specializes in the in-licensing or development/manufacturing and commercialization of high-quality sterile ophthalmic pharmaceuticals for the Canadian, US and foreign markets.

Corporate Structure

The Corporation's corporate structure is presented below:



HO functions are supporting our two business units' operating entities, by providing services such as finance, accounting, cash management, HR, supply chain management, legal, IT, regulatory, quality assurance oversight, pharmaco-vigilance etc. HO also handles other corporate activities such as investors relation, communication, marketing, banner and wholesaler management. Going forward, the Corporation intends to scale up its CMO activities and generate economies of scale by leveraging its HO services and by incorporating other operating/manufacturing sites. As of the date of this document, the Corporation has 186 full-time employees, including 21 occupying HO functions.

RTO of Îledor, - February 22, 2023

On December 22, 2022, LSL Laboratory Inc. entered into an agreement with Îledor, pursuant to which Îledor completed, effective February 22, 2023, an arm's length change of Business in accordance with the policies of the TSX Venture Exchange through a reverse takeover with LSL Laboratory Inc. (the "RTO"). Concurrent to the RTO, LSL Pharma Group completed a \$8.3 million private placement to fund its growth initiatives. Subsequent to the RTO and private placement, the shareholders of Îledor controlled 1% of all issued and outstanding shares of LSL Pharma at that time.

Listing of LSL Pharma Group on the TSX Venture Exchange. – March 1, 2023

On March 1, 2023, the Common Shares of LSL Pharma Group Inc. began trading on the TSX Venture Exchange ("TSXV") under the symbol "LSL". Upon listing of its shares on the TSXV, the Corporation implemented an escrow agreement to restrict the resale of 42.7% of the shares of LSL Pharma over a 3-year period ending February 27, 2026. As per the terms of the escrow agreement, a certain % of escrowed shares are released from escrow at 6 months intervals.

Remaining escrowed share and date of releases are as follows:

Date	Number of Common shares to be released
February 27, 2025	5,276,850
August 27, 2025	5,276,850
February 27, 2026	14,071,600
Total remaining	24,625,300

More details on the escrow agreement can be found in the Corporation's latest Information Circular available on SEDARPLUS.CA.

Listing of Debentures on the TSXV – May 24, 2024

During Q4-23, the Corporation completed brokered financing, raising gross proceeds of \$3.3 million by issuing 3,288 unsecured debentures with a nominal value of \$10 per Debenture. The debentures have been trading on the TSXV exchange since May 24, 2024 under the symbol "LSL.DB".

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

Corporate strategy and future development

LSL Pharma's management intends to pursue a two-pronged growth strategy, **FIRST** by expanding its CMO activities by adding products and complementary services to better support its expanding customer base, either organically or through acquisitions, and **SECOND** by investing in its Steri-Med operations to take advantage of its unique capabilities for developing and manufacturing sterile ophthalmic products. One of Steri-Med's biggest opportunity is to establish itself as a leader in the development, manufacturing and commercialization of "first-to-market" ophthalmic generic products for the Canadian, US and foreign markets.

CMO operations

LSL Laboratory

Established in Lapocatière, Quebec in 1997, LSL Laboratory relocated its activities into a 22,000 sq. ft. plant during FY-23. Growth over the coming years will be achieved by taking advantage of the additional capacity (3 time larger than the prior site), expanded capabilities, by expanding its private label activities and by leveraging relationships with existing/new customers.

VSI

On June 18, 2024, the Corporation acquired 100% of the controlling interest of VSI. VSI operates a 8 250 sq.ft. plant in Lévis, Quebec and manufactures a range of natural products in liquid, powder, sachets, as well as in capsule forms for its clients or sold under its own brand or private labels. LSL Pharma acquired VSI for \$2.5 million subject to post-closing adjustments of \$131, thus reducing the net purchase price to \$2,369. Revenues from VSI have been consolidated into our results starting June 1, 2024. The excess of the fair value of net assets acquired over consideration paid resulted in a recognition of \$157 of Goodwill.

During the month of September 2024, the Corporation secured a 15-year \$1.4 million term loan using the Virage Santé plant as collateral. We expect to generate synergies by leveraging HO operations. At the end of Q4-24, VSI was fully integrated into LSL Pharma's CMO operations.

Dermolab

Effective December 1, 2024, LSL Pharma expanded its CMO activities by acquiring Dermolab, a CMO based in Ste-Julie, Québec (located 15 km from the LSL Pharma Head Office). Founded in 1985, Dermolab is a leading manufacturer of liquid and semi-solid products for the pharmaceutical and cosmetic markets. The total consideration for the transaction included (i) the renewal of Dermolab's operating line of credit and term loan totaling a maximum of \$3 million and (ii) a cash payment of \$955 on closing. The cash portion of the purchase price was financed by the proceeds of a concurrent debt financing and will be subject to post-closing adjustments.

LSL Pharma realized a gain of \$4,864 on acquiring Dermolab. The acquisition is expected to boost LSL Pharma's revenues by approximately 40% for the upcoming fiscal year. The acquisition is also expected to broaden Dermolab's customer base which will benefit from the LSL Group's expanded service offering.

M&A Criteria for expanding the CMO activities

LSL Pharma group is looking to expand its CMO activities with the addition of companies whose profile matches its vision and growth strategy.

Some of the criteria to be used for evaluating business opportunities are:

- 1) *Financially accretive* – The Corporation is looking to add operations that can immediately contribute to its profitability.
- 2) *Provide scale and synergies* – Acquisition must add scale and offer the opportunity to leverage HO operations
- 3) *Expansion/strengthening of client relationships* - By adding scale and product offering, LSL Pharma intends to consolidate its relationships with clients, as well as expand its customer base.
- 4) *Geographic expansion* – Due to logistic/supply preferences, the Corporation's current CMO footprint mainly serves clients located in the province of Québec. Expanding our footprint outside of Quebec would offer opportunities to broaden our client base.

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

Eye-Care Segment - STERI-MED Pharma

Steri-Med intends to position itself as a leader in the development and commercialization of ophthalmic products. It intends to accomplish this goal by leveraging its unique sterile manufacturing capabilities. For now, the Corporation is focussing on expanding and leveraging its capacity for the development and manufacturing of ophthalmic ointment products. Over-time it intends to invest into eye-drops manufacturing capabilities. Until "eye-drop" manufacturing is available at the Steri-Med plant, the Corporation intends to in-licence eye-drop products for commercialisation in Canada.

Sterile Eye-care ointment Manufacturing Operations - Steri-Med Pharma

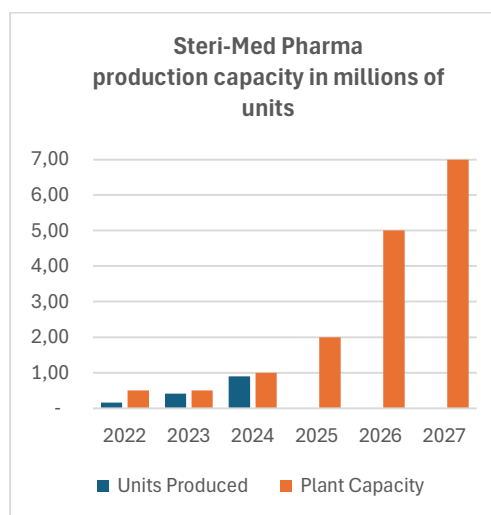
Our growth strategy at Steri-Med would be achieved by optimizing and increasing production capacity. The incremental capacity will serve to meet expanding demand for the Corporation's existing products as well as support the production of new products under development.

Over the recent years, our limited production capacity has restricted our ability to sell our products outside of Canada. Canada is a participant to Mutual Recognition Agreements (MRAs), covering drug/medicinal products Good Manufacturing Practices (GMP) Compliance Programs. Consequently, products such as those manufactured by Steri-Med can be sold to several foreign territories accepting "Health Canada labelled products". Due to the scarcity of high quality sterile ophthalmic ointment manufacturers worldwide, international demand for our products has been increasing and Steri-Med is starting to take full advantage of this trend.

- Unit production level at the end of FY-24 has doubled as compared to the prior year level, following the addition and validation of new production equipment.

Over the coming year, Steri-Med is planning the introduction of a second sterile ointment manufacturing line (the "SECOND Line") which will significantly boost capacity. The SECOND line has been delivered to the Steri-Med site early April 2025 and is expected to be operational in H1-26. Once fully operational, the production capacity at the Steri-Med site will increase 5-fold compared to the FY-24 level thus providing the required flexibility to accelerate the development and manufacture of new products.

The graph on the right presents the historical and projected production capacity (in standard units).



Existing Product Pipeline and New Products under Development

As mentioned above, one of the main growth drivers for the Corporation is the ability to leverage the unique manufacturing capabilities of Steri-Med to develop a pipeline of eye-care products for sale in Canada, the United States and abroad. Steri-Med will focus initially on jurisdictions accepting the Canadian label of its products, but overtime, intends to apply for marketing rights for its current and new products in the US and abroad, directly or with commercial partners.

Current marketed products are described below:

Sterisporin (*Polymyxin B sulfate - bacitracin zinc*)

Sterisporin is a combination of antibiotics used to treat certain types of infections caused by bacteria. The eye ointment is used to treat some types of eye infections such as conjunctivitis.

<u>Format Type</u>	3.5-gram eye ointment (<i>Generic</i>)
<u>Commercial / Distribution</u>	Retail distribution across all provinces in Canada. Product is offered by all major retail banners
<u>Reimbursement</u>	Not listed for public reimbursement. No private coverage.
<u>Market environment</u>	100% market share in Canada, innovator exited the market in 2017
<u>Market Size</u>	\$5 million ¹

1. IQVIA Data - 2024

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

Erythromycin

Erythromycin Eye-care is used to treat bacterial infections of the eyes.

<u>Format Type</u>	1 gram, and 3.5-gram eye ointment (<i>Generic</i>)
<u>Commercial / Distribution</u>	Hospital/ retail distribution across all provinces in Canada. Product is offered by all major retail banners
<u>Reimbursement</u>	Listed for public reimbursement in Qc, Manitoba, BC, and New Brunswick. Covered by most insurance companies.
<u>Market environment</u>	3 players in Canada – the Corporation enjoys a 30-40% market share
<u>Market Size</u>	Canada - \$6.4 Million ¹ Note: other jurisdictions may accept our Canadian labelled products when subject to product shortages
<u>US Market and other countries</u>	During the second half of FY-23, due to a shortage of Erythromycin Eye-care ointment in the US market, LSL Pharma entered into an exclusive agreement with Fera, a U.S. specialty pharmaceutical company, to provide Erythromycin for the treatment of newborns in U.S. hospitals. To ensure continuous supply of the product in the country, the FDA granted Fera temporary discretion to import Erythromycin Eye-care ointment for the prevention of gonococcal ophthalmia neonatorum. Fera's import permit expired June 30, 2024. In addition to supplying Canadian labelled products to the US, the Corporation has also supplied products to foreign clients which are representing a growing % of its revenues.

1. IQVIA Data - 2024

US Commercialization / FDA accreditation

Steri-Med is pursuing its efforts to obtain its FDA accreditation. Approval by the FDA to manufacture products for the US market will enable Steri-Med to take advantage of the lucrative US market for ophthalmic products. Increased production will serve to support new Steri-Med products (to be developed and commercialized by Steri-Med directly or with partners), as well as the production under contract of our clients/partners' drugs.

Avaclyr (acyclovir ophthalmic ointment)

In Q4-23, Fera Pharmaceuticals filed Avaclyr with the FDA to obtain marketing approval. Avaclyr is indicated for the treatment of acute herpetic keratitis (dendritic ulcers) with Steri-Med as its GMP manufacturing site. Once approved, Steri-Med will manufacture Avaclyr under contract. The US approval for Avaclyr will also designate Steri-Med as a compliant site for manufacturing other products for US commercialization. As at the date of this MD&A, Steri-Med was still working on addressing FDA requirements.

Discussions are taking place with other potential partners regarding the co-development/commercialization of other products currently under development for the US market.

Development pipeline


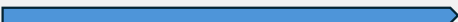




Steri-Med intends to develop first-to-market generic ophthalmic products. The rationale for developing a pipeline of generic ophthalmic products is described below:

- >60 off-patent ointments/eye drops products currently face NO/limited generic competition in Canada, US and other major markets;
- Innovators enjoy maximum pricing, and lack of competition due to challenges related to the Development / Manufacturing of these products;
- Steri-Med has the expertise and capabilities to develop a pipeline of drugs for these lucrative markets by leveraging its partnership with Fera or other foreign partners.
- Global manufacturing capabilities for sterile eye-care products (ointments / drops) is very limited.
- First-to market ophthalmic generic products enjoy the benefit of :
 - o relatively low development costs and regulatory risk (\$0.3-0.6 million);
 - o relatively short development timelines vs innovative drugs (less than 5 years to peak sales);
 - o limited price erosion vs innovator at launch;
 - o rapid market share gains at launch due to price advantage and established market;
 - o limited commercial/marketing expenses and fast time to peak sales.

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023











The development pipeline is presented below with the next development milestones and timelines for completion.

R&D Pipeline			Status / Timelines for Completion			
Products / Projects	Type	Market	Development / R&D	Regulatory Filing	Approval	Market
Avaclyr - FERA	(CMO) Ointment - Rx	USA			H1-2025	
SMM-810	Ointment - OTC	Canada / USA				H2-2026
SMS-0200	Ointment - OTC	Canada			H2-2025	
SMA-0300	Medical device	Canada			H1-2026	
SMT-0400	Ointment - Rx	Canada / USA			H1-2026	
SMT-0450	Ointment - Rx	Canada / USA			H1-2026	

Current market size for the products under development are estimated in excess of \$200 Million (IQVIA Data). Assuming the successful development and regulatory approval of its product pipeline, revenues from the sales of these products will have a material impact on the Corporation's revenues going forward.

In-Licensing and commercialisation of Eye-drop products.

In April 2025, the Corporation announced the signing of two new agreements to market up to 10 sterile eye drops for the prescription market in Canada. These products will significantly enhance the Eye-care portfolio of Steri-Med Pharma. The commercialization of these new products remains subject to satisfactory due diligence by the Company and to regulatory approvals, but these initiatives fit with Steri-Med's overall strategy to establish itself as a Canadian leader in the manufacturing and commercialization of sterile ophthalmic products.

In-Licensing Pipeline			Status / Timelines for Completion			
Products / Projects	Type	Market	Agreement signed	Due diligence	Approval	Market
MPL - A105	Eye drop - Rx	Canada			H2-2025	H1-2026
MPLT - A110	Eye drop - Rx	Canada			H2-2025	H1-2026
MPD - A205	Eye drop - Rx	Canada			H2-2025	H1-2026
MPDT - A210	Eye drop - Rx	Canada			H2-2025	H1-2026
MPB - A305	Eye drop - Rx	Canada			H2-2025	H1-2026
MPB - A310	Eye drop - Rx	Canada			H2-2025	H1-2026
SHS - B505	Eye drop - Rx	Canada			H2-2025	H2-2026
SHS - B510	Eye drop - Rx	Canada			H2-2025	H2-2026
SHS - B515	Gel - Rx	Canada			H2-2025	H2-2026
SHI - B600	Eye drop - Rx	Canada			H2-2025	H2-2026

Together, these products represent annual sales of more than \$105 million in Canada, according to IQVIA Canada. Four of the new products would be exclusive to the Company for the Canadian market and currently have no generic equivalent on the market. The commercialization of new products remains subject to satisfactory due diligence by the Company and to regulatory approvals.

Q4-24 Corporate Highlights

- **On November 6, 2024** - the Corporation secured \$1.4 million of new orders from international clients, as well as completed the initial phase of production scale-up at its Steri-Med Pharma plant. The initial phase of production scale up has contributed to more than double the plant capacity compared to 2023 levels, and enabled Steri-Med to win new international contracts for its existing products. Phase 2 Production scale-up expected to increase capacity five-fold by early 2026.
- **December 18, 2024** - The Corporation announced the appointment of Guy Paul Allard as VP Legal Affairs and Corporate Secretary. A seasoned lawyer specializing in corporate and securities law for over 25 years, Mr. Allard has practiced in national and global law firms and has previously held similar executive in-house positions in the pharmaceutical industry.

