LexaGene

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 28, 2019 and 2018

MANNING ELLIOTT
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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of LexaGene Holdings Inc.

Opinion

We have audited the consolidated financial statements of LexaGene Holdings Inc. and its subsidiaries (the "Company") which comprise the consolidated statements of financial position as at February 28, 2019 and 2018, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2019 and 2018, its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements which indicates the Company does not generate revenue or cash flows from operations and relies on financing for its business activities. As stated in Note 1, these matters and conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indicators that the other information appears to be materially misstated. We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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INDEPENDENT AUDITORS' REPORT

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditors' report is Joseph Bonvillain, CPA, CA.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
June 28, 2019

LEXAGENE HOLDINGS INC.
Consolidated Statements of Financial Position
(Expressed in US dollars)

	Note		February 28, 2019		February 28, 2018
ASSETS					
Current assets					
Cash		$	670,921	$	2,648,354
Receivables			-		12,637
Prepaid expenses			270,836		303,874
			941,757		2,964,865
Non-current					
Intangible license	5		80,024		76,630
Property and equipment	6		682,105		682,672
TOTAL ASSETS		**$**	**1,703,886**	**$**	**3,724,167**
LIABILITIES AND EQUITY					
LIABILITIES					
Current liabilities					
Accounts payables and accrued liabilities	9	$	319,192	$	257,494
TOTAL LIABILITIES		**$**	**319,192**	**$**	**257,494**
EQUITY					
Share capital	7		15,373,384		10,988,932
Share-based payment reserve	7		2,805,102		905,631
Accumulated other comprehensive income			80,910		125,438
Deficit			(16,874,702)		(8,553,328)
TOTAL EQUITY			**1,384,694**		**3,466,673**
TOTAL LIABILITIES AND EQUITY		**$**	**1,703,886**	**$**	**3,724,167**

Nature and continuance of operations (Note 1)
Commitment (Note 14)
Subsequent events (Note 15)

Approved on behalf of the Board on June 28, 2019:

"Jack Regan"	*"Jeffrey Mitchell"*
Jack Regan, Chairman & Chief Executive Officer	Jeffrey Mitchell, Chief Financial Officer

LEXAGENE HOLDINGS INC.
Consolidated Statements of Comprehensive Loss
(Expressed in US Dollars)

	Note	2019	2018
Operating Expenses			
Marketing and promotion	11	$ 1,262,634	$ 892,448
General and administrative	11	1,675,637	599,391
Research and development	10	5,384,213	2,486,036
Loss before other item		**$ 8,322,484**	**$ 3,977,875**
Other item			
Foreign exchange		(1,110)	27,577
Net loss		**$ 8,321,374**	**$ 4,005,452**
Other comprehensive loss			
Items that may be reclasified subsequently to income or loss:			
Unrealized gain on translation to reporting currency		44,528	(114,994)
Comprehensive loss		**$ 8,365,902**	**$ 3,890,458**
Net loss per share - basic and diluted		**$ 0.13**	**$ 0.08**
Weighted average number of common shares		**63,757,460**	**52,491,100**

The accompanying notes are an integral part of these consolidated financial statements

LEXAGENE HOLDINGS INC.
Consolidated Statements of Changes in Equity
(Expressed in US Dollars)

	Share Capital						
	Number	Amount	Share subscriptions	Share based payment reserve	Deficit	Accumulated other comprehensive income (loss)	Total
Balance, February 28, 2017	**42,471,060**	**$ 4,469,182**	**$ 132,413**	**$ 857,496**	**$ (4,547,876)**	**$ 10,444**	**$ 921,659**
Shares issued, net of costs	11,378,963	4,955,305	(117,341)	254,559	-	-	5,092,523
Warrants exercised	5,043,530	1,564,445	(15,072)	(647,881)	-	-	901,492
Share based payment of stock options	-	-	-	332,555	-	-	332,555
Share based payment of restricted share units	-	-	-	98,615	-	-	98,615
Warrants issued for cash	-	-	-	10,287	-	-	10,287
Comprehensive loss for the year	-	-	-	-	(4,005,452)	114,994	(3,890,458)
Balance, February 28, 2018	**58,893,553**	**$ 10,988,932**	**$ -**	**$ 905,631**	**$ (8,553,328)**	**$ 125,438**	**$ 3,466,673**
Shares issued in private placements, net of share issue costs	5,750,000	3,796,622	-	131,169	-	-	3,927,791
Share issuance costs - warrants	-	(246,878)	-	246,878	-	-	-
Share based payment of stock options	-	-	-	912,440	-	-	912,440
Share based payment of restricted share units	414,750	366,972	-	799,399	-	-	1,166,371
Warrants exercised	1,645,800	467,736	-	(190,415)	-	-	277,321
Comprehensive loss for the year	-	-	-	-	(8,321,374)	(44,528)	(8,365,902)
Balance, February 28, 2019	**66,704,103**	**$ 15,373,384**	**$ -**	**$ 2,805,102**	**$ (16,874,702)**	**$ 80,910**	**$ 1,384,694**

The accompanying notes are an integral part of these consolidated financial statements

LEXAGENE HOLDINGS INC.
Consolidated Statements of Cash Flows
For the years ended February 28, 2019 and 2018
(Expressed in US Dollars)

