Consolidated Financial Statements of

LSL LABORATORY INC.

Years ended December 31, 2022 and 2021

LSL LABORATORY INC.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of LSL Laboratory Inc.

Opinion

We have audited the consolidated financial statements of LSL Laboratory Inc. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and 2021, and its financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) in the financial statements, which indicates that the Entity has incurred net losses and negative cash flows from operations for the years ended December 31, 2022 and 2021, has negative working capital (current liabilities in excess of current assets) and is in breach of a financial covenant under one of its debt obligations at December 31, 2022, has a deficit as at December 31, 2022, and that its operations are dependent on generating positive cash flow from operations, the continued financial support of its shareholders and lenders and/or obtaining additional financing.

As stated in Note 2(b) in the financial statements, these events or conditions, along with other matters as set forth in Note 2(b) in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of existence and accuracy of revenues

We draw attention to Note 5(n) to the financial statements.

The Entity's revenues balance is $8,214,248. The Entity derives revenue mainly from the sale of finished goods. The Entity 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 when the goods are delivered and have been accepted at their premises.

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.

Why the matter is a key audit matter

We identified the existence and accuracy of revenues as a key audit matter. This matter represented an area of higher assessed risk of material misstatement given that the amount is material to the consolidated financial statements and related disclosures. In addition, an increased extent of audit effort was needed to address the matter.

How the matter was addressed in the audit

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

- For a sample of revenue transactions, we confirmed the amount of revenues recognized with the Entity's customers.

- For a sample of revenue transactions, we reconciled revenue recognized to purchase orders, proofs of delivery and cash receipts.
- For a sample of revenue deduction transactions, we tested the existence and accuracy of the deductions by reconciling to source documents.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Alain Bessette.

KPMG LLP*

Montréal, Canada

May 1, 2023

*CPA auditor, public accountancy permit No. A115894

LSL LABORATORY INC.

Consolidated Statements of Financial Position

December 31, 2022 and December 31, 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	$ –	$ 741,010
Accounts receivable (notes 6 and 19)	1,231,006	1,439,928
Inventories (note 7)	2,957,199	4,166,137
Prepaid expenses	205,723	128,820
	4,393,928	6,475,895
Deposits	20,000	20,000
Property, plant and equipment (note 8)	13,916,260	12,886,200
Intangible assets (note 9)	8,981,379	9,393,003
Advance receivable from related parties (note 19)	–	255,208
	$ 27,311,567	$ 29,030,306
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 10)	$ 6,117,551	$ 3,717,892
Revolving credit facility (note 11)	493,458	–
Other financial liabilities (note 6)	1,042,275	1,456,997
Advances payable to shareholders (note 19)	1,992,209	–
Deferred revenue	7,488	–
Current portion of long-term debt (note 12)	1,578,581	1,892,918
Current portion of lease liabilities (note 13)	135,606	186,840
	11,367,168	7,254,647
Long-term debt (note 12)	7,741,842	7,977,082
Lease liabilities (note 13)	2,561,399	2,685,733
	21,670,409	17,917,462
Shareholders' equity:		
Share capital and warrants (note 14)	15,402,888	12,812,332
Deficit	(9,761,730)	(1,699,488)
	5,641,158	11,112,844
Going concern (note 2 (b))		
Subsequent events (note 23)		
	$ 27,311,567	$ 29,030,306

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:

_______________________ Director

_______________________ Director

LSL LABORATORY INC.

Consolidated Statements of Loss and Comprehensive Loss

Years ended December 31, 2022 and 2021

	2022	2021
Revenues	$ 8,214,248	$ 8,771,151
Cost of goods sold (notes 7, 16 and 17)	10,386,004	6,245,663
Gross (loss) profit	(2,171,756)	2,525,488
Selling expenses (note 17)	410,842	218,071
Administrative expenses (note 17)	3,505,072	2,372,684
Research and development expenses	669,930	–
	4,585,844	2,590,755
Transaction costs related to reverse takeover (note 23)	424,995	–
Loss before net finance expenses and income taxes	(7,182,595)	(65,267)
Net finance expenses (note 15)	879,647	1,564,196
Loss before income taxes	(8,062,242)	(1,629,463)
Income taxes expense (note 18)	–	(147,455)
Net loss, being comprehensive loss for the year	$ (8,062,242)	$ (1,776,918)
Basic and diluted loss per share (note 21)	$ (0.12)$	$ (0.03)

See accompanying notes to consolidated financial statements.

LSL LABORATORY INC.

Consolidated Statements of Changes in Equity

Years ended December 31, 2022 and 2021

	Class A shares and warrants			Retained	
	Number of warrants	Number of shares	Amount	earnings (deficit)	Total
Balance as at December 31, 2020	22,882,000	57,365,000	$ 10,264,082	$ 77,430	$ 10,341,512
Share issuance (note 14)	5,290,000	5,290,000	2,645,000	–	2,645,000
Share issuance costs, net of tax of $43,003	–	–	(96,750)	–	(96,750)
Net loss for the year ended December 31, 2021	–	–	–	(1,776,918)	(1,776,918)
Balance as at December 31, 2021	28,172,000	62,655,000	12,812,332	(1,699,488)	11,112,844
Share issuance (note 14)	5,434,000	5,434,000	2,717,000	–	2,717,000
Share issuance costs, net of tax of nil	–	–	(126,444)	–	(126,444)
Net loss for the year ended December 31, 2022	–	–	–	(8,062,242)	(8,062,242)
Balance as at December 31, 2022	33,606,000	68,089,000	$ 15,402,888	$ (9,761,730)	$ 5,641,158

See accompanying notes to consolidated financial statements.