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

- **December 18, 2024** - LSL Pharma Group expands its contract manufacturing activities by acquiring Dermolab Pharma Limited ("Dermolab") and announced the closing of a concurrent debt financing. The Dermolab acquisition is accretive, expected to boost revenues by approximately 40% and adds development and manufacturing capabilities of liquid and semi-solid products for the pharmaceutical and cosmetic markets. The total consideration for the transaction included (i) the renewal of Dermolab's operating line of credit and term loan totaling a maximum of \$3 million and (ii) a cash payment of \$955,000 on closing. The cash portion of the purchase price was financed by the proceeds of a concurrent debt financing and will be subject to post-closing adjustments. For the 12-month period ended on August 31, 2024, Dermolab generated net income and EBITDA of nil and \$0.5 million respectively, from revenues of \$10.1 million. As at August 31, 2024, Dermolab had total assets of \$7.9 million, and liabilities of \$5.3 million including bank loans totaling \$2.7 million.
- **December 18, 2024** - LSL Pharma announced the closing of a \$2 million debt financing (the "Notes"). Concurrent to the Dermolab transaction. The Notes are unsecured, bear interest at a blended rate of 13% and mature on January 1, 2028. 2,000,000 warrants (the "Warrants") were issued in connection with the Notes, with each Warrant entitling the holder, subject to adjustments in certain cases, to purchase one common share of the Corporation (the "Warrant share") at a price equal to the greater of (i) \$0.70 or (ii) the closing price of the LSL Pharma Shares on December 20, 2024, for a period of 36 months following the closing of the Financing. The Notes may be redeemed by the Corporation at any time on or after January 1, 2026. The purpose of the Financing was to support growth initiatives, such as the Dermolab acquisition, by strengthening LSL Pharma's working capital. Each Warrant and Warrant share will be subject to a four-month hold period under the applicable securities laws. There were no finders involved with the Financing. A Corporation controlled by Luc Mainville, Executive VP and Chief Financial Officer of the Corporation contributed an amount of \$1 million into the Financing.
- **On December 20, 2024** - the Corporation secured a new \$5 million long-term loan from the Business Development Bank of Canada ("BDC"). The new loan served to reimburse a series of debts and loans including \$3.9 million of short-term liabilities, help reduce the Corporation's annual debt servicing requirements and contribute to lower the overall interest costs for LSL Pharma.

FY-24 Subsequent Events

- **On March 10, 2025** - the Corporation secured a \$0.75 million unsecured bridge loan from an arms' length party to help fund operations (the "Bridge Loan"). The Bridge Loan is not convertible, bears interest at 12% and is repayable before June 30, 2025.
- **On March 31, 2025** - the Corporation announced the appointment of Louis Laflamme to its board of directors. Mr. Laflamme is Entrepreneur in Residence for Medtech Ventures Fund of Sectoral Asset Management Inc. Previously, he was President, CEO and director of OpSens Inc. (TSX:OPS) from January 2013 to March 2024, when it was acquired by Haemonetics for \$345 million. The Corporation also announced that it has entered into an agreement with Mr. Laflamme for advisory and consulting services (the "Services Agreement"). Accordingly, Mr. Laflamme will not be considered as an "independent" director of the Corporation.
- **On April 3, 2025** - the Corporation announced the signing of two new agreements to market up to ten (10) sterile eye drops for the prescription market in Canada. These products will significantly enhance the product portfolio of the Eye-care division. The Company expects to start commercialization of some of these products as early as the fourth quarter of 2025. Together, these products represent an annual market of over \$105 million in Canada (Source: IQVIA Canada 2024). Four of the new products would be exclusive to the Company for the Canadian market and currently have no generic equivalent on the Canadian. Commercialization of the new products remains subject to satisfactory due diligence by the Company and to regulatory approvals
- **On April 10, 2025** - the Corporation received a \$50 payment from Investissement Québec ("IQ"), representing the first portion of a \$200 non-refundable payment made under the Quebec Immigrant Investor Program (the "QIIP"). IQ granted the Corporation a \$200 non-refundable funding to help Steri-Med acquire a new production line. The remaining amount of \$150 is expected to be received before the end of the 2024 fiscal year.
- **On April 29, 2025** - the Corporation received \$500 from BDC representing the second and last tranche of the Secured BDC loan secured on December 20, 2024. (See note 13 vii of the Corporation's Audited financial statements).

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

- **Since the start of the 2025 fiscal year**, the Corporation granted an aggregate of 1,285,000 stock options ("Options") including 1,050,000 to certain officers and directors in accordance with the Corporation's long-term incentive compensation plan. The Options will be exercisable at an exercise price of \$0.37 per Class A common share of the Corporation, vest over 3 years and will expire 10 years after grant.
- **Since the start of the 2025 fiscal year**, the Corporation received further advances from Finaccès Capital representing a net increase of \$411 of the Second advance described in note 13 ii). As at April 30, 2025, amounts owed under the Second advance stood at \$1,037. The terms of the Second advance remained the same.

SELECTED FINANCIAL DATA

We are presenting revenues by operating segments. The first reportable segment includes revenues from CMO operations. The second reportable segment includes revenues from the sale of Eye-care products. Eye-care product sales currently include ointments products manufactured at our Steri-Med plant. We also intend to commercialize eye-drops and ointments to be sourced from commercial partners under supply and license agreements such as those agreements announced on April 3, 2025.

The following table and graphs present the financial information relating to the periods indicated and should be read in conjunction with our December 31, 2024, Audited annual consolidated financial statements. (See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")

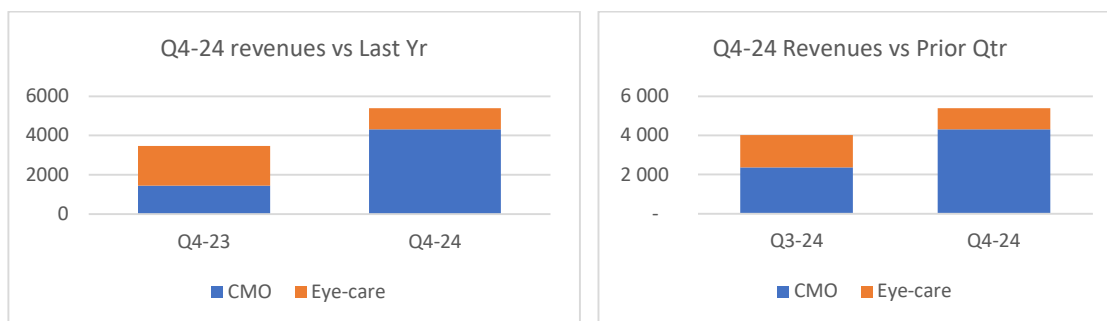
Financial Statements of net income (loss)

	Q4-24	Q4-23	Change				Change	
			\$	%	FY-24	FY-23	\$	%
Revenues								
CMO Revenues	4 305	1 440	2 865	199%	10 541	4 873	5 668	116%
Eye-care Division	1 080	2 019	(939)	-47%	7 207	5 155	2 052	40%
Revenues	5 385	3 459	1 926	56%	17 748	10 028	7 720	77%
Gross profit (loss)	1 472	100	1 372	1372%	5 348	1 645	3 703	225%
Adjusted Gross Profit	1 900	344	1 556	452%	6 810	2 907	3 903	134%
Adjusted GP % to revenues	35%	10%	25%	255%	38%	29%	9%	32%
SG&A	(1 172)	(832)	(340)	41%	(4 524)	(3 644)	(880)	24%
Operating Profit (loss)	300	(732)	1 032	-140%	824	(1 999)	2 823	-141%
SBC	(16)	-	(16)	-100%	(418)	(2 117)	1 699	-80%
Financial Expenses	(552)	(538)	(14)	3%	(1 903)	(1 806)	(97)	5%
RTO - Iledor	-	-	-	0%	-	(2 550)	2 550	-100%
Gain on Aquisitions	4 817	-	4 817	-100%	4 864	-	4 864	-100%
Deferred Income tax	50	-	50	100%	50	-	50	100%
Net Income (loss)	4 499	(1 270)	5 769	-454%	3 317	(8 472)	11 789	-139%
EBITDA (loss)	5 576	(488)	6 064	-1243%	6 779	(5 537)	12 316	-222%
Adjusted EBITDA (loss)	775	(411)	1 186	-289%	2 417	(576)	2 993	-520%

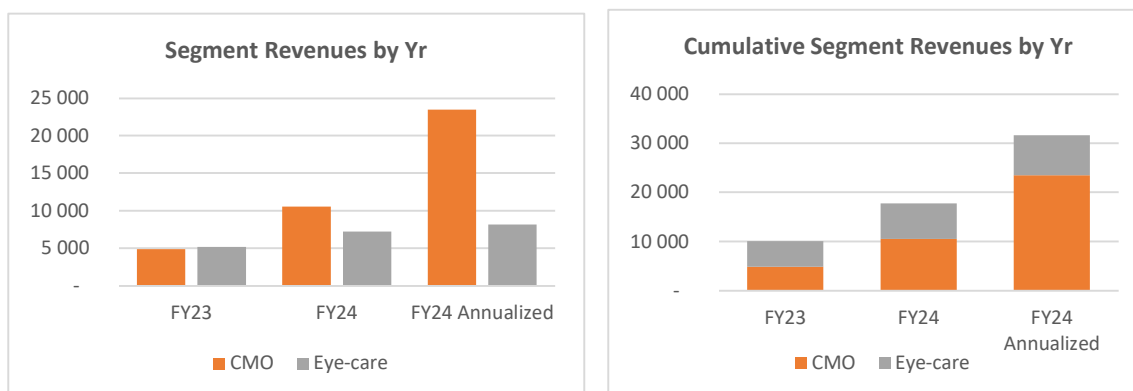
- The Corporation delivered strong Total Revenues in Q4-24, at \$5.4 million, up 56% compared to Q4-23. We achieved this performance despite a drop in revenues from our Eye-care division. CMO revenues tripled at \$4.3 million in Q4-24 compared to \$1.4 million for Q4-23, a 199% increase. The Dermolab and VSI acquisition contributed to CMO revenues with VSI contributing for the full quarter and Dermolab contributing a full month. Also, CMO revenues benefited from the growth in revenues at LSL Laboratories which is now leveraging the capital investments made over the last 2 years for expanding service offering and increasing capacity. Revenues from the Eye-care division were down 47% during Q4-24 compared to Q4-23 despite new international orders for the Steri-Med products. Last year, Q4-23 revenues benefited from important non-recurrent sale of products to the US under an FDA exemption due to a local shortage of Erythromycin (the "US Shortage"). Such sales ended in Q1-24.

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023



- For the full year periods, total revenues were \$17.7 million for FY-24, up \$7.7 million or 77% over FY-23. Similar to the Q4-24 performance the CMO revenues benefited from the addition of VSI and Dermolab, as well as the increased capacity created at the LSL Laboratories plant. CMO revenues for FY-24 increased 116% over FY-23. Dermolab contributed for one month to the FY-24 CMO revenues while VSI contributed for 7 months. During FY-24, revenues for the Eye-care division increased 40% over FY-23 despite the ending of the US Shortage in Q1-24. During the year 2024, Steri-Med was able to increase production and make products available for new international clients. We expect those sales to continue and increase as a % of total sales of Steri-Med products.
- The two graphs below present our revenues by business segments for the last 2 fiscal years, as well as annualized FY-24 revenues ("FY-24A"). FY-24A revenues have been calculated by using sales of VSI and Dermolab incorporated into our actual results would have remained constant for a full year. We are presenting annualized FY-24 revenues to better illustrate the material impact of these two acquisitions on our revenues. Assuming full year performance of each of VSI and Dermolab on the same basis as their FY-24 contribution, our total revenues would exceed \$30 million, compared to the \$17.7 million delivered in FY-24.

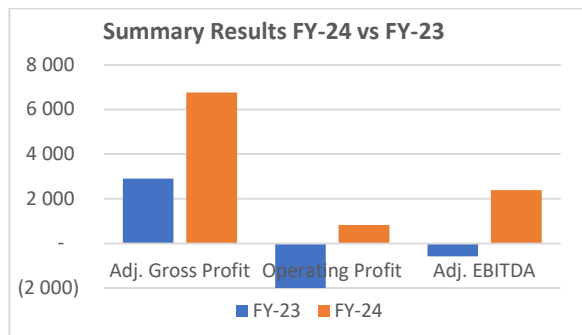
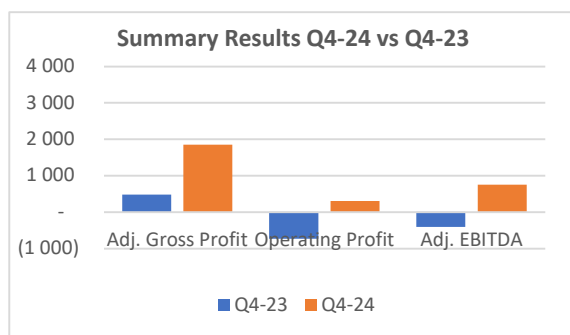


- Adjusted GP** for Q4-24 after eliminating the impact of depreciation, amortization, costs related to shut-down, plant upgrades and moving costs from the gross profit stood at \$1.9 million, a 452% increase over Q4-23. Adjusted GP for the FY-24 period was \$6.8 million compared to \$2.9 million for FY-23, a \$3.9 million or 134% increase. Adjusted Gross Profit benefited from the contribution of Dermolab for one month, and Virage Santé for 7 months but more importantly from the increased performance of LSL Laboratory described above. The increased production at Steri-Med also contributed to improve gross profit as the plant was able to increase production to generate more sales and increase inventory levels at year-end.
- SG&A** expenses for Q4-24 were \$1.1 million compared to \$0.8 million in Q4-23, a 41% increase, mainly due to the addition of Dermolab and VSI. For the FY periods, SG&A expenses were up 24% in FY-24 compared to FY-23. These results fully demonstrate the benefit of centralizing SG&A function at HO as revenue growth for the FY period significantly outpaced SG&A growth at 77% vs 24%.
- Operating Profit.** LSL Pharma generated operating profits in Q4-24 at \$0.3 million compared to a \$0.7 million operating loss last year representing a \$1 million improvement. The \$1.0 million improvement was due to a strong increase in revenues and control over SG&A. For the FY-24 period, the Corporation delivered \$0.8 million operating profit compared to a \$2.0 million operating loss for FY-23, a \$2.8 million improvement. Same for the QoQ performance, the increase in revenues and margins between the periods resulted in stronger operating results.

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

- Financial Expenses** for Q4-24 were slightly higher to Q4-23 with a 3% increase. For the FY periods, financial expenses were slightly higher than last year with a 5% increase. Despite the conversions and repayment of several debt/loans during the year, financial expenses for FY-24 were impacted by the increase in interest expenses related to issuance of \$3.3 million of debentures in late FY-23 and increased expenses on lease facilities as the LSL laboratory is now fully operational following its relocation completed in the first half of FY-23. We also secured a \$1.4 million mortgage on the VSI building in September 2024 which impacted the financial expenses for the last quarter. Several initiatives were taken during the year to reduce the cost of carrying our various loans and debts. These initiatives should help reduce our cost of capital for the upcoming year.
- Net Income (loss).** For the Q4-24 period, we generated net income of \$4.5 Million compared to a \$1.3 million net loss for Q4-23, a \$5.8 million improvement. For the FY-24 period, net income stood at \$3.3 Million compared to a \$8.5 million net loss for FY-23, a \$11.8 million improvement. The QoQ and YoY performance was driven by the strong increase in gross profit between the periods derived from the strong increase in revenues, a tight control on SG&A and financial expenses. In addition to the above, the most significant factor impacting our results was the \$4.9 million gain on business acquisition that resulted from the acquisition of Dermolab.
- EBITDA** for Q4-24, after eliminating the impact of financial expenses, depreciation and amortization was \$5.6 million compared to a \$0.5 million EBITDA loss Q4-23. For the FY-24 period, EBITDA profit was \$6.8 million, up \$12.3 million compared to the prior year EBITDA loss of \$5.5 million. Same as for the net income and loss, the EBITDA performance was impacted by the stronger operating margins and the gain on business acquisition.
- (Adjusted) EBITDA.** After eliminating, share-based compensation, the 2023 RTO impact, the gain on business acquisition and other non-recurrent items, (A) EBITDA for Q4-24 was a \$0.8 million profit compared to a \$0.4 million loss for Q4-23 representing a \$1.2 million improvement. For FY-24, the (A) EBITDA was a \$2.4 million profit compared to a \$0.6 million loss for FY-23, a \$3.0 million improvement. We believe that (A) EBITDA is a better indicator of financial performance as it eliminates non-cash and non-recurrent gain or expenses. The increase in (A) EBITDA in FY-24 compared to the prior year fully demonstrates the improvements of our financial performance as we expand our CMO footprint, continue to take advantage of our operating capacity and leverage our head office with strong control over our expenses. Graphs below illustrate the Corporation's comparative performance between the respective periods:



LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

We present below a reconciliation of the GP to Adjusted GP, and EBITDA to Adjusted EBITDA for Q4-24 and Q4-23, as well as for the FY periods:

(See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")

ADJUSTED GROSS PROFIT RECONCILIATION

	Q4-24	Q4-23	Change		FY-24	FY-23	Change	
			\$	%			\$	%
Revenues	5 385	3 459	1 926	56%	17 748	10 028	7 720	77%
GP (loss)	1 472	100	1 372	1372%	5 348	1 645	3 703	225%
<i>GP% to revenues</i>	27,3%	2,9%	24%		30,1%	16,4%	14%	
(+) Adjustments								
Depreciation & Amort.	428	244	184	75%	1 462	1 129	333	29%
Plant Moving costs	-	-	-	0%	-	133	(133)	-100%
Adjusted GP	1 900	344	1 556	452%	6 810	2 907	3 903	134%
<i>Adj. GP % to revenues</i>	35,3%	9,9%	25%		38,4%	29,0%	9%	

ADJUSTED EBITDA (LOSS) RECONCILIATION

	Q4-24	Q4-23	Change		FY-24	FY-23	Change	
			\$	%			\$	%
Net income (loss)	4 499	(1 270)	5 769	-454%	3 317	(8 472)	11 789	-139%
Income tax expense	50	-	50	0%	50	-	50	0%
Finance expense	552	538	14	3%	1 903	1 806	97	5%
Depreciation & Amort.	475	244	231	95%	1 509	1 129	380	34%
EBITDA (loss)	5 576	(488)	6 064	-1243%	6 779	(5 537)	12 316	-222%
(+/-) Adjustments								
RTO costs	-	-	-	-	-	2 550	(2 550)	-100%
Gain on Acquisitions	(4 817)	-	(4 817)	-100%	(4 864)	-	(4 864)	-100%
Plant moving costs	-	-	-	-	-	133	(133)	-100%
Hiring fees & severance	-	77	(77)	100%	67	161	(94)	-58
Acquisition costs	-	-	-	100%	17	-	17	100%
Stock-based comp.	16	-	16	100%	418	2 117	(1 699)	-80%
Adj. EBITDA (loss)	775	(411)	1 186	-289%	2 417	(576)	2 993	-520%
<i>as % of Revenues</i>	14,4%	-11,9%	26%		13,6%	-5,7%	19%	

SELECTED BALANCE SHEET HIGHLIGHTS

As at	YE-24	YE-23	Change	
			\$	%
Current assets	15 376	7 204	8 172	113%
Total assets	53 510	30 900	22 610	73%
Current liabilities	9 652	15 074	(5 422)	-36%
Long-term notes payable	3 621	531	3 090	582%
Long-term debt excluding lease liabilities	8 903	4 202	4 701	112%
Total liabilities	28 618	22 245	6 373	29%
Shareholders' equity	24 892	8 655	16 237	188%

Our Statement of financial position at the end of FY-24 shows significant progress since the prior year-end.

