Condensed Interim Consolidated Financial Statements of

LSL PHARMA GROUP INC.
(formerly Corporation Exploration Iledor)

Three-month period ended March 31, 2023
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, the statements must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor. The accompanying unaudited interim financial statements of the Company have been prepared by management and are the responsibility of the Company's management. The Company's independent auditor has not performed a review or an audit of these condensed interim consolidated financial statements

LSL PHARMA GROUP INC.

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(Unaudited)

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LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

March 31, 2023 and December 31, 2022

	March 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 745,751	$ –
Accounts receivable	1,588,009	1,231,006
Inventories	3,273,948	2,957,199
Prepaid expenses	514,913	205,723
	6,122,621	4,393,928
Deposits	20,000	20,000
Property, plant and equipment	13,913,778	13,916,260
Intangible assets	8,903,473	8,981,379
	$ 28,959,872	$ 27,311,567
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,546,647	$ 6,117,551
Revolving credit facility (note 4)	497,383	493,458
Other financial liabilities	585,400	1,042,275
Advances payable to shareholders (note 9)	1,994,259	1,992,209
Deferred revenue	14,975	7,488
Current portion of long-term debt (note 5)	1,495,278	1,578,581
Current portion of lease liabilities	126,038	135,606
	9,259,980	11,367,168
Long-term debt (note 5)	5,557,202	7,741,842
Lease liabilities	2,530,012	2,561,399
	17,347,194	21,670,409
Shareholders' equity:		
Share capital and warrants (note 6)	24,397,044	15,402,888
Contributed surplus (note 6)	1,109,742	–
Deficit	(13,894,108)	(9,761,730)
	11,612,678	5,641,158
Going concern (note 2 (b))		
	$ 28,959,872	$ 27,311,567

See accompanying notes to condensed interim consolidated financial statements.

On behalf of the Board:

_______________________ Director

_______________________ Director

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

Three-month periods ended March 31, 2023 and 2022

	Three months ended March 31, 2023	Three months ended March 31, 2022
Revenues	$ 2,023,944	$ 1,865,211
Cost of goods sold (note 8)	1,637,164	2,537,071
Gross profit (loss)	386,780	(671,860)
Selling expenses (note 8)	57,486	86,112
Administrative expenses (note 8)	577,714	961,449
Research and development expenses	34,135	217,759
Operating expenses	669,335	1,265,320
Operating loss	(282,555)	(1,937,180)
Costs related to reverse takeover (note 12)	2,487,921	–
Share based compensation (note 6)	908,497	–
Loss before net finance expenses and income taxes	(3,678,973)	(1,937,180)
Net finance expenses (note 7)	453,406	375,789
Net loss, being comprehensive loss for the period	$ (4,132,379)	$ (2,312,969)
Basic and diluted loss per share (note 10)	$ (0.06)	$ (0.04)

See accompanying notes to condensed interim consolidated financial statements.

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)

Three-month periods ended March 31, 2023 and 2022

	Class A shares and warrants					
	Number of warrants	Number of shares	Amount	Deficit	Contributed surplus	Total
Balance as at December 31 2022	33,606,000	68,089,000	$ 15,402,888	$ (9,761,730)	$ –	$ 5,641,158
Share issuance (note 6 (a))	5,971,855	13,518,709	9,463,098	–	–	9,463,098
Effect of reverse acquisition (note 12)	825,869	479,004	–	–	–	479,004
Share-based compensation (note 6 (c))	–	–	–	–	908,497	908,497
Share issuance costs (note 6 (a))	670,818	–	(947,945)	–	201,245	(746,700)
Net loss for the period	–	–	–	(4,132,379)	–	(4,132,379)
Balance as at March 31, 2023	40,248,673	82,433,578	$ 24,397,044	$ (13,894,108)	$ 1,109,742	$

	Class A shares and warrants					
	Number of warrants	Number of shares	Amount	Deficit	Contributed surplus	Total
Balance as at December 31, 2021	28,172,000	62,655,000	$ 12,812,332	$ (1,699,488)	$ –	$ 11,112,844
Share issuance (note 6 (a))	15,000	15,000	7,500	–	–	7,500
Share issuance costs	–	–	(56,176)	–	–	(56,176)
Net loss for the period	–	–	–	(2,312,969)	–	(2,312,969)
Balance as at March 31, 2022	28,187,000	62,670,000	$ 12,763,656	$ (4,012,457)	$ –	$ 8,751,199

See accompanying notes to condensed interim consolidated financial statements.