LSL LABORATORY INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2022 and 2021

	2022	2021
Cash provided by (used in):		
Operating:		
Net loss	$ (8,062,242)	$ (1,776,918)
Adjustments for:		
Depreciation and amortization	1,046,681	973,988
Income taxes recovery	–	147,455
Net finance expenses	879,647	1,564,196
Net change in non-cash operating working capital items (note 22)	2,970,941	(1,993,676)
	(3,164,973)	(1,084,955)
Financing:		
Repayment of long-term debt (note 22)	(822,691)	(4,409,829)
Issuance of long-term debt (note 22)	862,500	5,319,660
Issuance costs of long-term debt (note 22)	(64,323)	(648,212)
Proceeds from issuance of common shares and warrants	2,717,000	2,645,000
Common shares issuance costs	(126,444)	(139,753)
Interest paid	(882,722)	(1,261,252)
Net change in other financial liabilities (note 22)	(697,229)	(204,899)
Proceeds from revolving credit facility (note 22)	500,000	–
Payment of lease liabilities (note 22)	(312,725)	(360,548)
Increase in advances payable to shareholders (note 22)	2,247,417	–
	3,420,783	940,167
Investing:		
Acquisition and deposits on property, plant and equipment	(996,820)	(914,787)
Change in advances receivable from related parties	–	(124,905)
	(996,820)	(1,039,692)
Net change in cash and cash equivalents	(741,010)	(1,184,480)
Cash and cash equivalents, beginning of year	741,010	1,925,490
Cash and cash equivalents, end of year	$ –	$ 741,010

Additional cash flow information is presented in note 22.

See accompanying notes to consolidated financial statements.

1. Reporting entity:

LSL Laboratory Inc. (the "Company"), incorporated on May 16, 2017 under the *Canada Business Corporations Act,* is a manufacturer of sterile pharmaceutical products and natural health products. The address of its corporate office is 540, rue D'Avaugour, Boucherville, Québec. These consolidated financial statements comprise the Company and its wholly-owned subsidiaries, Steri-Med Pharma inc. and Groupe Immobilier LSL inc. (together referred to as the "Group"). On February 22, 2023, the Company has entered into a reverse takeover agreement with Corporation Exploration Îledor ("Îledor"). Refer to note 23, "Subsequent events", for additional information.

2. Basis of preparation:

(a) Basis of presentation:

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issuance by Board of Directors of the Company on April 27, 2023.

(b) Going concern:

These consolidated financial statements have been prepared on the going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has incurred net losses and negative cash flows from operations for the years ended December 31, 2022 and 2021, and has negative working capital (current liabilities in excess of current assets) and an accumulated deficit as at December 31, 2022. In addition, the Company is in breach of a financial covenant under one of its debt obligations at December 31, 2022. The Company's business plan is dependent upon generating positive cash flows, the continued financial support of its shareholders and lenders and/or raising additional funds to finance operations within and beyond the next 12 months. The Company has relied upon external financings to fund its operations in the past, primarily through the issuance of debt and equity, as well as from government assistance and investment tax credits. While the Company has been successful in securing financing in the past, raising additional funds is dependent on a number of factors outside the Company's control, and as such there is no assurance that it will be able to do so in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue operating as a going concern and realize its assets and settle its liabilities and commitments in the normal course of business.

2. Basis of accounting (continued):

(b) Going concern (continued):

If the Company is unable to realize its projected revenues and generate positive cash flows from operations and/or obtain sufficient additional financing, it may have to curtail operations and development activities, any of which could harm the business, financial condition and results of operations (refer to note 23, "Subsequent events", for information in relation to the reverse takeover and private placement).

The consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Company be unable to achieve its plan and continue in business. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the classification of items in the consolidated statements of financial position classifications used. Such adjustments could be material.

3. Functional and presentation currency and basis of measurement:

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

The consolidated financial statements have been prepared on a historical cost basis, except for:

(i) lease liabilities, which are measured at the present value of future lease payments in accordance with IFRS 16, *Leases*;

(ii) Financial instruments classified as financial liabilities measured at fair value through profit or loss.

4. Use of judgments and estimates:

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. These assumptions and estimates are regularly reviewed. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

4. Use of judgments and estimates (continued):

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 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 Company 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 Company 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) Determination of useful lives of long-lived assets:

Management estimates the expected useful lives of long-lived assets in order to calculate depreciation and amortization of long-lived assets. The amounts and timing of recorded expenses for depreciation and amortization of long-lived assets are affected by these estimated useful lives. The estimates are reviewed each year and are updated if expectations change. Changes in useful lives can cause significant modifications in the estimated period over which the long-loved assets are depreciated and amortized and the related depreciation and amortization expense in the future.

(d) 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, 2022, the Company determined that it is not probable that deferred tax assets will be realized in the future.

5. Significant accounting policies:

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

The Company's significant accounting policies are as follows:

(a) Basis of consolidation:

The consolidated financial statements of the Company include the accounts of the Company and of its subsidiaries.

(i) Subsidiaries:

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of these returns. The Company reassesses whether it controls an entity if facts and circumstances indicate that one or more of the aforementioned points have changed. A subsidiary is consolidated from the date the Company obtains control and continues to be consolidated until the date such control ceases.

Subsidiary	Jurisdiction	% ownership
Steri-Med Pharma inc. ("Steri-Med")	Canada	100%
Groupe Immobilier LSL inc. [(i)]	Canada	100%

[(i)] This subsidiary has no operations.

(ii) 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.

(b) Foreign currency translation:

Transactions in foreign currencies are comprised of purchases from foreign suppliers. These transactions are translated into the functional currency at exchange rates at the dates of the transactions. The related payables denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates at that date. The resulting foreign currency gains or losses are recognized on a net basis within finance expenses in the consolidated statement of net loss and comprehensive loss.

5. Significant accounting policies (continued):

(c) Cash and cash equivalents:

Cash and cash equivalents comprise cash held in financial institutions, and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

(d) Inventories:

Inventories are valued at the lower of cost, determined under the first-in first-out method, and net realizable value. Costs include the cost of purchase and transportation costs that are directly incurred to bring inventories to their present location and condition. Inventory costs also include the costs directly related to the conversion of materials to finished goods, such as the appropriate share of production overheads based on normal operating capacity.

Normal capacity is the average production expected to be achieved during the fiscal year, under normal circumstances. 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.

(e) 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.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components). Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized in the statement of net income (loss) and comprehensive income (loss).

Subsequent expenditure is capitalised only if it is probable that the future economic benefits will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

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. Assets under construction are not depreciated until available for use.

