

Condensed Interim Consolidated Financial Statements of

LSL PHARMA GROUP INC.
(formerly Corporation Exploration Îledor)

Three-month period ended March 31, 2024 and 2023
(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 condensed interim consolidated financial statements of the Corporation have been prepared by management and are the responsibility of the Corporation's management. The Corporation's independent auditor has not performed a review or an audit of these condensed interim consolidated financial statements.

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Financial position

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

	Notes	March 31, 2024	December 31, 2023
ASSETS			
Current assets			
Cash and cash equivalents		-	8
Accounts receivable		3,410	2,682
Inventories		4,271	4,109
Prepaid expenses		1,130	405
Total current assets		8,811	7,204
Deposits		21	20
Property, plant and equipment		15,163	14,745
Intangible assets		8,975	8,931
Total assets		32,970	30,900
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank overdraft		33	-
Accounts payable and accrued liabilities		3,999	5,976
Revolving credit facility	4	1,200	670
Notes payable		250	3,096
Current portion of long-term debt	5	4,464	5,215
Current portion of lease liabilities		131	117
Total current liabilities		10,077	15,074
Long-term notes	6, 10	1,658	531
Long-term debt	5	4,171	4,202
Lease liabilities		2,399	2,438
Total liabilities		18,305	22,245
SHAREHOLDERS' EQUITY			
Share capital and warrants	7	30,488	24,198
Equity component of convertible debenture	10	375	375
Contributed surplus		2,316	2,316
Deficit		(18,514)	(18,234)
Total shareholders' equity		14,665	8,655
Total liabilities and shareholders' equity		32,970	30,900

Going concern (note 2 (b)); Subsequent events (note 14)

See accompanying notes to condensed interim consolidated financial statements.

On behalf of the Board of Directors:

_____, Director

_____, Director

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts
(Unaudited))

	Notes	Three months ended	
		March 31, 2024	March 31, 2023 (Recast – Note 2 (c))
Revenues		4,163	2,024
Cost of goods sold	9	3,017	1,637
Gross profit		1,146	387
Expenses			
Selling expenses	9	102	57
Administrative expenses	9	865	578
Research and development expenses		-	34
Total operating expenses		967	669
Operating profit (loss)		179	(282)
Costs related to reverse acquisition	13	-	2,550
Share-based compensation	7 (c)	-	2,117
Profit (Loss) before finance expenses and income taxes		179	(4,949)
Finance expenses, net	8	459	454
Loss before income taxes		(280)	(5,403)
Income taxes		-	-
Net loss, being the comprehensive loss for the period		(280)	(5,403)
Basic and diluted loss per share	11	(0.00)	(0.08)

See accompanying notes to condensed interim consolidated financial statements.

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficit)

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

	Notes	Class A shares and warrants			Equity component of convertible debenture	Contributed surplus	Deficit	Total
		Number of shares	Number of Warrants	Amount				
Balance as at December 31, 2022 (Recast – Note 2 (c))		68,089,000	33,606,000	15,053	-	-	(9,762)	5,291
Share and warrants issuance (Recast – Note 2 (c))	7 (a)	13,520,308	5,971,855	9,463	-	-	-	9,463
Effect of reverse acquisition (Recast – Note 2 (c))	13	825,869	-	537	-	-	-	537
Share-based compensation (Recast – Note 2 (c))	7 (c)	-	-	-	-	2,117	-	2,117
Share issuance costs, net of tax of nil (Recast – Note 2 (c))	7 (a)	-	670,818	(855)	-	128	-	(727)
Net loss (Recast – Note 2 (c))		-	-	-	-	-	(5,403)	(5,403)
Balance as at March 31, 2023 (Recast – Note 2 (c))		82,435,177	40,248,673	24,198	-	2,245	(15,165)	11,278

	Notes	Class A shares and warrants			Equity component of convertible debenture	Contributed surplus	Deficit	Total
		Number of shares	Number of Warrants	Amount				
Balance as at December 31, 2023		82,435,177	40,566,758	24,198	375	2,316	(18,234)	8,655
Share and warrants issuance	7 (a)	16,086,893	16,086,893	6,435	-	-	-	6,435
Share issuance costs, net of tax of nil	7 (a)	-	-	(145)	-	-	-	(145)
Net loss		-	-	-	-	-	(280)	(280)
Balance as at March 31, 2024		98,522,070	56,653,651	30,488	375	2,316	(18,514)	14,665

See accompanying notes to condensed interim consolidated financial statements.