LSL PHARMA GROUP INC.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

Three-month periods ended March 31, 2023 and 2022

	Three months ended March 31, 2023	Three months ended March 31, 2022
Cash provided by (used in):		
Operating:		
Net loss	$ (4,132,379)	$ 2,312,969
Adjustments for:		
Consideration transferred from Îledor in excess of net assets acquired (note 12)	1,032,411	–
Depreciation and amortization	248,520	248,909
Net finance expenses	453,406	375,789
Share-based compensation (note 6 (c))	908,497	–
Net change in non-cash operating working capital items (note 11)	(3,157,371)	976,113
	(4,646,916)	(712,158)
Financing:		
Repayment of long-term debt	(2,788,302)	(88,408)
Issuance of long-term debt	400,000	24,643
Proceeds from issuance of common shares from private placement	9,463,097	7,500
Common shares issuance costs	(746,700)	(56,176)
Interest paid	(251,499)	(293,929)
Net change in other financial liabilities	(469,031)	192,338
Payment of lease liabilities	(73,790)	(91,733)
	5,533,775	(305,765)
Investing:		
Acquisition and deposits on property, plant and equipment	(118,158)	(367,422)
Acquisition of intangible asset	(25,000)	–
Increase in advances payable to shareholders	2,050	172,022
	(141,108)	(195,400)
Net change in cash and cash equivalents	745,751	(1,213,323)
Cash and cash equivalents, beginning of period	–	741,010
Cash and cash equivalents, end of period	$ 745,751	$ (472,313)

Additional cash flow information is presented in note 11.

See accompanying notes to condensed interim consolidated financial statements.

1. Reporting entity:

LSL Pharma Group Inc. (the "Company"), formerly Corporation Exploration Îledor ("Îledor") up to the completion of the reverse takeover, as defined below, was incorporated under the Canada Business Corporations Act. The address of its registered office is 540, rue D'Avaugour, Boucherville, Québec. These condensed interim consolidated financial statements comprise the Company and its wholly-owned subsidiaries, Steri-Med Pharma Inc., Laboratoire LSL Inc. and Groupe Immobilier LSL inc. (together referred as the "Group"). The Group is a manufacturer of sterile pharmaceutical 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 (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:

- 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 Class A Common Share (post-consolidation) at a price of $1.00 for a period of 18 months. The total value attributed to the warrants in the transactions detailed above is $0.12 per one half (1/2) warrant.
- 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 (all together referred as "Broker Warrants"), where each such Broker Warrants 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 share option plan was established by the Resulting Issuer (note 6(c));

1. Reporting entity (continued):

In connection with the RTO, the following transactions occurred (continued):

- 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. owned 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 condensed interim consolidated financial statements are prepared as a continuation of the financial statements of LSL Laboratory Inc. As a result, 2022 comparative information included herein is solely that of LSL Laboratory Inc. For simplicity, transactions undertaken by LSL Laboratory Inc. prior to the RTO are referred to as being undertaken by the Company in these consolidated financial statements.

2. Basis of preparation:

(a) Basis of presentation:

These unaudited condensed interim consolidated financial statements do not include all the information required of a full set of annual financial statements and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that these unaudited condensed interim consolidated financial statements be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2022.

These unaudited condensed interim consolidated financial statements were authorized for issuance by Board of Directors of the Company on May 30, 2023.

These unaudited condensed interim 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"). Therefore, these unaudited interim financial statements comply with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". The same accounting policies and methods of computation were followed in the preparation of these unaudited condensed interim consolidated financial statements as were followed in the preparation of the most recent annual audited consolidated financial statements with the exception of share-based compensation which accounting policy is described hereafter.