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

5. Significant accounting policies (continued):

(e) Property, plant and equipment (continued):

Asset	Method	Period
Building	Straight-line	20 years
Computer equipment	Straight-line	5 years
Furniture	Straight-line	10 years
Production equipment	Straight-line	10 to 25 years
Laboratory equipment	Straight-line	10 years
Leasehold improvements	Straight-line	Lease term
Right-of-use assets - Building	Straight-line	Lease term
Right-of-use assets - Production equipment	Straight-line	Lease term

(f) Intangible assets:

Intangible assets are comprised of customer relationships and product formulas that have finite useful lives, are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in net profit as incurred.

Customer relationships and product formulas are amortized using the straight-line method over 15 years and 25 years, respectively.

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

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

The Company 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, in order to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

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").

5. Significant accounting policies (continued):

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

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.

(h) Leases:

At inception of a contract, the Company 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 of time in exchange for consideration.

Right-of-use asset

The Company 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 Company 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.

5. Significant accounting policies (continued):

(h) Leases (continued):

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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company 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), the exercise price under a purchase option that the Company is reasonably certain to exercise, and lease payments in an optional renewal period if the Company is reasonably certain to exercise a renewal option.

(i) Government grants:

Government grants are recognized only when the Company has reasonable assurance that it meets the conditions and will receive the grants. Government grants related to assets are recognized in the consolidated statement of financial position as a deduction from the carrying amount of the related asset. They are then recognized in net loss and comprehensive loss over the estimated useful life of the depreciable asset that the grants were used to acquire, as a deduction from the depreciation expense.

Government grants related to expenses such the Canadian Emergency Wage Subsidy, Tourism and Hospitality Recovery Program and research and development tax credits are recognized in the consolidated statement of net loss and comprehensive loss as a deduction from the related expenses.

(j) Short-term employee benefits:

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

5. Significant accounting policies (continued):

(k) Financial instruments:

(i) Recognition, classification and initial measurement:

Financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value to other comprehensive income ("FVOCI") or 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 Company changes its business model for managing financial assets.

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.

The Company has classified all of its financial instruments at amortized cost with the exception of the First advance payable to Finaccès Capital inc which is measured at FVTPL (see note 12).

5. Significant accounting policies (continued):

(k) Financial instruments (continued):

(ii) Derecognition:

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in the statement of net loss and comprehensive loss.

(iii) Offsetting:

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

(iv) Impairment:

The Company recognizes loss allowances for expected credit losses ("ELCs") on financial assets measured at amortized cost.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date;
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

5. Significant accounting policies (continued):

(k) Financial instruments (continued):

(iv) Impairment (continued):

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk. The Company does not hold any financial asset subject to ECLs with contractual period over 12 months.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

(v) Factoring:

The Company receives early payment of customer invoices from a lender by factoring its receivable from its clients. Under the arrangement, the lender agrees to pay amounts to the Company in respect of invoices owed by its clients and receives settlement from its clients at a later date. The payments received from the lender are included within operating cash flows because they continue to be part of the normal operating cycle of the Company and their principal nature remains operating (i.e. payments for the sale of goods). The Company continues to bear the risk of collection on its trade accounts receivable and, as such, accounts receivable and other financial liabilities are presented distinctly in the consolidated statement of financial position.

(l) Fair value measurement:

In establishing the fair value, the Company uses a fair value hierarchy based on levels as defined below:

- Level 1: defined as observable inputs such as quoted prices in active markets for identical instruments.
- Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: defined as inputs that are based on little or no observable market data and, therefore, requiring entities to develop their own assumptions.

5. Significant accounting policies (continued):

(m) Provisions:

A provision is recognized if, as a result of a past event, the Company 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.

(n) Revenue:

The Company derives revenues mainly from the sales of finished goods. The Company 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 when the goods are delivered and have been accepted at their premises.

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.

The Company generates its revenue from one revenue stream only in Canada for which the type of customers, types of contracts, contract duration and timing of transfer of goods are similar in nature.

(o) 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.

5. Significant accounting policies (continued):

(o) Income taxes (continued):

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.

The measurement of deferred income taxes reflects the tax consequences that would follow from the manner in which the Company 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.

(p) Finance income and finance costs:

Finance income comprises interest income. Finance costs comprise principally interest expense on long-term debt and other loans and factoring fees. The Company recognizes finance income and finance costs as financing activities in the Company's consolidated statements of cash flows.

(q) Segment reporting:

The Company determined that it operates in a single operating segment.

5. Significant accounting policies (continued):

(r) Standards issued but not yet effective:

Accounting standards and interpretations issued but not yet applied.

Classification of liabilities as current or non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current (the "2020 amendments"). On October 31, 2022, the IASB issued *Non-current Liabilities with Covenants* (Amendments to IAS 1) ("the 2022 amendments"), to improve the information a Company provides about long-term debt with covenants. The 2020 amendments and the 2022 amendments (collectively, "the Amendments") are effective for annual periods beginning on or after January 1, 2024. For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period. The Amendments reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which a company must comply after the reporting date do not affect a liability's classification at that date. It is not expected that this amendment will have a significant impact on the Company's financial statements.

6. Accounts receivable and other financial liabilities:

	2022	2021
Trade receivables (i)	$ 1,029,233	$ 1,245,668
Allowance for expected credit losses	(40,000)	(40,000)
Provision for rebates and discount	(24,049)	(87,570)
Sales taxes receivable	74,286	84,371
Receivable from Îledor (notes 19 and 23)	191,536	106,292
R&D tax credit receivable	–	84,000
Canadian Wage Emergency Subsidy and Tourism and Hospitality Recovery Program	–	47,167
	$ 1,231,006	$ 1,439,928

6. Accounts receivable and other financial liabilities (continued):

(i) The Company receives early payment of customer invoices by factoring its receivables from its clients. Under the arrangement, the lender agrees to pay amounts upfront equal to 70% to 90% of the receivable to the Company in respect of invoices owed by its clients and other current advances. The remaining portion of the payment is received after they receive the payment from the customer. The related trade receivables have not been derecognised from the consolidated statements of financial position because the Company retains substantially all of risks and rewards - primarily credit risk. The amount received on transfer has been recognized as other financial liabilities in the consolidated statements of financial position. The arrangement is such that the customers remit cash directly to the lender and the lender then transfers the cash to the Company on a monthly basis. The trade receivables are considered to be held within a held-to-collect business model consistent with the Company's continuing recognition of the trade receivables. The payments received from the lender are included as operating activities in the consolidated statement of cash flows.