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Cash Flow

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

	Notes	Three months ended	
		March 31, 2024	March 31, 2023 (Recast – Note 2 (c))
Cash provided by (used in):			
OPERATING ACTIVITIES:			
Net loss for the period		(280)	(5,403)
Adjustments:			
Consideration transferred from Îledor in excess of net liabilities assumed	13	-	1,090
Depreciation and amortization		334	249
Finance expenses, net		459	453
Share-based compensation	7 (c)	-	2,117
Net change in non-cash operating working capital items	12	(2,423)	(3,171)
		(1,910)	(4,665)
INVESTING ACTIVITIES:			
Acquisition on property, plant and equipment		(543)	(118)
Acquisition of intangible assets		(146)	(25)
		(689)	(143)
FINANCING ACTIVITIES:			
Repayment of long-term debt		(384)	(2,788)
Issuance of long-term debt		-	400
Proceeds from issuance of common shares and warrants	7 (a)	1,985	9,463
Share issuance costs	7 (a)	(145)	(727)
Interest paid		(100)	(251)
Net change in other financial liabilities		-	(469)
Net increase from revolving credit facility		530	-
Payment of lease liabilities		(56)	(74)
Net increase in long-term notes		728	-
		2,558	5,554
Net change in cash and cash equivalents		(41)	746
Cash and cash equivalents, beginning of period		8	-
(Bank Overdraft) Cash and cash equivalents, end of period		(33)	746

Additional cash flow information is presented in note 12.

See accompanying notes to condensed interim consolidated financial statements.

LSL PHARMA GROUP INC.

Notes to condensed Interim Consolidated Statements

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

1. Reporting entity

LSL Pharma Group Inc. (the "Corporation"), formerly Corporation Exploration Îledor ("Îledor") up to the completion of the reverse takeover, as defined below, is incorporated under the Canada Business Corporations Act. The head office and the registered office of the Corporation is located at 540, rue D'Avaugour, Boucherville, Québec. These condensed interim consolidated financial statements comprise the Corporation and its wholly-owned subsidiaries, Steri-Med Pharma Inc., LSL Laboratory Inc. and Groupe Immobilier LSL inc. (together referred as the "Group"). The Group develops, manufactures and commercializes 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 on the basis of one (1) post-consolidation Class A common share for every twenty-five (25) pre-consolidation outstanding Class A common shares (the "Consolidation"), and Îledor changed its name to LSL Pharma Group Inc. (the "Resulting Issuer").

In connection with the RTO, the following transactions occurred:

- In connection with the RTO, the Corporation completed a series of private placements (the "RTO private placements"), and issued a total of 11,945,308 Units (the "Units") and 1,575,000 Class A common shares for gross proceeds of \$9,463. Issuance costs amounted to \$855 including \$727 for Units and Class A common share issuances, and \$128 for the issuance of 670,818 compensation warrants ("Compensation Warrants – RTO"). The assumptions used to estimate the fair value of the compensation warrants using the Black-Scholes option pricing model are presented in note 7 (b). Each Unit consists of one (1) Class A common share (post-consolidation) and one half (1/2) warrant. Each whole warrant entitles the holder to acquire one (1) additional Class A common share (post-consolidation) at a price of \$1.00 for a period of 18 months. The fair value attributed to the warrants in this transaction is \$0.10 per warrant or \$0.05 per one half (1/2) warrant (using a volatility of 57.5%);
- 662,818 Compensation Warrants – RTO were paid as commissions for the First Tranche Private Placement and 8,000 Compensation Warrants – RTO were paid as commissions for the Second Tranche Private Placement, where each such Compensation Warrants – RTO entitles its holder to acquire one Unit (on the same terms as the Units in the RTO private placements) at a price of \$0.70 per Unit for a period of 18 months from the closing date of the offering;
- A stock option plan was established by the Resulting Issuer;
- Following the RTO and the RTO private placements, there were 82,435,177 issued and outstanding Class A common shares (post-Consolidation) of LSL Pharma Group Inc., of which the former common shareholders of LSL Laboratory Inc. controlled a majority.