2. Basis of preparation (continued):

(a) Basis of presentation (continued):

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

- equity classified share-based payment arrangements which are measured at fair value at grant date pursuant to IFRS 2, Share-based payment.

Share-based compensation

The Company has a share-based compensation plan, which is described in note 6(c). The Company uses the fair value-based method of accounting for employee awards granted under the plan. The Company calculates the fair value of each share option grant using the Black Scholes Option Pricing model at the grant date. The share-based compensation cost of the options is recognized as share -based compensation expense on a graded-vesting basis over the relevant vesting period of the share options. When employees exercise their share options, the share capital is credited by the sum of the consideration paid by employees and the related portion previously credited to contributed surplus.

(b) Going concern:

These unaudited condensed interim 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 three-month period ended March 31,2023, and has negative working capital (current liabilities in excess of current assets) and an accumulated deficit as at March 31, 2023. In addition, the Company is in breach of a financial covenant under one of its debt obligations at March 31, 2023. 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 preparation (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.

These unaudited condensed interim 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 unaudited condensed interim 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 unaudited condensed interim consolidated statements of financial position classifications used. Such adjustments could be material.

3. Use of judgments and estimates:

The preparation of the unaudited condensed interim 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 Company may take in the future. The estimates are reviewed on an ongoing basis. Information about the significant judgements, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed in Company's 2022 annual consolidated financial statements and are still applicable for the three-month period ended March 31, 2023, except for the inputs used in the Black & Scholes model in relation to the determination of the fair value of warrants and share options.

4. 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 March 31, 2023, the facility maximum amount of $500,000 was fully drawn. As at March 31, 2023, the Company is in breach of its covenant on the revolving credit facility agreement. The Company has incurred net losses and negative cash flows for the three-month periods ended March 31, 2023 and 2022, and has negative working capital (current liabilities greater than current assets) and an accumulated deficit as of March 31, 2023. As at March 31, 2023, the Company has not met one of its financial covenants required by Capital (CAE) on the revolving credit facility agreement. Management is currently in discussions with CAE which has indicated to management this would not constitute a default under the facility. Furthermore, CAE and the Company are working on renewing the credit facility at the date of the issuance of the condensed interim consolidated financial statements.

5. Long term debt:

	March 31, 2023	December 31, 2022
Secured debentures (i)	$ 4,744,701	$ 4,679,081
First advance payable to Finaccès Capital inc. (ii)	–	2,050,200
Second advance payable to Finaccès Capital inc. (ii)	250,000	245,061
Third advance payable to Finaccès Capital inc. (ii)	582,500	757,500
Secured loans from Desjardins (iii)	945,279	1,028,581
Term loan from Investissement Québec (iv)	450,000	480,000
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
	7,052,480	9,320,423
Current portion of long-term debt	1,495,278	1,578,581
Long-term portion of long-term debt	$ 5,557,202	$ 7,741,842

5. 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 Steri-Med Pharma Inc, 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 the 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.

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 December 31, 2022 [a]	$	4,679,081
Accretion expense included in interest on long-term debt in note 7		65,620
Balance at March 31, 2023	$	4,744,701

Balance at December 31, 2021	$	4,477,843
Accretion expense included in interest on long-term debt in note 7		58,913
Balance at March 31, 2022	$	4,536,756

[a] As at March 31, 2023, $350,000 of the amount is classified in the current portion as it is repayable within 12 months from March 31, 2023 ($342,532 as at December 31, 2022).

5. Long term debt (continued):

(ii) 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 started bearing interest at 12% since March 1st, as the RTO occured.(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%.

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. During the period, the Company received other advances for a total of $325,000 as part of the Third advance payable to Finaccès Capital Inc. under the same conditions.

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.

(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.

6. Share capital and other equity instruments:

(a) Share capital:

		March 31, 2023		December 31 2022
Issued:				
82,433,578 Class A shares (2022 - 68,089,000)	$	24,397,044	$	15,402,888

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.