- **Current assets** increased by 113% at YE-24 compared to YE-23. The \$8.2 million increase comes from the respective increase in accounts receivable, inventory and prepaids. All increases reflect the increase in operating and commercial activity in Q4-24 compared to last portion of FY-23. However, the increase also reflects the addition of VSI acquired in June 2024, which contributed \$0.6 million in short-term assets, as well as Dermolab acquired in December 2024, which contributed \$4.7 million of current assets.

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

- **Total Assets** have increased by 73% at YE-24 compared to YE-23, a \$22.6 million increase. The increase reflects the investment in working capital to support our growth, the addition of production equipment as well as VSI and Dermolab which added \$1.3 million, and \$13.7 million in total assets respectively.
- **Current liabilities** have decreased significantly during the year. The \$5.4 million decrease results from the repayment/conversion of \$3.1 million of notes payable as part of the two private placement financings closed during the year, the \$3.8 million net reduction in the current portion of long-term debt, and the net reduction in accounts payable. These decreases were offset by the increase in our revolving credit facility which increased mainly as a result of the Dermolab acquisition.
- **Long-term Notes payable** increased by \$3.1 million between YE-23 and YE-24 due to the extension of \$0.9 million of short-term notes, \$2.6 million of new notes mainly secured to finance the Dermolab acquisition, less \$0.4 million of notes converted into the private placement.
- **Long-term Debt (excluding lease liabilities)** increased \$4.7 million between YE-23 and the YE-24, reflecting the new \$1.4 million real estate loan on the VSI building, the \$1.0 million long-term debt that came as part of the Dermolab acquisition, as well as the \$4.4 million BDC loan secured in December 2024. These new loans were offset by \$5.9 million of repayments/conversions of debts and debentures.
- **Total liabilities** increased by 29% at YE-24 compared to YE-23 as a result of the 2 acquisitions. This compares well with the 73% increase in total assets and was made possible by the improvement of the Corporation's performance as well as the series of financial transactions completed during FY-24 aimed at strengthening our balance sheet and fund acquisitions.
- **Shareholders Equity** increased by \$16.2 million, as a result of \$12.5 million (net) worth of units being issued in FY-24 plus the \$3.3 million net income for the FY-24 period, as well as the issuance of stock options which added \$0.4 million to the contributed surplus.

SELECTED QUARTERLY PERFORMANCE

(See "Management's Responsibility for Financial Reporting" – "Non-IFRS Financial Measures")

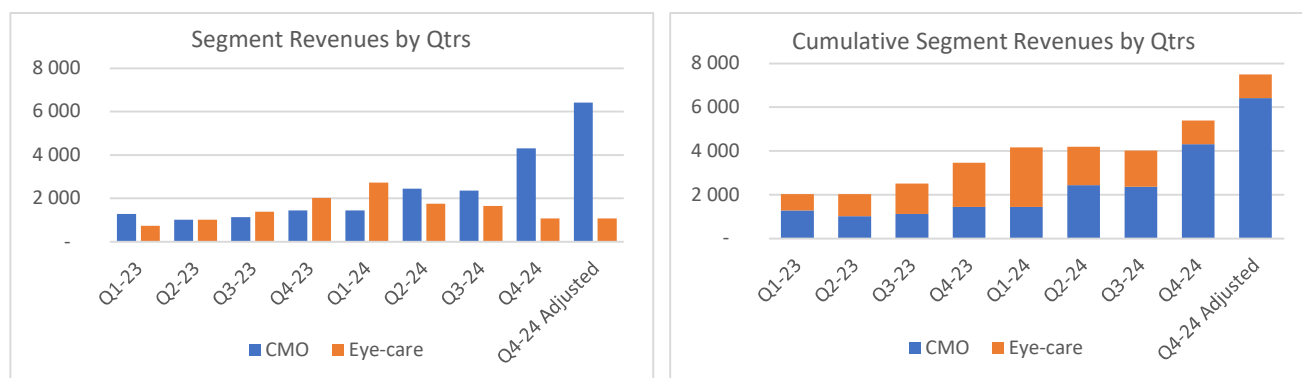
The following table sets out the Corporation's selected unaudited quarterly financial information. This information is derived from unaudited quarterly financial statements prepared by management in accordance with IFRS. The following quarterly information is presented on the same basis as the audited consolidated financial statements and should be read in conjunction with those statements and their accompanying notes

	Q4-24	Q3-24	Q2-24	Q1-24	Q4-23	Q3-23	Q2-23	Q1-23
Revenues								
CMO	4 305	2 357	2 441	1 438	1 440	1 129	1 022	1 282
Eye-care	1 080	1 652	1 750	2 725	2 019	1 382	1 012	742
Total Revenues	5 385	4 009	4 191	4 163	3 459	2 511	2 034	2 024
Gross Profit	1 472	1 194	1 536	1 146	100	466	692	387
Adj. Gross Profit	1 900	1 548	1 882	1 480	344	813	947	803
Adj. Gross Profit %	35%	39%	45%	36%	10%	32%	47%	40%
SG&A	(1172)	(1 109)	(1 276)	(967)	(832)	(802)	(1 341)	(669)
SG&A as % of Revenues	-22%	-28%	-30%	-23%	-24%	-32%	-66%	-33%
Operating Profit (loss)	300	85	260	179	(732)	(336)	(649)	(282)
SBC	(16)	-	(402)	-	-	-	-	(2 117)
Financial Expenses	(552)	(478)	(414)	(459)	(538)	(426)	(388)	(454)
RTO - Iledor	-	-	-	-	-	-	-	(2 550)
Gain on Acquisitions	4 817	7	40	-	-	-	-	-
Income tax	50	-	-	-	-	-	-	-
Net Income (loss)	4 499	(386)	(516)	(280)	(1 270)	(762)	(1 037)	(5 403)
EBITDA (loss)	5 576	446	244	513	(488)	11	(360)	(4 700)
Adj. EBITDA (loss)	775	456	673	513	(411)	95	(260)	-

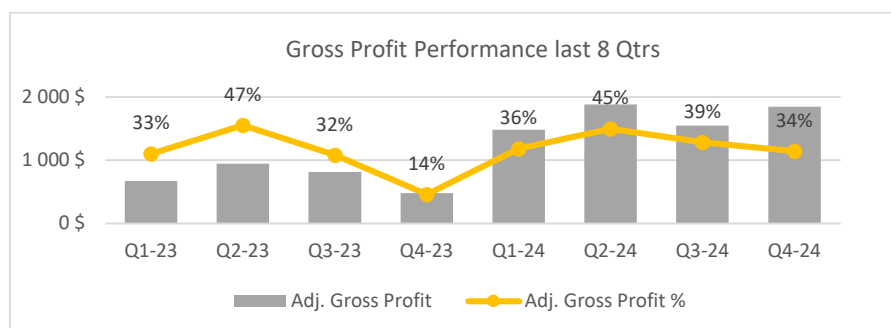
LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

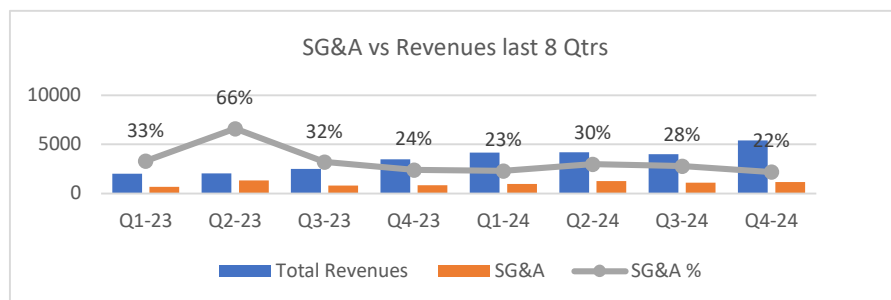
- Revenues.** The Corporation's revenues increased steadily over the last 6 quarters. CMO revenues have trended upwards since LSL Laboratory completed its relocation at the start of FY-23. The CMO revenues have also benefited from the acquisition of VSI in Q2-24 as well as the acquisition of Dermolab last December. Revenues for the Eye-care segment have benefited from the US Shortage situation in Q4-23 and Q1-24, as well as the impact of new international contracts secured in Q2-24 and Q3-24. Below we present the revenues by business segment including adjusted Q4-24 and annualized FY-24 to present the full quarter and full year impact of the 2 acquisitions assuming their contribution had been the same for the full quarter and full year.



- GP and Adjusted GP** have fluctuated significantly over the last 8 quarters as the operating costs and products margins were influenced by the level of revenues and mix of revenues between the 2 operating units.



- SG&A** expenses for the last 8 quarters have decreased steadily as we build critical mass and take advantage of our HO services to generate synergies from acquisitions.



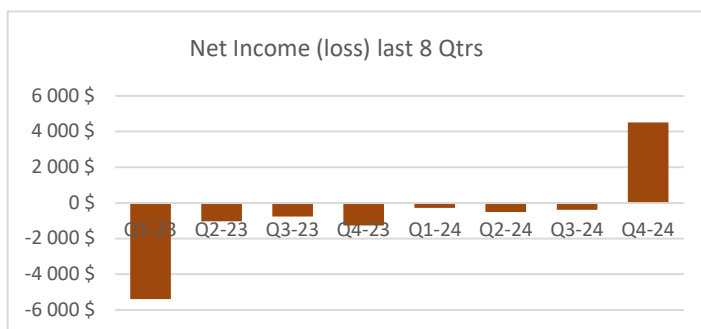
- Operating Profit (Loss).** LSL Pharma has generated operating profits for the fourth consecutive quarter in Q4-24. The increase in revenues and margins helped generate positive results as we take full advantage of our corporate structure with HO providing support to the operating units. The acquisitions of VSI and Dermolab have generated additional gross profit without impacting our SG&A, contributing directly to our operating results.
- Share-Based Compensation** in Q1-23 represented the costs for issuing options at the RTO and for new staff and board members in Q2-24. Up until Q2-24, the Corporation granted options fully vested on grant which contributed to recognize the full impact of issuing options at the time of grant. The Corporation changed its policy for granting options in June 2024. The cost of issuing options going forward will now be reflected over a 3-year period.
- Financial Expenses.** Financial expenses over the last 8 quarters have been relatively the same. New debts and notes secured during these periods have been offset by debt conversion into equity or reduction of the cost of the remaining debt instruments.

LSL PHARMA GROUP INC.

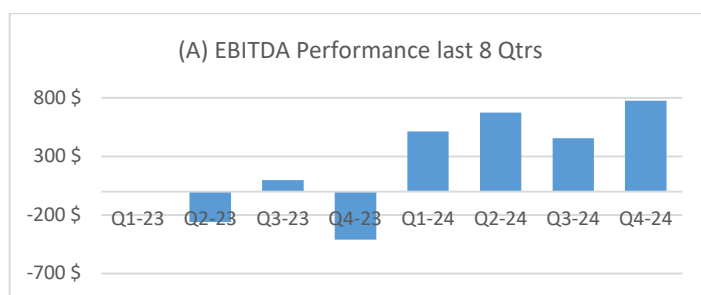
Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

- **Gain on Acquisition.** The acquisition of Dermolab led to a material gain of \$4.9 million which was fully realized in Q4-24. The net gain for Q4-24 included a \$0.1 million negative adjustment for VSI to eliminate the gain previously reported in Q2-24 and Q3-24. Following such adjustments, there was no gain on acquisition for VSI. No other adjustments are expected for either VSI and Dermolab.

- **Net Income (loss)** has shown a significant progression since Q1-23 when net results were impacted by the costs related to the RTO, as well as \$2.1 million in SBC. Net loss was nominal for the earlier part of FY-24 before we generated a \$4.5 million net income in Q4-24 mainly as a result of the \$4.8 million gain on acquisition of Dermolab.



- **(A) EBITDA** over the last 8 quarters has been impacted by several non-recurring events including the recast of RTO/SBC expenses that impacted Q2-23, Q4-23 and Q4-23, as well as the gain on acquisition of Dermolab in Q4-24. Our Adjusted EBITDA performance is now reflective of the expansion of our CMO operations, increased production levels at all operating sites.



LIQUIDITIES AND CAPITAL RESOURCES

	Q4-24	Q4-23	Change		FY-24	FY-23	Change	
			\$	%			\$	%
Operating Activities								
Net Income (loss)	4 499	(1 270)	5 769	-454%	3 317	(8 472)	11 789	-139%
Impact of RTO	-	-	-	0%	-	1 090	(1 090)	-100%
Gain on Acquisitions	(4 817)	-	(4 817)	0%	(4 864)	-	(4 864)	0%
Other non-cash items	1 093	781	312	40%	3 880	5 052	(1 172)	-23%
Changes in non-cash W/C	(323)	502	(825)	-164%	(3 985)	(4 740)	755	-16%
Cash provided by (used in) operations	452	13	439	3377%	(1 652)	(7 070)	5 418	-77%
Investing Activities								
Cash used by investing activities	(2 137)	(433)	(1 704)	394%	(7 456)	(1 017)	(6 439)	633%
Financing Activities								
Cash from financing activities	1 817	458	1 359	297%	9 396	8 095	1 301	16%
Increase (decrease) in cash	132	38	94	247%	288	8	280	3500%
Cash, beginning of the period	164	(30)	194	-647%	8	-	8	0%
Cash, end of the period	296	8	288	3600%	296	8	288	3600%

- **Cash provided by (used in) operations** in Q4-24 period was \$0.5 million compared to \$nil in Q4-23 representing a \$0.4 million improvement. Net income improved between the 2 quarters by \$5.8 million, and changes in non-cash W/C showed a \$0.8 million negative variance between the two periods. The net income in Q4-24 was offset by \$4.8 million non-cash gain on business acquisition of Dermolab. For the fiscal year periods, operations used \$1.7 million during FY-24 compared to \$7.1 million for the prior year. The \$5.4 million improvement came from a \$11.8 million improvement in net income, offset by the \$4.9 million non-cash gain on business acquisition of Dermolab and VSI, the \$1.1 million impact of the RTO last year, and \$1.2 million reduction in items not affecting cash. Items not affecting cash included \$2.1 million of share-based compensation charges in FY-23 compared to \$0.4 million in FY-24. Changes in non-cash W/C showed a \$0.8 million positive variance between the two periods.

LSL PHARMA GROUP INC.

Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

- **Investing activities** used \$2.1 million of cash during FY-24 including \$1.1 million net for business acquisitions, \$0.5 million for acquisition and deposit on new production equipment, and property, and \$0.6 million investments in intangibles, mainly for the development of new products at Steri-Med. This compares to \$1.0 million used in FY-23 for acquiring \$0.7 million of equipment, and \$0.4 million for the development of new Eye-care products.
- **Financing activities** for Q4-24 and the FY-24 periods, contributed net proceeds of \$1.8 million and \$9.4 million respectively, compared to \$0.5 million and \$8.1 million for the Q4-23 and FY-23 periods. Proceeds from the issuance of long-term debt net of debt/loan repayments contributed most of the cash for the Q4-24, and Q4-23 periods. The cash provided from financing activities for the FY periods included mainly cash raised from equity financings, including \$8.2 million (gross) in FY-24 and \$9.5 million for FY-23 from the gross proceeds of the RTO.
- **Net cash** increased slightly during Q4-24 by \$0.1 million, compared to nominal change in Q4-23. For the FY-24 period cash increase by \$0.3 million compared to a nil for FY-23.

Transaction with related parties and shareholders:

The following table presents the compensation of key management personnel and Directors recognized in the consolidated statements of income (loss) and comprehensive income (loss). Key management personnel include the Chief Executive Officer, Chief Financial Officer, and Vice-Presidents.