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

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

On May 24, 2024, the Convertible Debentures issued in connection with a brokered private placement in Q4-2023, began trading on the TSXV under the symbol "LSL.DB". The Unsecured Debentures which may be redeemable by the Corporation, have a maturity date of October 31, 2028 (the "Maturity Date"), and accrue interest at the rate of 11% per annum (subject to adjustments) payable semi-annually on the last day of April and October of each year with the first interest payment to take place on October 31, 2024. At the holders' option, the Debentures may be converted into Class A shares of the Corporation at any time and from time to time, up to the Maturity Date, at a conversion price of \$0.70 per share.

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 Corporation since the end of the last annual reporting period. It is therefore recommended that these condensed interim consolidated financial statements be read in conjunction with the annual consolidated financial statements of the Corporation for the year ended December 31, 2023.

LSL PHARMA GROUP INC.

Notes to condensed Interim Consolidated Statements

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

These condensed interim consolidated financial statements were authorized for issuance by Board of Directors of the Corporation on May 29, 2024.

These condensed interim consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Therefore, these condensed interim consolidated 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 condensed interim consolidated financial statements as were followed in the preparation of the most recent annual audited consolidated financial statements.

(b) Going concern:

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

The Corporation has incurred net losses and negative cash flows from operations for three-month period ended March 31, 2024 and has negative working capital (current liabilities in excess of current assets) and an accumulated deficit as at March 31, 2024. The Corporation'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 Corporation 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 Corporation has been successful in securing financing in the past, raising additional funds is dependent on a number of factors outside the Corporation'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 Corporation'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 (refer to note 14, "Subsequent events", for information in relation to the promissory note, the private placement and secured debenture extension).

If the Corporation 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 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 Corporation be unable to achieve its plan and continue in business. If the going concern assumption was not appropriate for These 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 consolidated statements of financial position classifications used. Such adjustments could be material.

LSL PHARMA GROUP INC.

Notes to condensed Interim Consolidated Statements

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

(c) Recast of comparative figures – correction of errors:

For the period ended March 31, 2023, the Corporation identified material misstatements in measurement and recognition of certain items to the consolidated financial statements related to the following subjects:

- Share capital and notes payable: The Corporation reclassified an amount of \$350 from share capital and warrants to \$250 of notes payable and \$100 of long-term notes payable to related parties at December 31, 2022.
- Costs related to reverse takeover: The Corporation identified material misstatements in measurement and recognition of the RTO.
- Share-based compensation: The Corporation identified material misstatements in the vesting period of stock options.

