Condensed Interim Consolidated Financial Statements of

LSL PHARMA GROUP INC.
(formerly Corporation Exploration Iledor)

Three-month and nine-month periods ended September 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.

Table of Contents
(Unaudited)

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Financial Position

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

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Accounts receivable	$ 1,755,489	$ 1,231,006
Inventories	3,868,563	2,957,199
Prepaid expenses	402,784	205,723
	6,026,836	4,393,928
Deposits	20,000	20,000
Property, plant and equipment	14,883,837	13,916,260
Intangible assets	8,722,660	8,981,379
	$ 29,653,333	$ 27,311,567
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank overdraft	$ 28,585	$ –
Revolving credit facility (note 4)	1,278,945	493,458
Accounts payable and accrued liabilities	4,107,688	6,117,551
Other financial liabilities (note 5)	–	1,042,275
Advances payable to shareholders (note 10)	1,878,674	1,992,209
Deferred revenue	31,250	7,488
Current portion of long-term debt (note 6)	6,783,334	1,578,581
Current portion of lease liabilities	126,038	135,606
	14,234,514	11,367,168
Long-term debt (note 6)	3,198,104	7,741,842
Lease liabilities	2,469,179	2,561,399
	19,901,797	21,670,409
Shareholders' equity:		
Share capital and warrants (note 7)	24,337,044	15,402,888
Contributed surplus (note 7)	3,172,276	–
Deficit	(17,757,784)	(9,761,730)
	9,751,536	5,641,158
Going concern (note 2 (b))		
	$ 29,653,333	$ 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 nine-month period ended September 30, 2023 and 2022
(Unaudited)

	Three-month periods ended		Nine-month periods ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenues	$ 2,511,665	$ 2,641,589	$ 6,569,796	$ 5,924,303
Cost of goods sold (note 9)	2,044,700	2,654,584	5,024,277	6,859,086
Gross profit (loss)	466,965	(12,995)	1,545,519	(934,783)
Selling expenses (note 9)	43,409	44,557	204,533	205,916
Administrative expenses (note 9)	746,315	1,008,830	2,462,736	3,125,699
Research and development expenses	13,188	59,489	146,071	371,350
Operating expenses	802,912	1,112,876	2,813,340	3,702,965
Operating loss	(335,947)	(1,125,871)	(1,267,821)	(4,637,748)
Costs related to reverse takeover (note 14)	250	–	2,488,666	–
Share-based compensation (note 7)	–	–	2,971,031	–
Loss before net finance expenses and income taxes	(336,197)	(1,125,871)	(6,727,518)	(4,637,748)
Net finance expenses (note 8)	426,069	341,140	1,268,536	407,804
Net loss, being the comprehensive loss for the period	$ (762,266)	$ (1,467,011)	$ (7,996,054)	$ (5,045,552)
Basic and diluted loss per share (note 11)	$ (0.01)	$ (0.02)	$ (0.10)	$ (0.08)

See accompanying notes to condensed interim consolidated financial statements.

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Changes in Equity

Nine-month periods ended September 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 7 (a))	5,434,000	5,434,000	2,717,000	–	–	2,717,000
Share issuance costs	–	–	(141,165)	–	–	(141,165)
Net loss	–	–	–	(5,045,552)	–	(5,045,552)
Balance as at September 30, 2022	33,606,000	68,089,000	$ 15,388,167	$ (6,745,040)	$ –	$ (8,643,127)

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Changes in Equity

Nine-month periods ended September 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, 2022	33,606,000	68,089,000	$ 15,402,888	$ (9,761,730)	$ –	$ 5,641,158
Share issuance (note 7 (a))	5,971,855	13,518,709	9,463,097	–	–	9,463,097
Effect of reverse acquisition (note 13)	–	825,869	479,004	–	–	479,004
Share-based compensation (note 7 (c))	–	–	–	–	2,971,031	2,971,031
Share issuance costs (note 7 (a))	670,818	–	(1,007,945)	–	201,245	(806,700)
Net loss	–	–	–	(7,996,054)	–	(7,996,054)
Balance as at September 30, 2023	40,248,673	82,433,578	$ 24,337,044	$ (17,757,784)	$ 3,172,276	$ 9,751,536

See accompanying notes to condensed interim consolidated financial statements.

LSL PHARMA GROUP INC.

