



CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended August 31, 2018 and August 31, 2017

(Unaudited)

These unaudited condensed interim consolidated financial statements of Lexagene Holdings Inc. for the six months ended August 31, 2018 have been prepared by management and approved by the Board of Directors. These unaudited condensed interim consolidated financial statements have not been reviewed by the Company's external auditors.

LEXAGENE HOLDINGS INC.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in US Dollars)

	Note	August 31, 2018	February 28, 2018
ASSETS			
Current assets			
Cash		\$ 3,923,207	\$ 2,648,354
Receivables		12,399	12,637
Prepaid		171,028	303,874
		4,106,634	2,964,865
Non-current			
Intangible license	4	67,910	76,630
Property and equipment	5	738,723	682,672
TOTAL ASSETS		\$ 4,913,267	\$ 3,724,167
LIABILITIES			
Current Liabilities			
Accounts payables and accrued liabilities		\$ 320,762	\$ 257,494
		320,762	257,494
SHAREHOLDERS' EQUITY			
Share capital	6	13,649,405	10,988,932
Share-based payment reserve	6	3,390,510	905,631
Accumulated other comprehensive income (loss)		1,400	125,438
Deficit		(12,448,810)	(8,553,328)
TOTAL SHAREHOLDERS' EQUITY		4,592,505	3,466,673
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 4,913,267	\$ 3,724,167

Nature and continuance of operations (Note 1)

Commitment (Note 11)

Subsequent event (Note 12)

Approved on behalf of the Board on October 29, 2018:

"Jack Regan"

"Jeffrey Mitchell"

 Jack Regan, Chairman & CEO

 Jeffrey Mitchell, CFO

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

	Note	Three months ended		Six months ended	
		August 31,		August 31,	
		2018	2017	2018	2017
Expenses					
Administration		\$ 17,795	\$ 12,144	\$ 32,270	\$ 23,273
Advertising and promotion		122,719	151,676	271,811	234,325
Amortization of intangible license	4	4,835	2,364	7,300	4,624
Amortization of property and equipment	5	34,732	4,599	62,868	6,166
Consulting fees		24,406	18,925	30,929	49,945
Insurance		1,511	1,578	6,279	3,631
Office and miscellaneous		205,916	12,948	372,362	19,323
Professional fees		71,478	49,599	97,746	58,272
Research and development	9	272,156	267,950	652,431	527,015
Share based compensation	6	548,466	65,832	1,062,144	145,891
Transfer agent and filing fees		9,765	11,206	29,449	18,170
Travel		77,593	47,963	230,280	83,239
Wages and salaries		685,435	89,940	1,175,606	180,014
		\$ 2,076,807	\$ 736,724	\$ 4,031,476	\$ 1,353,888
Other Items					
Foreign Exchange (gain) loss		(50,543)	4,340	(135,994)	5,078
Net Loss		\$ 2,026,264	\$ 741,064	\$ 3,895,482	\$ 1,358,966
Other Comprehensive loss					
Unrealized loss (gain) on translation to reporting currency		20,014	(78,084)	124,038	(97,205)
Comprehensive Loss		\$ 2,046,278	\$ 662,980	\$ 4,019,520	\$ 1,261,761
Net loss per share - basic and diluted		\$ 0.03	\$ 0.01	\$ 0.07	\$ 0.03
Weighted average number of common shares outstanding - basic and diluted		63,293,689	50,596,540	61,299,817	49,847,198

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

	Share Capital		Share subscriptions	Share based payment reserve	Deficit	Accumulated Other comprehensive income (loss)	Total
	Number	Amount					
Balance February 28, 2017	42,471,060	\$ 4,469,182	\$ 132,413	\$ 857,496	\$ (4,547,876)	\$ 10,444	\$ 921,659
Shares issued in private placements, net of share issue costs	6,685,363	1,476,418	-	-	-	-	1,476,418
Stock options	-	-	-	145,891	-	-	145,891
Warrants exercised	2,194,110	613,724	-	(300,473)	-	-	313,251
Share subscription received, net of costs	-	(39,418)	(132,413)	-	-	-	(171,831)
Share subscriptions receivable	-	-	(92,374)	-	-	-	(92,374)
Funds received for warrants exercise	-	-	-	-	-	-	-
Comprehensive income (loss) for the period	-	-	-	-	(1,358,966)	97,205	(1,261,761)
Balance August 31, 2017	51,350,533	6,519,906	(92,374)	702,914	(5,906,842)	107,649	1,331,253
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	2,391,294	-	1,536,863	-	-	3,928,157
Share issuance costs - warrants	-	(165,579)	-	165,579	-	-	-
Stock options	-	-	-	461,545	-	-	461,545
RSUs	147,500	132,089	-	468,594	-	-	600,683
Warrants exercised	1,195,000	302,669	-	(147,702)	-	-	154,967
Comprehensive income (loss) for the period	-	-	-	-	(3,895,482)	(124,038)	(4,019,519)
Balance August 31, 2018	65,986,053	13,649,405	-	3,390,510	(12,448,810)	1,400	4,592,505