	Q4-24	Q4-23	2024	2023
Revenues from a company controlled by a Director	(175)	1,139	2,145	1,198
Expenses				
Salaries, benefits, consulting and board fees	437	188	1,511	776
Interest earned on notes and debentures	83	63	230	122
Share-based compensation	16	-	347	1,905

En The following table presents the related party transactions included in the consolidated statement of financial position as at:

<i>As at the end of the fiscal year</i>	2024	2023
Assets:		
Receivable from a company controlled by a Director	386	964
Liabilities:		
<u>Key management personnel</u>		
Notes payable	100	302
Notes payable to a company controlled by a key management personnel	1,587	229
Convertible Debentures recorded in long-term debt	125	125
Secured Debentures recorded in long-term debt	-	150
<u>Director</u>		
Secured Debentures recorded in current portion of long-term debt	-	1,000

During the year ended December 31, 2023, the Corporation borrowed from a key management personnel, an amount of \$302 bearing interest at 10%, repayable on January 1, 2026. The Corporation also borrowed from a company controlled by a key management personnel, an amount of \$229 bearing interest at 12%, repayable on February 1, 2026. On March 19, 2024, the amount was converted into March 2024 Units as part of the first tranche March 2024 Financing (see note 16a of the FY-24 Audited Financial Statements).

On February 2, 2024, the Corporation borrowed \$750 from a company controlled by key management personnel at 12% interest rate, repayable on February 1, 2026. On March 19, 2024, \$271 of this amount was converted into units as part of the March 2024 Financing (see note 16a)).

On December 1, 2024 \$1,000 in long-term notes payable were issued to a company controlled by a key management personnel at 10% interest rate, repayable on January 1, 2028.

LSL PHARMA GROUP INC.

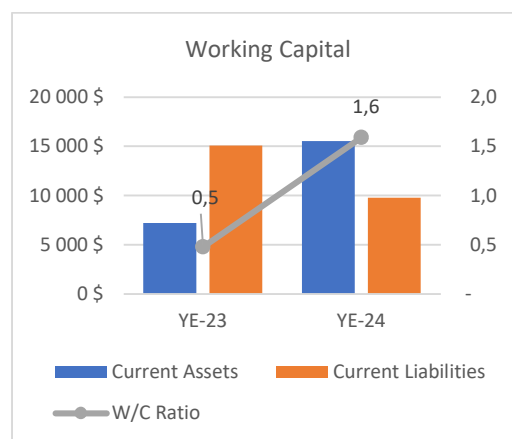
Management's Discussion and Analysis for the three and twelve-month periods ended December 31, 2024 and 2023

Liquidity

	FY-24	FY-23	Change	
			\$	%
Cash	296	8	288	3600%
Accounts receivables	4 949	2 682	2 267	85%
Inventories	9 116	4 109	5 007	122%
Prepaid expenses and deposits	1 006	405	601	148%
Total Current Assets	15 376	7 204	8 172	113%
Accounts payable and accrued liabilities	5 195	5 976	(781)	-13%
Short term financing and current portion of long-term debt	4 457	9 098	(4 641)	-51%
Total Current Liabilities	9 652	15 074	(5 422)	-36%
Working capital	5 724	(7 870)	13 594	-173%

During FY-24, LSL Pharma significantly improved its operating cash flow compared to FY-23 and has been successful in completing two private placement financings for net proceeds of \$8.2 million as well as a \$8.8 million long-term debt financings providing liquidities to fund operations, the acquisition of both VSI and Dermolab as well as settle short term liabilities/debts.

The combination of debt repayments, loans/debt conversion and extensions combined with the Corporation's improved operating results helped transform the Corporation's balance sheet. Working capital improved significantly from a \$7.9 million deficit to a \$5.7 million surplus between YE-23 and YE-24 representing a \$13.6 million improvement and translating into an improvement of the working capital ratio from 0.5:1 to 1.6:1.



LSL has generated operating profits and positive EBITDA for each of the last 4 quarters. LSL Pharma believes that improved operating cash flows, and access to its existing operating line of credit provide adequate financial flexibility for LSL Pharma to meet its operating and financial obligations. With the majority of its long-term assets unencumbered, the Corporation is confident in its ability to secure additional capital from conventional lenders should it requires more capital to grow its businesses and fund product development.

Financial risks and fair value measurement – refer to our 2024 Annual Audited Financial Statements – Note 21.

Risk Factors

For a detailed discussion of additional risk factors, please refer to the Company's latest Information Circular on www.sedarplus.ca.

Disclosure of Outstanding Share Data

LSL Pharma's authorized share capital consists of an unlimited number of Class A Common Shares. As of April 30, 2025, LSL Pharma had 115,532,676 Class A Common Shares outstanding. In addition, a total of 49,751,072 Class A Common Shares were issuable in accordance with the terms of convertible securities (including equity incentive compensation awards) issued by LSL Pharma, and comprised of:

- 4,697,143 Class A Common Shares issuable upon conversion of the Convertible Debentures,
- 36,123, 659 Class A Common Shares issuable upon exercise of Warrants and Compensation warrants,
- 8,930,270 Class A Common Shares issuable upon exercise of Options (assuming full vesting).

Audited Annual Consolidated Financial Statements

LSL PHARMA GROUP INC.
(formerly Corporation Exploration Îledor)

Years ended December 31, 2024 and 2023

LSL PHARMA GROUP INC.

Table of Contents

	Page
Independent Auditor's Report	
Consolidated financial statements of LSL Pharma Group Inc.	
Consolidated Statements of Financial Position	1
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)	2
Consolidated Statements of Changes in Shareholders' Equity	3
Consolidated Statements of Cash Flows	4
Notes to the consolidated financial statements	5 - 32

INDEPENDENT AUDITOR'S REPORT

To the shareholders of
LSL PHARMA GROUP INC.,

Opinion

We have audited the accompanying consolidated financial statements of LSL PHARMA GROUP INC. and its subsidiaries (together, the Corporation), which comprise the consolidated statements of financial position as at December 31, 2024, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in shareholder's equity and consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2024, and its consolidated financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 consolidated financial statements" section of our report.

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

Key audit matter

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2024. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. We have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter*Valuation of intangible assets related to Business Acquisitions*

We draw attention to note 6 to the consolidated financial statements. The Corporation completed two acquisitions. One as of June 18, 2024, with a net purchase consideration of \$2,369 and one as of December 18, 2024 with a net purchase consideration of \$1,120 ("the acquisitions").

These acquisitions were accounted for as business combinations. Auditing the accounting for the acquisitions was complex due to the estimation uncertainty in the Corporation's determination of the fair value of the intangible assets acquired, which primarily included customer relationship and licences and certifications. The estimation uncertainty was primarily due to the sensitivity of the respective fair values to the underlying significant assumptions. The fair value estimates of customer relationship and licences and certifications intangible assets included significant assumptions in the prospective financial information, including estimated weighted average cost of capital, royalty rates and estimated revenue growth rates. These significant assumptions are forward looking and could be affected by expectations about future economic and market conditions.

The estimates and assumptions to determine the fair value of intangible assets, which are the most subjective, are replacement cost method (for licences and certifications intangible asset) and excess earnings methods contract with renewal probabilities (for customer relationship intangible asset). This required a high degree of judgment and involvement of a specialist.

How our audit addressed the key audit matter

Our approach to addressing the matter included the following procedures, among others:

We tested the effectiveness of controls over the estimation process supporting the fair value estimates of customer relationship and licences and certifications intangible assets, including management's review of the significant assumptions. We also evaluated the methods and assumptions used by management to estimate the valuation of intangible assets by:

- Evaluating the Corporation's selection of the valuation methodologies in light of current industry practices and IFRS requirements, testing the significant assumptions and the completeness and accuracy of the underlying data.
- Comparing significant assumptions in the prospective financial information to current industry trends, as well as to historical performance of the acquired business and a similar business segment of the Corporation.
- Evaluating the reasonableness of contract renewal probabilities by gaining an understanding of the nature of current customer relationship.
- Evaluating, with the assistance of a specialist, the reasonableness of royalty and discount rates, by testing the source information underlying their determination and developing a range of independent estimates and comparing those to the royalty and discount rates selected by management.
- Assessing the adequacy of the related disclosures in the consolidated financial statements.

Other Matter

The consolidated financial statements of the Corporation for the year ended December 31, 2023 were audited by another auditor who expressed an unmodified opinion on those statements on April 29, 2024.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

In connection with our audit of the consolidated 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 consolidated financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated 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 consolidated financial statement, 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, 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 Corporation'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 consolidated 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 Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statement, including the disclosures, and whether the consolidated financial statement represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Corporation as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Émilie Raymond.

A handwritten signature in black ink that reads "Audacie 1 inc." with a stylized flourish.

Chartered Professional Accountant Corporation

Brossard (Quebec)
April 30, 2025

¹ CPA auditor, public accountancy permit No. A135158

LSL PHARMA GROUP INC.

Consolidated Statements of Financial position

(All amounts in thousands of Canadian dollars)

As at December 31,	Notes	2024	2023
ASSETS			
Current			
Cash and cash equivalents		296	8
Accounts receivable	7,21	4,949	2,682
Inventories	8	9,116	4,109
Prepaid expenses		1,006	405
Income tax asset	19	9	-
Total current assets		15,376	7,204
Deposits		1,543	20
Property, plant and equipment	9	22,939	14,745
Intangible assets	10	13,272	8,931
Deferred tax asset	19	223	-
Goodwill	6	157	-
Total assets		53,510	30,900
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	11	5,195	5,976
Revolving credit facility	12	2,559	670
Notes payable	15	-	3,096
Current portion of long-term debt	13	1,367	5,215
Current portion of lease liabilities	14	447	117
Current portion of financing loan		84	-
Total current liabilities		9,652	15,074
Long-term notes payable	15	3,621	531
Long-term debt	13	8,903	4,202
Lease liabilities	14	4,426	2,438
Financing loan		229	-
Deferred tax liability	19	1,787	-
Total liabilities		28,618	22,245
SHAREHOLDERS' EQUITY			
Share capital and warrants	16	36,386	24,198
Equity component of convertible debenture	13 (v)	375	375
Contributed surplus		3,048	2,316
Deficit		(14,917)	(18,234)
Total shareholders' equity		24,892	8,655
Total liabilities and shareholders' equity		53,510	30,900

Subsequent events (note 27)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

(Signed) Francois Roberge, Director

(Signed) Mario Paradis, Director

LSL PHARMA GROUP INC.

Consolidated Statements of Income (loss) and Comprehensive Income (loss)

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

	Notes	2024	2023
CMO		10,541	4,873
Eye-Care Division		7,207	5,155
Total Revenues		17,748	10,028
Cost of goods sold	8, 18	12,400	8,383
Gross profit		5,348	1,645
Expenses			
Selling & general administrative expenses	18	4,524	3,644
Operating profit (loss)		824	(1,999)
Costs related to reverse acquisition	26	-	2,550
Gain on business acquisitions	6	(4,864)	-
Shares-based compensation	16 (c)	418	2,117
Finance expenses	17	1,903	1,806
Income (loss) before income taxes		3,367	(8,472)
Deferred income tax expense	19	50	-
Net income (loss), being the comprehensive income (loss) for the year		3,317	(8,472)
Basic and diluted income (loss) per share	23	0.03	(0.11)

See accompanying notes to the consolidated financial statements

LSL PHARMA GROUP INC.

Consolidated Statements of Changes in Shareholders' Equity

(All amounts in thousands of Canadian dollars except for share and per share amounts)

	Notes	Class A shares and warrants			Equity component of convertible debenture	Contributed surplus	Deficit	Total
		Number of shares	Number of warrants	Amount				
Balance as at December 31, 2022		68,089,000	33,606,000	15,053	-	-	(9,762)	5,291
Share and warrants issuance	16 (a,b)	13,518,708 ⁽¹⁾	5,971,855	9,463	-	-	-	9,463
Share issuance costs	16 (a)	-	670,818	(855)	-	128	-	(727)
Share-based compensation	16 (c)	-	-	-	-	2,117	-	2,117
Issuance of convertible debenture units	13 (v)	-	318,085	-	375	71	-	446
Effect of reverse acquisition	25	825,869	-	537	-	-	-	537
Net loss		-	-	-	-	-	(8,472)	(8,472)
Balance as at December 31, 2023		82,433,577	40,566,758	24,198	375	2,316	(18,234)	8,655
Share and warrants issuance	16 (a,b)	33,099,099	35,099,099	13,286	-	-	-	13,286
Share issuance costs	16 (a)	-	206,475	(800)	-	16	-	(784)
Share-based compensation	16 (c)	-	-	-	-	418	-	418
Expired warrants	16 (b)	-	(39,748,673)	(298)	-	298	-	-
Net Income		-	-	-	-	-	3,317	3,317
Balance as at December 31, 2024		115,532,676	36,123,659	36,386	375	3,048	(14,917)	24,892

⁽¹⁾ December 31, 2023 consolidated financial statements noted 13,520,308. This was incorrect and adjusted as per table above.

See accompanying notes to the consolidated financial statements

LSL PHARMA GROUP INC.

Consolidated Statements of Cash Flow

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

	Notes	2024	2023
OPERATING ACTIVITIES:			
Net income (loss) for the year		3,317	(8,472)
Adjustments:			
Consideration transferred from Îledor in excess of net assets acquired	26	-	1,090
Depreciation and amortization	9,10	1,509	1,129
Deferred income tax expenses	19	50	-
Finance expenses	17	1,903	1756
Change in fair value of debt	17	-	50
Share-based compensation	16 (c)	418	2,117
Gain on business acquisition	6	(4,864)	-
Net change in non-cash working capital items	24	(3,985)	(4,740)
Cash used by operating activities		(1,652)	(7,070)
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment	9	(1,598)	(656)
Deposits on property, plant and equipment		(1,523)	
Acquisition of intangible assets	10	(1,080)	(361)
Business acquisitions, net of tax	6	(3,255)	-
Cash used by investing activities		(7,456)	(1,017)
FINANCING ACTIVITIES:			
Repayment of long-term debt		(5,636)	(2,525)
Issuance of long-term debt	13	5,875	2,762
Issuance costs of long-term debt	13	(63)	-
Repayment of acquired indebtedness	6	(281)	-
Proceeds from issuance of common shares and warrants	16 (a)	8,230	9,463
Share issuance costs	16 (a)	(784)	(727)
Interest paid		(1,220)	(1,040)
Net change in other financial liabilities		-	(1,058)
Proceeds from revolving credit facility		395	195
Net change in lease liabilities and financing loans		39	(260)
Net change in long-term notes		2,841	1,285
Cash provided by financing activities		9,396	8,095
Net change in cash and cash equivalents		288	8
Cash and cash equivalents, beginning of year		8	-
Cash and cash equivalents, end of year		296	8

See accompanying notes to the consolidated financial statements

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

1. Reporting entity

LSL Pharma Group Inc. (the "Corporation"), formerly Corporation Exploration Îledor ("Îledor") up to the completion of the reverse takeover, as defined below, is incorporated under the Canada Business Corporations Act. The head office and the registered office of the Corporation is located at 540, rue D'Avaugour, Boucherville, Québec. These audited annual consolidated financial statements comprise those of the Corporation and its wholly owned subsidiaries, Steri-Med Pharma Inc., LSL Laboratory Inc., The Virage Sante Group (comprised of the operating entity, Virage Sante Inc., and its parent company, Gestion Gisele Lacasse Inc.), Dermolab Pharma Ltd., and Groupe Immobilier together referred as the "Group". The Group develops, manufactures and commercializes sterile pharmaceutical products, cosmetic products and natural health products.

On December 22, 2022, LSL Laboratory Inc. entered into an agreement with Îledor, pursuant to which Îledor completed, effective February 22, 2023, an arm's length change of Business in accordance with the policies of the TSX Venture Exchange through a reverse takeover with LSL Laboratory Inc. (the "RTO"). Prior to the completion of the RTO, Îledor consolidated its Class A common shares on the basis of one (1) post-consolidation Class A common share for every twenty-five (25) pre-consolidation outstanding Class A common shares (the "Consolidation"), and Îledor changed its name to LSL Pharma Group Inc. (the "Resulting Issuer").

In connection with the RTO, the following transactions occurred:

- In connection with the RTO, the Corporation completed a series of private placements (the "RTO private placements"), and issued a total of 11,943,708 Units (the "Units") and 1,575,000 Class A common shares for gross proceeds of \$9,463. Issuance costs amounted to \$855 including \$727 for Units and Class A common share issuances, and \$128 for the issuance of 670,818 compensation warrants ("Compensation Warrants – RTO"). The assumptions used to estimate the fair value of the compensation warrants using the Black-Scholes option pricing model are presented in note 8 (b). Each Unit consists of one (1) Class A common share (post-consolidation) and one half (1/2) warrant. Each whole warrant entitles the holder to acquire one (1) additional Class A common share (post-consolidation) at a price of \$1.00 for a period of 18 months. The fair value attributed to the warrants in this transaction is \$0.10 per warrant or \$0.05 per one half (1/2) warrant (using a volatility of 57.5%);
- 662,818 Compensation Warrants – RTO were paid as commissions for the First Tranche Private Placement and 8,000 Compensation Warrants – RTO were paid as commissions for the Second Tranche Private Placement, where each such Compensation Warrants – RTO entitles its holder to acquire one Unit (on the same terms as the Units in the RTO private placements) at a price of \$0.70 per Unit for a period of 18 months from the closing date of the offering;
- A stock option plan was established by the Resulting Issuer;
- Following the RTO and the RTO private placements, there were 82,433,577 issued and outstanding Class A common shares (post-Consolidation) of LSL Pharma Group Inc., of which the former common shareholders of LSL Laboratory Inc. controlled a majority.

