CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2020 and February 28, 2019

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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 29, 2020 and February 28, 2019, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years 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 29, 2020 and February 28, 2019, and its financial performance and its cash flows for the years ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits 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 Consolidated 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 consolidated 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.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that 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 Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 or otherwise appears to be materially misstated.

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. 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 consolidated 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.

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 consolidated 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 audits resulting in this independent auditors’ report is Joseph Bonvillain.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
June 26, 2020

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

	Note	February 29, 2020	February 28, 2019
ASSETS			
Current assets			
Cash		$ 3,185,535	$ 670,921
Receivables		3,159	-
Prepaid		278,861	270,836
		3,467,555	941,757
Non-current			
Intangible license	4	67,568	80,204
Property and equipment	5	602,376	682,105
Right-of-use asset	6	1,851,322	-
TOTAL ASSETS		**$ 5,988,821**	**$ 1,703,886**
LIABILITIES			
Current liabilities			
Accounts payables and accrued liabilities		$ 217,016	$ 319,192
Current portion of lease liabilities	6	310,537	-
		527,553	319,192
Non-current			
Lease liabilities	6	1,606,015	-
Total Liabilities		**2,133,568**	**319,192**
EQUITY			
Share capital	7	24,337,456	15,373,384
Share-based payment reserve	7	3,961,539	2,805,102
Accumulated other comprehensive income (loss)		(69,877)	80,910
Deficit		(24,373,865)	(16,874,702)
TOTAL EQUITY		**3,855,253**	**1,384,694**
TOTAL LIABILITIES AND EQUITY		**$ 5,988,821**	**$ 1,703,886**

Nature and continuance of operations (Note 1)
Commitment (Note 15)
Subsequent events (Note 16)

Approved on behalf of the Board on June 26, 2020:

"Jack Regan" — Jack Regan, Chairman & Chief Executive Officer

"Joseph Caruso" — Joseph Caruso, Director

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

		Years ended			
	Note		February 29, 2020		February 28, 2019
Operating Expenses					
Research and development	10	$	4,457,186	$	5,384,213
General and administrative	11		2,137,238		1,675,637
Marketing and promotion	12		907,390		1,262,634
Loss before other item		**$**	**7,501,814**	**$**	**8,322,484**
Other item					
Foreign exchange			(2,651)		(1,110)
Net loss		**$**	**7,499,163**	**$**	**8,321,374**
Other comprehensive (income) loss					
Item that may be reclasified subsequently to income or loss:					
Unrealized loss on translation to reporting currency			150,787		44,528
Comprehensive loss		**$**	**7,649,950**	**$**	**8,365,902**
Net loss per share - basic and diluted		**$**	**0.10**	**$**	**0.13**
Weighted average number of common shares			**76,384,976**		**63,757,460**

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		Share based		Accumulated Other comprehensive	
	Number	Amount	payment reserve	Deficit	income (loss)	Total
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**
Shares issued in private placements, net of share issue costs	17,144,897	6,214,968	292,986	-	-	6,507,954
Share issuance costs - other	-	(41,469)	-	-	-	(41,469)
Share issuance costs - warrants	-	(170,325)	170,325	-	-	-
Share based payment of stock options	175,000	78,842	655,338	-	-	734,180
Share based payment of restricted share units	1,183,525	848,163	51,449	-	-	899,612
Warrants exercised	4,327,863	2,033,893	(13,661)	-	-	2,020,232
Comprehensive loss for the year	-	-	-	(7,499,163)	(150,787)	(7,649,950)
Balance February 29, 2020	**89,535,388**	**24,337,456**	**3,961,539**	**(24,373,865)**	**(69,877)**	**3,855,253**

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

LEXAGENE HOLDINGS INC.
Consolidated statements of cash flow
For the years ended February 29, 2020 and February 28, 2020
(Expressed in US Dollars)

