Condensed Interim Consolidated Financial Statements of

LSL PHARMA GROUP INC.
(formerly Corporation Exploration Iledor)

Three-month and six-month periods ended June 30, 2023 and 2022
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF 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)

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Financial Position

June 30, 2023 and December 31, 2022
(Unaudited)

		June 30, 2023		December 31, 2022
Assets				
Current assets:				
Cash and cash equivalents	$	513,636	$	–
Accounts receivable		1,461,163		1,231,006
Inventories		4,407,571		2,957,199
Prepaid expenses		392,215		205,723
		6,774,585		4,393,928
Deposits		20,000		20,000
Property, plant and equipment		13,965,803		13,916,260
Intangible assets		8,800,567		8,981,379
	$	29,560,955	$	27,311,567
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	5,841,452	$	6,117,551
Revolving credit facility (note 4)		421,512		493,458
Other financial liabilities		372,951		1,042,275
Advances payable to shareholders (note 9)		1,981,859		1,992,209
Deferred revenue		31,250		7,488
Current portion of long-term debt (note 5)		1,682,165		1,578,581
Current portion of lease liabilities		126,038		135,606
		10,457,227		11,367,168
Long-term debt (note 5)		6,061,544		7,741,842
Lease liabilities		2,498,383		2,561,399
		19,017,154		21,670,409
Shareholders' equity:				
Share capital and warrants (note 6)		24,367,044		15,402,888
Contributed surplus (note 6)		3,172,276		–
Deficit		(16,995,519)		(9,761,730)
		10,543,801		5,641,158
Going concern (note 2 (b))				
	$	29,560,955	$	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

Three-month and six-month period ended June 30, 2023 and 2022
(Unaudited)

	Three-month periods ended		Six-month periods ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Revenues	$ 2,034,187	$ 1,417,503	$ 4,058,131	$ 3,282,714
Cost of goods sold (note 8)	1,342,414	1,749,037	2,979,578	4,259,570
Gross profit (loss)	691,773	(331,534)	1,078,553	(976,856)
Selling expenses (note 8)	103,638	75,245	161,124	161,358
Administrative expenses (note 8)	1,138,707	1,127,869	1,716,420	2,061,803
Research and development expenses	98,748	113,007	132,884	311,861
Operating expenses	1,341,093	1,316,121	2,010,428	2,535,022
Operating loss	(649,320)	(1,647,655)	(931,875)	(3,511,878)
Costs related to reverse takeover (note 13)	495	–	2,488,416	–
Share based compensation (note 6)	2,062,534	–	2,971,031	–
Loss before net finance expenses and income taxes	(2,712,349)	(1,647,655)	(6,391,322)	(3,511,878)
Net finance expenses (income) (note 7)	389,061	(309,125)	842,467	66,664
Net loss, being comprehensive loss for the period	$ (3,101,410)	$ (1,338,530)	$ (7,233,789)	$ (3,578,542)
Basic and diluted loss per share (note 10)	$ (0.04)	$ (0.02)	$ (0.09)	$ (0,05)

See accompanying notes to condensed interim consolidated financial statements.

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Changes in Equity

For the six-month periods ended June 30, 2023 and 2022
(Unaudited)

		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))	3,040,000	3,040,000	1,520,000	–	–	1,520,000
Share issuance costs	–	–	(96,444)	–	–	(96,444)
Net loss for the period	–	–	–	(3,578,542)	–	(3,578,542)
Balance as at June 30, 2022	31,212,000	65,695,000	$ 14,235,888	$ (5,278,030)	$ –	$ 8,957,858

		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))	–	–	–	–	2,971,031	2,971,031
Share issuance costs (note 6 (a))	670,818	–	(977,946)	–	201,245	(776,701)
Net loss for the period	–	–	–	(7,233,789)	–	(7,233,789)
Balance as at June 30, 2023	40,248,673	82,433,578	$ 24,367,044	$ (16,995,519)	$ 3,172,276	$ 10,543,801

See accompanying notes to condensed interim consolidated financial statements.