LEXAGENE HOLDINGS INC.
Condensed Interim Consolidated Statements of Cash Flows
For the six months ended August 31, 2018 and August 31, 2017
(Expressed in US Dollars)

	Six months ended August 31,	
	2018	2017
Operating Activities		
Net loss	\$ (3,895,482)	\$ (1,358,966)
Items not involving cash:		
Amortization of intangible license	7,300	4,624
Amortization of property and equipment	62,868	6,166
Share based compensation	1,062,144	145,891
Change in working capital balances:		
Accounts receivable	238	8,162
Prepaid	(132,846)	(34,919)
Accounts payable and accrued liabilities	63,267	52,949
Cash Used in Operating Activities	(2,832,511)	(1,176,093)
Investing Activities		
Purchases of property and equipment	(118,920)	(25,840)
Cash Used in Investing Activities	(118,920)	(25,840)
Financing Activities		
Proceeds from shares issued, net of cash share issue costs	3,928,157	1,319,658
Proceeds received for future share issuances	-	(92,374)
Proceeds from warrants exercises	154,967	298,177
Cash Provided by Financing Activities	4,083,124	1,525,461
Increase (decrease) in Cash	1,131,693	323,528
Cash, Beginning	2,648,354	867,483
Effect of foreign exchange	143,160	93,262
Cash, Ending	\$ 3,923,207	\$ 1,284,273

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended August 31, 2018 and 2017

(Expressed in US Dollars)

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”. On October 12, 2016, the Company completed a reverse takeover transaction (Note 5) for its TSX-V listing. Concurrent with the closing of the reverse takeover transaction, the Company changed its name from Wolfeye Resources Corp. to LexaGene Holdings Inc. The principal business of the Company is to research, develop and commercialize automated pathogen detection devices in the bio-chemical industry.

These condensed interim consolidated financial statements are prepared on a going concern basis, which assumes that the Company will continue on a going-concern basis. At August 31, 2018, the Company had not generated revenue and had an accumulated deficit of \$12,448,810 since inception. The Company's operations are dependent on obtaining additional financing to develop its pathogen device and generating cash flow from operations in the future. These factors form a material uncertainty which raise significant doubt about the Company’s ability to continue as a going concern.

These condensed interim 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 interim consolidated financial statements. Management’s plans to meet the Company’s current and future obligations are to raise equity through private placements, rely on the financial support of its shareholders and related parties.

2. BASIS OF PREPARATION

Interim Consolidated Financial Statements

These unaudited condensed interim consolidated financial statements, have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

These unaudited condensed interim consolidated financial statements do not include all of the disclosures required of a full annual financial statement 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 fiscal year. It is therefore recommended that this financial report be read in conjunction with the annual consolidated financial statements of the Company for the year ended February 28, 2018.

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2018 and 2017

(Expressed in US Dollars)

2. BASIS OF PREPARATION (continued)

Basis of measurement

These condensed interim consolidated financial statements are prepared on a going concern basis, under the historical cost convention.

Use of estimates and judgments

The preparation of condensed interim 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 condensed interim 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 (1) of the consolidated financial statements for the year ended February 28, 2018.

Functional and presentation currency

Assets and liabilities are translated at the applicable period end rates of exchange, and the results of operations are translated at average rates of exchange for the period. Shareholders' equity balances have been translated using historical rates in effect on the date of the associated transactions. Exchange differences arising on translation to the USD presentation currency are recognized in other comprehensive income.