For accounting purposes, it has been determined that Îledor was the accounting acquiree and LSL Laboratory Inc. was the accounting acquirer as the shareholders of LSL Laboratory Inc. now control LSL Pharma Group Inc., based upon the guidance in IFRS 10, Consolidated Financial Statements, and IFRS 3, Business Combinations, to identify the accounting acquirer. Since LSL Laboratory Inc. is considered the accounting acquirer, these consolidated financial statements are prepared as a continuation of the financial statements of LSL Laboratory Inc.

2. Basis of preparation

(a) Basis of presentation:

These audited annual consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These audited annual consolidated financial statements were authorized for issuance by Board of Directors of the Corporation on April 30, 2025.

(b) Basis of consolidation:

The audited annual consolidated financial statements of the Corporation include the accounts of the Corporation and of its subsidiaries. The results of subsidiaries acquired during the year are consolidated from the date of acquisition and the results of subsidiaries sold during the year are deconsolidated from the date of disposal. The following table shows the Corporation's subsidiaries as at December 31, 2024.

Subsidiaries	Jurisdiction	% ownership
LSL Laboratory Inc.	Canada	100%
Steri-Med Pharma Inc.	Canada	100%
Gestion Gisele Lacasse Inc.	Canada	100%
Virage Sante Inc.	Canada	100%
Dermolab Pharma Ltd.	Canada	100%
Groupe Immobilier LSL Inc.	Canada	100%

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

- (i) Transactions eliminated on consolidation:

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3. Functional and presentation currency and basis of measurement:

These audited annual consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency.

The audited annual consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial liabilities measured at fair value through profit or loss.

4. Use of judgments and estimates:

The preparation of the Corporation's audited annual consolidated financial statements in conformity with IFRS requires management to undertake several judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses and the accompanying disclosures. The actual results may differ from these judgements and estimates. These estimates and judgements are based on management's best knowledge of the events or circumstances and actions the Corporation may take in the future. The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The following are critical estimates and judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the audited annual consolidated financial statements:

- (a) Impairment of non-financial assets:

At each reporting date, if any indication of impairment exists for property, plant and equipment (including right-of-use assets) and intangible assets, the Corporation performs an impairment test to determine if the carrying amounts are recoverable. The impairment review process is subjective and requires significant estimates throughout the analysis.

- (b) Fair value used in measurement of financial liabilities:

Certain financial liabilities require significant estimates in order to determine the fair value at initial recognition and subsequent measurement. When measuring fair value, the Corporation shall take into account the characteristics of the liability if market participants would take those characteristics into account when pricing the liability at the measurement date.

- (c) Valuation of share-based compensation and warrants:

The Corporation measures the cost of share-based payments with employees by reference to the fair value of the equity instrument or underlying equity instrument at the date on which they are granted. Estimating fair value for share-based payments requires management to determine the most appropriate valuation model for a grant, which is dependent on the terms and conditions of each grant. In valuing certain types of stock-based payments and warrants granted, the Corporation uses, depending on terms and conditions, the Black-Scholes option pricing model or the stochastic model. Several assumptions are used in the underlying calculation of fair values of the Corporation's stock options and warrants granted using these models, including the expected life of the option or warrant and volatility. Details of the assumptions used are included in note 16. The value of options and compensation warrants are presented in Contributed Surplus. Warrants included in a share issuance are initially recorded in Share Capital and reclassified to Contributed Surplus if expired.

- (d) Valuation of convertible financial instruments:

The Corporation estimated the value of the liability portion of the Debentures at inception by reference to a market rate for the debt instrument alone with the residual value allocated to an equity component presented as Equity component of convertible debenture on the consolidated statement of financial position. The prepayment feature was identified as an embedded derivative financial instrument measured at FVTPL.

The calculation of the fair value of the debt component of debentures requires using an interest rate that the Corporation would have to pay had the loan been obtained without the conversion feature. Such interest rate requires the management's estimates by reference to loan interest paid by comparable companies in the similar sector.

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

(e) Reverse takeover transaction:

In determining the fair value of the consideration transferred by the accounting acquirer, the Corporations' significant assumptions include using the unit value outline in the concurrent private placement agency agreement to derive the fair value of the shares transferred. The Corporation determined the relative fair value of the shares and warrants included in such issued based on the market approach using a back-solve method using Black-Scholes option pricing model to determine the fair value of the warrants as described in note 16.

(f) Deferred income taxes:

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. For the year ended December 31, 2024, the Corporation determined that it is not probable that deferred tax assets will be realized in the future. Only acquired deferred tax assets are presented.

(g) Intangible assets

Management's judgment is applied, and estimates are used, in determining whether costs qualify for recognition as internally developed intangible assets. To be able to recognize an intangible asset, management must demonstrate the item meets the definition of an intangible asset in IAS 38. Management exercises significant judgment in determining whether an item meets the identifiability criteria in the definition of an intangible asset which, in part, requires that the item is capable of being separated or divided from the Company and sold, transferred or licensed either individually or together with a related contract or asset, whether or not the Company intends to do so. Judgment is required to distinguish those expenditures that develop the business as a whole, which cannot be capitalized as intangible assets and are expensed in the years incurred.

Also, to recognize an intangible asset, management, in its judgment, must demonstrate that it is probable that expected future economic benefits will flow to the Corporation and that the cost of the asset can be measured reliably. Estimates are used to determine the probability of expected future economic benefits that will flow to the Corporation. Future economic benefits include net cash flows from future commercial agreements and products deployment, which are dependent upon the ability of the Corporation to commercialize its products which will increase user engagement with its products, and may also include anticipated cost savings, depending upon the nature of the development project.

The Corporation capitalized internal product development costs during the years ended December 31, 2024 and 2023 for all new development projects and projects that, in management's judgment, represent substantial improvements to existing products. In assessing whether costs can be capitalized for improvements, management exercises significant judgment when considering the extent of the improvement and whether it is substantial, whether it is sufficiently separable and whether expected future economic benefits are derived from the improvement itself. Factors considered in assessing the extent of the improvement include, but are not limited to, the degree of change in functionality and the impact of the project on the ability of the Corporation to attract clients to its products and increase client engagement with its products. Costs which do not meet these criteria, such as enhancements and routine maintenance, are expensed when incurred.

(h) Business combinations

In a business combination, all identifiable assets, liabilities, and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relate to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total future net cash flows expected to be derived from the asset. The valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period may last up to one year from the acquisition date. In estimating the fair value of a financial asset or a liability, the Corporation uses market-observable data to the extent it is available.

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

5. Significant accounting policies:

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

The Corporation's significant accounting policies are as follows:

(a) Inventories:

Inventories are valued at the lower of cost, determined under the first-in first-out method, and net realizable value. Raw materials include the cost of purchase and transportation costs that are directly incurred to bring inventories to their present location and condition. Work in progress ("WIP") and finished goods also include the costs directly related to the conversion of materials to finished goods and an allocation of production overhead based on normal production capacity. Net realizable value is the estimated selling price of finished goods in the ordinary course of business, less the estimated costs of completion and selling expenses.

(b) Property, plant and equipment:

Items of property, plant and equipment are recognized at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to acquiring and bringing the assets to a working condition for their intended use.

Depreciation is calculated over the cost of the asset less its residual value and is recognized in net profit on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

Estimates for depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

Asset	Period
Building ⁽¹⁾	30 years
Computer equipment	5 years
Furniture	10 years
Production equipment	10 to 25 years
Laboratory equipment	10 years
Leasehold improvements	Lease term

⁽¹⁾ The December 31, 2023 consolidated financial statements disclosed building depreciation as 20 years instead of 30 years as stated in the table above.

(c) Intangible assets:

Goodwill

Goodwill that arises upon business combinations is included in intangible assets. Goodwill is not amortized and is measured at cost less accumulated impairment losses.

Other finite lives intangible assets

Intangible assets are comprised of customer relationships, product development, license and certifications and product formulas that have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationships are amortized using the straight-line method over 15 years product formulas are amortized using straight-line method over 25 years, and licenses and certifications are amortized using the straight-line method over 20 years. Development costs are capitalized as a part of intangible assets only if they can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient financial and technical resources to complete development and to use or sell the asset. In situations where development qualifies for government research incentives, the investment tax credits are netted against the expenditures made for the specific product project. Intangible assets generated internally by incurring research and development expenditures. Expenditures related to research activities are recognized as an expense in the period in which they are incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, the entity can demonstrate all of the following:

- a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

- b) its intention to complete the intangible asset and use or sell it;
- c) its ability to use or sell the intangible asset;
- d) how the intangible asset will generate probable future economic benefits. Among other things, the Corporation can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs are capitalized as soon as the above criteria are met. Where no internally generated intangible asset can be recognized, development expenditures are expensed in the period in which they are incurred. After initial recognition, internally generated intangible assets are carried at cost less accumulated amortization when they will be in a commercial production phase and any accumulated impairment losses. Useful lives and residual values are reviewed at each financial year-end and adjusted prospectively, if appropriate. The carrying amounts are reviewed at each reporting date to determine whether there is an indication of impairment.

- (d) Impairment of intangible assets with a finite useful life, property, plant and equipment and right-of-use assets:

The Corporation reviews the carrying amount of its non-financial assets, which include intangible assets with a finite useful life, property, plant and equipment and right-of-use assets on each reporting date.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGU"). The recoverable amount of a CGU (or group of CGUs) is the higher of its value in use and its fair value less costs of disposal. Value in use is determined by discounting estimated future cash flows, using a discount rate that reflects current market assessments, the time value of money and the risks specific to the CGU (or group of CGUs). An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

- (e) Leases:

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

Right-of-use asset

The Corporation recognizes a right-of-use asset (included in property, plant and equipment in the consolidated statement of financial position) and a lease liability at the lease commencement date. The 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 or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are subsequently depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term using the straight-line method (as mentioned in Note 5(e)). The lease term includes consideration of an option to renew or to terminate if the Corporation is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liability

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

The Corporation determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased.

Lease payments included in the measurement of the lease liability comprise fixed payments (including in-substance fixed payments).

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

(f) Business combinations

The Corporation follows the acquisition method to account for business combinations in accordance with IFRS3. The acquisition method of accounting requires that assets acquired, and liabilities assumed be recorded at their estimated fair values on the date of a business acquisition. The amounts included in the consolidated statement of loss and comprehensive loss under transaction-related fees and expenses arise from business combinations made by the Company.

In the total purchase consideration of the business combination. All other costs related to the acquisition are expensed as incurred. New information obtained during the measurement period, up to 12 months following the acquisition date, about facts and circumstances existing at the acquisition date affect the acquisition accounting.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible known amounts of cash, and which are subject to an insignificant risk of changes in value. Bank overdrafts are included in liabilities.

(h) Financial instruments:

(i) Recognition, classification and initial measurement:

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value to other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") based on the business model objective, whether achieved by collecting contractual cash flows or selling the financial assets or both, as well as whether or not the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are not reclassified subsequent to their initial recognition unless the Corporation changes its business model for managing financial assets. For an item not at FVTPL, transaction costs that are directly attributable to its acquisition are added to its initial cost.

Financial liability

Financial liabilities are classified and measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit. Any gain or loss on derecognition is also recognized in the statement of net loss and comprehensive loss. For an item not at FVTPL, transaction costs that are directly attributable to its issuance are deducted of its initial cost.

The Corporation has classified all of its financial liabilities at amortized cost, with the exception to the embedded derivative in relation to the unsecured convertible debentures as at December 31, 2024 (refer to note (13 (v))), subsequently measured at FVTPL.

Compound financial instruments

Compound financial instruments issued by the Corporation include convertible notes. Unless the Corporation elects to designate the entire instrument at FVTPL, compound financial instruments are separated into financial liability and equity components based on the terms of the contract. On issuance of the instrument, the proceeds are allocated to the financial liability component first, based on its fair value determined using a market rate for an equivalent non-convertible instrument. The remainder of the proceeds is allocated to the conversion option that is recognized and included in equity. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components, based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

(i) Derecognition:

Financial assets are derecognized when the contractual rights to receive cash flows from the instruments have expired or have been transferred and the Corporation has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire.

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

(ii) Impairment:

The Corporation recognizes the allowance for expected credit losses (ECLs) on financial assets measured at amortized cost, which takes into account current economic conditions, historical information, and forward-looking information, including higher interest rates and inflation. The Corporation uses the simplified approach for measuring losses based on the lifetime ECL for trade receivables.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(j) Revenue:

The Corporation derives revenues mainly from the sales of finished goods. The Corporation recognizes these revenues at a point in time, when it transfers control over the good to a customer, which is when a customer takes possession of the goods. Customers obtain control of products either at time of shipment or once product is delivered depending on the contract.

For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The amount of revenue recognised is adjusted for deductions such as expected returns, rebates and other items, which are estimated based on historical experience and other relevant factors.

(k) Income taxes:

Income tax expense comprises current and deferred income taxes. It is recognized in net profit except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss.

Current income taxes

Current income taxes comprise the expected tax payable or receivable on the taxable income for the periods and any adjustment to the tax payable or receivable in respect of previous periods. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred income taxes

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves. Unrecognized deferred income tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred income taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred income taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred income taxes reflects the tax consequences that would follow from the manner in which the Corporation expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax assets and liabilities are offset only if certain criteria are met.

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

(l) Changes to accounting standards

On January 1, 2024, the Corporation adopted the following amendments to its accounting standards:

Amendments to IAS 1, Presentation of financial statements – which establishes a more general liability classification approach based on an analysis of existing contracts at the reporting date and clarifies the classification of borrowings and other financial liabilities that have covenants with which an entity must comply.

Amendments to IFRS 7, Financial Instruments and IAS 7, Statement of Cash Flows – which add disclosure requirements and clarify existing disclosure requirements whereby qualitative and quantitative information must be provided on supplier finance arrangements.

The adoption of these amendments to accounting policies had no material impact on the financial statements.

(m) Future Accounting Changes

IFRS 18 Presentation and Disclosures in Financial Statements

In April 2024, the IASB issued IFRS 18 Presentation and Disclosures in Financial Statements to replace IAS 1 Presentation of Financial Statements. IFRS 18 introduces three sets of new requirements to improve companies' reporting of financial performance and give investors a better basis for analyzing and comparing companies, namely:

- Improved comparability in the statement of profit or loss by introducing separate income and expense categories and requiring new subtotals;
- Enhanced transparency of management-defined performance measures by requiring explanations on these measures; and
- More useful grouping of information in the financial statements by providing guidance on how to organize information and whether to provide it in the primary financial statements or in the notes.

These changes apply to annual periods beginning on or after January 1, 2027.

The Corporation is currently assessing the estimated impact of this new standard on its consolidated financial statements.

Amendments to IFRS 9 and IFRS 7: Amendments to the classification and measurement of financial instruments

In May 2024, the IASB amended IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures to clarify the classification of financial assets and the settlement of financial liabilities using an electronic payment system. The amendments also introduce additional disclosures about investments in equity instruments designated at fair value through other comprehensive income and about financial instruments with contractual terms that could change the timing or amount of contractual cash flows based on the occurrence or non-occurrence of a contingent event.

These amendments apply to fiscal years beginning on or after January 1, 2026.

The Corporation is currently assessing the estimated impact of these amendments on its consolidated financial statements.

Annual Improvements to IFRS Accounting Standards – Volume 11

The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRS accounting standards that will not be included as part of another major project.

These amendments apply to fiscal years beginning on or after January 1, 2026.

The Corporation is currently assessing the estimated impact of these amendments on its consolidated financial statements.

6. Business acquisition:

Virage Sante Group

On June 18, 2024, the Corporation announced the acquisition of 100% of the outstanding shares of Gestion Gisele Lacasse Inc. the controlling parent of Virage Sante Inc., a privately owned business headquartered in Levis, Quebec, effective as of June 1, 2024.

In operation since 1994, Virage Sante Inc. manufactures a range of natural health products in liquid, powder, and capsule form, sold under its own brand or under private labels. The acquisition represents revenue and earnings growth, while also broadening the Corporation's client base and service portfolio.

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

The purchase price payable consisted of a base consideration including settlement of seller's indebtedness and post-closing working capital adjustment. The cash consideration at closing was paid with available cash on hand.

	Estimated fair value
Base consideration:	
Consideration on closing (June 18, 2024)	
Cash consideration for outstanding shares	2,219
Cash consideration for indebtedness settled	281
Total cash consideration on closing	2,500
Post-closing working capital adjustment ⁽¹⁾	(131)
Total consideration	2,369

⁽¹⁾ Post-closing working capital adjustments of \$131 was collected by the Corporation in 2024.

