



RESTATED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Periods ended May 31, 2019 and 2018

(Unaudited)

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

	Note	May 31, 2019 (Unaudited) (Restated)	February 28, 2019 (Audited)
ASSETS			
Current assets			
Cash		\$ 1,337,901	\$ 670,921
Prepaid		218,137	270,836
		<u>1,556,038</u>	<u>941,757</u>
Non-current			
Intangible license	5	75,208	80,024
Right-of-use asset	3	2,073,164	-
Property and equipment	6	657,642	682,105
TOTAL ASSETS		\$ 4,362,052	\$ 1,703,886
LIABILITIES			
Current Liabilities			
Accounts payables and accrued liabilities		456,167	319,192
		<u>\$ 456,167</u>	<u>\$ 319,192</u>
Non-current liabilities			
Lease liabilities	7	2,055,182	-
Total non-current liabilities		<u>\$ 2,055,182</u>	<u>\$ -</u>
Total Liabilities		\$ 2,511,349	\$ 319,192
SHAREHOLDERS' EQUITY			
Share capital	8	17,634,388	15,373,384
Share-based payment reserve	8	3,042,208	2,805,102
Accumulated other comprehensive income (loss)		55,386	80,910
Deficit		(18,881,279)	(16,874,704)
TOTAL SHAREHOLDERS' EQUITY		\$ 1,850,703	\$ 1,384,694
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 4,362,052	\$ 1,703,886

Nature and continuance of operations (Note 1)

Restated (Note 14)

Subsequent event (Note 15)

Approved on behalf of the Board on October 21, 2019:

“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) (Unaudited)**

		For the three months ended May 31,	
	Note	2019	2018
		(Restated - Note 14)	
Operating Expenses			
Marketing and promotion	12	\$ 285,426	\$ 328,317
General and administrative	12	475,897	439,887
Research and development	11	1,244,734	1,186,466
		\$ 2,006,057	\$ 1,954,670
Other Items			
Foreign Exchange (gain) loss		519	(85,452)
Net Loss		\$ 2,006,576	\$ 1,869,218
Other Comprehensive loss			
Items that may be reclassified subsequently to income or loss:			
Unrealized loss (gain) on translation to reporting currency		25,524	103,930
Comprehensive Loss		\$ 2,032,100	\$ 1,973,148
Net loss per share - basic and diluted		\$ 0.03	\$ 0.03
Weighted average number of common shares outstanding - basic and diluted		70,074,878	59,321,487

LEXAGENE HOLDINGS INC.

**Condensed Interim Consolidated Statements of Changes in Shareholder Equity
(Expressed in US Dollars) (Unaudited)**

	Share Capital		Share subscriptions	Share based payment reserve	Deficit	Accumulated Other comprehensive income (loss)	Total
	Number	Amount					
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	-	-	-	-	-	-	-
Stock options	-	-	-	226,061	-	-	226,061
Restricted share units	-	-	-	287,568	-	-	287,568
Warrants exercised	1,195,000	302,670	-	(147,703)	-	-	154,967
Comprehensive income (loss) for the period	-	-	-	-	(1,869,218)	(103,930)	(1,973,148)
Balance May 31, 2018	60,088,553	11,291,602	-	1,271,558	(10,422,546)	21,508	2,162,121
Balance February 28, 2019	66,704,103	\$ 15,373,384	\$ -	\$ 2,805,102	\$ (16,874,703)	\$ 80,910	\$ 1,384,693
Shares issued in private placements	4,375,271	2,128,481	-	-	-	-	2,128,481
Share issuance costs	-	(165,746)	-	20,992	-	-	(144,754)
Stock options	-	-	-	186,280	-	-	186,280
Restricted share units	459,850	293,814	-	29,834	-	-	323,648
Warrants exercised	10,000	4,455	-	-	-	-	4,455
Comprehensive income (loss) for the period	-	-	-	-	(2,006,576)	(25,524)	(2,032,100)
Balance May 31, 2019 (Restated - Note 14)	71,549,224	17,634,388	-	3,042,208	(18,881,279)	55,386	1,850,703