	As previously reported	Share capital and notes payable	Reverse takeover	Share-based compensation	As recasted – March 31, 2023
ASSETS					
Current assets					
Accounts receivable	1,588	-	15	-	1,603
Total current assets	6,123	-	15	-	6,138
Total assets	28,960	-	15	-	28,975
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Notes payable	1,994	250	-	-	2,244
Total current liabilities	9,260	250	-	-	9,510
Long-term notes	-	100	-	-	100
Total liabilities	17,347	350	-	-	17,697
SHAREHOLDERS' EQUITY					
Share capital and warrants	24,397	(350)	151	-	24,198
Contributed surplus	1,110	-	(74)	1,209	2,245
Deficit	(13,894)	-	(62)	(1,209)	(15,165)
Total shareholders' equity	11,613	(350)	15	-	11,278
Total liabilities and shareholders' equity	28,960	-	15	-	28,975
Operating loss					
Costs related to reverse acquisition	2,488	-	62	-	2,550
Share-based compensation	908	-	-	1,209	2,117
Loss before finance expenses and income taxes	(3,679)	-	(62)	(1,209)	(4,949)
Loss before income taxes	(4,133)	-	(62)	(1,209)	(5,403)
Net loss, being the comprehensive loss for the period	(4,133)	-	(62)	(1,209)	(5,403)
Basic and diluted loss per share	(0.06)	-	-	-	(0.08)

LSL PHARMA GROUP INC.

Notes to condensed Interim Consolidated Statements

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

	As previously reported	Share capital and notes payable	Reverse takeover	Share-based compensation	As recasted – March 31, 2023
Cash provided by (used in):					
OPERATING ACTIVITIES:					
Net loss for the year	(4,132)	-	(62)	(1,209)	(5,403)
Adjustments:					
Consideration transferred from Îledor in excess of net liabilities assumed	1,032	-	58	-	1,090
Share-based compensation	908	-	-	1,209	2,117
Net change in non-cash operating working capital items	(3,156)	-	(15)	-	(3,171)
	(4,646)	-	(19)	-	(4,665)
FINANCING ACTIVITIES:					
Share issuance costs	(747)	-	20	-	(727)
	5,534	-	20	-	5,554
Net change in cash and cash equivalents	746	-	-	-	746
Cash and cash equivalents, beginning of period	-	-	-	-	-
Cash and cash equivalents, end of period	746	-	-	-	746

3. Use of judgments and estimates:

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

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 the Corporation's 2023 annual consolidated financial statements and are still applicable for the three-month period ended March 31, 2024.

4. Revolving credit facility:

On May 19, 2023, the Corporation entered into a revolving credit facility agreement with TD Bank (the "TD bank facility"). The maximum available amount is \$1,350 and is limited to a specified percentage of accounts receivable and inventories. The amount drawn under this credit facility as at March 31, 2024 is \$1,200 (\$670 as at December 31, 2023).

Up to 75% of the amounts due under the TD bank facility are guaranteed by Export Development Canada ("EDC").

LSL PHARMA GROUP INC.

Notes to condensed Interim Consolidated Statements

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

5. Long-term debt

	March 31, 2024	December 31, 2023
Secured debentures ⁽ⁱ⁾	4,330	4,851
Second advance payable to Finaccès Capital ⁽ⁱⁱ⁾	967	1,158
Secured loans from Desjardins ⁽ⁱⁱⁱ⁾	633	633
Term loan from Investissement Québec ^(iv)	330	390
Unsecured convertible debentures ^(v)	2,375	2,345
Canadien Emergency Business Account (CEBA)	-	40
	8,635	9,417
Current	4,464	5,215
Non-current	4,171	4,202
Total	8,635	9,417

(i) Secured debentures:

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

On September 9, 2021, the Corporation issued a second tranche of \$300, bearing interest at 6% annually for a total amount of \$271, net of transaction fees of \$29, bringing the total amount drawn as at December 31, 2021 and 2022 to \$5,000 (altogether referred to as the "Debentures").

In December 2022, the Corporation amended some of the Debentures to extend the repayment date from December 10, 2023 to June 10, 2024, for \$4,650 out of the total nominal amount of \$5,000 of issued and outstanding Debentures. The interest rate for the extension period starting December 10, 2023 is 9.5%. The weighted-average effective interest rate on the debentures is 11.86%.

In December 2023, the Corporation signed an amendment with a Debentures holder to extend the repayment date from March 9, 2024 to March 9, 2026, for \$150 out of the remaining nominal amount of issued and outstanding Debentures. The interest rate for the extension period starting March 9, 2024 is 9.5%. The weighted-average effective interest rate on the debentures is 11.90%.