	Years ended February 28, 2019	2018
Operating Activities		
Net loss for the year	$ (8,321,374)	$ (4,005,452)
Items not involving cash		
Amortization of intangible license	9,685	9,376
Amortization of property and equipment	126,782	9,992
Share based compensation	2,078,811	431,170
Changes in working capital balances:		
Receivables	12,637	(1,262)
Prepaid expenses	33,038	(233,979)
Accounts payable and accrued liabilities	61,698	126,879
Cash Used in Operating Activities	(5,998,723)	(3,663,276)
Investing Activities		
Purchases property and equipment	(126,214)	(662,717)
Payments for intangible license	(15,000)	(10,000)
Cash Used in Investing Activities	(141,214)	(672,717)
Financing Activities		
Proceeds from shares issued, net of cash share issue costs	3,927,792	5,092,523
Proceeds from warrants	277,320	911,779
Cash Provided by Financing Activities	4,205,112	6,004,302
Increase (decrease) in Cash	$ (1,934,825)	$ 1,668,309
Cash, Beginning	2,648,354	867,483
Effect of foreign exchange	(42,608)	112,562
Cash, Ending	$ 670,971	$ 2,648,354

Supplemental disclosures

Interest paid	$ -	$ -
Income tax paid	-	-

The accompanying notes are an integral part of these consolidated financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

LexaGene Holdings Inc. (the "Company" or "LexaGene") was incorporated on April 26, 2007, under the laws of the province of British Columbia, Canada. The head office and the principal address are located at 500 Cummings Ctr., Suite 4550, Beverly, Massachusetts, USA, 01915. The records office of the Company is located at 1055 West Georgia Street, Suite 1500, Vancouver, British Columbia, Canada, V6E 4N7. The Company's common shares are listed on the TSX Venture exchange under the trading symbol "LXG". The principal business of the Company is to research, develop and commercialize automated genetic analyzer devices in clinical and life science industries.

These consolidated financial statements are prepared on a going concern basis, which assumes that the Company will continue on a going-concern basis. At February 28, 2019, the Company had not generated revenue and had an accumulated deficit of $16,874,702 since inception. The Company's operations are dependent on obtaining additional financing to develop its genetic analyzer and generating cash flow from operations in the future. These factors form a material uncertainty which may raise significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements. Management's plans to meet the Company's current and future obligations are to raise equity through private placements and rely on the financial support of its shareholders and related parties.

2. BASIS OF PREPARATION

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

Basis of measurement
These consolidated financial statements are expressed in US dollars and have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value. These consolidated financial statements are prepared using the accrual basis of accounting on a going concern basis. The accounting policies disclosed in Note 3 to these financial statements have been applied consistently to all years presented unless otherwise stated.

(Expressed in US Dollars)

2. BASIS OF PREPARATION (continued)

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the consolidated financial statements are disclosed in Note 3 (k) of the consolidated financial statements.

Reclassifications

The 2018 expense figures presented for comparative purposes have been regrouped and reclassified between three expense categories that are presented in the consolidated statement of loss to conform to the current year presentation. The reclassifications in expense presentation are as follows:

		Reclassifications		
	Year Ended February 28, 2018	Marketing and Promotion	General and administrative	Research and Development
Expenses:				
Administration	$ 47,085	$ 4,709	$ 14,125	$ 28,251
Advertising and promotion	559,248	559,248	-	-
Amortization of intangible license	9,376	-	-	9,376
Amortization of property and equipment	9,992	999	2,998	5,995
Consulting fees	108,346	10,835	32,503	65,008
Insurance	6,802	680	2,041	4,081
Office and miscellaneous	102,954	10,295	30,887	61,772
Professional fees	161,280	-	161,280	-
Research and development	1,670,114	-	-	1,670,114
Share based compensation	431,170	43,117	129,351	258,702
Transfer agent and filling fees	54,305	-	54,305	-
Travel	188,961	18,896	56,688	113,377
Wages and salaries	628,242	243,669	115,213	269,360
	$ 3,977,875	**$ 892,448**	**$ 599,391**	**$ 2,486,036**

Functional and presentation currency

The Company's presentation currency is the US dollar ("USD") which aligns the Company's presentation currency with the functional currency of its operations in the United States.

The functional currency of the Company and its Canadian subsidiary is the CAD dollar, and the USD for the Company's US subsidiary. Translation gains and losses resulting from the consolidation of operations in Canada and US are recognized in other comprehensive loss in the statement of comprehensive loss, and in accumulated other comprehensive loss as a separate component of shareholders' equity on the consolidated statement of changes in shareholder's equity.

(Expressed in US Dollars)

2. BASIS OF PREPARATION (continued)

Functional and presentation currency (continued)

Foreign exchange rates used for currency translation in these consolidated financial statements include:

Period end dates	**US to CDN**	**CDN to US**
February 28, 2018	1.2830	0.7794
February 28, 2019	1.3169	0.7594

Period averages	**US to CDN**	**CDN to US**
Year ended February 28, 2018	1.2880	0.7764
Year ended February 28, 2019	1.3081	0.7646

Basis of consolidation

The consolidated financial statements for the year ended February 28, 2019, include the accounts of the Company, the Company's wholly-owned Canadian subsidiary Bionomics Diagnostics Inc. ("BDI") and the Company's wholly-owned US subsidiary LexaGene Inc. All inter-company transactions and balances have been eliminated.

The consolidated financial statements include the financial statements of LexaGene Holdings Inc. and its subsidiaries listed as follows:

Name	**Country of incorporation**	**% ownership interest**	
		2019	**2018**
Bionomics Diagnostics Inc.	Canada	100%	100%
LexaGene, Inc.	United States	100%	100%

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Financial instruments

All financial assets and financial liabilities are initially recognized by the Company when the Company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially recorded at fair value, net of attributable transaction costs, except for those classified as fair value through profit or loss ("FVTPL"). Subsequent measurement of financial assets and financial liabilities depends on the classification of such assets and liabilities.