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Cash Flows

For the six-month periods ended June 30, 2023 and 2022
(Unaudited)

	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash provided by (used in):		
Operating:		
Net loss	$ (7,233,789)	$ (3,578,542)
Adjustments for:		
Consideration transferred from Îledor in excess of net assets acquired (note 13)	1,032,411	–
Depreciation and amortization	537,875	500,787
Net finance expenses	842,467	66,664
Share-based compensation (note 6 (c))	2,971,031	–
Net change in non-cash operating working capital items (note 11)	(2,756,742)	2,866,281
	(4,606,747)	(144,810)
Financing:		
Repayment of long-term debt	(3,000,431)	(1,198,975)
Issuance of long-term debt	1,235,000	350,000
Proceeds from issuance of common shares from private placement	9,463,097	1,520,000
Common shares issuance costs	(776,701)	(96,444)
Interest paid	(515,261)	(211,766)
Net change in other financial liabilities	(685,532)	414,734
Revolving line credit	(78,488)	–
Payment of lease liabilities	(137,749)	(167,066)
	5,503,935	610,483
Investing:		
Acquisition and deposits on property, plant and equipment	(348,202)	(1,270,878)
Acquisition of intangible asset	(25,000)	–
Increase in advances payable to shareholders	(10,350)	255,208
	(383,552)	(1,015,670)
Net change in cash and cash equivalents	513,636	(549,997)
Cash and cash equivalents, beginning of period	–	741,010
Cash and cash equivalents, end of period	$ 513,636	$ 191,013

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 ("RTO"), 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., LSL Laboratory 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. 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 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 $0.58 or $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, 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 (note 6(c)).

1. Reporting entity (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. controlled a majority.

For accounting purposes, it has been determined that Îledor was the accounting acquiree and LSL Laboratory Inc. was the accounting acquirer as the shareholders of LSL Laboratory Inc. now control LSL Pharma Group Inc., based upon the guidance in IFRS 10, *Consolidated Financial Statements*, and IFRS 3, *Business Combinations*, to identify the accounting acquirer. Since LSL Laboratory Inc. is considered the accounting acquirer, these 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. are referred to as being undertaken by the Company in these condensed interim 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 August 28, 2023.

2. Basis of preparation (continued):

(a) Basis of presentation (continued):

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 condensed 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 stock-based compensation which accounting policy is described hereafter:

The consolidated financial statements have been prepared on the historical cost basis, except for equity classified share-based payment arrangements, which are measured at fair value at grant date pursuant to IFRS 2, *Stock-based payment*.

Stock-based compensation

The Company has a stock-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 stock option grant using the Black Scholes Option Pricing model at the grant date. The stock-based compensation cost of the options is recognized as stock-based compensation expense on a graded-vesting basis over the relevant vesting period of the stock options. When employees exercise their stock 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.

2. Basis of preparation (continued):

(b) Going concern (continued):

The Company has incurred net losses and negative cash flows from operations for the six-month period ended June 30, 2023, and has negative working capital (current liabilities in excess of current assets) and an accumulated deficit as at June 30, 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.

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 condensed unaudited 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 condensed unaudited 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. Such adjustments could be material.

3. Use of judgments and estimates:

The preparation of these 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 six-month period ended June 30, 2023, except for the inputs used in the Black & Scholes model in relation to the determination of the fair value of warrants and stock 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 was initially repayable on May 31, 2023 and extended to October 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 June 30, 2023, the facility maximum amount of $500,000 was reimbursed by accounts receivable for $78,488, for a balance of $421,512. As at August 10, the facility balance payable was at $144,940.