The fair value of trade and other receivables acquired as part of the business acquisition amounted to \$81 with a gross contractual amount of \$82. As of the acquisition date, the best estimate of the contractual cash flows not expected to be collected amounted to \$1.

The excess of the fair value of net assets acquired over consideration paid resulted in a recognition of \$157 of Goodwill, presented on the Consolidated Statement of Financial Position.

The fair value of the consideration transferred, and the net identifiable assets acquired was determined based on the Corporation's assumptions and estimates. Accounts receivables were recognized at fair value, which does not differ significantly from their gross contractual value and expected receipts. Inventories are measured at their net realizable value, which corresponds to the estimated selling price less the estimated costs necessary to make the sale. A combination of the direct and indirect methods of the income approach, of the cost approach and of the market approach was used to estimate the fair value of property, plant and equipment. The replacement cost was used to value licences and certification. The relief-from-royalty method was used to value Virage Sante's trademarks and trade name. The multi-period excess earnings, replacement costs, and lost profits methods were used to derive the value of customer relationships. These valuation methods are all primarily based on expected discounted cash flows according to available information, such as Virage Sante's historical and projected revenue and profit before interest, income taxes and depreciation and amortization, the likelihood of certain customer agreements being renewed, the discount rates, and certain other relevant assumptions. Both trademarks and trade name and customer relationships were determined to have no significant value at the acquisition date. The following table summarizes the effect of the business acquisition since the effective date of the acquisition June 1, 2024. On a proforma basis, the Corporation estimates operations of Virage Sante Inc. for year ended December 31, 2024, not reflecting any growth, benefit of synergies and integration activities had the acquisition occurred as of January 1, 2024. The proforma results are not necessarily indicative of the results that would have resulted had the acquisition occurred on January 1, 2024, or the results that may be obtained in the future:

	Actuals since acquisition	Proforma results
Revenue	783	1,312
Net loss	(25)	(50)

The following provides a summary of assets acquired, liabilities assumed, and the consideration transferred:

	Estimated fair value
Assets acquired:	
Accounts receivable	81
Inventories	306
Prepaid expenses	7
Income tax receivable	26
Property, plant and equipment	2,132
Licenses and certification	185
Goodwill	157
	2,894

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

Liabilities assumed:

Accounts payable and accrued liabilities	103
Indebtedness	281
Deferred tax liability	422
	806
Total net assets acquired, and liabilities assumed	2,088
Total consideration	2,369
Indebtedness assumed	(281)
Total consideration, outstanding shares acquired	2,088

Dermolab Pharma Ltd.

On December 18, 2024, the Corporation announced the acquisition of 100% of the outstanding shares of Dermolab Pharma Ltd. ("Dermolab"), a privately owned business headquartered in Ste-Julie, Quebec, effective as of December 1, 2024.

In operation since 1985, Dermolab specializes in the development, manufacturing and packaging of liquid and semi-solid cosmetic, pharmaceutical and natural health products. The acquisition represents revenue and earnings growth, while also broadening the Corporation's client base and service portfolio.

The purchase price payable consisted of a base consideration including settlement of post-closing working capital adjustment. The cash consideration at closing was paid with available cash on hand.

Estimated fair value

Base consideration:

Consideration on closing (December 18, 2024)	
Total cash consideration on closing	955
Post-closing working capital adjustment ⁽¹⁾	165
Total consideration	1,120

⁽¹⁾ Post-closing working capital adjustments have been estimated by the Corporation using Dermolab closing financial statements. This amount is included in accounts payable and accrued liabilities on the statement of financial position.

The fair value of trade and other receivables acquired as part of the business acquisition amounted to \$1,786 with a gross contractual amount of \$1,788. As of the acquisition date, the best estimate of the contractual cash flows not expected to be collected amounted to \$2. The excess of the fair value of net assets acquired over consideration paid resulted in a gain on acquisition of \$4,864 included in the consolidated statement of loss. No goodwill arose from the business combination with Dermolab Pharma Ltd.

The fair value of the consideration transferred, and the net identifiable assets acquired was determined based on the Corporation's assumptions and estimates. Accounts receivable were recognized at fair value, which does not differ significantly from their gross contractual value and expected receipts. Inventories are measured at their net realizable value, which corresponds to the estimated selling price less the estimated costs necessary to make the sale. A combination of the direct and indirect methods of the cost approach and of the market approach was used to estimate the fair value of property, plant and equipment. The replacement cost was used to value licences and certification. The multi-period excess earnings, replacement costs, and lost profits methods were used to derive the value of customer relationships. These valuation methods are all primarily based on expected discounted cash flows according to available information, such as Dermolab's historical and projected revenue and profit before interest, income taxes and depreciation and amortization, the likelihood of certain customer agreements being renewed, the discount rates, and certain other relevant assumptions. The following table summarizes the effect of the business acquisition since the effective date of the acquisition December 1, 2024.

	Actuals since acquisition
Revenue	1,052
Net income	196

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

The following is a summary of assets acquired, liabilities assumed, and the consideration transferred:

	Estimated fair value
Assets acquired:	
Accounts receivable	1,786
Inventories	2,934
Prepaid expenses	183
Investment tax receivable	103
Income tax receivable	9
Deferred tax asset	223
Property, plant and equipment	2,774
Customer relationships	1,680
License and certifications	1,830
	11,522
Liabilities assumed:	
Accounts payable and accrued liabilities	1,547
Revolving line of credit (net of cash acquired)	1,509
Income taxes payable	144
Deferred tax liability	1,314
Bank loan	1,024
	5,538
Total net assets acquired, and liabilities assumed	5,984
Total consideration	1,120
Gain on acquisition	4,864
Total consideration, outstanding shares acquired	5,894

7. Accounts receivable:

	2024	2023
Trade receivables	4,811	2,594
Allowance for expected credit losses	(7)	(42)
Sales tax and other receivables	14	130
R&D tax credit receivable	105	-
Income tax receivable	26	-
	4,949	2,682

8. Inventories:

	2024	2023
Raw materials	4,021	1,373
Packaging supplies – labels	989	718
Work in progress	541	264
Finished goods	3,731	1,827
Provision for obsolescence and net realizable value	(166)	(73)
	9,116	4,109

The cost of inventories recognized as an expense within cost of goods sold during the year ended December 31, 2024 was \$11,440 (2023 - \$7,805).

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

9. Property, plant and equipment:

	Land	Building	Computer equipment & Furniture	Production & laboratory equipment	Leasehold improve- ment	Assets under constr- uction	Right-of- use assets - building	Right-of- use assets - production equipment	Total
Cost									
Balance, end of 2022	284	3,911	278	5,267	931	1,769	2,912	763	16,115
Additions	-	61	47	429	1,131	34	-	-	1,702
Disposition	-	-	-	-	(155)	-	-	-	(155)
Transfer	-	-	-	-	1,803	(1,803)	-	-	-
Balance, end of 2023	284	3,972	325	5,696	3,710	-	2,912	763	17,662
Additions	-	232	107	1,291	275	-	2,458	-	4,363
Reclassification	-	-	-	763	-	-	(270)	(763)	(270)
Business acquisition (note 6)	272	1,403	182	3,049	-	-	-	-	4,906
Balance, end of 2024	556	5,607	614	10,799	3,985	-	5,100	-	26,661
Accumulated depreciation									
Balance, end of 2022	-	(328)	(83)	(791)	(248)	-	(604)	(145)	(2,199)
Depreciation	-	(132)	(34)	(245)	(237)	-	(195)	(30)	(873)
Disposition	-	-	-	-	155	-	-	-	155
Balance, end of 2023	-	(460)	(117)	(1,036)	(330)	-	(799)	(175)	(2,917)
Depreciation	-	(162)	(50)	(361)	(292)	-	(210)	-	(1,075)
Reclassification	-	-	-	(175)	-	-	270	175	270
Balance, end of 2024	-	(622)	(167)	(1,572)	(622)	-	(739)	-	(3,722)
Net carrying amounts									
Balance, end of 2023	284	3,512	208	4,660	3,380	-	2,113	588	14,745
Balance, end of 2024	556	4,985	447	9,227	3,363	-	4,361	-	22,939

The Corporation is currently involved in a dispute regarding costs related to the relocation/expansion of one of its production plants. While there is inherent difficulty in predicting the outcome of such matters, management is vigorously contesting the validity of this claim, and based on current knowledge, believes it is too early to determine the outcome of this matter. For this reason, as at December 31, 2024, no amounts were provisioned in relation to this claim.

10. Intangible assets:

	Product formulas	Customer relationship	Product development	Licenses & certifications	Total
Cost					
Balance, end of 2022	9,678	368	-	-	10,046
Additions	50	-	311	-	361
Balance, end of 2023	9,728	368	311	-	10,407
Additions	-	-	1,080	-	1,080
Business acquisition (note 6)	-	1,680	-	2,015	3,695
Balance, end of 2024	9,728	2,048	1,391	2,015	15,182
Accumulated depreciation					
Balance, end of 2022	(936)	(129)	-	-	(1,065)
Amortization	(387)	(24)	-	-	(411)
Balance, end of 2023	(1,323)	(153)	-	-	(1,476)
Amortization	(387)	(34)	-	(13)	(434)
Balance, end of 2024	(1,710)	(187)	-	(13)	(1,910)

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

Net carrying amounts					
Balance, end of 2023	8,405	215	311	-	8,931
Balance, end of 2024	8,018	1,861	1,391⁽¹⁾	2,002	13,272

(1) Product development amount has been completely generated internally and is not amortized since the product is not in a commercial production phase. Management concluded that the recoverable amount was higher than the carrying value as of December 31, 2024, and no impairment was recognized. Key assumptions used in calculating the recoverable amount are outlined in the following table with market data being sourced through the IQVIA database:

Assumption	Rate %
Market share	35%
Annual revenue growth rate	0%
Terminal rate	0%
Discount rate	20%

11. Accounts payable and accrued liabilities:

	2024	2023
Accounts payable	4,503	4,916
Accrued liabilities	418	741
Interest payable	237	319
Sales tax and other payables	37	-
	5,195	5,976

12. Revolving credit facility:

On May 19, 2023, the Corporation entered into a revolving credit facility agreement with TD Bank. The maximum amount available is \$1,350 and is based on a specified percentage of accounts receivable and inventories. The amount drawn under this credit facility as at December 31, 2024 was \$1,305 (\$670 as at December 31, 2023). Up to 75% of the amounts due under the TD bank facility are guaranteed by Export Development Canada ("EDC"). As part of the acquisition of Dermolab Pharma Ltd. the Corporation entered into a revolving credit facility with Scotia Bank. The maximum amount available is \$2,000 and is based on a specified percentage of accounts receivable and inventories. The amount drawn under this credit facility as at December 31, 2024 was \$1,254.

13. Long-term debt:

	2024	2023
Secured debentures ⁽ⁱ⁾	-	4,851
Second advance payable to Finaccès Capital ⁽ⁱⁱ⁾	626	1,158
Secured loans from Desjardins (LSL Laboratory) ⁽ⁱⁱⁱ⁾	401	633
Term loan from Investissement Québec ^(iv)	-	390
Unsecured convertible debentures ^(v)	2,474	2,345
Secured loan from Desjardins (Virage Sante) ^(vi)	1,350	-
Secured loan from BDC ^(vii)	4,421	-
Secured loan from Scotia ^(viii)	998	-
Canadien Emergency Business Account (CEBA)	-	40
	10,270	9,417
Current	1,367	5,215
Non-current	8,903	4,202
Total	10,270	9,417

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

(i) Secured debentures:

June 10, 2021, the Corporation issued a first tranche of \$4,700 of secured debentures, bearing interest at 6% annually for a total amount of \$4,081, net of transaction fees of \$619 (the "First Tranche Debentures").

On September 9, 2021, the Corporation issued a second tranche of \$300, bearing interest at 6% annually for a total amount of \$271, net of transaction fees of \$29 (the "Second Tranche Debentures").

In December 2022, the Corporation amended the First Tranche Debentures to extend the repayment date from December 10, 2023 to June 10, 2024, for \$4,650 out of the total nominal amount of \$4,700 issued and outstanding First Tranche Debentures. The interest rate for the extension period starting December 10, 2023 is 9.5%. The weighted-average effective interest rate on the debentures is 11.86%.

Between December 2023 and February 2024, the Corporation amended the Second Tranche Debentures to extend the repayment date from March 9, 2024 to March 9, 2026, for \$250 out of the total nominal amount of \$300 issued and outstanding Second Tranche Debentures. The interest rate for the extension period starting March 9, 2024 is 9.5%. The weighted-average effective interest rate on the debentures is 11.90%.

In December 2024, the Corporation settled all outstanding secured debentures.

The movement in debentures is as follows:

	2024	2023
Balance at beginning of year	4,851	4,679
Repayment	(4,300)	(50)
Conversion	(650)	-
Accretion expense included in interest on long-term debt	99	222
Balance at end of year	-	4,851

(ii) Finaccès Capital Inc.:

The Corporation received a series of advances from Finaccès Capital. The First advance was fully repaid in March 2023, following the completion of the RTO and was initially recorded at its fair value using an effective rate of 12%. The Corporation recorded a loss of \$50 (refer to note 17) resulting from this transaction in the statement of loss and comprehensive loss during 2023.

The Second advance is secured by a second rank guarantee over specific accounts receivable with a value of \$626 as of December 31, 2024. The advance bears interest at 15% annually and is payable based on collections related to specific accounts receivable any unpaid advances are due January 1, 2027.

(iii) Desjardins (LSL Laboratory):

As at December 31, 2024, the Corporation has three loans outstanding with Desjardins totalling \$401 (\$633 as at December 31, 2023). The loans bear interest at prime rate plus 2.5%, are guaranteed by a movable hypothec on LSL Laboratory Inc.'s equipment (\$4,015 book value) and by subordinated guarantees on current assets and by a guarantee from Investissement Québec.

As at December 31, 2024, the first loan has a balance of \$331 outstanding (\$497 as at December 31, 2023), matures on April 1, 2025 and is payable in monthly instalments of \$14. The second loan has a balance of \$45 outstanding (\$68 as at December 31, 2023), matures on April 1, 2025 and is payable in monthly instalments of \$2. The third loan has a balance of \$25 outstanding (\$68 as at December 31, 2023), matures on July 1, 2025 and is payable in monthly instalments of \$3.

(iv) Investissement Québec:

In December 2024, the term loan from Investissement Québec was fully repaid.

(v) Unsecured convertible debentures:

On October 25, 2023, the Corporation closed the first tranche of a brokered private placement through the issuance of 229,300 unsecured convertible debentures for gross proceeds of \$2,293. The Corporation incurred transaction costs of \$405 including fair value of 229,300 compensation warrants issued of \$42.

On December 8, 2023, the Corporation closed the second tranche through the issuance of 99,500 debentures for gross proceeds of \$995. The Corporation incurred transaction costs of \$176 including fair value of 88,785 additional compensation warrants issued of \$29 (first and second tranches compensation warrants issued altogether referred to as "Compensation Warrants – Unsecured convertible debentures").

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

The Compensation Warrants – Unsecured convertible debentures are exercisable to acquire one Class A Share of the Corporation at a price of \$0.70 for a period of 24 months from the date of issuance.

Each Debenture will, at the option of the holder, be convertible in its entirety into Class A shares of the Corporation at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the maturity date of October 31, 2028, and (ii) the date fixed for redemption, at a conversion price of \$0.70 per Class A Share (the "Conversion Price"), subject to adjustment in certain events.

The Debentures will, subject to any prior conversion or redemption, mature on October 31, 2028 and are payable on the Maturity Date in cash. The outstanding principal amount bears interest at the rate of 11.00% per year, payable in cash semi-annually on the last day of April and October of each year with the first interest payment to be paid on October 31, 2024. The annual interest rate will be recalculated on April 30 of every year, starting April 30, 2025 and will be equal to the Base Rate less 100 basis points for each business objectives achieved as defined in the debentures agreement with a minimum of 8%. As at December 31, 2024 the Corporation had achieved one of these objectives. Consequently, the annual interest rate shall be reduced to 10.00% per annum, effective April 30, 2025.

The Corporation will have the option to convert all principal amount outstanding of the Debentures at the Conversion Price with at least 30 days' prior written notice, if, at any time following the date that is 24 months from the closing date, for the preceding 20 consecutive trading days:

- 1) the daily volume weighted average trading price of the Class A Shares on the TSX Venture Exchange (the "TSXV") is greater than 175% of the Conversion Price; and
- 2) the average daily volume of the Class A Shares traded on the TSXV is no less than the number obtained when dividing the number of shares issued upon conversion of the total amount of Debentures outstanding by twenty (20).

The Debentures will be redeemable, at the Corporation's option (different terms are applicable if the redemption is required to secure financing for a *bona fide* acquisition):

- 1) 110% of the principal amount plus accrued and unpaid interest if redeemed prior to the fourth anniversary of the closing date; and
- 2) 102% of the principal amount plus accrued and unpaid interest if redeemed on or after the fourth anniversary of the closing date but prior to the maturity date.