(i) Classification – financial assets

The Company classifies financial assets as measured at amortized cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL").

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instruments (continued)

Amortized cost

Financial assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of these financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortized cost using the effective interest method.

Fair value through other comprehensive income

Financial assets that are held within a business model whose objective is to hold financial assets in order to both collect contractual cash flows and sell financial assets, and the contractual terms of these financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Upon initial recognition of equity securities, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate its equity securities that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the instrument; instead, it is transferred to retained earnings. The Company currently has no financial assets designated as FVTOCI.

Fair value through profit or loss

By default, all other financial assets are measured subsequently at FVTPL. The Company's cash is measured at FVTPL.

(ii) Classification – financial liabilities

Financial liabilities are subsequently measured at amortized cost using effective interest method, except for financial liabilities at FVTPL, financial guarantee contracts, loan commitments as below-market interest rate, and liabilities related to contingent consideration of an acquirer in a business combination.

Financial liabilities at amortized cost include accounts payable and accounts payable to related parties. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in the statements of operations and comprehensive income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instruments (continued)

(iii) Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

(iv) Impairment

The Company recognizes a loss allowance for expected credit losses on its financial assets when necessary. The amount of expected credit losses is updated at each reporting period to reflect changes in credit risk since initial recognition of the respective financial instruments. The Company did not recognize impairment losses during the year ended February 28, 2019.

The Company has no hedging arrangements and does not apply hedge accounting.

(b) Research and development costs

Research costs, including costs for new patents and patent applications, are expensed in the period in which they are incurred. Development costs are expensed in the period in which they are incurred unless certain criteria, including technical feasibility, commercial feasibility, and intent and ability to develop and use the technology, are met for deferral and amortization.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Intangible assets

Intangible assets of the Company include technology licenses rights and patents acquired from third parties, and are recorded at cost less accumulated amortization and accumulated impairment losses. Initial acquisition cost is based on the fair value of the consideration paid or payable, and will be amortized on a straight-line basis over the estimated useful life of the underlying technologies with finite lives. When the Company commenced research and development activities, the intangible assets began being amortized over 10 years upon the execution of the Agreement with Laurence Livermore National Security (Note 5). The Company reviews the estimated useful lives and carrying values of its technology rights and patents as part of its periodic assessment for impairment of non-financial assets.

The carrying amounts for technology rights and patents do not necessarily reflect present or future value and the ultimate amounts recoverable will be dependent upon the successful development and commercialization of products based on these underlying technologies.

(d) Property and equipment

Property and equipment are initially recognized at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Company. Property and equipment are subsequently measured using the cost model, cost less amortization and impairment. Amortization is recognized on a straight-line basis to amortize the cost over the estimated useful life of the property and equipment as follows:

- Computer equipment - 3 years;
- Furniture - 7 years;
- Lab equipment - 5 to 7 years;
- Laboratory and leasehold improvements – 7 years.

(e) Impairment of non-financial assets

Impairment tests on non-financial assets are undertaken annually at the financial year-end and whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to profit or loss, except to the extent they reverse gains previously recognized in other comprehensive income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Share-based payments

Fair value of equity-settled restricted share units ("RSU") is measured at the grant date based on the market value of the Company's common shares on that date. At each financial reporting date, the amount recognized as an expense in connection with RSUs is adjusted to reflect the actual number of RSUs that are expected to vest.

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of options is determined using the Black–Scholes Option Pricing Model.

The number of RSUs and options expected to vest is viewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(g) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(h) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current period and any adjustment to income taxes payable in respect of previous periods. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income taxes (continued)

Current tax expense is the expected tax payable on the taxable income for the period using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

(i) Share capital

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. The proceeds from issuance of units are allocated between common shares and warrants based on the residual method. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is allocated to a warrants reserve.

(j) Foreign currency translation

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of LexaGene Holdings Inc. and Bionomics Diagnostics Inc. is the Canadian dollar. The functional currency of the US subsidiary LexaGene US Inc. is the US dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statement of comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Foreign currency translation (continued)

Assets and liabilities of foreign operations with functional currencies other than US dollars are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in shareholders' equity.

Foreign exchange gains and losses related to intercompany loans forming part of a reporting entity's net investment in a foreign operation are included in foreign currency translation reserve. When a gain or loss on a non-monetary item is recognized in foreign currency translation reserve, any exchange component of that gain or loss is recognized in other comprehensive income (loss). All other foreign exchange gains and losses are recognized in the consolidated statement of comprehensive loss.

(k) Significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements, and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant areas requiring the use of management estimates include:

- The useful lives of property and equipment

  The Company amortizes its property and equipment based on estimates of their useful lives. Changes in useful lives and depreciation rates of these assets may have a significant impact on amortization recorded in consolidated statement of comprehensive loss and value of corresponding property and equipment.

- The useful lives of the intangible assets.

  Determination of useful lives of intangible assets involves judgment as it impacts amortization recorded in the consolidated statement of comprehensive loss. When the Company commenced research and development activities, the intangible assets began being amortized over 10 years upon the execution of the Agreement with Laurence Livermore National Security.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Significant accounting judgments, estimates and assumptions (continued)

- Valuation of share-based payments and warrants

  The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility and forfeiture rate. Changes in the input assumptions can materially impact fair value estimates and the Company's comprehensive loss and share-based payment reserves.

Significant areas requiring the use of management's judgments include:

- The recognition of deferred income tax assets

  A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

- Treatment of development costs

  Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically and economically feasible, which management assessed based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any development costs as at February 28, 2019.