5. Long term debt:

	June 30, 2023	December 31, 2022
Secured debentures [(i)]	$ 4,813,059	$ 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)]	798,485	757,500
Secured loans from Desjardins [(iii)]	882,165	1,028,581
Term loan from Investissement Québec [(iv)]	420,000	480,000
Unsecured long term debt, interest rate of 9% annually, repayable on December 27, 2026	500,000	–
Canadian Emergency Business Account, 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
	7,743,709	9,320,423
Current portion of long-term debt	1,682,165	1,578,581
Long-term portion of long-term debt	$ 6,061,544	$ 7,741,842

[(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 by the universality of the movable and immovable property of the Company, except all of its current assets.

On September 9, 2021, the Company issued a second tranche of $300,000 for a total amount of $270,977 net of transaction fees of $29,023, bringing the total amount drawn as at December 31, 2021 and 2022 to $5,000,000 (altogether referred to as the "Debentures"). Some of the Debentures are held by related parties.

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.

5. Long term debt (continued):

(i) Secured debentures (continued):

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 (i)	$	4,679,081
Accretion expense included in interest on long-term debt in note 7		133,978
Balance at June 30, 2023	$	4,813,059

Balance at December 31, 2021	$	4,477,843
Accretion expense included in interest on long-term debt in note 7		122,226
Balance at June 30, 2022	$	4,600,069

(i) As at June 30, 2023, $350,000 of the amount are classified in the current portion as it is repayable within 12 months from June 30, 2023 (December 31, 2022 - $342,532).

(ii) Finaccès Capital inc.:

- The first advance of $2,100,000 was 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 (note 7) resulting from this transaction in the condensed interim statement of loss and comprehensive loss for the three- and six-month periods ended June 30, 2022.

5. Long term debt (continued):

(ii) Finaccès Capital inc. (continued):

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 $798,485 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.

(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 by subordinated guarantees on other current assets as well as by 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% and is guaranteed by movable property of Steri-Med.

6. Share capital and other equity instruments:

(a) Share capital:

	June 30, 2023	December 31, 2022
Issued:		
82,433,578 Class A shares (2022 - 68,089,000)	$ 24,367,044	$ 15,402,888

Class A Shares ("Class A")

The Company is authorized to issue an unlimited number of voting Class A shares with no par value. These shares give the holder the right to receive, after Class B shareholders, any dividend declared by the Board of Directors of the 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 private placement 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 compensation warrants for $201,245. The assumptions used to estimate the fair value of the compensation warrants using the Black-Scholes option pricing model are presented in note 6 (b).

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 June 30, 2023 and 2022 were issued 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, 7,172,289 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.

Compensation warrants

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

	February 22, 2023
Fair value of options 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 June 30, 2023, all compensation warrants are exercisable; none had vested and 670,818 are outstanding.

(c) Share-based compensation:

Since the quarter ended March 31, 2023, the Company may grant its key employees, directors and consultants stock options to purchase Common Shares. The stock option plan (the "Plan") provides for the granting of options to purchase Common Shares where at any given time the number of stock 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.

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

(c) Share-based compensation (continued):

Under the Plan, the options vest over a period of 4 months (except for a consultant that performs investor relations activities) or 12 months (for a consultant that performs investor relations activities) and expire 9 years from the grant date. For consultants performing investor relations activities, a maximum of 1/4 of the options can be exercised every three months.

On February 22, 2023, in connection with the reverse takeover, LSL Pharma Group Inc. issued 6,000,000 stock 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 stock 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 June 30, 2023	6,000,000	0.70
Balance exercisable as at June 30, 2023	6,000,000	0.70

Share-based compensation expense recorded under this plan amounted to $2,971,031 for the condensed interim consolidated statements ended June 30, 2023.

The options outstanding as at June 30, 2023 (2022 - nil) have an exercise price of $0.70 and a remaining contractual life of 9,75 years.