The following information shows the carrying amount of trade receivables at the reporting dates that have been transferred but have not been derecognized and the associated liabilities:

	2022	2021
Carrying amount of trade receivables transferred	$ 1,005,184	$ 1,158,098
Carrying amount of other financial liabilities in relation to trade receivables transferred [(i)]	864,538	1,456,997

(i) On April 11, 2022, the Company entered into an agreement for a revolving credit facility with its factor for a maximum amount of $2,000,000 (the "Factor revolving credit facility"). The facility bears interest at CDOR plus 7.45%, matures in May 2023 and is secured by the Company's accounts receivable and inventory. Funds from the facility were used to repay, amongst other things, a portion of the advance payable to Finaccès Capital inc. As at December 31, 2022, the amount of other financial liabilities of $1,042,275 includes $864,538 in relation to trade receivables transferred and $177,737 related to additional funds drawn on the revolving credit facility.

7. Inventories:

	2022	2021
Raw material	$ 686,586	$ 687,841
Packaging supplies - labels	739,102	277,079
Work in progress	303,578	334,900
Finished goods	1,318,202	2,955,176
Provision for obsolescence and net realizable value	(90,269)	(88,859)
	$ 2,957,199	$ 4,166,137

The cost of inventories recognized as an expense within cost of goods sold during the year ended December 31, 2022 was $9,177,066 (2021 - $8,282,211). The provision for obsolescence and net realizable value relates to raw material and finished goods, respectively.

8. Property, plant and equipment:

	Land	Building	Computer equipment	Furniture	Production equipment	Laboratory equipment	Leasehold improvement	Assets under construction [(i)]	Right-of-use assets - building	Right-of-use assets - production equipment	Total
Cost											
Balance as at December 31, 2020	$ 283,500	$ 3,507,542	$ 89,989	$ 74,851	$ 4,514,992	$ 50,000	$ 815,106	$ –	$ 1,005,735	$ 742,937	$ 11,084,652
Additions	–	122,442	7,761	51,710	541,268	–	114,444	469,150	1,906,128	19,900	3,232,803
Balance as at December 31, 2021	283,500	3,629,984	97,750	126,561	5,056,260	50,000	929,550	469,150	2,911,863	762,837	14,317,455
Additions	–	281,301	31,477	23,155	159,502	–	1,546	1,300,107	–	–	1,797,088
Balance as at December 31, 2022	$ 283,500	$ 3,911,285	$ 129,227	$ 149,716	$5,215,762	$ 50,000	$ 931,096	$ 1,769,257	$ 2,911,863	$ 762,837	$ 16,114,543
Accumulated depreciation											
Balance as at December 31, 2020	$ –	$ (57,787)	$ (15,645)	$ (11,792)	$ (402,776)	$ (14,900)	$ (43,121)	$ –	$ (152,984)	$ (83,567)	$ (782,572)
Depreciation	–	(142,983)	(13,188)	(10,365)	(145,927)	(5,000)	(79,278)	–	(221,827)	(30,115)	(648,683)
Balance as at December 31, 2021	–	(200,770)	(28,833)	(22,157)	(548,703)	(19,900)	(122,399)	–	(374,811)	(113,682)	(1,431,255)
Depreciation	–	(127,565)	(15,844)	(14,062)	(219,620)	(5,000)	(125,912)	–	(228,512)	(30,513)	(767,028)
Balance as at December 31, 2022	$ –	$ (328,335)	$ (44,677)	$ (36,219)	$ (768,323)	$ (24,900)	$ (248,311)	$ –	$ (603,323)	$ (144,195)	$ (2,198,283)
Net carrying amounts											
Balance as at December 31, 2021	$ 283,500	$ 3,429,214	$ 68,917	$ 104,404	$ 4,507,557	$ 30,100	$ 807,151	$ 469,150	$ 2,537,052	$ 649,155	$ 12,886,200
Balance as at December 31, 2022	283,500	3,582,950	84,550	113,497	4,447,439	25,100	682,785	1,769,257	2,308,540	618,642	13,916,260

9. Intangible assets:

	Product formulas	Customer relationships	Total
Cost			
Balance as at December 31, 2021 and 2022	$ 9,678,001	$ 367,568	$ 10,045,569
Accumulated amortization			
Balance as at December 31, 2020	$ 159,633	$ 79,641	$ 239,274
Amortization	388,787	24,505	413,292
Balance as at December 31, 2021	548,420	104,146	652,566
Amortization	387,119	24,505	411,624
Balance as at December 31, 2022	$ 935,539	$ 128,651	$ 1,064,190
Net carrying amounts			
Balance as at December 31, 2021	$ 9,129,581	$ 263,422	$ 9,393,003
Balance as at December 31, 2022	8,742,462	238,917	8,981,379

10. Accounts payable and accrued liabilities:

	2022	2021
Accounts payable	$ 4,535,424	$ 2,543,270
Accrued liabilities	1,468,197	1,146,932
Interest payable	113,930	27,690
	$ 6,117,551	$ 3,717,892

11. Revolving credit facility:

On June 13, 2022, the Company entered into a revolving credit facility agreement with CAE Capital. The maximum available amount is $500,000 and is limited to a specified percentage of accounts receivable and open orders placed by a specific customer and is repayable on May 31, 2023. The revolving credit facility bears interest at 10% annually and interest is due monthly. The revolving credit facility is secured by the accounts receivable of the specific customer. As at December 31, 2022, the facility maximum amount of $500,000 was fully drawn. Transaction fees of $15,700 were incurred in relation with the issuance of the debt, for which $9,158 were amortized during the year ended December 31, 2022. As at December 31, 2022, the Company is in breach of its covenant on the revolving credit facility agreement.