LEXAGENE HOLDINGS INC.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended May 31, 2019 and May 31, 2018
(Expressed in US Dollars)

	Three months ended May 31,	
	2019	2018
	(Restated - Note 14)	
Operating Activities		
Net loss	\$ (2,006,576)	\$ (1,869,218)
Items not involving cash:		
Amortization of intangible license	4,816	2,193
Amortization of property and equipment	35,327	28,136
Amortization of right to use asset	68,955	
Interest right to use asset	8,849	
Share based compensation	508,551	513,678
Change in working capital balances:		
Accounts receivable	-	142
Prepaid	52,699	(96,560)
Accounts payable and accrued liabilities	136,976	(80,611)
Cash Used in Operating Activities	\$ (1,190,403)	\$ (1,502,240)
Investing activities		
Leasehold improvements	(1,050)	(24,959)
Payment for intangible license	(15,000)	-
Payment of lease liability	(95,785)	-
Lab equipment	(9,815)	(15,831)
Cash Used in Investing Activities	\$ (121,650)	\$ (40,790)
Financing Activities		
Proceeds received for share units issued	1,983,727	-
Proceeds from warrants exercises	4,455	154,967
Cash Provided by Financing Activities	\$ 1,988,182	\$ 154,967
Increase (decrease) in Cash	676,129	(1,388,063)
Cash, Beginning	670,921	2,648,354
Effect of foreign exchange	(9,149)	90,217
Cash, Ending	\$ 1,337,901	\$ 1,350,508

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2019 (Restated – Note 14) and 2018

(Expressed in US Dollars) (Unaudited)

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 unaudited 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 May 31, 2019, the Company had not generated revenue and had an accumulated deficit of \$18,881,279 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 unaudited 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

Statement of Compliance

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, 2019.

Basis of measurement

These unaudited condensed interim 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.

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended May 31, 2019 and 2018**

(Expressed in US Dollars) (Unaudited)

2. BASIS OF PREPARATION (continued)**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 (l) of the consolidated financial statements for the year ended February 28, 2019.

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:

	May 31, 2018	Reclassifications		
		Marketing and Promotion	General and administrative	Research and Development
Expenses:				
Administration	\$ 14,476	\$ -	\$ 4,318	\$ 127,375
Advertising and promotion	149,091	141,636	28,597	-
Amortization of intangible license	2,465	-	-	2,465
Amortization of property and equipment	28,136	-	6,269	21,867
Consulting fees	6,523	-	2,194	-
Insurance	4,769	-	1,594	-
Office and miscellaneous	166,447	-	37,886	-
Professional fees	26,268	-	26,283	-
Research and development	380,275	-	-	419,062
Share based compensation	513,678	20,641	233,274	256,775
Transfer agent and filing fees	19,684	-	19,841	-
Travel	152,687	84,213	42,887	23,452
Wages and salaries	490,171	81,827	36,744	335,470
	\$ 1,954,670	\$ 328,317	\$ 439,887	\$ 1,186,466

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.

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2019 (Restated – Note 14) and 2018

(Expressed in US Dollars) (Unaudited)

2. BASIS OF PREPARATION (continued)

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, 2019	1.3169	0.7594
May 31, 2019	1.3527	0.7393

Period averages	US to CDN	CDN to US
Three months ended May 31, 2018	1.2846	0.7785
Three months ended May 31, 2019	1.3403	0.7461

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and basis of measurement applied in these condensed consolidated interim financial statements are the same as those applied by LexaGene in its consolidated financial statements for the year ended February 28, 2019, except as described below.

The Company has adopted IFRS 16, *Leases*, from March 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, LexaGene, as a lessee, has recognized a right-of-use asset representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments in its statement of financial position, in relation to its property lease.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in accumulated deficit as at March 1, 2019. Accordingly, the comparative information presented for February 28, 2019 has not been restated. It is presented under IAS 17, *Leases*, and related interpretations. There was no impact to the accumulated deficit at March 1, 2019 upon the adoption of IFRS 16.

The details of the changes in accounting policies are disclosed below.