The functional currency of the Company and its Canadian subsidiary is the CAD, and the USD for the Company's U.S. subsidiary. Translation gains and losses resulting from the consolidation of operations in Canada and U.S. are recognized in other comprehensive income in the statement of comprehensive loss, and are aggregated in accumulated other comprehensive income as a component of shareholders' equity.

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

Period end dates	US to CDN	CDN to US
February 28, 2018	1.2713	0.7865
August 31, 2018	1.3055	0.7660

Period averages	US to CDN	CDN to US
Six months ended August 31, 2017	1.3174	0.7598
Six months ended August 31, 2018	1.2973	0.7710

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended August 31, 2018 and 2017

(Expressed in US Dollars)

3. 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 United States and Canadian 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 and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk. The Company is not exposed to significant market risk.

The Company's financial instruments denominated in currencies that are not the United States dollar as at August 31, 2018 are as follows:

	<u>CAD\$</u>	<u>US\$ equivalent</u>
Cash	\$ 4,185,049	\$ 3,205,787
Accounts payable and accrued liabilities	\$ (165,664)	\$ (126,898)
Net exposure	<u>\$ 4,019,385</u>	<u>\$ 3,078,889</u>

Based on the US\$ denominated exposure as at August 31, 2018, a 10% change in the US/CAD exchange rates would impact the Company's net loss for six months ended August 31, 2018, by approximately \$317,000.

4. INTANGIBLE 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 pathogen detection devices designed to quickly identify bacteria and viruses that can cause disease with applications in both food safety and healthcare.

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2018 and 2017

(Expressed in US Dollars)

4. INTANGIBLE LICENSE (continued)

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

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

- \$15,000 (paid) to be paid on or before February 29, 2016;
- \$15,000 to be 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 a minimum annual royalty. This minimum annual royalty will be credited against the earned royalty of 3% due on all net sales. 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 to be paid on or before February 28, 2019;
- \$25,000 to be paid on or before February 28, 2023 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 net book value of the intangible license:

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended August 31, 2018 and 2017**

(Expressed in US Dollars)

4. INTANGIBLE LICENSE (continued)

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		-
Effect of foreign currency exchange differences		(1,862)
Balance, August 31, 2018	\$	97,022
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		4,835
Effect of foreign currency exchange differences		2,023
Balance, August 31, 2018	\$	29,112

Carrying value

May 31, 2017	\$ 69,947
February 28, 2018	\$ 76,630
August 31, 2018	\$ 67,910

5. PROPERTY AND EQUIPMENT

A continuity schedule of changes in the net book value of property and equipment:

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the six months ended August 31, 2018 and 2017**

(Expressed in US Dollars)

5. PROPERTY AND EQUIPMENT (continued)

	Computer Equipment	Lab Equipment	Furniture & Fixtures	Leasehold	Total
Cost					
Balance, February 28, 2017	\$ 2,348	\$ 30,851	\$ -	\$ -	\$ 33,199
Additions	\$ 8,075	\$ 193,649	\$ 88,062	\$ 372,930	\$ 662,716
Balance, February 28, 2018	\$ 10,423	\$ 224,500	\$ 88,062	\$ 372,930	\$ 695,915
Additions	\$ -	\$ 86,151	\$ -	\$ 32,769	\$ 118,920
Balance August 31, 2018	\$ 10,423	\$ 310,651	\$ 88,062	\$ 405,699	\$ 814,835
Accumulated amortization					
Balance, February 28, 2017	\$ 270	\$ 2,982	\$ -	\$ -	\$ 3,252
Additions	\$ 1,161	\$ 8,831	\$ -	\$ -	\$ 9,992
Balance, February 28, 2018	\$ 1,431	\$ 11,813	\$ -	\$ -	\$ 13,244
Additions	\$ 1,752	\$ 32,144	\$ 5,549	\$ 23,423	\$ 62,868
Balance August 31, 2018	\$ 3,183	\$ 43,957	\$ 5,549	\$ 23,423	\$ 76,112
Carrying value					
February 28, 2017					\$ 29,947
February 28, 2018					\$ 682,671
August 31, 2018					\$ 738,723

6. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value.