	Years Ended			
		February 29, 2020		February, 28, 2019
Operating Activities				
Net loss for the year	$	(7,499,163)	$	(8,321,374)
Items not involving cash				
Amortization of intangible license		11,056		9,685
Amortization of property and equipment		143,618		126,782
Amortization of right-of-use-asset		352,633		-
Interest expense for right-of-use asset		101,523		-
Share based compensation		1,590,226		2,078,811
Changes in working capital balances:				
Accounts receivables		(3,159)		12,637
Prepaid expenses		(8,025)		33,038
Accounts payable and accrued liabilities		(102,176)		61,698
Cash Used in Operating Activities	**$**	**(5,413,467)**	**$**	**(5,998,723)**
Investing Activities				
Purchases property and equipment		(63,890)		(126,214)
Addition to intangible license		-		(15,000)
Office lease payments		(388,926)		-
Cash Used in Investing Activities	**$**	**(452,816)**	**$**	**(141,214)**
Financing Activities				
Proceeds from shares issued, net of cash share issue costs		6,466,485		3,927,792
Proceeds from the exercise of stock options		43,566		-
Proceeds from warrants		2,020,232		277,320
Cash Provided by Financing Activities	**$**	**8,530,283**	**$**	**4,205,112**
Increase (decrease) in Cash		2,664,000	$	(1,934,825)
Cash, Beginning		670,921		2,648,354
Effect of foreign exchange		(149,386)		(42,608)
Cash, Ending	**$**	**3,185,535**	**$**	**670,921**
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 is 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 29, 2020, the Company had not generated revenue and had an accumulated deficit of $24,373,865 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 as well as to commercially launch its genetic analyzer during 2020.

Novel Coronavirus

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's business and ability to finance its operations.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation and compliance

These annual consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financing Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and have been prepared in accordance with accounting policies based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The policies set out below were consistently applied to all the years presented unless otherwise noted.

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.

(Expressed in US Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The functional currency of the Company and its Canadian subsidiary is the Canadian dollar (“CAD”), 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.

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.

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

Period end dates	US to CAN	CAN to US
February 29, 2020	1.3428	0.7447
February 28, 2019	1.3169	0.7594

Period averages	US to CAN	CAN to US
Year ended February 29, 2020	1.3256	0.7544
Year ended February 28, 2019	1.3081	0.7646

b) 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 of the consolidated financial statements.

c) Basis of consolidation

The consolidated financial statements for the years ended February 29, 2020 and 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:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

		% Ownership Interest	
Name	**Country of Incorporation**	**2020**	**2019**
Bionomics Diagnostics Inc.	Canada	100%	100%
LexaGene, Inc.	United States	100%	100%

d) 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”).

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

(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.

The Company's cash is classified at Level 1.

(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 29, 2020.

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

e) 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.

f) 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 Lawrence Livermore National Security (Note 4). 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) 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 and fixtures 7 years;
- Lab equipment 5 to 7 years;
- Laboratory and leasehold improvements 7 years.

h) 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).

i) Lease liabilities and right-of-use assets

The Company 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 the 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 payments 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.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases with a lease term of less than 12 months and low value assets and recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term, as permitted by IFRS 16.

(Expressed in US Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company classified its property lease as an operating lease under IAS 17. The lease term was seven years and one and one-half month. The current lease does not include a renewal option. The Company recognized a right-of-use asset and a lease liability, recognizing the difference in retained earnings.

The impact is summarized below:

		March 1, 2019
Right-of-use asset	$	2,203,955
Lease liability		2,203,955
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
Lease liability recognized as at March 1, 2019	$	2,203,955

See Note 6 for continuity schedule of the right-of-use asset and lease liability.

j) 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.

k) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Income taxes

Income tax expense comprises of 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.

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.

m) 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.

n) 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, 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

o) 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 Lawrence Livermore National Security.

The 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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 29, 2020.

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.

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.

p) Accounting pronouncements adopted by the Company

IFRS 16 - *Leases ("IFRS 16")*

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16") which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract based on whether the customer controls the asset. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted, provided the Company has adopted IFRS 15.

This standard sets out a new model for lease accounting. A lessee can choose to apply IFRS 16 using either a full retrospective approach or a modified retrospective approach. The Company has applied IFRS 16 at the date it became effective using a modified retrospective approach. By applying this method, the comparative information for the 2019 fiscal year has not been restated.

The Company has elected not to recognize right of use assets and lease liabilities for short-term lease that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases are expensed on a straight-line basis over the lease term. Please see note 2 i) for details on impact of adoption of IFRS 16.

q) Accounting pronouncements issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on or after March 1, 2020, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company does not anticipate any material changes to the consolidated financial statements upon adoption of these new revised accounting pronouncements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Accounting pronouncements issued but not yet effective (continued)

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose consolidated financial statements make on the basis of those consolidated financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

IFRS 3 – Business Combinations was amended to assist entities in determining whether an acquired set of activities and assets are considered a business. The amendments the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, narrow the definition of outputs, add guidance to assess whether an acquired process is substantive and introduce an optional concentration test to permit a simplified assessment. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

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 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.