(a) Definition of a lease:

Previously, LexaGene determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2019 and 2018

(Expressed in US Dollars) (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after March 1, 2019. The Company has not entered into new lease contracts during the three months ended May 31, 2019.

At inception or on reassessment of a contract that contains a lease component, LexaGene allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for its lease of property in which it is a lessee, the Company has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(b) As a lessee:

- (i) LexaGene recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the accretion of interest and decreased by lease payment made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

(ii) Transition:

LexaGene classified its property lease as an operating lease under IAS 17. The lease term is seven years and one and on half month. The current lease does not include a renewal option.

(c) Impacts on consolidated financial statements:

- (i) Impacts on transition:

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2019 (Restated – Note 14) and 2018

(Expressed in US Dollars) (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

On transition to IFRS 16, LexaGene recognized a right-of-use asset and a lease liability, recognizing the difference in retained earnings. The impact on transition is summarized below:

	March 1, 2019
Right-of-use asset	\$ 2,142,120
Lease liability	\$ (2,142,120)
Retained earnings	\$ -

When measuring the lease liability for the property lease that was classified as an operating lease, the Company discounted the remaining lease payments using its incremental borrowing rate as at March 1, 2019. The rate applied is 5%.

	March 1, 2019
Operating lease commitment as at February 28, 2019 as disclosed in the Company's consolidated financial statements	\$ 2,425,648
Discounted using incremental borrowing rate at March 1, 2019	\$ 2,142,120
Lease liability recognized as at March 1, 2019	\$ 2,142,120

(ii) Impacts for the period:

Under IFRS 16, the Company has recognized depreciation and interest expense on its right-of-use asset and lease liability, respectively, instead of an operating lease expense. During the three-month period ended May 31, 2019, the Company recognized in its condensed consolidated interim statement of loss and other comprehensive loss \$68,955 of depreciation expense (of which \$25,175 is presented in Research and development expenses and \$43,779 is presented in General and administrative expenses) and \$8,849 of interest expense, presented in Finance costs, from this lease. For the three-month period ended May 31, 2019, the Company recognized \$95,785 of operating lease expense.

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 United States and Canadian financial institutions. The Company considers credit risk on its cash to be minimal.

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2019 and 2018

(Expressed in US Dollars) (Unaudited)

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(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.

5. 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.

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) 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 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 (paid) on or before February 28, 2019;

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended May 31, 2019 (Restated – Note 14) and 2018**

(Expressed in US Dollars) (Unaudited)

5. INTANGIBLE LICENSE (continued)

- \$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:

Cost		
Balance, February 29, 2018	\$	98,884
Additions		15,000
Effect of foreign currency exchange dif		(2,436)
Balance, February 28, 2019		111,448
Additions		15,000
Effect of foreign currency exchange dif		(5,528)
Balance, May 31, 2019	\$	120,920
Accumulated amortization		
Balance, February 29, 2018	\$	22,254
Additions		9,809
Effect of foreign currency exchange dif		(639)
Balance, February 28, 2019		31,424
Additions		11,233
Effect of foreign currency exchange dif		3,055
Balance, May 31, 2019	\$	45,712
Carrying value		
May 31, 2018		\$ 73,332
February 28, 2019		\$ 80,025
May 31, 2019		\$ 75,208

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended May 31, 2019 and 2018**

(Expressed in US Dollars) (Unaudited)

6. PROPERTY AND EQUIPMENT

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

	Computer Equipment	Lab Equipment	Furniture & Fixtures	Leasehold	Total
Cost					
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
Additions	\$ -	\$ 9,815	\$ -	\$ 1,050	\$ 10,865
Balance May 31, 2019	\$ 10,424	\$ 327,760	\$ 88,062	\$ 406,749	\$ 832,995
Accumulated amortization					
Balance, February 28, 2018	\$ 1,431	\$ 11,812	\$ -	\$ -	\$ 13,243
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
Additions	\$ 876	\$ 16,126	\$ 3,700	\$ 14,626	\$ 35,328
Balance May 31, 2019	\$ 5,781	\$ 88,046	\$ 16,527	\$ 64,999	\$ 175,353
Carrying value					
February 28, 2018					\$ 682,672
February 28, 2019					\$ 682,105
May 31, 2019					\$ 657,642

7. RIGHT-OF-USE ASSET AND LEASE LIABILITY:

Lease liability:

	Carrying value
Balance as at March 1, 2019	\$ 2,142,120
New issue	-
Interest expense	8,848
Lease payments	(95,785)
Balance as at May 31, 2019	\$ 2,055,182

The property lease expires on May 30, 2025 and the lease payments were discounted with a 5% interest rate.