In connection and prior to the completion of the RTO, the following transaction were undertaken by LSL Laboratory Inc.:

On February 22, 2023, in connection with the Private Placement, LSL Pharma Group Inc. issued a first tranche of 11,736,566 Units for gross proceeds of $8,215,596 and, on March 13, 2023, a second tranche of 207,143 Units for gross proceeds of $145,000. Private placement issuance costs amounting to $947,945, include Units Issuance Costs of $746,700, and 670,818 Broker Warrants for $201,245. The assumptions used to estimate the fair value of the Broker Warrants using the Black-Scholes option pricing model are presented in note 6 (b).5.

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 periods ended March 31, 2023 and 2022 were in exchange of cash consideration. All shares issued are Class A common shares.

6. Share capital and other equity instruments (continued):

(b) Warrants:

As at December 31, 2022, there were 33,606,000 warrants 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 1, the warrants set to expire in December 2022 were extended until June 30, 2024.

As part of the Private Placement, 5,971,855 warrants (excluding Broker Warrants) were issued (refer to Note 1) and 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.

Broker Warrants

The fair value of the Broker Warrants was determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

		February 22, 2023
Fair value of Broker Warrants at grant date	$	0.30
Share price at grant date	$	0.58
Exercise price	$	0.70
Risk-free interest rate		3.66%
Expected volatility		125,46%
Expected life		1.5 years

As at March 31, 2023, nil Broker Warrants are exercisable, nil are vested and 670,818 are outstanding.

6. Share capital and other equity instruments (continued):

(c) Share-based compensation:

During the quarter ended March 31,2023, the Company established a share option plan where it may grant its key employees, directors and consultants share options to purchase class A common shares. The share option plan (the "Plan") provides for the granting of options to purchase common shares where at any given time the number of share options reserved for issuance should not exceed to 10% of the Company's issued and outstanding common shares if the options' holder is still employed on such date.

Under the Plan, the options vest over a period of four months (except for a consultant that performs investor relations activities) or twelve months (for a consultant that performs investor relations activities) and expire ten years from the grant date. For consultants performing investor relations activities, a maximum of 1/4 of the share options can be exercised every three months.

On February 22, 2023, in connection with the RTO, the Company issued 6,000,000 share options allowing the directors, employees & board members to purchase common shares of the Company at a price of $0.70 per common share.

As at February 22, 2023, 6,000,000 share options were available for issuance (December 31, 2022 - nil). Changes in the number of outstanding options related to the Plan were as follows:

	Number of Options	Average exercise price
Outstanding options as at December 31, 2022	–	$ –
Options granted	6,000,000	0.70
Outstanding options as at March 31, 2023	6,000,000	0.70
Balance exercisable, as at March 31, 2023	–	–

Share-based compensation expense recorded under this plan amounted to $908,497 for the three-month period ended March 31, 2023 (three-month period ended March 31, 2022 - nil).

The options outstanding as at March 31, 2023 (2022 - nil) have an exercise price of $0.70 and a remaining contractual life of 10 years.

6. Share capital and other equity instruments (continued):

(c) Share-based compensation (continued):

The fair value of the granted share options was determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

	February 22, 2023
Fair value of share options at grant date	$ 0.50
Share price at grant date	$ 0.58
Exercise price	$ 0.70
Risk-free interest rate	3.66%
Expected volatility	125.46%
Expected life	5 years
Contractual life	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 immediately preceding the option grant. The Company does not anticipate paying any cash dividends in the foreseeable future and, therefore, uses an expected dividend yield of zero in the option-pricing model.

Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of nil in determining the share-based expense recorded in the statements of loss.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

7. Net finance expenses:

	Three months ended March 31, 2023	Three months ended March 31, 2022
Interest expense on long-term debt and revolving credit facility	$ 234,133	$ 247,451
Interest expense on other financial liabilities and factoring fees	66,075	45,503
Interest expense on advances payable to shareholders	42,139	–
Interest expense on revolving line of credit	16,254	–
Change in fair value of advances payable to Finaccès Capital inc.	54,739	–
Interest expense on lease liabilities	7,861	10,296
Other interest expense	32,205	72,539
	$ 453,406	$ 375,789