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

(c) Share-based compensation (continued):

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

	February 22, 2023
Fair value of 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 0% (2022 - nil) in determining the share-based compensation 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-month periods ended		Six-month periods ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Interest expense on long-term debt and revolving credit facility	$ 243,542	$ 210,769	$ 477,675	$ 519,150
Interest expense on other financial liabilities and factoring fees	48,172	69,631	114,247	115,134
Interest expense on advances payable to shareholders	35,104	–	77,243	–
Interest expense on revolving line of credit	15,220	–	31,474	–
Change in fair value of advances payable to Finaccès Capital inc.	–	50,365	54,739	50,365
Interest expense on lease liabilities	23,899	8,649	31,761	19,662
Other interest expense	23,124	8,404	55,328	19,296
Gain from debt settlement (note 5)	–	(656,943)	–	(656,943)
	$ 389,061	$ (309,125)	$ 842,467	$ 66,664

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

	Three-month periods ended		Six-month periods ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Included in cost of goods sold				
Employee salaries and benefits	$ 771,184	$ 904,620	$ 1,443,434	$ 1,755,123
Depreciation and amortization	158,725	176,488	276,790	294,975
Amortization due to an acquisition	96,780	96,780	193,560	193,560
Included in selling expenses				
Employee salaries and benefits	39,080	48,195	82,285	96,170
Included in administrative expenses				
Employee salaries and benefits	474,916	351,583	907,794	647,927
Depreciation and amortization	33,850	33,642	67,525	12,252
Moving costs	98,999	–	131,516	–

9. Transaction with related parties and shareholders:

(a) Transaction with related parties:

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

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

	Three-month periods ended		Six-month periods ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Short-term employee benefits	$ 291,564	$ 275,031	$ 587,722	$ 591,216

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

(a) Transaction with related parties (continued):

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

	June 30, 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	6,222	–
Liabilities		
Advances payable to key management personnel included in advances payable to shareholders	271,859	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 condensed interim consolidated statement of loss for the respective periods:

	Three-month periods ended		Six-month periods ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Revenues from the Company managed by an officer of the Company	$ –	$ –	$ 59,250	$ –

(b) Transactions with shareholders:

During the period ended June 30, 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 June 30, 2023. The Company also borrowed, from key management personnel, an amount of $271,259 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-month periods ended		Six-month periods ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net loss	$ (3,652,222)	$ (1,338,530)	$ (7,438,193)	$ (3,578,542)
Weighted average number of common shares	82,433,578	65,465,472	78,149,855	64,150,242
Basic and diluted loss per share	$ (0.04)	$ (0.02)	$ (0.09)	$ (0.05)

For the periods ended June 30, 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:

	June 30, 2023	June 30, 2022
Accounts receivable	$ (187,798)	$ 321,217
Inventories	(1,450,372)	13,294
Prepaid expenses	(186,492)	(131,866)
Accounts payable and accrued liabilities	(955,842)	2,663,636
Deferred revenue	23,762	–
	$ (2,756,742)	$ 2,866,281

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*.

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

The acquisition-date fair value of the consideration transferred by the accounting acquirer, LSL Laboratory Inc., for its interest in the accounting acquiree, Îledor, of $479,004 or 825,869 Common Shares is 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 condensed interim consolidated statements of loss and comprehensive loss.

13. Costs related to reverse takeover:

The following table provides a breakdown of expenses incurred in connection with the reverse acquisition of Îledor by LSL Laboratory Inc. for the six months ended June 30, 2023.

Consideration transferred from Îledor in excess of net assets deficiency assumed	$ 1,032,411
Professional fees	1,327,134
Exchange, listing fees and others	128,871
	$ 2,488,416

14. Subsequent events:

Modification of short-term debt and other financial liabilities

On August 2, 2023, the Company entered into an agreement with a Canadian charter bank for a new short-term financing of $1.5M. The company then repaid the entire amount due in other financial liabilities.

The short-term financing is secured by a first rank guarantee over accounts receivable and inventory.

14. Subsequent events (continued):

Secured loans

The final repayment on July 1, 2023 has not been made and the Company continues to make monthly payments according to the same terms. The Company is in discussion regarding a new agreement.