Condensed Interim Consolidated Statements of Cash Flows

Nine-month periods ended September 30, 2023 and 2022
(Unaudited)

	September 30, 2023	September 30, 2022
Cash provided by (used in):		
Operating:		
Net loss	$ (7,996,054)	$ (5,045,552)
Adjustments for:		
Consideration transferred from Îledor in excess of net assets acquired (note 14)	1,032,411	–
Depreciation and amortization	884,660	750,102
Net finance expenses	1,268,536	407,804
Share-based compensation (note 7 (c))	2,971,031	–
Net change in non-cash operating working capital items (note 12)	(4,266,091)	3,100,355
	(6,105,507)	(787,291)
Financing:		
Repayment of long-term debt	(3,512,252)	(1,405,066)
Issuance of long-term debt	3,914,043	555,000
Proceeds from share issuance	9,463,097	2,717,000
Net proceeds from revolving credit facility	772,735	484,300
Common shares issuance costs	(806,700)	(141,165)
Interest paid	(822,992)	(395,862)
Net change in other financial liabilities	(1,058,483)	(247,157)
Payment of lease liabilities	(198,875)	(237,815)
	7,750,573	1,329,235
Investing:		
Acquisition and deposits on property, plant and equipment	(1,510,115)	(1,455,503)
Acquisition of intangible assets	(50,000)	–
(Decrease) increase in advances from shareholders	(113,536)	255,208
	(1,673,651)	(1,200,295)
Net decrease in cash	(28,585)	(658,351)
Cash and cash equivalents, beginning of period	–	741,010
(Bank overdraft) cash and cash equivalents, end of period	$ (28,585)	$ 82,659

Additional cash flow information is presented in Note 12.

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 unaudited condensed interim consolidated financial statements comprise those of 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 and distributor 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 of a 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 7(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 the Board of Directors of the Company on November 27, 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 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 whose accounting policy is described hereafter:

2. Basis of preparation (continued):

(a) Basis of presentation (continued):

The unaudited condensed interim 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 7(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.

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

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. 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 nine-month period ended September 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. As at September 30, 2023, the facility was reimbursed.

4. Revolving credit facility (continued):

On August 2, 2023, the Company entered into a revolving credit facility agreement with Toronto Dominion bank (TD bank). The maximum available amount is $1,500,000. The revolving credit facility bears interest at bank prime rate plus 1%. As at September 30, the facility amount is $1,310,000. Transaction fees of $37,265 were incurred in relation with the issuance of the debt, of which $6,211 were amortized. The revolving credit facility is secured by inventory and accounts receivable.

5. Other financial liabilities:

On April 11, 2022, the Company entered into an agreement for a revolving credit facility with its factor for a maximum amount of $2,000,000 (the "Factor revolving credit facility"). The facility bears interest at CDOR plus 7,45%. As at December 31, 2022, the amount of the other financial liabilities was $1,042,275. As at August 2, 2023, the other financial liabilities were reimbursed by the new revolving credit facility.

6. Long-term debt:

	September 30, 2023	December 31, 2022
Secured debentures (i)	$ 4,883,565	$ 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)	644,424	757,500
Secured loans from Desjardins (iii)	805,346	1,028,581
Term loan from Investissement Québec (iv)	390,000	480,000
Unsecured long-term debt, interest rate of 9% annually, repayable on December 27, 2026	1,190,000	–
Unsecured loan, interest rate 11%, repayable on October 31, 2028	1,738,103	–
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
	9,981,438	9,320,423
Less current portion of long-term debt	6,783,334	1,578,581
Long-term portion of long-term debt	$ 3,198,104	$ 7,741,842

6. Long-term debt (continued):

(i) Secured debentures:

On June 10, 2021, the Company issued a first tranche of $4,700,000 of secured debentures, bearing interest at 6% annually for a total amount of $4,080,811, net of transaction fees of $619,189 . 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 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.

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 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	$ 4,679,081
Accretion expense included in interest on long-term debt in note 8	204,484
Balance at September 30, 2023[i]	$ 4,883,565

6. Long-term debt (continued):

(i) Secured debentures (continued):

Balance at December 31, 2021	$	4,477,843
Accretion expense included in interest on long-term debt in note 8		186,137
Balance at September 30, 2022	$	4,663,980

(i) As at September 30, 2023, $4,883,565 are classified in the current portion as it is repayable within 12 months from September 30, 2023 (December 31, 2022 - $342,532).

(ii) Finaccès Capital inc.:

- The first advance of $2,100,000 was repaid in March 2023.
- 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 8) resulting from this transaction in the unaudited condensed interim statement of loss and comprehensive loss for the three- and nine-month periods ended September 30, 2022.
- 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 $644,424 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.

6. Long-term debt (continued):

(iii) Desjardins:

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

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

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.

(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.

7. Share capital and other equity instruments:

(a) Share capital:

	September 30, 2023	December 31, 2022
Issued:		
82,433,578 Class A shares (2022 - 68,089,000)	$ 24,337,044	$ 15,402,888

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

(a) Share capital (continued):

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 transactions 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 7 (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 September 30, 2023 and 2022 were issued in exchange for cash consideration. 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 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.

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

(b) Warrants (continued):

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 year

As at September 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 10% of the Company's issued and outstanding Common Shares.

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 10 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 and employees to purchase Common Shares of the Company at a price of $0.70 per Common Share.

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

(c) Share-based compensation (continued):

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 September 30, 2023	6,000,000	0.70
Balance exercisable as at September 30, 2023	6,000,000	0.70

The share-based compensation expense recorded under this plan amounted to $2,971,031 for the unaudited condensed interim consolidated statements for the nine-month period ended September 30, 2023.

The options outstanding as at September 30, 2023 (2022 - nil) have an exercise price of $0.70 and a remaining contractual life of 9,5 years.