12. Long-term debt:

	2022	2021
Secured debentures (i)	$ 4,679,081	$ 4,477,843
Advance payable to Finaccès Capital inc. (ii)	–	3,419,239
First advance payable to Finaccès Capital inc. (ii)	2,050,200	–
Second advance payable to Finaccès Capital inc. (ii)	245,061	–
Third advance payable to Finaccès Capital inc. (ii)	757,500	–
Secured loans from Desjardins (iii)	1,028,581	1,293,028
Term loan from Investissement Québec (iv)	480,000	599,890
Canadian Emergency Business Account (CEBA), without interest, maximum amount payable of $120,000 at maturity on December 31, 2023 or $80,000 if repaid before maturity	80,000	80,000
	9,320,423	9,870,000
Current portion of long-term debt	1,578,581	1,892,918
Long-term portion of long-term debt	$ 7,741,842	$ 7,977,082

12. Long-term debt (continued):

(i) Secured debentures:

On June 10, 2021, the Company issued a first tranche of $4,700,000 (on a total up to $8,000,000) available secured debentures bearing interest at 6% annually for a total amount of $4,080,811, net of transaction fees of $619,189 paid to Industrielle Alliance. The secured debentures are guaranteed over the universality of the movable property and immovable property of the Company, except all of its current assets.

An additional amount of $270,977 of debentures was issued on September 9, 2021, net of transaction fees of $29,023, bringing thee total amount drawn as at December 31, 2021 and 2022 to be $5,000,000 (altogether referred to as the "Debentures"). Some of the Debentures are held by related parties (refer to note 19).

The proceeds were used, amongst other things, to repay some of the Company's debts at the date of the settlement for an amount of $3,856,299. This led to a gain on debt settlement of $141,322, which was recorded in net finance expenses in the year ended December 31, 2021 (see note 15).

In December 2022, the Company signed amendments to some of the Debentures to extend the repayment date from December 10, 2023 to June 10, 2024 (the "extension period"), for $4,650,000 out of the total nominal amount of $5,000,000 of issued and outstanding Debentures (the "extended debentures"). The Extended Debentures will bear interest at 9.5% for the extension period starting December 11, 2023. The weighted-average effective interest rate on the debentures is 11.86%.

The movement in debentures is as follows:

Balance at January 1, 2021	$ –
Debenture issuance	5,000,000
Transaction fees	(648,212)
Accretion expense included in interest on long-term debt in note 15	126,055
Balance at December 31, 2021	$ 4,477,843
Accretion expense included in interest on long-term debt in note 15	201,238
Balance at December 31, 2022 [(1)]	$ 4,679,081

(1) $342,532 of the amount is classified in the current portion as it is repayable within 12 months from December 31, 2022.

12. Long-term debt (continued):

(ii) Finaccès Capital Inc.:

The advance payable to Finaccès Capital inc. of $3,419,239 as at December 31, 2021 was bearing interest at 18% and was not repayable before January 1, 2024.

Following the Factor revolving credit facility borrowing described in note 6, in addition to the repayment of a portion of the advance payable to Finaccès Capital inc., the terms of the remaining advance payable to Finaccès Capital inc. of $2,446,406 were substantially modified on April 11, 2022 and replaced with two new advances payable:

- The first advance of $2,100,000 is repayable at the earlier of a liquidity event and January 1, 2024, is non-interest bearing and classified as a financial liability measured at FVTPL (the "First advance payable to Finaccès Capital inc.");
- The second advance of $250,000 is repayable on January 1, 2024, is non-interest bearing until a liquidity event occurs, and will bear interest at 12% thereafter if such an event occurs (the "Second advance payable to Finaccès Capital inc.").

The First and Second advances were recorded at their fair value using an effective rate of 12%. The Company recorded a gain of $656,943 (refer to note 15) resulting from this transaction in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2022.

Between May and November 2022, the Company received other advances for a total of $862,500 from Finaccès Capital Inc., of which $105,000 were repaid before December 31, 2022 (for a net amount of $757,500 outstanding as at December 31, 2022), which bear interest at 18% and are repayable on March 31, 2024 (the "Third advance payable to Finaccès Capital inc.").

All advances payable to Finaccès Capital inc. are secured by a second rank guarantee over accounts receivable and inventory and by a third rank guarantee over property, plant and equipment.

12. Long-term debt (continued):

(iii) Desjardins:

The term of the secured loans from Desjardins were amended during the year ended December 31, 2022. Before the amendments, the secured loans were bearing interest at bank prime rate plus 2.5%, payable in monthly instalments of $13,000, maturing in May 2027. Subsequent to the amendment, the secured loans bear interest at prime rate plus 2.5% and are payable in instalments of $27,961 from August 1, 2022 to January 1, 2023, $33,354 from February 1, 2023 to July 1, 2023, with a final repayment of $797,418 on July 1, 2023. The secured loans are guaranteed by LSL Laboratory Inc.'s property, plant and equipment.

The secured loans from Desjardins are guaranteed by a movable hypothec on LSL Laboratory Inc.'s equipment as well as subordinated guarantees on other current assets, personal guarantee from a significant shareholder as well as a guarantee from Investissement Québec.

(iv) Investissement Québec:

The term loan from Investissement Québec was amended in December 2022. Before December 2022, the loan was payable in 15 monthly instalments of $10,000 with a final payment of $499,890 due in October 2022, interest at prime rate plus 7%. After the amendment, the term loan is now repayable in one instalment of $9,890 followed by 48 monthly instalments of $10,000, maturing in May 2026. The term loan now bears interest at prime rate plus 5.05%. The term loan is guaranteed by movable property of Steri-Med.

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

2023	$ 1,578,581
2024	7,501,842
2025	120,000
2026	120,000

13. Lease liabilities:

Lease liabilities as at December 31, 2020	$	1,183,006
Additions		1,926,028
Payments		(360,548)
Interest expense		124,087
Lease liabilities as at December 31, 2021		2,872,573
Payments		(312,725)
Interest expense [(i)]		137,157
Lease liabilities as at December 31, 2022	$	2,697,005

[(i)] An amount of $100,272 of interest expense was capitalized in asset under construction for the December 31, 2022 (2021 - $66,593).

	2022	2021
Contractual undiscounted cashflows:		
Less than 1 year	$ 264,142	$ 304,517
Between 1 and 5 years	1,085,696	1,051,949
More than 5 years	2,322,879	2,628,976
Total undiscounted lease liabilities	$ 3,672,717	$ 3,985,442
Lease liabilities included in the consolidated statements of financial position:		
Current	$ 135,606	$ 186,840
Non-current	2,561,399	2,685,733
	$ 2,697,005	$ 2,872,573

Discount rate on leases ranges from 4.23% to 13.85%.