(b) Issuances

Issued during the six months ended August 31, 2018:

- 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 gross proceeds to the Company of \$3,928,157. 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 \$1.30 per common share until July 11, 2021. The Company paid \$444,508 (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 \$165,579 (CAD \$217,753) was recorded as share issue costs. The fair value of the warrants of \$0.54 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

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended August 31, 2018 and 2017

(Expressed in US Dollars)

6. SHARE CAPITAL (continued)

(b) Issuances (continued)

date of CAD\$0.90; 134% 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 August 26, 2018, 147,500 restricted share units vested. The Fair value of the restricted share units of \$131,588 (CAD\$172,575) was deducted from share-based payment reserve.
- During the six months ended August 31, 2018, 195,000 warrants were exercised at CAD\$0.60 per warrant and 1,000,000 warrants at CAD\$0.08. The Fair value of the warrants of CAD\$147,703 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 finders 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

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the six months ended August 31, 2018 and 2017**

(Expressed in US Dollars)

6. SHARE CAPITAL (continued)**(b) Issuances (continued)**

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.
- 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 six months ended August 31, 2018 and year ended February 28, 2018 are summarized as follows:

	Number of warrants	Weighted average exercise 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	(195,000)	\$ 0.60
Warrants exercised	(1,000,000)	\$ 0.08
Warrants outstanding, August 31, 2018	11,547,313	\$ 0.99

Details of warrants outstanding as at August 31, 2018 are as follows:

Number of Warrants	Exercise Price	Expiry Date
105,000	CAD\$ 0.08	June 20, 2019
150,800	CAD\$ 0.25	October 4, 2018
5,156,033	CAD\$ 0.60	March 13, 2020
2,691,180	CAD\$ 1.45	December 19, 2020
166,800	CAD\$ 1.45	January 22, 2021
2,875,000	CAD\$ 1.30	July 11, 2021
402,500	CAD\$ 1.00	July 11, 2021

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended August 31, 2018 and 2017**

(Expressed in US Dollars)

6. SHARE CAPITAL (continued)

(c) Warrants (continued)

At August 31, 2018, the weighted average remaining contractual life of warrants outstanding was 2.08 years (February 28, 2018 – 2.05 years), with a weighted average exercise price of CAD\$0.99 (February 28, 2018 – CAD\$0.79).

(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 forfeited	(550,000)	\$ 0.33
Balance, February 28, 2018	3,255,000	\$ 0.73
Stock options issued	175,000	\$ 1.10
Cancelled, expired or forfeited	-	\$ -
Balance, August 31, 2018	3,430,000	\$ 0.76

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 February 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 August 20, 2022.

On May 16, 2018, the Company granted stock options to purchase 75,000 common shares at a price of CAD\$1.27 per common share and 100,000 common shares at a price of CAD\$0.97 per share. No stock options were exercised during the six months ended August 31, 2018.

On August 30, 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.

The fair value of the options granted during the year ended February 28, 2018 was determined using the Black-Scholes option pricing model with the following weighted average assumptions: 3.92 years expected life; share price at the grant date of CAD\$1.15; 199% volatility; risk free interest rate of 1.98%; 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.

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the six months ended August 31, 2018 and 2017**

(Expressed in US Dollars)

6. SHARE CAPITAL (continued)**(d) Stock options (continued)**

During the year ended February 28, 2018, 442,500 stock options exercisable at CAD\$0.33 were cancelled. No stock options were exercised during the period. During the year ended February 28, 2017 the Company granted stock options to purchase a total of 1,675,000 common shares at a price of CAD\$0.33 per common share, and 500,000 common shares at a price of CAD\$0.363 per common share. 217,500 stock options vested on the date of grant and the rest of the options vest every six months thereafter.

Details of options outstanding as at August 31, 2018 are as follows:

Options Outstanding	Options Exercisable	Exercise Price, CAD\$	Expiry Date
500,000	275,000	0.36	July 27, 2020
1,125,000	618,750	0.33	July 27, 2020
270,000	67,500	1.05	March 12, 2021
1,360,000	143,500	1.15	August 20, 2022
75,000	-	1.27	November 16, 2022
100,000	-	0.97	December 26, 2022

At August 31, 2018, the weighted average remaining contractual life of options outstanding was 2.78 years (February 28, 2018 – 3.33 years) with a weighted average exercise price of CAD\$0.76 (February 28, 2018 – CAD\$0.74). At August 31, 2018, 1,104,750 stock options were exercisable.