The conversion option, net of related issuance costs and deferred income taxes, has been recorded in shareholders' equity for an amount of \$375. Factoring in the Debentures issuance costs, the effective interest rate on the Debentures is 21.81%.

The redemption feature was identified as an embedded derivative financial instrument measured at FVTPL. The Corporation utilized a binomial tree based stochastic interest rate model to determine the fair value of the redemption feature. As at December 31, 2024 and 2023, the redemption feature had no significant value.

The movement in convertible debentures is as follows:

	2024	2023
Balance at beginning of year	2,345	-
Additions	-	3,288
Fair value of conversion option allocated to equity, net of transaction costs of \$80	-	(375)
Transaction costs	-	(581)
Accretion expense included in interest on long-term debt	129	13
Balance at end of year	2,474	2,345

(vi) Desjardins (Virage Sante):

On September 5, 2024, the Corporation secured a loan with Desjardins for gross proceeds of \$1,400. The Corporation incurred transactions costs of \$26. The loan bears interest at prime rate plus 0.45%, guaranteed by the immovable property of The Virage Sante Group (\$1,376 book value). The loan matures September 18, 2039, and is payable in monthly installments of \$8.

(vii) Secured BDC loan:

On December 20, 2024, the Corporation secured a loan of \$5,000 with the Business Development Bank of Canada (BDC). The Corporation received gross proceeds of \$4,500, with the remaining \$500 to be received in the first quarter of 2025 (see note 27 c). The Corporation incurred transaction costs of \$79. The loan bears interest a BDC base rate +1.5% and can be reduced up to

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

2.5% based on certain financial criteria. The loan is guaranteed by immovable and movable property of Steri-Med (\$5,091 combined book value) and matures December 2049. Monthly installment of \$17 are payable beginning January 2026. This loan is jointly guaranteed by all entities of the Corporation.

(viii) Secured Scotia loan

As part of the Dermolab acquisition (note 6) the Corporation acquired the outstanding secured loans with Scotia Bank. The table below presents the financial conditions related to each loan:

	Balance as at December 31, 2024	Monthly repayments	Residual payment at maturity	Term	Interest rate
First loan	33	11	-	Mach 2025	Base rate plus 0.75%
Second loan	193	3	31	June 2029	Base rate plus 0.75%
Third loan	771	14	351	June 2027	Base rate plus 1.25%
Total	998	28	382		

This loan is jointly guaranteed by all entities of the Corporation.

Principal payments due on the long-term debt under lending agreements, in each of the following years, are as follows:

2025	1,367
2026	491
2027	506
2028	2,968
2029	413
2030 and thereafter	4,525

14. Lease liabilities:

	2024	2023
Balance at beginning of year	2,555	2,697
Additions	2,458	-
Payments	(274)	(260)
Interest expense	134	118
Balance at end of year	4,873	2,555
Current	447	117
Non-current	4,426	2,438
Total	4,873	2,555

Contractual undiscounted cashflows:

	2024	2023
Less than 1 year	703	239
Between 1 and 5 years	3,605	1,128
More than 5 years	1,804	2,036
Total undiscounted lease liabilities	6,112	3,403

Discount rate on leases ranges from 5% to 9%.

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

15. Notes payable

On March 12, 2024, the Corporation agreed with a holder of notes payable totalling \$900 to amend the maturity date to December 27, 2026. The interest rate remained unchanged at 11%. Therefore, the amount was reclassified from short-term notes payable to long-term notes.

On June 12, 2024, the Corporation issued \$500 note payable maturing July 1, 2026. The note bears an interest rate of 12% payable quarterly, with the first interest payment made on September 30, 2024.

On July 12, 2024, as part of the second tranche June 2024 Financing \$400 of long-term notes were converted. (refer to note 16a)

On December 1, 2024, the Corporation issued \$2,000 notes payable maturing January 1, 2028. The Corporation incurred transactions costs of \$20. These notes bear an interest rate of 10% payable monthly and granted the buyers 2,000,000 warrants (refer to note 16b). These warrants were valued at \$46 using a discount rate of 14% which is presented in share capital.

As at December 31, 2024, long-term notes include \$1,687 (\$531 as at December 31, 2023) due to related parties (refer to note 20).

The movement in long-term notes is as follows:

	2024	2023
Balance, beginning of year	531	100
Short term notes extended, now long-term	900	-
Conversion	(400)	-
Additions net of repayment and transaction costs	2,590	431
Balance at end of year	3,621	531

All other current notes payable were settled through share conversion \$1,745 (see note 16(a)) or repayment during the year.

16. Share capital and warrants:

(a) Share capital

Class A Shares ("Class A")

The Corporation is authorized to issue an unlimited number of voting Class A shares with no par value. These shares give the holder the right to receive, after Class B shareholders, any dividend declared by the Board of Directors of the Corporation.

In connection with the RTO, the Corporation completed the "RTO private placements" and issued a total of 11,943,708 Units and 1,575,000 Class A common shares for gross proceeds of \$9,463. Issuance costs amounted to \$855 including \$727 for Units and Class A common share issuances, and \$128 for the issuance of 670,818 Compensation Warrants – RTO. The assumptions used to estimate the fair value of the Compensation Warrants – RTO using the Black-Scholes option pricing model are presented in note 16 (b).

The following table provides a breakdown of Units issued as part of the RTO private placements:

	February 22, 2023
Private placement	8,893,709
Finaccès Capital Inc.	3,000,000
Other concurrent investors ⁽¹⁾	49,999
Total	11,943,708

(1) Note December 31, 2023 consolidated financial statements noted 51,599. This was incorrect and adjusted as per table above.

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

During the year, the Corporation completed a series of private placement financings resulting in the issuance of Units. The following table summarizes the key information related to each financing:

Date	Name	Consideration	Amount \$	Number of Units Issued
March 19, 2024 ⁽³⁾	First tranche March 2024 Financing	Cash	2,685	6,713,566
March 19, 2024 ⁽³⁾	First tranche March 2024 Financing	Debt conversion	3,749 ⁽⁵⁾	9,373,327
April 24, 2024 ⁽³⁾	Second tranche March 2024 Financing	Cash	3,794	9,485,000
June 27, 2024 ⁽⁴⁾	First tranche June 2024 Financing	Cash	1,491	3,727,000
July 12, 2024 ⁽⁴⁾	Second tranche June 2024 Financing	Cash	960	2,400,000
July 12, 2024 ⁽⁴⁾	Second tranche June 2024 Financing	Debt conversion	560 ⁽⁶⁾	1,400,206
Total		Cash	8,930	22,325,566
		Debt conversion	4,309	10,773,533
			13,239	33,099,099

Notes

1. All units were issued at a price of \$0.40 per unit
2. Each unit consist of one (1) class A share of the Corporation and one (1) Class A common share purchase warrant
3. The warrants issued in March and April 2024 had a term of 36 months, at an exercise price of \$0.70.
4. The warrants issued in June and July 2024 had a term of 24 months, at an exercise price of \$0.70.
5. Included the conversion of 1) Accounts payable for \$1,366; 2) Short-term notes payable for \$1,745 plus \$128 of accrued interest; and 3) Secured debenture for \$500 (nominal amount) plus \$10 of accrued interest.
6. Included the conversion of 1) Secured debenture for \$150; 2) Long-term notes for \$400 (nominal amount) plus \$10 of accrued interest.
7. A total of \$800 in financing fees was recorded for all private placements
8. A total of 206,475 compensation warrants were issued for all private placements, for a total value of \$16 (see note 16(b))

Class B Shares ("Class B")

The Corporation is authorized to issue an unlimited number of non-voting Class B shares. The holders of Class B shares have the right to receive a dividend fixed by the Board of Directors of the Corporation and to receive, upon a liquidation or dissolution event, a reimbursement for these shares (along with any unpaid and declared dividend) before the holders of Class A shares. However, these shares do not allow any supplemental participation to the Corporation's income or assets. There are no Class B shares issued.

(b) Warrants

As at December 31, 2022, there were 33,606,000 warrants outstanding. Each warrant entitles the holder to purchase one Class A common share at a subscription price of \$0.70 per share. On June 30, 2024 33,106,000 of these warrants expired. The remaining 500,000 are set to expire in September 2027.

As part of the RTO Private Placements, 5,971,855 warrants were issued entitling the holder to acquire one (1) Class A common share (post-consolidation) at a price of \$1.00 per common share for a period of 18 months. In addition, the Corporation issued 670,818 Compensation warrants - RTO entitling the holder to acquire one (1) Unit at a price of \$0.70 per Unit for a period of 18 months. These warrants, and Compensation warrants have expired.

As part of the 2023 Unsecured convertible debentures financing, the Corporation issued 318,085 Compensation warrants entitling the holder to acquire one (1) Class A common share at a price of \$0.70 per common share for a period of 24 months.

As part of the first and second tranche of the March 2024 Financing, 25,571,893 March 2024 Warrants were issued entitling the holder to acquire one (1) Class A common share at a price of \$0.70 for a period of 36 months following the closing of each tranche of the March Financing. On April 24, 2024 The Corporation also issued 75,000 Compensation warrants entitling the holder to acquire one (1) Class A common share at a price of \$0.70 for a period of 18 months.

Lastly, as part of the first and second tranche of the June Financing, 7,527,206 June 2024 warrants were issued entitling the holder to acquire one (1) Class A common share at a price of \$0.70 for a period of 24 months following the closing of each tranche of the June 2024 Financing. The Corporation also issued 131,475 Compensation warrants entitling the holder to acquire one (1) Class A common share at a price of \$0.70 for a period of 18 months.

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

As part of the December 1, 2024, \$2,000 note payable issuance, the Corporation issued 2,000,000 warrants entitling the holder to acquire one (1) Class A common share at a price of \$0.70 for a period of 36 months. These warrants were valued using the residual method with a weighted-average effective interest rate of 14%, creating a value of \$46 presented in share capital.

During the year ended December 31, 2024, 206,475 compensation warrants were issued (988,903 for the year ended December 31, 2023).

The fair value for all warrants except for the ones issued with the note payable were determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

Weighted-average	2024 Private placement warrants	2024 Compensation warrants	2023 RTO warrants	2023 Compensation warrants
Fair value at grant date	0.10	0.08	0.05	0.18
Share price at grant date	0.41	0.45	0.65	0.60
Exercise price	0.70	0.70	0.70	0.70
Risk-free interest rate	4.3%	4.1%	3.7%	3.9%
Expected volatility	57.9%	61.4%	57.5%	66.4%
Expected life	2.7 years	1.5 years	1.5 years	1.7 years

Changes in the number of warrants and compensation warrants for the year ended December 31, 2024, were as follows:

	Date of Issuance	Number of warrants	Weighted average exercise price
Balance, beginning of year		40,566,758	0.74
Granted during the period			
First tranche March 2024 Financing	March 19, 2024	16,086,893	0.70
Second tranche March 2024 Financing	April 24, 2024	9,485,000	0.70
Compensation warrants – second tranche March 2024 Financing	April 24, 2024	75,000	0.70
First tranche June 2024 Financing	June 27, 2024	3,727,000	0.70
Compensation warrants -first tranche June 2024 Financing	June 27, 2024	94,975	0.70
Second tranche June 2024 Financing	July 12, 2024	3,800,206	0.70
Compensation warrants – second tranche June 2024 Financing	July 12, 2024	36,500	0.70
Note payable December 2024	December 1, 2024	2,000,000	0.70
Expired during the year		(39,748,673)	0.75
Balance, end of year		36,123,659	0.70

(c) Share-based compensation

On January 31, 2022, the Corporation implemented an incentive stock option plan (the "Plan") for key employees, directors and consultants to participate in the growth and development of the Corporation by providing such person the opportunity, through stock options, to purchase Class A common shares of the Corporation. The Plan provides that the aggregate number of shares reserved for issuance, set aside and made available for issuance may not exceed 10% of the Corporation's issued and outstanding Class A common shares. The maximum number of options which may be granted to any key employees or directors shall not exceed 5% of the issued Class A common share, calculated at the date the option is granted. The maximum number of options which may be granted to any consultants shall not exceed 2% of the issued Class A common share, calculated at the date the option is granted. The plan was subsequently revised on June 28, 2024.

The Plan is administered by the Board of Directors of the Corporation, who has full and final authority with respect to the granting of all options thereunder. The exercise, the vesting and the price of any options granted under the Plan shall be determined by the Board of Directors, subject to any applicable regulations or policies. Under the Plan, all options expire 10 years from the grant date.

Subject to certain exceptions, if an employee, director, officer, consultant ceases to hold office or provide consulting services, options granted to such a holder under the Plan will expire 90 days after the holder ceases to hold office or such earlier date as the Board of Directors may decide at the date the options were granted. Notwithstanding the foregoing, in the event of a termination for cause of an option holder, all unexercised options held by such option holder shall immediately expire.

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

On February 22, 2023, in connection with the RTO, LSL Pharma Group Inc. issued 6,000,000 stock options allowing the directors and employees to purchase Class A common shares of the Corporation at a price of \$0.70 per Class A common share. All options granted in connection with the RTO vested on grant.

During the year ended December 31, 2024, the Corporation issued 2,295,270 stock options of which 1,830,000 have vested. The remaining 465,270 stock options vest 33% on the first three anniversary dates of grant. Lastly, 650,000 vested stock options were cancelled.

Changes in the number of outstanding options for the year ended December 31, 2024, were as follows:

	Number of exercisable options	Number of option	Weighted average exercise price
Outstanding options, beginning of year	6,000,000	6,000,000	0.70
Granted during the year			
April 29, 2024	1,555,000	1,555,000	0.40
June 17, 2024	275,000	275,000	0.48
September 25, 2024	-	465,270	0.45
Cancelled during the year	(650,000)	(650,000)	0.70
Outstanding options, end of year	7,180,000	7,645,270	0.62

The fair values of the options granted during the years ended December 31, 2024 and 2023, have been determined using the Black-Scholes option pricing model using the following assumptions:

Weighted average	Grants 2024	Grants 2023
Fair value at grant date	0.22	0.35
Share price at grant date	0.42	0.65
Exercise price	0.42	0.65
Risk-free interest rate	3.6%	3.7%
Expected volatility	57.0%	62.7%
Expected life	5 years	5 years
Contractual life	10 years	10 years

The risk-free interest rate is based on the yield of a risk-free Canadian government security with a maturity equal to the expected life of the option from the date of the grant. The assumption of expected volatility is based on the average historical volatility of comparable companies for the period equal to the expected life.

Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on best estimate, management applied the estimated forfeiture rate of 0% (December 31, 2023 – 0%) in determining the share-based compensation expenses recorded in the statement loss.

The share-based compensation expense recorded under the plan in the consolidated statements of income (loss) and comprehensive income (loss) was \$418 during the year ended December 31, 2024 (\$2,117 for the year ended December 31, 2023). The options outstanding as at December 31, 2024 have an average weighted exercise price of \$0.62 and a remaining contractual life of 8.5 years.

17. Finance expenses:

	2024	2023
Interest expense on long-term debt	1,147	950
Interest expense on other financial liabilities and factoring fees	-	171
Interest on notes payable	152	226
Interest expense paid to related parties	230	48
Interest expense on revolving credit facility	83	91
Change in fair value of advances payable to Finaccès Capital inc.	-	50
Other finance expense	157	186
Interest expense on lease liabilities	134	84
	1,903	1,806

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

18. Additional information on the consolidated statements of income (loss) and comprehensive income (loss):

	2024	2023
Included in cost of goods sold:		
Employee salaries and benefits	4,722	3,386
Depreciation and amortization	1,326	993
Included in selling expenses:		
Employee salaries and benefits	317	178
Included in administrative expenses:		
Employee salaries and benefits	2,013	1,893
Depreciation and amortization	183	136

19. Income Taxes:

The following table reconciles income taxes computed at the 's statutory rate of 26.5% for the year ended December 31, 2024 (December 31, 2023 – 26.5%) and the total tax expense for the years as follows

	2024	2023
Income (loss) before taxes	3,367	(8,472)
Income taxes recovery calculated at the statutory tax rate	897	(2,245)
Unrecognized deferred tax assets	1,637	1,397
Other permanent differences	136	866
True up deferred tax	(1,332)	-
Gain on business acquisitions	(1,289)	-
Other	1	(18)
Total deferred tax expense	50	-

The income tax recovery is comprised only of deferred income tax items.

The movements in deferred income tax assets and liabilities, prior to offsetting of balances, are shown below:

	December 31, 2024				
	Opening balance	Variation not recognized in net income	Variation in net income	Variation resulting from an acquisition	Closing balance
Tax losses carried forward	3,297	677	(68)	230	4,136
Lease liabilities	677	(31)	(6)	651	1,291
Financing feed	256	(259)	-	-	(3)
R&D pool	12	(12)	-	287	287
Provision	164	(126)	(1)	5	42
Property, plant and equipment and right-of-use asset	(2,023)	(251)	25	(2,687)	(4,936)
Intangible assets	(2,383)	-	-	-	(2,383)
Other	-	2	-	-	2
Deferred income tax asset (liability)	-	-	(50)	(1,515)	(1,564)

As at December 31, 2024, there are \$4,601 (December 31, 2023 – \$3,009) of unrecognized deferred tax assets in relation to tax losses carried forward which were not recognized during the year ended December 31, 2023 because the criteria for recognition were not met.