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2019 (Restated – Note 14) and 2018

(Expressed in US Dollars) (Unaudited)

8. SHARE CAPITAL

- Authorized

Unlimited common shares without par value.

- Issuances

Issued during the three months ended May 31, 2019:

- On March 12, 2019, 145,000 restricted share units vested. The fair value of the restricted share units of \$113,807 was deducted from share-based payment reserve.
- On March 29, 2019, 188,000 restricted share units vested, the fair value of the restricted share units of \$96,680 was deducted from share-based payment reserve.
- On March 29, 2019, the Company closed an over-subscribed private placement. The Company issued 4,375,271 units (the “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 circumstances where, at any time commencing two (2) months from the date the warrants are issued, if for the preceding five (5) consecutive trading days, the daily volume weighted average trading price of the Company’s common shares is greater than \$1.10 CAD, in which case the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th calendar day after the date of such notice.

In addition, the Company paid finders’ fees totaling \$168,620 CAD and issued an aggregate 259,455 non-transferable finders’ warrants (the “Finders’ Warrants”). 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.

- On April 12, 2019, 10,100 restricted share units vested, the fair value of the restricted share units of \$4,774 was deducted from share-based payment reserve.
- On April 19, 2019, 65,000 restricted share units vested, the fair value of the restricted share units of \$34,975 was deducted from share-based payment reserve.
- On April 23, 2019, 7,500 restricted share units vested, the fair value of the restricted share units of \$3,408 was deducted from share-based payment reserve.
- On May 16, 2019, 44,250 restricted share units vested, the fair value of the restricted share units of \$40,170 was deducted from share-based payment reserve.
- During the three months ended May 31, 2019 10,000 warrants were exercised at CAD\$0.60 per warrant.

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended May 31, 2019 and 2018**

(Expressed in US Dollars) (Unaudited)

8. SHARE CAPITAL (continued)

(c) Warrants

The changes in warrants during the three months ended May 31, 2019 and year ended February 28, 2018 are summarized as follows:

	Number of warrants	Weighted average exercise price, CAD
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
Warrants issued	4,634,686	\$ 0.85
Warrants exercised	(10,000)	\$ 0.60
Warrants outstanding, May 31, 2019	15,721,199	\$ 1.00

Details of warrants outstanding as at May 31, 2019 are as follows:

Number of Warrants	Exercise Price	Expiry Date
5,000	CAD\$ 0.08	June 20, 2019
4,946,033	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
4,634,686	CAD\$ 0.85	June 29, 2020

At May 31, 2019, the weighted average remaining contractual life of warrants outstanding was 1.29 years (February 28, 2019 – 1.63 years), with a weighted average exercise price of CAD\$0.97 (February 28, 2019 – CAD\$1.01).

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended May 31, 2019 (Restated – Note 14) and 2018**

(Expressed in US Dollars) (Unaudited)

8. 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, 2018	3,342,500	\$ 0.73
Stock options issued	675,000	\$ 0.81
Cancelled, expired or forfeited	(157,500)	\$ 0.69
Balance, February 28, 2019	3,860,000	\$ 0.74
Stock options issued	748,000	\$ 0.65
Cancelled, expired or forfeited	-	\$ -
Balance, May 31, 2019	4,608,000	\$ 0.73

- 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.
- 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.
- On March 29, 2019, the Company granted 650,000 stock options to directors, officers and employees to purchase common shares at a price of CAD\$0.65 per common share. The stock options vest at 10% at grant date, and 15% every six months thereafter, expiring on September 29, 2022.
- On April 12, 2019, the Company granted 98,000 stock options to a consultant to purchase common shares at a price of CAD\$0.65 per common share. The stock options vest at 25% at grant date, 25% every three months thereafter, expiring on April 12, 2022.