During the three and six month periods ended August 31, 2018, the Company recorded compensation expense related to stock options of \$226,061 (2017 - \$80,059) and \$235,484 (2017 - \$145,891), respectively.

(e) Restricted share units

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 February 2018, the Company granted 1,475,000 restricted share units to a director and consultants with the trigger dates for the RSUs is 10% after six months from the grant date, and 15% every six months thereafter, expiring on February 21, 2021.

In May 2018, the Company granted 295,000 restricted share units to employees with the trigger dates for the RSUs is 10% after six months from the grant date, and 15% every six months thereafter, expiring on May 16, 2021.

In June 2018, the Company granted 120,000 restricted share units to a director with the trigger dates for the RSUs is 10% after six months from the grant date, and 15% every six months thereafter, expiring on December 26, 2022.

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended August 31, 2018 and 2017

(Expressed in US Dollars)

6. SHARE CAPITAL (continued)

(e) Restricted share units (continued)

On August 30, 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.

During the year ended February 28, 2018 the Company recorded a total of \$98,615 in share-based compensation related to restricted share units. The weighted average fair values at the measurement date of 315,000 RSUs and 1,475,000 RSUs granted were CAD\$1.05 (\$0.82) and CAD\$1.170 (\$0.91) respectively, based on the TSX-V market price of the Company's shares on the date RSUs were granted.

During the three and six month periods ended August 31, 2018, the Company recorded compensation expense related to RSUs of \$287,567 (2017 - \$nil) and \$181,027 (2017 - \$nil), respectively.

7. CAPITAL MANAGEMENT

The Company plans to develop, manufacture and sell pathogen detection devices for various health-related concerns, 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.

8. RELATED PARTY TRANSACTIONS

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 six months ended, August 31, 2018 and 2017, expenses incurred for Key Management compensation are summarized as:

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the six months ended August 31, 2018 and 2017**

(Expressed in US Dollars)

8. RELATED PARTY TRANSACTIONS (continued)

	Three months ended		Six months ended	
	August 31,		August 31,	
	2018	2017	2018	2017
Salaries and benefits	\$ 357,202	\$ 30,852	\$ 507,400	\$ 120,926
Administration	-	11,644	-	22,773
Consulting	-	6,348	-	18,218
Share based compensation	387,263	56,445	478,804	127,288
	<u>\$ 744,465</u>	<u>\$ 105,289</u>	<u>\$ 986,204</u>	<u>\$ 289,205</u>

As at August 31, 2018, \$nil (February 28, 2018 - \$nil) was payable to directors and/or officers and/or companies controlled by officers of the Company.

All related party balances are non-interest bearing, unsecured and have no fixed terms of repayment and have been classified as current.

9. RESEARCH AND DEVELOPMENT

The Company's product research and development plan is divided into three milestones: alpha prototype, beta prototype, and production unit for commercialization. The Company has completed the assembly of the alpha prototype and is in the process of evaluating its performance.

In July, 2018, the Company entered into the beta stage of product development of its flagship pathogen detection system.

The Company has engaged Boston Engineering Corporation ("Boston Engineering") to build the alpha prototype. During the six months ended August 31, 2018, \$321,267 (2017 - \$318,012) has been paid to Boston Engineering pursuant to this agreement and \$331,164 (2017 - \$209,003) has been paid to others in connection with completion of the prototype, which is recorded in expenses.

10. SEGMENTED INFORMATION

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

11. COMMITMENT

The Company has one operating lease agreement for their office and laboratory premises. Commitments in respect of these lease agreements are as follows:

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended August 31, 2018 and 2017**

(Expressed in US Dollars)

11. COMMITMENT (continued)

	2018	2017
Not more than one year	\$ 384,797	\$ -
Later than one year and not later than five years	1,157,561	-
Later than five years	1,059,248	-
	<u>\$ 2,601,606</u>	<u>\$ -</u>

12. SUBSEQUENT EVENTS

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.

On October 19, 2018, the Company granted 650,000 restricted share units to employees and a consultant with the trigger dates for the RSUs as 10% after six months from the grant date, and 15% every six months thereafter, expiring on April 19, 2022.

On October 22, 2018, the Company unveiled the LX2TM beta prototype design at the American Association of Veterinary Laboratory Diagnosticians (AAVLD) conference. The LX2TM beta prototype is designed to be a low cost, small footprint instrument suited for veterinary clinics.