(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.

(Expressed in US Dollars)

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(c) Market risk (continued)

The Company's financial instruments denominated in currencies that are not the United States dollar as at February 29, 2020 are as follows:

	CAD$	US$ Equivalent
Cash	3,775,974	2,811,806
Accounts payable & accrued expenses	(122,266)	(91,046)
Net exposure	3,653,708	2,720,760

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 29, 2020 is estimated to have an impact in the Company's loss in the amount of approximately $272,000. The carrying amount of cash, accounts payable and accrued liabilities in USD represents the Company's exposure as at February 29, 2020.

(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.

4. 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.

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:

(Expressed in US Dollars)

4. INTANGIBLE LICENSE (continued)

- $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 (paid) on or before February 29, 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 28, 2018	$	98,884
Additions		15,000
Effect of foreign currency exchange differences		(2,436)
Balance, February 28, 2019	$	111,448
Additions		-
Effect of foreign currency exchange differences		(2,308)
Balance, February 29, 2020	$	109,140
Accumulated amortization		
Balance, February 28, 2018	$	22,254
Additions		9,809
Effect of foreign currency exchange differences		(639)
Balance, February 28, 2019	$	31,424
Additions		11,056
Effect of foreign currency exchange differences		(908)
Balance, February 29, 2020	$	41,572
Carrying values		
February 28, 2019	$	80,024
February 29, 2020	$	67,568

(Expressed in US Dollars)

5. PROPERTY AND EQUIPMENT

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

	Computer Equipment	Lab Equipment	Furiniture & 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	5,153	57,699	-	1,050	63,902
Balance February 29, 2020	$ 15,577	$ 375,644	$ 88,062	$ 406,749	$ 886,032
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	4,016	66,618	14,717	58,280	143,631
Balance February 29, 2020	$ 8,921	$ 138,538	$ 27,544	$ 108,653	$ 283,656
Carrying value					
February 28, 2019	$ 5,519	$ 246,025	$ 75,235	$ 355,326	$ 682,105
February 29, 2020	$ 6,656	$ 237,106	$ 60,518	$ 298,096	$ 602,376

6. RIGHT-OF-USE ASSET AND LEASE LIABILITY

In April 15, 2018, the Company entered into an office lease agreement for its global head-quarters located at 500 Cummings Center, Beverly Massachusetts. The term of the lease is 7 years and one and one half months and can be extended for another five years. The expiry date on the lease is May 30, 2025. Upon adoption of IFRS 16 on March 1, 2019, the Company recorded a lease obligation and corresponding right-of-use asset for $2,203,955.

As at February 29, 2020, the lease liability is as follows:

	Carrying value
Balance as at March 1, 2019	$ 2,203,955
Interest expense	101,523
Lease payments	(388,926)
Balance as at February 29, 2020	$ 1,916,552
Current portion of the lease liability	(310,537)
Non-current portion of a lease liability	$ 1,606,015

At February 29, 2020, the balance of the right-of-use asset is as follows:

Balance as at March 1, 2019	$ 2,203,955
Depreciation	352,633
Balance as at February 29, 2020	$ 1,851,322

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.

Issuances during the year ended February 29, 2020:

- 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 CAD$0.65 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 CAD$0.85. 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 CAD$1.10, 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 $136,393 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 CAD$0.85. The fair value of the warrants of $31,623 was recorded as share issue costs. The fair value of the warrants of $0.12 per warrant was determined using the Black-Scholes option pricing model with the following weighted average assumptions: 1.25 years expected life; share price at the grant date of CAD$0.69; 69% volatility; risk free interest rate of 1.60%; 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 October 29, 2019, the Company closed an Offering of units for aggregate gross proceeds of CAD$6.64 million. The Company issued 12,769,626 units (the “Units”) at a price of CAD$0.52 per Unit. Each Unit consists of one common share of the Company and one common share purchase warrant, with each warrant entitling the holder to purchase one share of the Company at the price of CAD$0.75 per share until October 29, 2022. The Offering was conducted by Industrial Alliance Securities Inc. (the “Agent”). The Company issued to the agent an aggregate of 735,229 broker warrants, each Broker warrant entitling the holder to purchase one share at the price of CAD$0.52 per share until October 29, 2022.