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

	December 31, 2023				
	Opening balance	Variation not in net income	Variation in net income	Variation resulting from an acquisition	Closing balance
Tax losses carried forward	3,499	(202)	-	-	3,297
Lease liabilities	715	(38)	-	-	677
Financing feed	73	(183)	-	-	256
R&D pool	-	12	-	-	12
Provision	267	(103)	-	-	164
Property, plant and equipment and right-of-use asset	(2,176)	153	-	-	(2,023)
Intangible assets	(2,380)	(3)	-	-	(2,383)
Other	2	(2)	-	-	-
Deferred income tax asset (liability)	-	-	-	-	-

As at December 31, 2024, no deferred income tax asset has been recognized on approximately \$17,958 and \$19,152 of Federal and Provincial tax loss carry forwards. The losses expire in the following years:

	2024	
	Federal	Provincial
2040	-	-
2041	-	-
2042	7,081	8,198
2043	5,570	5,648
2044	5,307	5,306

20. Transaction with related parties and shareholders:

Key management personnel include the Chief Executive Officer, Chief Financial Officer, and Vice-Presidents. The following table presents the compensation of key management personnel and Directors recognized in the consolidated statements of loss and comprehensive loss:

	2024	2023
Revenues from a company controlled by a Director	2,145	1,198
Expenses		
Salaries, benefits, consulting and board fees	1,511	776
Interest earned on notes and debentures	230	122
Share-based compensation	347	1,905

The following table represents the related party transactions presented in the consolidated statement of financial position as at:

	2024	2023
Assets:		
Receivable from a company controlled by a Director	386	964
Liabilities:		
Key management personnel		
Notes payable	100	302
Notes payable to a company controlled by a key management personnel	1,587	229
Convertible Debentures recorded in long-term debt	125	125
Secured Debentures recorded in long-term debt	-	150
Director		
Secured Debentures recorded in current portion of long-term debt	-	1,000

During the year ended December 31, 2024, the Corporation borrowed from a key management personnel, an amount of \$100 bearing interest at 10%, repayable on January 1, 2026. The Corporation also borrowed from a company controlled by a key management

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

personnel, an amount of \$229 bearing interest at 12%, repayable on February 1, 2026. On March 19, 2024, the amount was converted into March 2024 Units as part of the first tranche March 2024 Financing (see note 16a).

During the year ended December 31, 2024, the Corporation borrowed \$858 from a company controlled by key management personnel at 12% interest rate, repayable on February 1, 2026. On March 19, 2024, \$271 of this amount was converted into March 2024 Units as part of the first tranche March 2024 Financing (see note 16a)).

On December 1, 2024 \$1,000 in long-term notes payable was issued to a company controlled by key management personnel at 10% interest rate, repayable on January 1, 2028 (see note 15).

21. Financial risks:

The Corporation's activities expose it to financial risks: credit risk, liquidity risk and market risk (including interest rate risk and foreign exchange risk). The Corporation's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on its financial performance. The Corporation does not use derivative financial instruments to hedge these risks.

a) Credit risk:

Credit risk refers to the risk that one party to a financial asset will cause a financial loss for the Corporation by failing to discharge an obligation. The Corporation's exposure to credit risk is primarily attributable to its cash and cash equivalents and accounts receivable. The Corporation's maximum credit exposure corresponds to the carrying amount of these financial assets presented on the Consolidated Statement of Financial Position. Management believes the credit risk related to its cash and cash equivalents is limited given that the Corporation deals with major North American financial institutions.

The Corporation provides credit to its clients in the normal course of its operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent credit losses. Management believes credit risk related to its accounts receivable is limited because the Corporation deals with major North American clients that are well known in the pharmaceutical market. The Corporation continues to collect all of its receivables.

The following table presents information on credit risk exposure and expected credit losses related to trade accounts receivable:

	2024	2023
Current	2,413	1,792
31 to 60 days past due	1,337	615
61 to 90 days past due	248	32
Over 91 days past due	851	274
	4,849	2,713
Loss allowance	(7)	(42)
Provision for rebates and discount	(39)	(119)
Balance, end of year	4,803	2,552

The Corporation considers trade accounts receivable to be past due when they exceed 60 to 90 days, depending on the credit conditions applicable to the customer. The Corporation assesses expected credit losses at each reporting period. Non-compliance with payment deadlines and financial difficulties are the main factors considered when identifying high-risk receivables. The Corporation recognizes an expected credit loss or writes off the trade account receivable when management believes that the expected recoverable amount is lower than the actual amount of the trade account receivable.

As at December 31, 2024, 61% (December 31, 2023 - 60%) of accounts receivable are concentrated with twelve clients (December 31, 2023 - five clients). For the year ended December 31, 2024, eight clients represented 61% of total revenues (December 31, 2023 - five clients representing 67% of revenues). The Corporation does not require a guarantee.

b) Liquidity risk:

Liquidity risk refers to the Corporation's ability to meet its financial obligations when they come due. The Corporation is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. The Corporation manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching maturity profiles of financial assets and liabilities. The Corporation's objective is to maintain a balance between continuity of funding and flexibility through borrowing facilities available through the Corporation's bank and other lenders. The Corporation's policy is to ensure adequate funding is available from operations and other sources as required.

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

The following are the contractual maturities of financial obligations, including interest, under the lending agreements. All contractual amounts denominated in foreign currencies are converted into Canadian dollars using the exchange rate in effect on the reporting date:

	As at December 31, 2024				
	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and other liabilities	5,195	5,195	5,195	-	-
Revolving credit facility	2,559	2,559	2,559	-	-
Long-term notes payable	3,621	4,687	455	4,232	-
Long-term debt, including current portion ⁽¹⁾	10,270	18,794	1,783	9,057	7,954
Lease liabilities, including current portion	4,873	6,112	703	3,605	1,804

⁽¹⁾ When future interest cash flows are not fixed, they are calculated using interest rates prevailing at the end of the reporting period

Capital management

The Corporation's capital is composed of shareholders' equity, long-term notes payable and long-term debt, including current portion of long-term debt. The Corporation's objective in managing its capital is to ensure a sufficient liquidity position to finance its operations, to maximize the preservation of capital and to deliver competitive returns on invested capital. To fund its activities, the Corporation has relied on equity financing, long-term notes and long-term debt.

The Corporation is not subject to any capital requirements imposed by a regulator. The Corporation's objectives, policies, and processes for managing capital remained unchanged from the prior year.

c) Market risk

Interest rate risk:

Interest rate risk is the Corporation's exposure to increases or decreases in financial instrument values caused by fluctuations in interest rates. The Corporation is exposed to cash flow risk due to the interest rate fluctuations in its floating-rate interest-bearing financial obligations and is exposed to fair value risk from its fixed-rate financial obligations.

In addition, upon the refinancing of a debt instrument, depending on the availability of funds in the market and lender perception of the Corporation's risk, the margin that is added to the reference rate, such as bank prime rates, could vary and directly influence the interest rate payable by the Corporation.

With respect to its floating-rate financial obligations, a negative impact on cash flows would occur if there were an increase in the reference rates. A decrease in these same rates would have an opposite impact of similar magnitude.

Interest rate risk:

An increase or decrease of 100 basis points in the interest rate would have an impact of \$141 on the Corporation's consolidated net income (loss) for the year ended December 31, 2023 (December 31, 2023 - \$17).

Foreign exchange risk:

Foreign exchange risk is the Corporation's exposure, caused by exchange rate fluctuations, to decreases or increases cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, denominated in USD. The Corporation does not hold financial derivatives to manage fluctuation in these risks.

The following presents the accounts that are exposed to foreign exchange volatility, as follows:

As at December 31,	2024	2023
Cash and cash equivalents	296	8
Accounts receivable	4,949	2,682
Accounts payable and accrued liabilities	5,195	5,976

An increase or decrease of \$0.05 per foreign currencies as at December 2024 would have an impact of \$32 on the Corporation's consolidated net income (loss) for the year ended December 31, 2023 (December 31, 2023 - \$14).

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

22. Financial Instruments

The classification of financial instruments at their carrying values is as follows:

As at December 31,	2024	2023
Financial asset:		
<u>Amortized cost</u>		
Cash	296	8
Accounts receivable	4,949	2,682
Financial liabilities:		
<u>Amortized cost</u>		
Accounts payable and accrued liabilities	5,195	5,976
Revolving credit facility	2,559	670
Notes payable ⁽¹⁾	3,621	3,627
Long-term debt ⁽²⁾	10,270	9,417

⁽¹⁾ Includes current and non-current notes payable

⁽²⁾ Includes current and non-current long-term debt

The fair value of a financial instrument 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. It is established based on market information available at the date of the Consolidated Statement of Financial Position. In the absence of an active market for a financial instrument, the Corporation uses the valuation methods described below to determine the fair value of the instrument.

To make the assumptions required for certain valuation models, the Corporation relies mainly on external, readily observable market inputs, when available. Assumptions or inputs that are not based on observable market data are used in the absence of external data. These assumptions or factors represent management's best estimates of the ones that would be used by market participants for these instruments. The credit risk of the counterparty and the Corporation's own credit risk have been taken into account in estimating the fair value of all financial assets and financial liabilities, including derivative instruments.

The following valuation assumptions and/or methods were used to estimate the fair value of financial instruments:

- The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, revolving credit facility are approximately equal to their carrying values due to their short-term maturities;
- The fair value of notes payable, and long-term debt is determined using the discounted cash flow method and calculated using current interest rates for instruments with similar terms and remaining maturities that the Corporation could have obtained on the market at the measurement date; and
- The fair value of derivative instruments is determined using valuation techniques and calculated as the present value of estimated future cash flows using an appropriate exchange rate and interest rate yield curve as well as quoted contract prices on futures exchanges and market data. Assumptions are based on market conditions prevailing on the reporting date. The derivative instruments reflect the estimated amounts that the Corporation would receive or pay to transfer the contracts in an orderly transaction between market participants at each reporting date.

The carrying values of all the Corporation's financial instruments approximate their fair values, except for the following:

	As at December 2024		As at December 2023	
	Carrying value	Fair Value	Carrying value	Fair Value
Notes payable ⁽¹⁾	3,621	3,687	3,627	3,627
Long-term debt ⁽²⁾	10,270	10,379	9,417	9,978

⁽¹⁾ Includes current and non-current notes payable

⁽²⁾ Includes current and non-current long-term debt

Financial instruments are classified using a fair value hierarchy that categorizes the inputs used in fair value measurement techniques into three levels. This hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

In some cases, the inputs used to measure the fair value of an asset, or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as disposal costs when measuring fair value less disposal costs, shall not be taken into

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

account when determining the level of the fair value hierarchy within which a fair value measurement is categorized. All financial instruments measured at fair value in the Consolidated Statement of Financial Position were classified according to a hierarchy comprising three levels:

- Level 1: Valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2: Valuation based on inputs that are quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable; and inputs that are derived mainly from or corroborated by observable market data using correlation or other forms of relationship; and
- Level 3: Valuation techniques based on a significant portion of inputs not observable in the market.

During the years ended December 31, 2024, and 2023, all the Corporation's financial instruments, including derivative instruments, were classified as Level 2, except for the First advance payable to Finaccès Capital inc., which was classified as Level 3. The Corporation's policy is to recognize transfers between the different hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the years ended December 31, 2024 and 2023, no financial instruments were transferred between levels 1, 2 and 3.

The fair value of the First advance payable to Finaccès Capital inc. was determined using Level 3 inputs. The valuation technique used in determining the fair value of the First advance payable to Finaccès Capital inc. is the effective interest method, taking into consideration the probabilities of the occurrence of a liquidity event whose main inputs include effective interest rate and the probabilities of the occurrence of a liquidity event.

The movement in the First advance payable to Finaccès Capital inc. is as follows:

	Note	2024	2023
Balance at beginning of year		-	2,050
Initial measurement		-	-
Changes in fair value	17	-	50
Repayment		-	(2,100)
Balance at end of year		-	-

23. Basic and diluted income (loss) per share:

The calculation of basic and diluted income (loss) per share has been based on the following:

	2024	2023
Net income (loss)	3,317	(8,472)
Issued common shares (end of year)	115,532,676	82,433,577
Weighted average number of common shares (basic)	105,413,510	80,389,966
Weighted average number of common shares (diluted)	105,451,437	80,389,966
Income (loss) per common share (basic)	0.03	(0.11)
Income (loss) per common share (diluted)	0.03	(0.11)

24. Additional cash flow information:

The following details the change in non-cash operating working capital items:

	2024	2023
Accounts receivable	(508)	(1,408)
Inventories	(1,767)	(1,152)
Prepaid expenses	(407)	(198)
Accounts payable and accrued liabilities	(1,303)	(1,974)
Deferred revenues	-	(8)
Net change in non-cash operating working capital items	(3,985)	(4,740)
Unpaid acquisition of property plant and equipment	307	-
Non-cash increase in property plant and equipment right of use leases	2,458	-

The Corporation settled \$4,309 of various debt and accounts payable through private placement share issuance (see note 16(a)).

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

25. Segment information:

The business segments are determined based on the Corporation's internal reporting, management structure and the way key strategic, operating commercial decisions are made. The results of the operating segments are regularly reviewed by the Corporation's management to make decisions on resources to be allocated to the segment and to assess its performance, and for which separate financial information is available.

The Corporation has determined that it has only one reportable operating segment. This single operating segment generates revenues from the sale of a wide range of products, including liquid and semi-solid pharmaceutical, natural health products, cosmetic products, sterile ophthalmic pharmaceuticals as well as from rendering services related to the sale of these products. The Corporation manages its business segment as a single strategic operating unit.

Revenues are attributed to the geographic segment based on the location where the Corporation has transferred control of the goods to the customer. The Company primarily operates in one principal geographical area, Canada, accordingly all of the Company's long-lived assets are located in Canada.

The following table presents details on the Company's revenues by geographic segment:

	2024	2023
Canada	15,275	8,830
United States	2,145	1,198
Other foreign markets	328	-

26. Reverse acquisition of Îledor by LSL Laboratory inc.:

As described in Note 1, Îledor was considered the accounting acquiree and LSL Laboratory Inc. was the accounting acquirer and, consequently, the transaction was accounted for as a reverse acquisition of Îledor by LSL Laboratory Inc. As Îledor does not meet the definition of a business, the transaction was accounted for as a reverse acquisition of net liabilities pursuant to IFRS 2, Share-based payment. The acquisition-date fair value of the consideration transferred by the accounting acquirer, LSL Laboratory Inc., for its interest in the accounting acquiree, Îledor, of \$537 or 825,869 Class A common shares was determined based on the fair value of the equity interest that LSL Laboratory Inc. would have had to pay to the owners of Îledor (assuming a fair value per Class A common share post-consolidation of \$0.65 based on the estimated value of the Class A common shares issued in the Private Placement, before the reverse acquisition, to provide the same percentage equity interest in the combined entity that results from the reverse acquisition. This is recorded as an increase in Class A common shares in the consolidated statement of financial position. As the fair value of Îledor's identifiable net liabilities assumed at the reverse acquisition date was (\$553), the excess of consideration transferred over the net liabilities assumed of \$1,090 is reflected in costs related to reverse takeover in the consolidated statements of loss and comprehensive loss.

The following table provides a breakdown of expenses incurred in connection with the reverse acquisition of Îledor by LSL Laboratory Inc. during the year ended December 31, 2023:

Consideration transferred from Îledor in excess of net liabilities assumed	1,090
Professional fees	1,330
Exchange, listing fees and others	130
	2,550

LSL PHARMA GROUP INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars except for share and per share amounts)

For the years ended December 31, 2024 and 2023

27. Subsequent events:

- a) On March 10, 2025 - the Corporation secured a \$750 unsecured bridge loan from an arms' length party to help fund operations (the "Bridge Loan"). The Bridge Loan is not convertible, bears interest at 12% and is repayable before June 30, 2025.
- b) On April 10, 2025 - the Corporation received a \$50 payment from Investissement Québec ("IQ"), representing the first portion of a \$200 non-refundable payment made under the Quebec Immigrant Investor Program (the "QIIP"). IQ granted the Corporation a \$200 non-refundable funding to help Steri-Med acquire a new production line. The remaining amount of \$150 is expected to be received before the end of the 2025 fiscal year.
- c) On April 29, 2025, the Corporation received \$500 from BDC representing the second and last tranche of the Secured BDC loan secured on December 20, 2024. (See note 13 vii).
- d) Since the start of the 2025 fiscal year, the Corporation granted an aggregate of 1,285,000 stock options ("Options") including 1,050,000 to certain officers and directors in accordance with the Corporation's long-term incentive compensation plan. The Options will be exercisable at an exercise price of \$0.37 per Class A common share of the Corporation, vest over 3 years and will expire 10 years after grant. The Corporation estimates stock-based compensation expense of \$35 for these options in the first quarter of 2025.
- e) Since the start of the 2025 fiscal year, the Corporation received further advances from Finaccès Capital representing a net increase of \$411 of the Second advance described in note 13 ii). As of April 30, 2025, before interest accrual for the month, amounts owed under the Second advance stood at \$1,037. The terms of the Second advance remain the same.