In February 2024, the Corporation signed an amendment with a Debentures holder to extend the repayment date from March 9, 2024 to March 9, 2026 (the "extension period"), for \$100 out of the remaining nominal amount of issued and outstanding Secured Debentures (the "Extended Debentures"). The Extended Debentures bear interest at 9.5% for the extension period starting March 10, 2024. The weighted-average effective interest rate on the debentures is 11.90%.

Debentures totalling \$1,150 are held by related parties (refer to note 10). The secured debentures are guaranteed by some movable and immovable property of the Corporation, except all of its current assets.

The movement in secured debentures is as follows:

	Notes	Three months ended March 31, 2024	Year ended December 31, 2023
Balance at beginning of period		4,851	4,679
Payment		(50)	(50)
Conversion as part of the Unit for Debt Financing	7 (a)	(500)	-
Accretion expense included in interest on long-term debt		29	222
Balance at end of period ⁽¹⁾		4,330	4,851

⁽¹⁾ \$3,839 of the amount is classified in the current portion as it is repayable within 12 months from March 31, 2023 (\$4,759 as at December 31, 2023).

LSL PHARMA GROUP INC.

Notes to condensed Interim Consolidated Statements

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

(ii) Finaccès Capital Inc.:

The First advance payable to Finaccès Capital bears interest at 18% annually and was fully repaid in March 2023, following the completion of the RTO.

The second advance payable to Finaccès Capital bears interest at 18% annually and any unpaid advances are due January 1, 2027. The interest rate was amended to 15% as at January 1, 2024.

Both the First and Second advance payable to Finaccès Capital inc. are secured by a second rank guarantee over specific accounts receivable.

The First and Second advances were recorded at their fair value using an effective rate of 12%. The Corporation recorded a gain of \$55 (refer to note 8) resulting from this transaction in the statement of loss and comprehensive loss during the three months ended March 31, 2023.

(iii) Desjardins:

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

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

(iv) Investissement Québec:

In December 2022, the term loan from Investissement Québec was amended. The term loan is repayable in 48 monthly instalments of \$10, maturing in December 2026. The term loan bears interest at prime rate plus 5.05% and is guaranteed by movable property of Steri-Med, present and future, tangible and intangible.

(v) Unsecured convertible debentures

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

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

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

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

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

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

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

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

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

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

The movement in convertible debentures is as follows:

	Three months ended March 31, 2024	Year ended December 31, 2023
Balance, beginning of period	2,345	-
Additions	-	3,288
Fair value of conversion option allocated to equity, net of transaction costs of \$80	-	(375)
Transaction costs	-	(581)
Accretion expense included in interest on long-term debt in note 8	30	13
Balance, end of period	2,375	2,345

6. Long-term notes:

On March 12, 2024, the Corporation agreed with a holder of notes payable totalling \$900 to amend the maturity date to December 27, 2026. The interest rate remained unchanged at 8%. Therefore, the amount was reclassified from short-term notes payable to long-term notes.

As at March 31, 2024, long-term notes includes \$508 (\$531 as at December 31, 2023) due to related parties (see note 10).

7. Share capital and warrants:

(a) Share capital

Class A Shares ("Class A")

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

In connection with the RTO, the Corporation completed the "RTO private placements", and issued a total of 11,945,308 Units and 1,575,000 Class A common shares for gross proceeds of \$9,463. Issuance costs amounted to \$855 including \$727 for Units and Class A common share issuances, and \$128 for the issuance of 670,818 Compensation Warrants – RTO. The assumptions used to estimate the fair value of the Compensation Warrants – RTO using the Black-Scholes option pricing model are presented in note 7 (c).