  The fair value of the warrants of $138,703 was recorded as share issue costs. The fair value of the warrants of $0.19 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$0.49; 79% volatility; risk free interest rate of 1.67%; 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.

- During the year ended February 29, 2020, 1,183,525 RSUs vested, and an amount of $848,163 was reclassified from share-based payment reserve to share capital upon vesting of the RSUs.

7. SHARE CAPITAL (continued)

- On February 4, 2020, 125,000 stock options were exercised at CAD$0.33 per common share. The fair value of $25,197 previously estimated using the Black-Scholes Model was deducted from share-based payment reserve.

- On February 20, 2020, 50,000 stock options were exercised by a previous consultant to the Company. Each stock option allowed the holder to acquire one common share of the Company at an exercise price of CAD$0.33. A grant date fair value of $13,360 was estimated using the fair value of the Company on the grant date was deducted from share-based payment reserve. The original grant date for these options was January 27, 2017.

- During the year ended February 29, 2020, 3,805,533 warrants were exercised at CAD$0.60 per warrant, 420,000 warrants were exercised at CAD$0.75 and 80,000 were exercised at CAD$0.85 per warrant. 22,330 broker warrants were exercised at CAD$0.52 per warrant. The amount of $13,661 of was deducted from share-based payment reserve in connection with the exercise.

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 consisted 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 29, 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.

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.

(Expressed in US Dollars)

7. SHARE CAPITAL (continued)

(c) Warrants

The changes in warrants during the year ended February 29, 2020 and 2019 are 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	18,139,541	$	0.77
Warrants exercised	(22,330)	$	0.52
Warrants exercised	(3,805,533)	$	0.60
Warrants exercised	(420,000)	$	0.75
Warrants exercised	(80,000)	$	0.85
Warrants expired	(5,000)	$	0.08
Warrants outstanding, February 29, 2020	24,903,191	$	0.90

Details of warrants outstanding as at February 29, 2020 are as follows:

Number of Warrants	Exercise Price	Expiry Date
1,150,500	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
4,554,686	CAD$ 0.85	June 29, 2020
712,899	CAD$ 0.52	October 29, 2022
12,349,626	CAD$ 0.75	October 29, 2022

At February 29, 2020, the weighted average remaining contractual life of warrants outstanding was 1.73 years, with a weighted average exercise price of $0.67 (CAD$0.90).

(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, 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
Stock options issued	1,068,000	$0.67
Stock options exercised	(175,000)	$0.33
Cancelled, expired or forfeitured	(100,000)	$0.72
Balance, February 29, 2020	4,653,000	$0.74

Stock option transactions during the year ended February 29, 2020:

- 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 11, 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.

- 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 August 30, 2018 and as amended most recently on August 23, 2019 by an additional 406,790 Common Shares, to a total of 5,015,488 Common Shares under the Omnibus Plan.

- On November 15, 2019, the Company reduced the exercise price of 1,295,000 stock options to non-insider employees. The reduction in the exercise price resulted in an incremental increase in the fair value of these options of $80,898 determined using the Black-Scholes Option Pricing Model with the following assumptions: risk free interest rate of 1.59%; expected life 1.3 to 2.9 years; expected volatility of 67% to 77% and dividend yield of nil. The Company recognized $9,925 in the stock based compensation in sales and marketing expense, $1,694 in stock based compensation in general and administrative expense and $69,279 in stock based compensation in research and development for the increased value of the stock options. These allocations have also been included in the stock-based compensation related to stock-based compensation allocations described below.

- On February 19, 2020, the Company granted 320,000 stock options to directors and officers to purchase common shares at a price of CAD$0.72 per common share. These stock options vest at 25% on February 19, 2022, 25% on June 19, 2022, 25% on October 19, 2022 and 25% on February 19, 2023. These stock options expire on February 19, 2030.