14. Share capital and warrants:

Class A Shares ("Class A")

The Company is authorized to issue an unlimited number of no-par value and voting Class A shares. Class A shares have the right to receive, after Class B shareholders, any dividend declared by the Board of Directors of the Company.

Class B Shares ("Class B")

The Company 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 Company 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 Company's income or assets. There are no Class B shares issued.

All share issuances for the years ended December 31, 2022 and 2021 were issued in exchange of cash consideration. All shares issued are Class A common shares.

Warrants

As of December 30, 2022, 33,606,000 warrants (December 31, 2021 - 28,172,000 warrants) are outstanding in connection with Class A common share issuances. Each warrant entitles the holder to purchase one Class A common share at a subscription price of $0.70 per share. These warrants were set to expire in December 2022, except for 500,000 warrants that expire in September 2027. However, as part of the reversed takeover transaction described in note 23, "Subsequent events", the warrants set to expire in December 2022 were extended until June 30, 2024.

15. Net finance expenses:

	2022	2021
Interest expense on long-term debt and revolving credit facility	$ 904,477	$ 1,455,659
Interest expense on other financial liabilities and factoring fees	248,346	118,493
Interest expense on advances payable to shareholders	50,367	–
Interest expense on revolving line of credit	29,241	–
Change in fair value of advances payable to Finaccès Capital inc. (note 20 (c) iii))	151,464	–
Interest expense on lease liabilities	36,885	57,494
Other interest expense	115,810	73,872
Gain on debt settlement (note 12)	(656,943)	(141,322)
	$ 879,647	$ 1,564,196

16. Government grants:

The Company has recorded government grants as a reduction of cost of goods sold for the following periods:

		2022		2021
Canadian Emergency Wage Subsidy and Tourism and Hospitality Recovery Program	$	–	$	642,484

17. Additional information on the consolidated statements of loss and comprehension loss:

		2022		2021
Included in cost of goods sold:				
Employee salaries and benefits	$	3,198,927	$	3,108,395
Depreciation and amortization		960,920		542,874
Included in selling expenses:				
Employee salaries and benefits		277,755		159,461
Included in administrative expenses:				
Employee salaries and benefits		1,610,014		909,687
Depreciation and amortization		86,586		24,505

18. Income taxes:

The following table reconciles income taxes computed at the Company’s statutory rate of 26.5% for the year ended December 31, 2022 (December 31, 2021 - 26.5%) and the total tax expense for the years as follows:

		2022		2021
Loss before taxes	$	(8,062,243)	$	(1,629,463)
Income taxes recovery calculated at the statutory tax rate		(2,136,494)		(431,808)
Unrecognized deferred tax assets		1,640,953		552,050
Other permanent differences		(18,097)		21,862
True up deferred tax		510,101		–
Other		3,537		5,351
Income tax expense	$	–	$	147,455

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

18. Income taxes (continued):

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

				December 31, 2022
	Opening balance	Variation recognized in net income	Recognized in equity	Closing balance
Tax losses carried forward	$ 3,286,291	$ 213,044	$ –	$ 3,499,335
Lease liabilities	751,492	(36,786)	–	714,706
Financing fees	78,876	(6,158)	–	72,718
R&D pool	126,457	(126,457)	–	–
Long-term debt	–	–	–	–
Provision	113,935	152,992	–	266,927
Property, plant and equipment and right-of-use asset	(1,869,243)	(306,306)	–	(2,175,549)
Intangible assets	(2,489,145)	109,075	–	(2,380,070)
Other	1,337	596	–	1,933
Deferred income tax asset	$ –	$ –	$ –	$ –

As at December 31, 2022, there are 1,640,953$ (552,050$ as at December 31, 2021) of unrecognized deferred tax assets in relation to tax losses carried forward which were not recognized during the year ended December 31, 2022 because the criteria for recognition were not met.

				December 31, 2021
	Opening balance	Recognized in net income	Recognized in equity	Closing balance
Tax losses carried forward	$ 4,300,366	$ (1,014,075)	$ –	$ 3,286,291
Lease liabilities	281,739	469,753	–	751,492
Financing fees	63,318	(27,445)	43,003	78,876
R&D pool	103,288	23,169	–	126,457
Long-term debt	(683,094)	683,094	–	–
Provision	62,399	51,536	–	113,935
Property, plant and equipment and right-of-use asset	(1,427,017)	(442,226)	–	(1,869,243)
Intangible assets	(2,597,884)	108,739	–	(2,489,145)
Other	1,337	–	–	1,337
Deferred income tax asset	$ 104,452	$ (147,455)	$ 43,003	$ –

18. Income taxes (continued):

The following table presents components of the deferred tax assets and liabilities:

	December 31, 2022		December 31, 2021	
Deferred tax assets	Assets	Liabilities	Assets	Liabilities
Tax losses carried forward	$ 3,499,335	$ –	$ 3,286,291	$ –
Lease liabilities	714,706	–	751,492	–
Financing fees	72,718	–	78,876	–
R&D pool	–	–	126,457	–
Provision	266,927	–	113,935	–
Long-term debt	–	–	–	–
Property, plant and equipment and right-of-use asset	–	(2,175,549)	–	(1,869,243)
Intangible assets	–	(2,380,070)	–	(2,489,145)
Other	1,933	–	1,137	–
	4,555,619	(4,555,619)	4,358,188	(4,358,388)
Offsetting of assets and liabilities	(4,555,619)	4,555,619	(4,358,388)	4,358,388
Deferred taxes not recognized	–	–	200	–
	$ –	$ –	$ –	$ –

	2022	2021
Unused tax losses:		
The Company has unused tax losses of:	$ 21,415,035	$ 14,682,290

The losses expire in the following years:

	December 31, 2022		December 31, 2021	
	Federal	Provincial	Federal	Provincial
2034	$ 74,227	$	$ –	$ –
2035	1,441,453	1,360,556	–	–
2036	1,653,492	1,669,028	1,419,638	1,042,133
2037	2,386,867	2,386,867	3,510,143	3,555,716
2038	5,943,397	6,001,735	6,143,303	6,151,650
2039	917,143	967,649	1,157,104	1,157,104
2040	83,647	104,726	168,453	168,306
2041	1,985,091	2,013,961	2,283,694	2,283,694
2042	6,929,718	7,061,416	–	–

19. Transaction with related parties and shareholders:

(a) Transactions with related parties:

Key management personnel includes the Chief Executive Officer, Chief Financial Officer, Vice-Presidents and Officers.