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Notes to condensed Interim Consolidated Statements

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

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

	Year ended December 31, 2023
Private placement	8,893,709
Finaccès	3,000,000
Other concurrent investors	51,599
Total	11,945,308

On March 7, 2024, the Corporation announced the launch of a non-brokered private placement financing of Units for minimum gross proceeds of \$2,500 and a maximum of \$3,500 (the "Financing"). The maximum amount was increased on April 11, 2024 to \$7,500.

Each Unit (the "2024 Units") to be issued pursuant to the Financing will be at a price of \$0.40 per unit and will consist of one (1) class A share of the Corporation and one (1) Class A common share purchase warrant (a "2024 Warrant"). Each 2024 Warrant will entitle the holder, subject to adjustments in certain cases, to purchase one (1) Class A common share at a price of \$0.70 for a period of 36 months following the closing of the Financing.

On March 19, 2024, the Corporation announced the closing of the first tranche of \$2,685 and issued 6,713,566 2024 Units at a price of \$0.40 per unit. There were no finders' fees paid in connection with the first tranche. The cash consideration for the first tranche included the conversion of a \$500 note payable to a company controlled by a key management personnel, and \$200 of short-term notes payable.

Concurrent to the first tranche that closed on March 19, 2024, the Corporation also settled certain debts outstanding representing \$3,749 by issuing 9,373,327 2024 Units at a price of \$0.40 per unit (the "Unit for Debt Financing"). The Unit for Debt Financing included conversion of 1) Accounts payable for \$1,366; 2) Short-term notes payable for \$1,745 plus \$128 of accrued interest; and 3) Secured debenture for \$500 (nominal amount) plus \$10 of accrued interest.

Class B Shares ("Class B")

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

For the three-month period ended March 31, 2024, shares were issued in exchange of cash consideration and the settlement of accounts payable balances, accrued interest and secured debentures (nominal amount). For the year ended December 31, 2023, shares were issued in exchange of cash consideration and the acquisition of Îledor, including finders fees. All shares issued are Class A common shares.

(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 RTO Private Placements, 5,971,855 warrants were issued entitling the holder to acquire one (1) Class A common share (post-consolidation) at a price of \$1.00 per common share for a period of 18 months. In addition, the Corporation issued 670,818 Compensation warrants - RTO entitling the holder to acquire one (1) Unit at a price of \$0.70 per Unit for a period of 18 months. Lastly, the Corporation issued 318,085 Compensation warrants - Unsecured convertible debentures entitling the holder to acquire one (1) Class A common share (post-consolidation) at a price of \$0.70 per common share for a period of 24 months.

As part of the first tranche of the Private placement financing, 16,086,893 warrants were issued entitling the holder to acquire one (1) Class A common share at a price of \$0.70 for a period of 36 months following the closing of the Financing.

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(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

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The following table presents the warrants issued during the three months ended March 31, 2024:

	Issuance date	Number of warrants	Weighted average exercise price
Balance, beginning of period		40,566,758	0.78
Granted during the period	March 19, 2024	16,086,893	0.70
Balance, end of period		56,653,651	0.76

Compensation warrants

During the three-month period ended March 31, 2024, no compensation warrants were issued. During the year ended December 31, 2023, the fair value of the 670,818 Compensation Warrants – RTO and 318,085 Compensation warrants – Unsecured convertible debentures was determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

	Compensation warrants - RTO	Compensation warrants – Unsecured convertible debentures
Fair value of compensation warrants at grant date	0.19	0.15
Share price at grant date	0.65	0.48
Exercise price	0.70	0.70
Risk-free interest rate	3.66%	4.37%
Expected volatility	62.67%	74.22%
Expected life	1.5 years	2 years

(c) Share-based compensation:

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

The Plan is administered by the Board of Directors of the Corporation and it has full and final authority with respect to the granting of all options thereunder. The exercise price of any options granted under the Plan shall be determined by the Board of Directors, subject to any applicable regulations or policies. Under the Plan, except for options granted to consultant performing investors relation activities, all options vest on grant and expire 10 years from the grant date.