(Expressed in US Dollars)

7. SHARE CAPITAL (continued)

(d) Stock options (continued)

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

	2020	2019
Annualized volatility	89.87%	206%
Risk-free interest rate	1.49%	2.29%
Expected life of options in years	5.4 years	4 years
Dividend rate	0.00%	0.00%

The following table summarizes information on stock options outstanding as at February 29, 2020:

Options Outstanding	Options Exercisable	Exercise Price, CAD$	Expiry Date
500,000	500,000	0.36	July 27, 2020
950,000	950,000	0.33	July 27, 2020
270,000	189,000	1.05	March 12, 2021
1,290,000	709,500	1.15	February 21, 2022
75,000	30,000	1.27	May 16, 2022
100,000	40,000	0.97	June 22, 2022
400,000	100,000	0.72	October 19, 2022
650,000	162,500	0.65	Septmember 29, 2022
98,000	98,000	0.65	April 12, 2020
320,000	-	0.72	February 19, 2030
4,653,000	2,779,000		

At February 29, 2020, the weighted average remaining contractual life of options outstanding was 2.10 years with a weighted average exercise price of $0.55 (CAD$0.74). At February 29, 2020, 2,779,000 stock options were exercisable.

The Company recorded stock-based compensation expense related to stock options of $690,614 for the year ended February 29, 2020 and $912,440 for the same period ended February 28, 2019, respectively. For the year ended February 29, 2020, $94,165 was recorded in marketing, $311,479 in general and administrative and $284,970 in research and development expense. For the year ended February 28, 2019, $59,982 was recorded in marketing, $380,090 in general and administrative and $472,368 in research and development expense as stock-based compensation.

7. SHARE CAPITAL (continued)

(e) Restricted share units

Restricted share unit transactions during the year ended February 29, 2020:

- On March 29, 2019, the Company granted 530,000 restricted share units to directors, officers and employees with the trigger dates for the RSUs of 10% at grant date, and 15% every six months thereafter, expiring on March 29, 2022. 150,000 of these RSUs have 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.

- On April 11, 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 11, 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.

- On June 26, 2019, the Company granted 72,500 restricted share units to an employee. The trigger dates of the RSUs are as follows: 10% on grant date and 15% every six months thereafter. The expiry date of the RSUs is June 26, 2022. 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.

- The Company amended its Omnibus Incentive Plan and increased the number of Common Shares reserved for the issuance as restricted share units ("RSUs") under the Company's Omnibus Plan dated July 25, 2017, as amended and restated August 30, 2018, and as amended on August 23, 2019, by an additional 406,790 Common Shares, to a total of 5,015,488 Common Shares under the Omnibus Plan.

- On February 19, 2020, the Company granted 1,285,000 restricted share units to directors and officers. The trigger dates of the RSUs are as follows: 25% on February 19, 2022, 25% on June 19, 2022, 25% on October 19, 2022 and 25% on February 19, 2023. The expiry date of the RSUs is February 19, 2023. Fair value per RSU in this grant was $0.89 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 $899,612 for the year ended February 29, 2020 and $1,166,372 for the same period ended February 28, 2019, respectively. For the year ended February 29, 2020, $122,622 was recorded in marketing, $405,741 was recorded in general and administrative and $371,249 was recorded in research and development expense. For the year ended February 28, 2019, $76,675 was recorded in marketing, $485,868 in general and administrative and $603,829 was recorded in research and development expense. At February 29, 2020, 3,260,375 RSUs were outstanding compared to 2,527,250 for the same period in 2019.

(Expressed in US Dollars)

8. CAPITAL MANAGEMENT

The Company is a biotechnology company developing and planning to manufacture and sell fully automated genetic analyzer devices for various veterinary health issues, food safety, human diagnostics 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 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 be able to continue raising funds.

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 29, 2020 and February 28, 2019, expenses incurred for key management compensation are summarized as:

	2020	2019
Salaries and benefits	$ 1,052,878	$ 791,459
Consulting fees	43,200	18,000
Stock-based compensation	739,043	841,980
	$ 1,835,121	$ 1,651,439

As at February 29, 2020 $26,785 (2019 - $48,786) 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

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 and beta prototype milestones. The Company is in process of developing its commercial product.

On occasion, the Company engages various contractors to assist the Company in the development of its genetic analyzer.