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

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

(c) Share-based compensation (continued):

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.

8. Net finance expenses:

	Three-month periods ended		Nine-month periods ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest expense on long-term debt	$ 248,566	$ 175,285	$ 732,910	$ 684,031
Interest expense on revolving credit facility	48,020	3,370	76,876	3,370
Interest expense on advance payable to shareholders	28,563	–	105,806	–
Factoring fees	59,301	70,050	169,496	178,814
Change in fair value of advances payable to a shareholder	–	59,545	54,739	109,910
Other finance expenses	9,696	23,390	65,026	60,098
Interest on lease obligations	31,923	9,500	63,683	28,524
Gain from debt settlement (note 6)	–	–	–	(656,943)
	$ 426,069	$ 341,140	$ 1,268,536	$ 407,804

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

	Three-month periods ended		Nine-month periods ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Included in cost of goods sold				
Employee salaries and benefits	$ 901,527	$ 827,268	$ 2,344,961	$ 2,582,751
Depreciation and amortization	216,155	146,409	492,945	441,384
Amortization due to an acquisition	96,780	96,780	290,340	290,340
Included in selling expenses				
Employee salaries and benefits	33,153	48,337	115,438	209,123
Included in administrative expenses				
Employee salaries and benefits	523,043	383,604	1,430,838	1,031,531
Depreciation and amortization	33,850	12,252	101,375	18,378
Moving costs	1,101	–	132,617	–
Severance and recruitment fees	84	12	84	17

10. 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		Nine-month periods ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Key management salaries and benefits	$ 246,941	$ 224,757	$ 845,694	$ 844,160

10. 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:

	September 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	42,348	–
Liabilities		
Advances payable to key management personnel included in advances payable to shareholders	268,674	23,105
Amount of debentures held by key management personnel of the Company and recorded in long term debt (note 6)	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		Nine-month periods ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Revenues from the Company managed by an officer of the Company	$ –	$ 81,000	$ 59,250	$ 81,000

(b) Transactions with shareholders:

During the period ended September 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 $500,000 was reimbursed during the period ended September 30, 2023. The Company also borrowed, from key management personnel, an amount of $268,674 without interest or terms of repayment.

11. 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		Nine-month periods ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net loss	$ (762,266)	$ (1,467,011)	$ (7,996,054)	$ (5,045,552)
Weighted average number of common shares	82,433,578	64,646,635	79,617,063	64,646,635
Basic and diluted loss per share	$ (0.01)	$ (0.02)	$ (0.10)	$ (0.08)

For the periods ended September 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.

12. Additional cash-flow information:

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

	September 30, 2023	September 30, 2022
Accounts receivable	$ (482,124)	$ (607,533)
Inventories	(911,364)	675,633
Prepaid expenses	(197,061)	(166,312)
Accounts payable and accrued liabilities	(2,699,304)	3,123,442
Deferred revenue	23,762	75,125
	$ (4,266,091)	$ 3,100,355

13. 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*.

13. 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.

14. 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 nine months ended September 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	129,121
	$ 2,488,666

15. Subsequent events:

Unsecured debentures

The Company has closed the first tranche of its brokered private placement (the "Offering") through the issuance of 229,300 unsecured convertible debentures (each a "Debenture") at a price of $10 per Debenture for gross proceeds of $2,293,000 out of a maximum of $5,000,000 (assuming the full exercise of the agent's option to increase the size of the Offering by up to $1.0 million). The net proceeds of the Offering will be used for working capital, capital expenditures, and for general corporate purposes.

15. Subsequent events (continued):

Unsecured debentures

The Offering was led by iA Capital Markets as sole agent and sole bookrunner (the "Agent"). In connection with the first tranche of the Offering, the Company paid to the Agent a cash commission of $160,510 and issued 229,300 broker warrants (the "Broker Warrants"). The Broker Warrants are exercisable to acquire one Class A Share of the Company at a price of $0.70 for a period of 24 months from the date of issuance. The Company and the Agent are dealing at arm's length.

All securities issued pursuant to the Offering are subject to the applicable statutory hold period of four months and one day from November 1, 2023 (the "Initial Closing Date"). The Offering is subject to the final approval of the TSX Venture Exchange (the "TSXV").

The Company has received conditional approval to list the Debentures on the TSXV after the expiry of each applicable hold period. The Debentures are expected to trade under the symbol LSL.DB. The listing of the Debentures is subject to final approval by the TSXV at the time of listing and the Company fulfilling the requirements as outlined in Policy 2.8 of the TSXV's policies.

Each Debenture will, at the option of the holder, be convertible in its entirety into Class A shares of the capital stock of the Company (the "Class A Shares") at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the Maturity Date, 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 ("Maturity Date") and are payable on the Maturity Date in cash. The outstanding principal amount will bear interest at the rate of 11.00% (the "Base Rate") 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 ("First Interest Payment Date"). Interest will accrue from the Initial Closing Date up to the First Interest Payment Date at the Base Rate, compounding semi-annually on the last day of April and October of each year (the "Interest Period").