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

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

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(Unaudited)

Changes in the number of outstanding options related to the Plan were as follows:

	Number of shares	Weighted average exercise price
Outstanding options, beginning of period	6,000,000	0.70
Outstanding options, end of period	6,000,000	0.70
Balance exercisable, end of period	6,000,000	0.70

The share-based compensation expense recorded under this plan in the consolidated statements of loss and comprehensive loss was nil during the three-month period ended March 31, 2024 (\$2,117 during the three-month period ended March 31, 2023).

The options outstanding as at March 31, 2024 have an exercise price of \$0.70 and a remaining contractual life of 8.9 years.

8. Finance expense, net:

	Three months ended	
	March 31, 2024	March 31, 2023
Interest expense on long-term debt and revolving credit facility	331	234
Interest expense on other financial liabilities and factoring fees	-	66
Interest on notes payable	47	42
Interest expense on notes payable to related parties	18	-
Interest expense on revolving credit facility	19	16
Change in fair value of advances payable to Finaccès Capital inc.	-	55
Other finance expense	13	33
Interest expense on lease liabilities	31	8
	459	454

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

	Three months ended	
	March 31, 2024	March 31, 2023
Included in cost of goods sold:		
Employee salaries and benefits	1,007	672
Depreciation and amortization	300	215
Included in selling expenses:		
Employee salaries and benefits	75	43
Included in administrative expenses:		
Employee salaries and benefits	430	433
Depreciation and amortization	34	34
Moving costs	-	33

LSL PHARMA GROUP INC.

Notes to condensed Interim Consolidated Statements

(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

10. Transaction with related parties and shareholders:

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, 2024	March 31, 2023
Key management salaries and benefits	391	296

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

	March 31, 2024	December 31, 2023
Assets:		
Receivable from a company controlled by a director of the Corporation included in accounts receivable and related to the sale of Steri-Med products	1,635	964
Liabilities:		
Notes payable to key management personnel	279	302
Notes payable to a company controlled by a key management personnel of the Corporation	479	229
Amount of Convertible Debentures held by a key management personnel of the Corporation and recorded in long-term debt	125	125
Amount of Secured Debentures held by a company controlled by a director of the Corporation and recorded in long-term debt	1,000	1,000
Amount of Secured Debentures held by a key management personnel of the Corporation and recorded in long-term debt	150	150

During the year ended December 31, 2023, the Corporation borrowed from a key management personnel, an amount of \$302 bearing interest at 10%, repayable on January 1, 2026. The Corporation also borrowed from a company controlled by a key management personnel, an amount of \$229 bearing interest at 12%, repayable on February 1, 2026. On March 19, 2024, the amount was converted into Units as part of the first tranche of the Private placement financing (see note 7 (c)).

On February 2, 2024, the Corporation borrowed \$750 from a company controlled by a key management personnel at 12% interest rate, repayable on February 1, 2026. On March 19, 2024, \$271 of this amount was converted into the first tranche of the Private placement financing (see note 7 (c)).

The following table presents the related party transactions presented in the consolidated statement of loss for the respective periods:

	Three months ended	
	March 31, 2024	March 31, 2023
Revenues:		
Revenues from a company controlled by a Director of the Corporation	2,035	59
Expenses:		
Expenses paid to a company controlled by a Director of the Corporation	49	-

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(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

11. 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, 2024	March 31, 2023 (Recast – Note 2 (c))
Net loss	(280)	(5,403)
Weighted average number of common shares	84,580,096	70,027,811
Basic and diluted loss per share	(0.00)	(0.08)

For the periods ended March 31, 2024 and 2023, the diluted loss per share calculation did not take into consideration the potential dilutive effect of the warrants as they are anti-dilutive.