The following table presents the compensation of key management personnel recognized in the consolidated statements of loss and comprehensive loss:

	2022	2021
Short-term employee benefits	$ 1,064,930	$ 785,209

The Company's balances and transactions with related parties are as follows:

	2022	2021
Assets		
Advance receivable from Îledor included in accounts receivable in relation to expenses paid by the Company on behalf of Îledor (notes 6 and 23)	$ 191,536	$ 106,292
Amount receivable from a company managed by an officer of the Company included in accounts receivable	18,673	–
Advance receivable from related parties	–	255,208
Liabilities		
Advances payable to key management personnel included in advances payable to shareholders	292,209	–
Amount of Debentures held by key management personnel of the Company and recorded in long-term debt (note 12)	1,150,000	1,150,000
Revenues		
Revenues from company managed by an officer of the Company	171,809	–

19. Transaction with related parties and shareholders (continued):

(b) Transactions with shareholders:

During the year ended December 31, 2022, the Company has borrowed, from several shareholders, $1,700,000 bearing interest between 8% and 12% and repayable between May 2023 and June 2023. The Company also borrowed, from key management personnel, an amount of $292,209 without interest or terms of repayment (see note 19 (a)).

20. Financial risks:

(a) Credit risk:

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

The Company 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 Company deals with major North American clients that are well known in the pharmaceutical market. The Company 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:

	December 31, 2022	December 31, 2021
Current:		
31 to 60 days past due	$ 741,969	$ 717,853
61 to 90 days past due	130,062	355,426
91 to 120 days past due	95,491	22,750
Over 120 days past due	61,711	149,639
	1,029,233	1,245,668
Loss allowance	(40,000)	(40,000)
Balance, end of period	$ 989,233	$ 1,205,668

20. Financial risks (continued):

(a) Credit risk (continued):

As at December 31, 2022, 64% (December 31, 2021 - 81%) of accounts receivable are concentrated with three clients (December 31, 2021 - four clients). For the year ended December 31, 2022, five clients represented 76% of total revenues (December 31, 2021 - five clients representing 80% of revenues). The Company does not require a guarantee.

(b) Liquidity risk:

Liquidity risk refers to the Company's ability to meet its financial obligations when they come due. The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. The Company manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching maturity profiles of financial assets and liabilities. The Company's objective is to maintain a balance between continuity of funding and flexibility through borrowing facilities available through the Company's bank and other lenders. The Company's policy is to ensure adequate funding is available from operations and other sources as required (refer to note 2 (b), "Going concern").

The following are the contractual maturities of financial obligations, including interest, under the lending agreements:

					As at December 31, 2022
	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and other liabilities	$ 6,117,551	$ 6,117,551	$ 6,117,551	$ –	$ –
Other financial liabilities	1,535,733	1,790,674	1,790,674	–	–
Long-term debt, including current portion	9,320,423	10,690,644	1,894,698	8,795,946	–
Lease liabilities, including current portion	2,697,005	3,672,717	264,142	1,372,870	2,035,705

					As at December 31, 2021
	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years
Accounts payable and other liabilities	$ 3,717,892	$ 3,717,892	$ 3,717,892	$ –	$ –
Other financial liabilities	1,456,997	1,570,966	1,570,966	–	–
Long-term debt, including current portion	9,870,000	10,913,221	2,052,004	8,861,217	–
Lease liabilities, including current portion	2,872,573	3,985,442	304,517	1,051,949	2,628,976

20. Financial risks (continued):

(b) Liquidity risk (continued):

Capital management

The Company’s capital is composed of shareholders' equity and long-term debt. The Company'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 Company has relied on equity financing, and long-term debt. Refer to note 2 (b), "Going concern".

The Company is not subject to any capital requirements imposed by a regulator.

(c) Interest rate risk:

A portion of the Company's long-term debt and its revolving credit facility (refer to note 12) bear interest at variable rates. As a result, the Company is exposed to interest rate risk due to fluctuations in the bank prime rate.

(i) Sensitivity analysis for interest rate risk:

An increase or decrease of 100 basis points in the interest rate would have an impact of ($30,999) on the Company’s consolidated net loss for the year ended December 31, 2022 (2021 - $18,929).

(ii) Fair value measurement:

The Company has determined that the fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, revolving credit facility, other financial liabilities, and advances payable to shareholders approximate their respective carrying amounts at the consolidated statements of financial position dates, due to the short-term maturity of those instruments.

The Company determined that the fair value of its long-term debt approximates their carrying amount as they bear interest similar to market interest rates for financial instruments with similar terms and risks, with the exception to the secured debentures, whose fair value approximates $4,000,000.

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 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.

20. Financial risks (continued):

(c) Interest rate risk (continued):

(ii) Fair value measurement (continued):

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

Balance at January 1, 2022	$	–
Initial measurement		1,898,736
Changes in fair value (note 15)		151,464
Fair value as at December 31, 2022	$	2,050,200

21. Basic and diluted loss per share:

The calculation of basic and diluted loss per share has been based on the following.

		2022		2021
Net loss	$	(8,062,243)	$	(1,776,918)
Weighted average number of common shares		66,472,856		59,468,490
Basic and diluted loss per share	$	(0.12)	$	(0.03)

For the years ended December 31, 2022 and 2021, the diluted loss per share calculation did not take into consideration the potential dilutive effect of the warrants as they are anti-dilutive.