No stock options were exercised during the three months ended May 31, 2019.

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended May 31, 2019 and 2018**

(Expressed in US Dollars) (Unaudited)

8. SHARE CAPITAL (continued)

The following weighted average assumptions were used to estimate the fair value of the options granted using the Black-Scholes option pricing model:

	May 31, 2019
Annualized volatility	173%
Risk-free interest rate	1.69%
Expected life of options in years	3.5 years
Dividend rate	0.00%

The following table summarizes information on stock options outstanding as at May 31, 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	148,500	1.05	March 12, 2021
1,290,000	322,500	1.15	February 20, 2022
75,000	18,750	1.27	May 16, 2022
100,000	10,000	0.97	June 26, 2022
500,000	50,000	0.72	October 19, 2022
650,000	65,000	0.65	September 29, 2022
98,000	24,500	0.65	April 12, 2022

At May 31, 2019, the weighted average remaining contractual life of options outstanding was 2.29 years with a weighted average exercise price of \$0.54 (CAD\$0.73). At May 31, 2019, 1,776,750 stock options were exercisable.

The Company recorded stock-based compensation expense related to stock options of \$185,532 for the three months May 31, 2019 and \$248,741 for the same period ended May 31, 2018, respectively, of which \$11,214 was recorded in marketing, \$97,531 in general and administrative and \$76,787 in research and development expense.

(e) Restricted share units

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

- On March 29, 2019, the Company granted 530,000 restricted share units to directors, officers and employees. 380,000 of the RSUs have trigger dates of 10% at grant date, and 15% every six months thereafter, expiring on March 29, 2022. 150,000 of the RSUs vested on the grant date. Fair value per RSU in this grant was \$0.69 per RSU, based on the TSX.V market price of the Company's share on the date the RSUs were granted.

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2019 (Restated – Note 14) and 2018

(Expressed in US Dollars) (Unaudited)

8. SHARE CAPITAL (continued)

(e) Restricted share units (continued)

- On April 12, 2019, the Company granted 40,400 restricted share units to a consultant with the trigger dates for the RSUs of 25% at the grant date, and 25% every three months thereafter, expiring on January 12, 2020. Fair value per RSU in this grant was \$0.63 per RSU, based on the TSX.V market price of the Company's share on the date the RSUs were granted.
- On April 23, 2019, the Company granted 75,000 restricted share units to a consultant with the trigger dates for the RSUs of 10% at grant date, and 15% every six months thereafter, expiring on April 23, 2022. Fair value per RSU in this grant was \$0.61 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 \$323,019 for the three months ended May 31, 2019 and \$261,949 for the same period ended May 31, 2018, respectively, of which \$102,132 was included in marketing, \$119,625 in general and administrative and \$101,263 in research and development expense.

At May 31, 2019, 2,712,800 RSUs were outstanding (2018 – 2,022,000).

9. 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.

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended May 31, 2019 and 2018**

(Expressed in US Dollars) (Unaudited)

10. 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. For the three months ended, May 31, 2019 and 2018, expenses incurred for key management compensation are summarized as:

	May 31, 2019	May 31, 2018
Salaries and benefits	\$ 193,549	\$ 150,198
Administration fees	-	-
Stock-based compensation	122,312	91,541
	<u>\$ 315,861</u>	<u>\$ 241,739</u>

As at May 31, 2019 and 2018, \$50,281 (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.

11. 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 alpha prototype milestone. The Company has completed the beta prototype, shipped it to independent beta sites and is currently analyzing and evaluating their ongoing results. At the conclusion of the beta evaluation testing period, the Company will start the design and build phase for the commercial product.