12. Additional cash flow information:

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

	Three months ended	
	March 31, 2024	March 31, 2023 (Recast – Note 2 (c))
Accounts receivable	(728)	(328)
Inventories	(162)	(317)
Prepaid expenses	(725)	(309)
Accounts payable and accrued liabilities	(808)	(2,224)
Deferred revenues	-	(7)
	(2,423)	(3,171)

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

As described in Note 1, Îledor was considered the accounting acquiree and LSL Laboratory Inc. was the accounting acquirer and, consequently, the transaction was accounted for as a reverse acquisition of Îledor by LSL Laboratory Inc. As Îledor does not meet the definition of a business, the transaction was accounted for as a reverse acquisition of net liabilities pursuant to IFRS 2, Share-based payment.

The acquisition-date fair value of the consideration transferred by the accounting acquirer, LSL Laboratory Inc., for its interest in the accounting acquiree, Îledor, of \$537 or 825,869 Class A common shares was determined based on the fair value of the equity interest that LSL Laboratory Inc. would have had to pay to the owners of Îledor (assuming a fair value per Class A common share post-consolidation of \$0.65 based on the estimated value of the Class A common shares issued in the Private Placement, before the reverse acquisition, to provide the same percentage equity interest in the combined entity that results from the reverse acquisition. This is recorded as an increase in Class A common shares in the consolidated statement of financial position. As the fair value of Îledor's identifiable net liabilities assumed at the reverse acquisition date was (\$553), the excess of consideration transferred over the net liabilities assumed of \$1,090 is reflected in costs related to reverse takeover in the consolidated statements of loss and comprehensive loss.

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(All amounts in thousands of Canadian dollars except for share, unit, warrants and per share/units amounts)

(Unaudited)

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

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

14. Subsequent events:

(a) *Private Placement*

On April 23, 2024, the Corporation announced the closing of the second tranche of a Private Placement launch on March 17, 2024 for \$3,794 and issued 9,485,000 Units at a price of \$0.40 per unit. There were \$30 of finders' fees paid in connection with the second tranche and 75,000 compensation warrants were issued at a price of \$0.70 per unit with an 18-month term.

(b) *Stock-options*

On April 29, 2024, the Corporation granted an aggregate of 1,555,000 stock options ("Options") to certain officers and directors in accordance with the Corporation's long-term incentive compensation plan. The Options will be exercisable at an exercise price of \$0.40 per Class A common share of the Corporation until April 29, 2034. All options will vest on grant.

(c) *Business Acquisition*

On May 6, 2024, the Corporation announced the signing of a binding agreement ("LOI") to acquire a profitable privately held Quebec-based competing CDMO offering complementary manufacturing capabilities and providing important synergies with its existing operations (the "Target"). The \$2,500 purchase price which will be funded by the proceeds from the recently completed private placements and includes a fully operational manufacturing plant. The transaction is expected to boost LSL Group's revenues by 15-20% on an annual basis. LSL Pharma anticipates closing the transaction by the end of Q2-24. Upon signing of the LOI, LSL Pharma was required to make a non-refundable payment of \$100. Target Co is based in the province of Quebec and will be integrated into LSL Laboratory CDMO activities. Target Co manufactures a range of natural products in liquid, powder, as well as in capsule forms which are sold under its own brands or as under private labels.

(d) *Convertible Unsecured Redeemable Debentures*

On May 22, 2024, The Corporation announce that the Convertible Unsecured Redeemable Debentures issued pursuant to a \$3,288 brokered private placement completed in tranches on November 1, 2023 and December 8, 2023 (the "Debentures") had been approved for listing on the TSXV under the symbol "LSL.DB" and will begin trading on May 24, 2024. The Debentures which may be redeemable by the Corporation, have a maturity date of October 31, 2028 (the "Maturity Date"), and accrue interest at the rate of 11% per annum (subject to adjustments) payable semi-annually on the last day of April and October of each year with the first interest payment to take place on October 31, 2024. At the holders' option, the Debentures may be converted into Class A shares of the Corporation at any time and from time to time, up to the Maturity Date, at a conversion price of \$0.70 per share.