- Recoverability of the carrying value of intangible assets

  Evaluating the recoverability requires judgments in determining whether future economic benefits from sale or otherwise are likely. Evaluation may be more complex where activities have not reached a stage that permits a reasonable assessment of the viability of the asset. Management must make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of marketing and sales data, as well as the Company's financial ability to continue marketing and sales activities and operations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Significant accounting judgments, estimates and assumptions (continued)

- Going concern

  These consolidated financial statements have been prepared in a going concern basis, which assumes that the Company will continue operating for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Management has assessed the Company's ability to raise financing and concluded that going concern basis of accounting is appropriate.

(l) Accounting pronouncements adopted by the Company

IFRS 2 *Share-Based Payment*: In June 2016 the Board issued the final amendments to IFRS 2 *Share-Based Payment* as follows:
(i) Effects that vesting conditions have on the measurement of a cash-settled share-based payment;
(ii) Accounting for modification to the terms of a share-based payment that changes the classification of the transaction from cash-settled to equity settled;
(iii) Classification of share-based payment transactions with net settlement features.

The adoption of this standard did not have a significant impact on the Company's financial statements.

IFRS 7 *Financial Instruments – Disclosure:* IFRS 7 was amended to require additional disclosures on transition from IAS 39 to IFRS 9. The standard is effective on adoption of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018. The adoption of this standard did not have a significant impact on the Company's financial statements.

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9") to replace IAS 39 – *Financial Instruments: Recognition and Measurement* in its entirety. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected-loss' impairment model, as well as a substantially reformed approach to hedge accounting. The standard did not impact the Company's classification and measurement of financial assets and liabilities, and there was no significant impact on the carrying amounts of the Company's financial instruments at the transition date.

IFRS 15 *Revenue from Contracts with Customers:* IFRS 15 provides guidance on how and when revenue from contracts with customers is to be recognized, along with new disclosure requirements in order to provide financial statement users with more informative and relevant information. The adoption of this standard did not have a significant impact on the Company's financial statements, as the Company has not generated revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Recent accounting pronouncements

The Company has not early adopted the following standards and amendments and anticipates that the application of these standards and amendments will not have a material impact on the financial position and financial performance of the Company:

IFRS 16 *Leases*: IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting. The Company will adopt IFRS 16 in its financial statements for the annual period beginning on April 1, 2019. The Company estimates to recognize approximately $1,723,863 as a right-of-use asset and a corresponding lease liability in connection with its lease of its office in Beverly, MA.

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company's cash is held at major Canadian and United States financial institutions. The Company considers credit risk on its cash to be minimal.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements. The Company's accounts payable has contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. Such fluctuations may be significant.

(i) Interest rate risk

The Company has cash balances and no interest-bearing investments or debt. If the Company had excess cash to invest, the Company's policy would be to invest the excess cash in investment-grade short-term deposit certificates issued by its banking institutions.

(Expressed in US Dollars)

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(c) Market risk (continued)

(ii) *Foreign currency risk*

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company is exposed to currency risk through financial assets and liabilities denominated in currencies other than the US dollar, the Company's presentation currency.

The Company's financial instruments denominated in currencies that are not the United States dollar as at February 28, 2019 are as follows:

	CAD$	US$ Equivalent
Cash	508,745	386,341
Accounts payable & accrued expenses	(122,402)	(92,952)
Net exposure	386,343	293,389

The impact of a 10% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company as at February 28, 2019 is estimated to have an impact in the Company's loss in the amount of approximately $29,000. The carrying amount of cash, accounts payable and accrued liabilities in USD represents the Company's exposure as at February 28, 2019.

(iii) *Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

5. INTANGIBLE LICENSE

Lawrence Livermore National Security license

On February 4, 2015, the Company and Lawrence Livermore National Security ("LLNS") entered into a license agreement, whereby the Company has exclusive right to develop, manufacture and sell genetic analyzer devices designed to quickly identify bacteria and viruses that can cause disease with applications in both food safety and healthcare.

As consideration for the license agreement, the Company paid a non-refundable License Issue Fee of $60,000.

(Expressed in US Dollars)

5. INTANGIBLE LICENSE (continued)

In addition, the Company is required to pay to LLNS a non-refundable US Maintenance Patent Fee of $45,000 as follows:

- $15,000 (paid) on or before February 29, 2016;
- $15,000 (paid) on or before February 28, 2019; and
- $15,000 to be paid on or before February 28, 2023.

In the event that the Company grants sublicenses, the Company will collect an issue fee equal to or greater than the License Issue Fee mentioned above. The Company will pay to LLNS 50% of any License Issue Fee from sublicensing.

In addition, the Company will pay LLNS an annual royalty. This annual royalty will be credited against the earned royalty of 3% due on all net sales minus up to 1.5% should additional technology need to be licensed in order to bring the product to market. The minimum annual royalty is due as follows:

- $5,000 (paid) on or before February 28, 2017;
- $10,000 (paid) on or before February 28, 2018;
- $10,000 (paid) on or before February 28, 2019;
- $25,000 to be paid on or before February 28, 2020 and each year thereafter.

The license agreement will remain in effect until the expiration or abandonment of the last of the patent rights.