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

	May 31, 2019	May 31, 2018
Consulting	\$ 193,667	\$ 253,441
Depreciation of lab related equipment	23,135	21,867
Depreciation of the intangible license	2,734	2,465
Lab administration and supplies	114,347	131,051
LX analyzer materials	186,141	161,945
Travel	8,385	23,452
Salaries	538,276	335,470
Share-based compensation	178,049	256,775
Total research and development expenses	\$ 1,244,734	\$ 1,186,466

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended May 31, 2019 (Restated – Note 14) and 2018**

(Expressed in US Dollars) (Unaudited)

12. EXPENSE DETAIL

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

	May 31, 2019	May 31, 2018
Office and administration	\$ 18,672	\$ 42,204
Depreciation of property and equipment	12,192	6,269
Depreciation of right to use asset	43,779	-
Consulting	2,339	2,194
Marketing and promotion	49,484	28,597
Professional fees	37,821	26,283
Insurance	5,809	1,594
Interest expense - right to use asset	8,849	-
Transfer agent and filing fees	8,686	19,841
Travel	10,986	42,887
Salaries	60,124	36,744
Share-based compensation	217,156	233,274
Total general and administrative expenses	\$ 475,897	\$ 439,887

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

	May 31, 2019	May 31, 2018
Marketing and promotion	\$ 59,586	\$ 141,636
Travel	18,649	84,213
Salaries	93,845	81,827
Stock-based compensation	113,346	20,641
Total marketing and promotional expenses	\$ 285,426	\$ 328,317

13. 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.

14. RESTATEMENT

Subsequent to filing of the condensed interim financial statements for the three months ended May 31, 2019, management identified three errors. One error related to the valuation of the warrants issued as a part of a unit in a private placement, the second error related to the calculation of the right-of-use asset and the lease liability related to the Company's premises and the third error related to the reclass of foreign exchange to other comprehensive income.

LEXAGENE HOLDINGS INC.**Notes to the condensed interim consolidated financial statements****For the three months ended May 31, 2019 and 2018**

(Expressed in US Dollars) (Unaudited)

14. RESTATEMENT (continued)

The errors resulted in an increase in proceeds from share issuances to \$2,128,481, decrease in share-based payment reserve of approximately \$363,785, increase in the right-of-use asset to \$2,073,164 and an increase in lease liability to \$2,055,182 at May 31, 2019.

The impact of the restatement is outlined below:

	Previously Reported	Adjustment for Restatement	Restated
Statement of Financial Position			
Share capital	\$ 17,270,600	\$ 363,788	\$ 17,634,388
Share-based payment reserve	\$ 3,405,994	\$ (363,786)	\$ 3,042,208
Right-of-use asset	\$ 1,654,908	\$ 418,256	\$ 2,073,164
Lease liabilities	\$ 1,708,509	\$ 346,673	\$ 2,055,182
Deficit	\$ (18,708,927)	\$ (172,352)	\$ (18,881,279)
<hr/>			
Accumulated other comprehensive loss	\$ (188,550)	\$ 243,936	\$ 55,386
Statement of comprehensive loss			
Interest expense	\$ 80,431	\$ (71,583)	\$ 8,848
Foreign exchange	\$ (243,417)	\$ 243,936	\$ 519
Net loss	\$ 1,834,223	\$ 172,353	\$ 2,006,576
Loss per share - basic and diluted	\$ 0.03	\$ -	\$ 0.03
Unrealized loss on translation to reporting currency	\$ 269,460	\$ (243,936)	\$ 25,524

15. SUBSEQUENT EVENTS

On June 26, 2019, the Company granted 72,500 RSUs to an employee. Trigger dates of RSUs are as follows: 10% on grant date and 15% every six months thereafter. Expiry date of the RSUs is June 26, 2022.

On August 23, 2019, 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 and as amended on July 16, 2019 by an additional 406,790 Common Shares, to a total of 5,015,488 Common Shares under the Omnibus Plan.

Subsequent to the three months ended May 31, 2019, 433,200 shares were issued upon vesting of RSUs.

LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2019 (Restated – Note 14) and 2018

(Expressed in US Dollars) (Unaudited)

15. SUBSEQUENT EVENTS (continued)

Subsequent to the three months ended May 31, 2019, 896,000 shares were issued upon exercise of warrants. Proceeds received from the exercise of warrants to the Company were \$404,760.

Subsequent to the three months ended May 31, 2019, 896,000 shares were issued upon exercise of warrants. Proceeds received from the exercise of warrants to the Company were \$404,760.