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Included in cost of goods sold		
Employee salaries and benefits	$ 672,250	$ 850,503
Depreciation and amortization	118,065	118,487
Depreciation due to an acquisition	96,780	96,780
Included in selling expenses		
Employee salaries and benefits	43,204	48,195
Included in administrative expenses		
Employee salaries and benefits	432,878	296,344
Depreciation and amortization	33,675	33,642
Moving Costs	32,517	–

9. Transaction with related parties and shareholders:

(a) Transaction 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:

	Three months ended March 31, 2023	Three months ended March 31, 2022
Short-term employee benefits	$ 296,158	$ 289,178

The following table represents the related party transactions presented in the Statement of Financial Position as at:

	March 31, 2023	December 31, 2022
Assets		
Advance receivable from Îledor included in accounts receivable in relation to expenses paid by the Company on behalf of Îledor	$ –	$ 106,292
Amount receivable from a company managed by an officer of the Company included in accounts receivable	90,911	–
Liabilities		
Advances payable to key management personnel included in advances payable to shareholders	284,259	23,105
Amount of Debentures held by key management personnel of the Company and recorded in long term debt (note 5)	1,150,000	1,150,000

The following table presents the related party transactions presented in the Statement of Loss for the respective periods:

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

(a) Transactions with related parties (continued):

		Three months ended March 31, 2023		Three months ended March 31, 2022
Revenues from the company managed by an officer of the Company	$	59,250	$	–

(b) Transactions with shareholders:

During the period ended March 31, 2023, the Company has borrowed, from several shareholders, $410,000 bearing interest between 8% and 12% and repayable between May 2023 and June 2023. An amount of $400,000 was reimbursed during the period ended March 31, 2023. The Company also borrowed, from key management personnel, an amount of $284,259 without interest or terms of repayment.

10. Basic and diluted loss per share:

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

		Three months ended March 31, 2023		Three months ended March 31, 2022
Net loss	$	(4,132,379)	$	(2,312,969)
Weighted average number of common shares		70,027,811		62,655,877
Basic and diluted loss per share	$	(0.06)	$	(0.04)

For the periods ended March 31, 2023 and 2022, the diluted loss per share calculation did not take into consideration the potential dilutive effect of the warrants as they are anti-dilutive.

11. Additional cash-flow information:

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

		March 31, 2023		March 31, 2022
Accounts receivable	$	(314,644)	$	533,604
Inventories		(316,749)		466,394
Prepaid expenses		(309,190)		(47,105)
Accounts payable and accrued liabilities		(2,224,275)		15,219
Deferred revenue		7,487		8,001
	$	(3,157,371)	$	976,113

12. Reverse takeover of Îledor by LSL Laboratory Inc.:

Through the transaction, as described in Note 1, Îledor acquired legal control of LSL Laboratory Inc. However, as the shareholders of LSL Laboratory Inc. gained voting control of Îledor pursuant to the issuance of Îledor common shares to the shareholders of LSL Laboratory Inc., representing a significant majority interest, LSL Laboratory Inc. is determined to be the accounting acquirer and, consequently, the transaction has been accounted for as a reverse acquisition of Îledor by LSL Laboratory Inc. As Îledor does not meet the definition of a business, the transaction is accounted for as a reverse acquisition of net assets, 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, is $479,004 or 825,869 common shares. This was determined based on the fair value of the equity interest LSL Laboratory Inc. would have had to give to the owners of Îledor (assuming a fair value per share post-consolidation of $0.58 being the price of the common shares 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 common shares in the condensed interim consolidated statement of financial position.

As the fair value of Îledor's identifiable net assets at the reverse acquisition date was $(553,407), the excess of consideration transferred over the net assets acquired of $1,032,411 is reflected as a reverse acquisition of Îledor expense in the consolidated statements of loss and comprehensive loss.

12. Reverse takeover of Îledor by LSL Laboratory Inc. (continued):

The following table provides a breakdown of expenses incurred in connection with the reverse acquisition of Îledor by LSL Laboratory Inc. for the three months ended March 31, 2023.

Consideration transferred from Îledor in excess of net assets deficiency assumed	$	1,032,411
Professional fees		1,326,639
Exchange, listing fees and others		128,871
	$	2,487,921