A continuity schedule of changes in the carrying value of the intangible license:

Cost		
Balance, February 29, 2017	$	85,975
Additions		10,000
Effect of foreign currency exchange differences		2,909
Balance, February 28, 2018	$	98,884
Additions		15,000
Effect of foreign currency exchange differences		(2,436)
Balance, February 28, 2019	$	111,448
Accumulated Amortization		
Balance, February 29, 2017	$	12,401
Additions		9,376
Effect of foreign currency exchange differences		477
Balance, February 28, 2018	$	22,254
Additions		9,809
Effect of foreign currency exchange differences		(639)
Balance, February 28, 2019	$	31,424

(Expressed in US Dollars)

5. INTANGIBLE LICENSE (continued)

Carrying value of the intangible license is as follows:

Carrying value		
February 28, 2018	$	76,630
February 28, 2019	$	80,025

6. PROPERTY AND EQUIPMENT

A continuity schedule of changes in the carrying value of property and equipment is as follows:

	Computer equipment	Lab equipment	Furniture	Leasehold improvements	Total
Cost					
Balance, February 28, 2017	2,348	30,851	-	-	33,199
Additions	8,076	193,649	88,062	372,930	662,717
Balance, February 28, 2018	$ 10,424	$ 224,500	$ 88,062	$ 372,930	$ 695,916
Additions	-	93,445	-	32,769	126,214
Balance, February 28, 2019	$ 10,424	$ 317,945	$ 88,062	$ 405,699	$ 822,130
Accumulated Amortization					
Balance, February 28, 2017	270	2,982	-		3,252
Additions	1,161	8,831	-	-	9,992
Balance, February 28, 2018	$ 1,431	$ 11,812	$ -	$ -	$ 13,244
Additions	3,474	60,108	12,827	50,373	126,782
Balance, February 28, 2019	$ 4,905	$ 71,920	$ 12,827	$ 50,373	$ 140,025
Carrying value					
February 28, 2018	$ 8,993	$ 212,687	$ 88,062	$ 372,930	$ 682,672
February 28, 2019	$ 5,519	$ 246,025	$ 75,235	$ 355,326	$ 682,105

7. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value.

(b) Issuances

The Company issues its shares for CAD$ proceeds that are translated to US$, as stated in rounded per share amounts as disclosed.

Issued during the year ended February 28, 2019:

- On July 11, 2018 the Company closed a bought deal financing of 5,750,000 units at an offering price of $0.76 (CAD$1.00) per Unit for aggregate net proceeds to the Company of $3,927,791. Each unit consisting of one common share and one –half of one common share purchase warrant. Each whole warrant entitles the holder to purchase, subject to adjustment in certain circumstances, one additional common share at a price of CAD$1.30 per common share until July 11, 2021. The residual value of the warrants was $131,169 (CAD $172,500). The Company paid $444,144 (CAD $584,572) in finders and legal fees and granted 402,500 finder's warrants exercisable at CAD$1.00 until July 11, 2021. The fair value of the finder's warrants of $246,878 was recorded as share issue costs. The fair value of the warrants of $0.61 per warrant was determined using the Black-Scholes option pricing model with the following weighted average assumptions: 3 years expected life; share price at the grant date of CAD$0.90; 196% volatility; risk free interest rate of 2.02%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices of the issuers in similar business over the expected life of the options.

- On August 20, 2018, 147,500 restricted share units vested. The fair value of the restricted share units of $131,951 was deducted from share-based payment reserve.

- On November 16, 2018, 29,500 restricted share units vested. The fair value of the restricted share units of $27,518 was deducted from share-based payment reserve.

- On December 27, 2018, 12,000 restricted share units vested. The fair value of the restricted share units of $8,992 was deducted from share-based payment reserve.

- On January 22, 2019, 15,000 restricted share units vested. The fair value of the restricted share units of $9,752 was deducted from share-based payment reserve.

- On February 20, 2019, 210,750 restricted share units vested. The fair value of the restricted share units of $188,759 was deducted from share-based payment reserve.

7. SHARE CAPITAL (continued)

(b) Issuances (continued)

- During the year ended February 28, 2019, 1,100,000 warrants were exercised at CAD$0.08 per warrant, 150,800 warrants were exercised at CAD$0.25 per warrant and 395,000 warrants were exercised at CAD$0.60 per warrant. The Fair value of the warrants of $190,415 was deducted from share-based payment reserve.

Issued during the year ended February 28, 2018:

- During the year ended February 28, 2018, the underwriters exercised the over-allotment option in connection with the Company's bought deal financing previously announced on December 19, 2017. Pursuant to this over-allotment option, the Company issued an additional 333,600 units at $0.92 (CAD$1.15) per unit and 160,200 warrants (exercisable at CAD$1.45 for a period of 36 months) at $0.06 (CAD$0.08) per warrant, to raise additional aggregate gross proceeds of $318,233, The Company paid $46,229 in finders and legal fees and granted 45,780 finders warrants exercisable at CAD$1.45 until January 22, 2021. The fair value of the warrants of $33,165 was recorded as share issue costs. The fair value of the warrants of $0.72 per warrant was determined using the Black-Scholes option pricing model with the following weighted average assumptions: 3 years expected life; share price at the grant date of CAD$1.05; 178% volatility; risk free interest rate of 1.76%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices of the issuers in similar business over the expected life of the options;

- On December 19, 2017 the Company closed a bought deal financing of 4,360,000 units at an offering price of $0.90 (CAD$1.15) per Unit for aggregate gross proceeds to the Company of $3,911,025. Each Unit consists of one common share and one-half of one common share purchase warrant of the Company, with each warrant entitling the holder thereof to acquire, subject to adjustment in certain circumstances, one Share in the capital of the Company at a price of CAD$1.45 until December 19, 2020. The Company paid $399,882 in finders and legal fees and granted 305,200 finders warrants exercisable at CAD$1.45 until December 19, 2020. The fair value of the finder's warrants of $221,394 was recorded as share issue costs. The fair value of the warrants of $0.73 per warrant was determined using the Black-Scholes option pricing model with the following weighted average assumptions: 3 years expected life; share price at the grant date of CAD$1.10; 173% volatility; risk free interest rate of 1.58%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices of the issuers in similar business over the expected life of the options;

- On March 13, 2017, the Company issued 6,685,363 Units at a price of $0.22 (CAD$0.30) per unit for total proceeds of $1,491,492. Share issue costs totaled $54,488. Each Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire an additional common share for CAD$0.60 per share for a three-year period.