22. Additional cash flow information:

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

		2022		2021
Accounts receivable	$	208,922	$	964,906
Inventories		1,208,938		(2,036,549)
Prepaid expenses		(76,903)		(25,267)
Accounts payable and accrued liabilities		1,622,496		(384,669)
Deferred revenue		7,488		(512,097)
	$	2,970,941	$	(1,993,676)

22. Additional cash flow information (continued):

The following table includes roll-forward of financial liabilities and its impacts on cash flows from financing activities:

	Revolving credit facility	Other financial liabilities	Advances payable to shareholder	Long-term debt	Lease liabilities	Total
Balance at January 1, 2022	$ –	$ 1,456,997	$ –	$ 9,870,000	$ 2,872,573	$14,199,570
Repayment of long-term debt	–	–	–	(822,691)	–	(822,691)
Issuance of long-term debt	–	–	–	862,500	–	862,500
Proceeds from revolving credit facility	500,000	–	–	–	–	500,000
Proceeds from advances payable to shareholder	–	–	2,247,417	–	–	2,247,417
Issuance costs of long-term debt	(15,700)	(48,623)	–	–	–	(64,323)
Net change in other financial liabilities	–	(697,229)	–	–	–	(697,229)
Payment of lease liabilities	–	–	–	–	(312,725)	(312,725)
Total changes from financing cash flows	484,300	(745,852)	2,247,417	39,809	(312,725)	1,228,649
Non-cash debt settlements	–	735,885	(255,208)	(735,885)	–	(255,208)
Capitalized interests	–	–	–	–	100,272	100,272
Change in fair value of advance payable to Finaccès Capital inc.	–	–	–	151,464	–	151,464
Gain on debt settlement	–	(437,170)	–	(219,773)	–	(656,943)
Interest expense	29,241	248,346	–	861,517	36,885	1,289,919
Interest paid	(20,083)	(215,931)	–	(646,709)	–	(862,640)
Total other changes	9,158	331,130	(255,208)	(589,386)	137,157	(376,307)
Balance as at December 31, 2022	$ 493,458	$ 1,042,275	$1,992,209	$ 9,320,423	$ 2,697,005	$15,051,912

22. Additional cash flow information (continued):

	Other financial liabilities	Long-term debt	Lease liabilities	Total
Balance at January 1, 2021	$ 1,661,896	$ 9,383,524	$ 1,183,006	$ 12,228,426
Repayment of long-term debt	–	(4,409,829)	–	(4,409,829)
Issuance of long-term debt	–	5,319,660	–	5,319,660
Issuance costs of long-term debt	–	(648,212)	–	(648,212)
Net change in other financial liabilities	(204,899)	–	–	(204,899)
Payment of lease liabilities		–	(360,548)	(360,548)
Total changes from financing cash flows	(204,899)	261,619	(360,548)	(303,828)
New leases	–	–	1,926,028	1,926,028
Gain on debt settlement	–	(141,322)	–	(141,322)
Interest expense	118,493	1,389,066	124,087	1,631,646
Interest paid (i)	(118,493)	(1,068,887)	–	(1,187,380)
Acquisition of fixed assets	–	46,000	–	46,000
Balance as at December 31, 2021	$ 1,456,997	$ 9,870,000	$ 2,872,573	$ 14,199,570

(i) Interest paid in the consolidated statement of cash flow includes other interest paid of $73,872 (note 15).

The following transactions had no cash impact for the years ended:

	December 31, 2022	December 31, 2021
Investing activities		
Unpaid fixed assets additions included in accounts payable and accrued liabilities	$ 615,741	$ 47,716
Capitalized depreciation on right-of-use assets building	131,972	87,987
Capitalized interest expense on lease liabilities included in assets under constructions additions	100,272	66,593
Deposits on fixed assets included in assets under construction (i)	–	304,212

(i) An amount of $304,000 of acquisition and deposits on property, plant and equipment during the year ended December 31, 2021 was recorded through a net decrease of advance receivable from a related party for an amount of $258,000 and through long-term debt for an amount of $46,000.

23. Subsequent events:

Reserve takeover and private placement

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 (the “Common Shares”) on the basis of one (1) post-consolidation Common Share for every twenty-five (25) pre-consolidation outstanding Common Shares (the "Consolidation"), and Îledor changed its name to LSL Pharma Group Inc. (the "Resulting Issuer").

On March 1, 2023, the Common Shares of LSL Pharma Group Inc. began trading on the TSX Venture Exchange ("TSXV") under the symbol "LSL".

In connection with the RTO, the following transactions occurred:

- Acquisition by Îledor of all of the outstanding shares and securities of LSL Laboratory Inc. for a total consideration of $47,662,300 by way of a reverse takeover whereby the Resulting Issuer issued 68,089,000 Common Shares (post-Consolidation) at a price of $0.70 per Common Share and 33,606,000 subscription rights to the shareholders of LSL Laboratory Inc. The Resulting Issuer also issued 1,575,000 Common Shares (post-Consolidation) at a price of $0.70 per Common Share as a commission in connection with the RTO;

- The Resulting Issuer completed, on February 22, 2023, a first tranche private placement of 11,736,566 units at a price of $0.70 per unit (the "Units") for aggregate gross proceeds of $8,215,596 (the "First Tranche Private Placement") and, on March 13, 2023, a second tranche of 207,143 Units for aggregate gross proceeds of $145,000 (the "Second Tranche Private Placement" and, together with the First Tranche Private Placement, the "Private Placement"). Each Unit consists of one (1) Common Share (post-Consolidation) and one half (1/2) warrant. Each whole warrant entitles the holder to acquire one (1) additional Common Share (post-Consolidation) at a price of $1.00 for a period of 18 months. A total of $463,973 in cash and 662,818 broker warrants were paid as commissions for the First Tranche Private Placement and a total of $5,600 in cash and 8,000 broker warrants were paid as commissions for the Second Tranche Private Placement, where each such broker warrant entitles its holder to acquire one Unit (on the same terms as the Units in the Private Placement) at a price of $0.70 each 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 Private Placement, there were 82,433,578 issued and outstanding Common Shares (post-Consolidation) of LSL Pharma Group Inc., of which the former common shareholders of LSL Laboratory Inc. controlled a majority.

23. Subsequent events (continued):

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.

For the year ended December 31, 2022, there were $424,995 of expenses incurred in relation to the upcoming RTO.

Repayment of long-term debt

Following the completion of the RTO, the Company repaid the First advance payable to Finaccès Capital inc. for an amount of $2,100,000 as well as a portion of the Third advance payable to Finaccès Capital inc. for an amount of $500,000.