(Expressed in US Dollars)

7. SHARE CAPITAL (continued)

(b) Issuances (continued)

- During the year ended February 28, 2018, 5,043,530 warrants were exercised at a price from CAD$0.08 to CAD$0.60 per warrant. The fair value of the warrants of $647,881 was deducted from share-based payment reserve.

(c) Warrants

The changes in warrants during the year ended February 28, 2019 and 2018 are as follows:

	Number of warrants		Weighted average price, CAD
Warrants outstanding, February 28, 2017	4,965,000	$	0.10
Warrants issued	9,383,143	$	0.84
Issued for cash	160,200	$	1.45
Warrants exercised	(5,043,530)	$	0.23
Warrants outstanding, February 28, 2018	9,464,813	$	0.79
Warrants issued	3,277,500	$	1.26
Warrants exercised	(395,000)	$	0.60
Warrants exercised	(150,800)	$	0.25
Warrants exercised	(1,100,000)	$	0.08
Warrants outstanding, February 28, 2019	11,096,513	$	1.01

Details of warrants outstanding as at February 28, 2019 are as follows:

Warrants	Exercise Price	Expiry Date
5,000	CAD$ 0.08	June 20, 2019
4,956,033	CAD$ 0.60	March 13, 2020
2,485,200	CAD$ 1.45	December 19, 2020
372,780	CAD$ 1.45	January 22, 2021
2,875,000	CAD$ 1.30	July 11, 2021
402,500	CAD$ 1.00	July 11, 2021

At February 28, 2019, the weighted average remaining contractual life of warrants outstanding was 1.63 years, with a weighted average exercise price of $0.77 (CAD$1.01)

(Expressed in US Dollars)

7. SHARE CAPITAL (continued)

(d) Stock options

Stock option transactions and the number of stock options outstanding are summarized below:

	Number		Weighted average exercise price, CAD
Balance, February 28, 2017	2,175,000	$	0.34
Stock options issued	1,630,000	$	1.13
Cancelled, expired or forfeitured	(462,500)	$	0.33
Balance, February 28, 2018	3,342,500	$	0.73
Stock options issued	675,000	$	0.81
Cancelled, expired or forfeitured	(157,500)	$	0.69
Balance, February 28, 2019	3,860,000	$	0.74

- On July 25, 2017, the Company adopted an Omnibus Incentive Plan, where a fixed number (7% of outstanding shares at time of adoption) of Restricted Share Units (RSUs) and Incentive Stock Options (ISOs) authorized for issuance totaled 3,530,905 RSUs and ISOs.

- In September 2017, 270,000 stock options were granted to directors and consultants of the Company to purchase common shares at a price of CAD$1.05 per common share vesting 10% on the grant date and 15% every six months thereafter expiring on March 12, 2021.

- On February 21, 2018, 1,360,000 stock options were granted to directors and consultants of the Company to purchase common shares at a price of CAD$1.15 per common share. The stock options vest at 10% after six months from the grant date, and 15% every six months thereafter, expiring on February 20, 2022.

- On May 16, 2018, the Company granted stock options to an employee to purchase 75,000 common shares at a price of CAD$1.27 per common share. The stock options vest at 10% after six months from the grant date, and 15% every six months thereafter, expiring on May 16, 2022.

- On June 26, 2018, the Company granted stock options to a director to purchase 100,000 common shares at a price of CAD$0.97 per common share. The stock options vest at 10% after six months from the grant date, and 15% every six months thereafter, expiring on June 26, 2022.

- On July 12, 2018, the Company amended its Omnibus Incentive Plan and increased the number of Common Shares reserved for issuance as share incentive options under the Company's Omnibus Plan dated July 25, 2017, as amended and restated July 12, 2018, by an additional 1,077,793 Common Shares, to a total of 4,608,698 Common Shares under the Omnibus Plan.

(Expressed in US Dollars)

7. SHARE CAPITAL (continued)

(d) Stock options (continued)

- On October 19, 2018, the Company granted 500,000 stock options to employees to purchase common shares at a price of CAD$0.72 per common share. The stock options vest at 10% after six months from the grant date, and 15% every six months thereafter, expiring on October 19, 2022.

No stock options were exercised during the year ended February 28, 2019.

The following weighted average assumptions were used to estimate the fair value of the options granted using the Black-Scholes option pricing model during the years ended February 28th:

	2019	2018
Annualized volatility	206%	199%
Risk-free interest rate	2.29%	1.95%
Expected life of options in years	4 years	3.9 years
Dividend rate	0.00%	0.00%

The following table summarizes information on stock options outstanding as at February 28, 2019:

Options Outstanding	Options Exercisable	Exercise Price, CAD$	Expiry Date
500,000	350,000	0.36	July 27, 2020
1,125,000	787,500	0.33	July 27, 2020
270,000	108,000	1.05	March 12, 2021
1,290,000	322,500	1.15	February 20, 2022
75,000	7,500	1.27	May 16, 2022
100,000	10,000	0.97	June 26, 2022
500,000	-	0.72	October 19, 2022

At February 28, 2019, the weighted average remaining contractual life of options outstanding was 2.38 years with a weighted average exercise price of $0.56 (CAD$0.74). At February 28, 2019, 1,585,500 stock options were exercisable.

During the year ended February 28, 2019, 63,000 stock options exercisable at CAD$1.15 were cancelled, 87,500 stock options exercisable at CAD$0.33 expired and 7,000 stock options exercisable at CAD$1.15 expired. During the same period ended February 28, 2018, 462,500 stock options exercisable at CAD$0.33 were cancelled. No stock options were exercised during the years ended February 28, 2019 and 2018, respectively.

The Company recorded stock-based compensation expense related to stock options of $912,440 for the year ended February 28, 2019 and $332,095 for the same period ended February 28, 2018, respectively, of which $59,982 was recorded in marketing, $380,090 in general and administrative and $472,368 in research and development expense.

7. SHARE CAPITAL (continued)

(e) Restricted share units

Restricted share unit transactions and the number of restricted shares are summarized below:

- On February 20, 2018, the Company granted 1,475,000 restricted share units to a director and consultants with the trigger dates for the RSUs of 10% after six months from the grant date, and 15% every six months thereafter, expiring on August 20, 2021.

- On May 16, 2018, the Company granted 295,000 restricted share units to employees with the trigger dates for the RSUs of 10% after six months from the grant date, and 15% every six months thereafter, expiring on November 16, 2021. Fair value per RSU in this grant was $1.22 per RSU, based on the TSX.V market price of the Company's share on the date the RSUs were granted.

- On June 26, 2018, the Company granted 120,000 restricted share units to a director with the trigger dates for the RSUs of 10% after six months from the grant date, and 15% every six months thereafter, expiring on December 26, 2022. Fair value per RSU in this grant was $0.98 per RSU, based on the TSX.V market price of the Company's share on the date the RSUs were granted.

- On July 12, 2018, the Company amended its Omnibus Incentive Plan and increased the number of Common Shares reserved for issuance as restricted share units under the Company's Omnibus Plan dated July 25, 2017, as amended and restated July 12, 2018, by an additional 1,077,793 Common Shares, to a total of 4,608,698 Common Shares under the Omnibus Plan.

- On October 19, 2018, the Company granted 650,000 restricted share units to employees and a consultant with the trigger dates for the RSUs of 10% after six months from the grant date, and 15% every six months thereafter, expiring on April 19, 2022. Fair value per RSU in this grant was $0.72 per RSU, based on the TSX.V market price of the Company's share on the date the RSUs were granted.

- On January 22, 2019, the Company granted 150,000 restricted share units to the Company's Scientific Advisory Board members with the trigger dates for the RSUs of 10% on the date of the grant and 15% every six months thereafter, expiring on January 22, 2022. Fair value per RSU in this grant was $0.87 per RSU, based on the TSX.V market price of the Company's share on the date the RSUs were granted.

The Company recorded stock-based compensation expense related to restricted share units of $1,166,372 for the year ended February 28, 2019 and $98,615 for the same period ended February 28, 2018, respectively, of which $76,675 was included in marketing, $485,868 in general and administrative and $603,829 in research and development expense.

At February 28, 2019, 2,527,250 RSUs were outstanding (2018 – 1,790,000).

(Expressed in US Dollars)

8. CAPITAL MANAGEMENT

The Company is developing and plans to manufacture and sell genetic analyzer devices for various veterinary health issues, food safety and various open-access markets which involves a high degree of risk. The Company has not determined whether it will be successful in its endeavors and does not generate cash flows from operations. The Company's primary source of funds comes from the issuance of share capital. The Company does not use other sources of financing that require fixed payments of interest and principal due to lack of cash flow from current operations, and is not subject to any externally imposed capital requirements.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern.

The Company defines its capital as shareholders' equity. Capital requirements are driven by the Company's general operations. To effectively manage the Company's capital requirements, the Company monitors expenses and overhead to ensure costs and commitments are being paid. There have been no changes to the Company's approach to capital management during the year. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this financing.

9. KEY MANAGEMENT COMPENSATION

Key management includes personnel having the authority and responsibility for planning, directing and controlling the Company and includes the directors and current executive officers. During the year ended, February 28, 2019 and 2018, expenses incurred for key management compensation are summarized as:

	2019	2018
Salaries and benefits	$ 809,459	$ 481,575
Administration fees	-	46,585
Stock-based compensation	841,980	301,561
	$ 1,651,439	$ 829,721

As at February 28, 2019 and 2018, $48,786 (2018 - $nil) was payable to directors and officers of the Company.

All amounts payable are non-interest bearing, unsecured and due on demand. There are no post-employment expenses or other long-term expenses for key management.

10. RESEARCH AND DEVELOPMENT EXPENSES

In 2016, the Company engaged Boston Engineering Corporation ("Boston Engineering") to build the alpha prototype. During the year ended February 28, 2019, $375,546 (2018 - $1,209,824) was paid to Boston Engineering pursuant to this agreement and $1,374,224 (2018 - $460,290) was paid to others in connection with completion of the prototype, which is recorded in research and development expenses.

(Expressed in US Dollars)

10. RESEARCH AND DEVELOPMENT EXPENSES (continued)

The significant components of research and development expense are as follows:

	2019	2018
Consulting	$ 1,050,770	$ 1,735,122
Depreciation of lab and related equipment	81,209	5,995
Depreciation of the intangible license	9,816	9,376
Lab administration and supplies	687,382	94,104
LX analyzer materials	706,805	-
Travel	-	113,377
Salaries	1,772,034	269,360
Share-based compensation	1,076,197	258,702
Total research and development expenses	$ 5,384,213	$ 2,486,036

11. EXPENSE DETAIL

The significant components of general and administrative expense are as follows:

	2019	2018
Office and administration	$ 139,211	$ 45,012
Depreciation property and equipment	41,439	2,998
Consulting	16,523	32,503
Marketing and promotion	59,316	-
Insurance	10,256	2,041
Professional fees	181,384	161,280
Transfer agent and filing fees	60,126	54,305
Travel	84,458	56,688
Salaries	216,966	115,213
Stock-based compensation	865,958	129,351
Total general and administrative expenses	$ 1,675,637	$ 599,391

(Expressed in US Dollars)

11. EXPENSE DETAIL (continued)

The significant components of marketing and promotional expense are as follows:

For the year ended February 28,		2019		2018
Marketing and promotion	$	515,592	$	559,248
Administration		58,296		27,518
Travel		163,329		18,896
Salaries		388,760		243,669
Stock-based compensation		136,657		43,117
Total marketing and promotional expense	$	1,262,634	$	892,448

12. SEGMENTED INFORMATION

The Company has one operating segment, the development of genetic analyzers. All its non-current assets are based in the U.S.

13. INCOME TAXES

The potential benefit of net operating loss carry forwards has not been recognized in the financial statements since the Company cannot be assured that it is probable that such benefit will be utilized in future years.

The components of the deferred tax asset, the statutory tax rate, the effective tax rate and the unrecognized deferred income tax asset are as follows:

	2019	2018
Loss before income taxes	8,321,374	4,005,452
Statutory tax rate - Canada	27%	26%
Expected tax recovery	2,246,771	1,041,418
Decrease resulting from:		
Non-deductible items for tax purposes and other items	(422,071)	28,782
Differences in future tax rate	-	(138,500)
Differences in tax rates in the United States	101,100	199,000
Change in unrecognized deferred income tax asset	(1,925,800)	(1,130,700)
Income tax recovery	-	-

(Expressed in US Dollars)

13. INCOME TAXES (continued)

The Company's tax-effected deferred income tax assets and liabilities are estimated as follows:

		2019		2018
Potential deferred income tax assets include:				
Non-capital losses	$	2,133,000	$	753,900
Resource tax pools		185,500		207,700
Share issuance costs		197,200		140,600
Intangible license		6,000		6,000
Capital assets		1,012,600		500,300
		3,534,300		1,608,500
Unrecognized deferred income tax assets		(3,534,300)		(1,608,500)
	$	-	$	-

As at February 28, 2019, the Company had non-capital losses carry forward in the United States and Canada of approximately $4,301,000 (2018 - $1,836,000) and $4,292,000 (2018 - $956,000) respectively available to reduce taxable income. If unused the non-capital losses carry forward expire between 2035 and 2039.

14. COMMITMENT

The Company has one operating lease agreement for their office and laboratory premises. Commitment in respect of this lease agreement is as follows:

		2019
Not more than one year	$	388,103
Later than one year and not later than five years		1,552,415
Later than five years		485,130
	$	2,425,648

15. SUBSEQUENT EVENTS

On March 29, 2019, the Company issued 4,375,271 units at a price of $0.65 CAD per unit. Each unit is comprised of one common share and one warrant, with each whole warrant entitling the holder to purchase one common share of the Company for a period of up to fifteen months at a price of $0.85 CAD. The warrants are subject to an accelerated expiry in specific circumstances as described in the warrant agreements. The Company has paid finders' fees totaling $168,620 CAD and issued an aggregate 259,415 non-transferable finders' warrants in connection with this private placement. Each finder's warrant is exercisable into one common share for a period of up to fifteen months at a price of $0.85 CAD.

15. SUBSEQUENT EVENTS (continued)

On March 29, 2019, the Company granted 650,000 stock options to employees and directors to purchase common shares at a price of CAD$0.65. Each Option is exercisable into one common share of the Company at a price of $0.65 CAD per share. The options will vest 10% on the date of the grant and then 15% every six months thereafter and will expire on September 29, 2022.

On March 29, 2019, the Company granted 530,000 RSUs to employees. The RSUs will vest 10% on the date of the grant and then 15% every six months thereafter and will expire on March 29, 2022.

On April 11, 2019, the Company entered into a consulting agreement with Bristol Capital LTD. ("Bristol"), an investor relations and capital markets advisory firm, to provide investor relations and communication services. Bristol will provide investor relations services to LexaGene, including the development of new and improved investor materials, introductions to Bristol's direct network of investment professionals, coordination of public events and proactive investor relations campaigns to increase LexaGene's exposure in the investment community.

Bristol has been engaged for an initial term of twelve months commencing on April 12, 2019 with a monthly fee of between CDN$7,000 and CDN$10,000 depending on the level of services provided by Bristol to the Company in such month. The Company agreed to issue stock options to Bristol for the purchase of up to 98,000 common shares at an exercise price of CDN$0.65 with an expiry date of April 12, 2022 and 40,400 RSUs that vest 10,100 shares per quarter over the first calendar year of this agreement.

On April 23, 2019, the Company granted 75,000 RSUs to the Company's Scientific Advisory Board member with the trigger dates for the RSUs of 10% on the date of the grant and 15% every six months thereafter, expiring on April 23, 2022.

Subsequent to the year ended February 28, 2019, 509,750 shares were issued upon exercise of warrants and RSUs.