(Expressed in US Dollars)

10. RESEARCH AND DEVELOPMENT EXPENSES (continued)

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

		2020		2019
Consulting	$	283,835	$	1,050,770
Depreciation of lab and related equipment		94,727		81,209
Depreciation of right-of-use asset		128,746		-
Depreciation of the intangible license		11,057		9,816
Lab administration and supplies		454,614		687,382
LX analyzer materials		453,529		706,805
Salaries		2,374,498		1,772,034
Share-based compensation		656,180		1,076,197
Total research and development expenses	$	4,457,186	$	5,384,213

11. EXPENSE DETAIL GENERAL AND ADMINISTRATIVE EXPENSES

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

		2020		2019
Office and administration	$	43,627	$	139,211
Depreciation property and equipment		48,892		41,439
Depreciation of right-of-use asset		223,887		-
Consulting		9,087		16,523
Advertising and promotion		454,168		59,316
Insurance		23,979		10,256
Interest expense – right-of-use asset		101,524		-
Professional fees		165,185		181,384
Transfer agent and filing fees		18,042		60,126
Travel		37,703		84,458
Salaries		293,924		216,966
Stock-based compensation		717,220		865,958
Total general and administrative expenses	$	2,137,238	$	1,675,637

(Expressed in US Dollars)

12. EXPENSE DETAIL MARKETING AND PROMOTIONAL EXPENSES

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

For the year ended		2020		2019
Marketing and promotion	$	160,125	$	515,592
Administration		-		58,296
Travel		49,736		163,329
Salaries		480,703		388,760
Stock-based compensation		216,826		136,657
Total marketing and promotional expense	$	907,390	$	1,262,634

13. SEGMENTED INFORMATION

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

14. 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:

		2020		**2019**
Loss before income taxes	$	7,499,163	$	8,321,374
Statutory tax rate - Canada		27%		27%
Expected tax recovery		2,024,774		2,246,771
Decrease resulting from:				
Non-deductible items for tax purposes and other items		(275,384)		(422,071)
Differences in future tax rate		-		-
Differences in tax rates in the United States		(92,600)		101,100
Impact of changes in foreign exchange		99,310		-
Change in unregonized deferred income tax asset		(1,756,100)		(1,925,800)
Income tax recovery	$	-	$	-

(Expressed in US Dollars)

14. INCOME TAXES (continued)

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

Potential deferred income tax assets include:		2020		2019
Non-capital losses	$	3,815,000	$	2,133,000
Resource tax pools		183,100		185,500
Share issuance costs		294,000		197,200
Intangible license		8,800		6,000
Leases		18,900		-
Capital assets		970,200		1,012,600
		5,290,000		3,534,300
Unrecognized defferred income tax assets		(5,290,000)		(3,534,300)
Total	$	-	$	-

As at February 29, 2020, the Company had non-capital losses carry forward in the United States and Canada of approximately $8,791,000 (2019 - $4,301,000) and $4,687,500 (2019 - $4,292,000) respectively available to reduce taxable income. If unused the non-capital losses carry forward expire between 2035 and 2039.

15. COMMITMENT

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

		2020
Not more than one year	$	396,362
Later than one year and not later than five years		1,585,446
Later than five years		99,090
	$	2,080,898

16. SUBSEQUENT EVENTS

Subsequent events occurring after the Company's year ended February 29, 2020:

- Subsequent to the year ended February 29, 2020, 1,033,182 shares were issued upon exercise of 1,033,182 warrants at a price of CAD$0.60 per warrant for gross proceeds of approximately $461,650 (CAD$619,910).

- On April 21, 2020, the Company granted 100,000 stock options to employees to purchase common shares at a price of CAD$0.63. Each Option is exercisable into one common share of the Company at a price of CAD$0.63 per share. The options will vest 25% on April 21, 2020, 25% on April 21, 2021, 25% on April 21, 2022 and 25% on April 21, 2023 and will expire on April 21, 2030.

16. SUBSEQUENT EVENTS (continued)

- On April 21, 2020, the Company granted 156,088 RSUs to employees. The RSUs will vest 10% on October 21, 2020 and then 15% every six months thereafter and will expire on October 22, 2023.

- On May 5, 2020, the Company received funding of approximately $108,000 under the Paycheck Protection Program established by Congress and implemented by the US Treasury Department and the Small Business Administration. The funds are approved in the form of a loan that is expected to be fully forgiven after 8 weeks when used for payroll costs, rent, and utilities.

- On May 8, 2020, the Company announced that it has received approval from the TSX Venture Exchange to amend the exercise price of the common share purchase warrants (the "Warrants") issued on March 29, 2019 in connection with a $2.65 million offering. These Warrants have an expiry date of June 29, 2020. The Company received approval to amend the exercise price of the Warrants to $0.65 per Common Share. All other terms of the Warrant remain the same and the acceleration clause will not be amended.

- Subsequent to the year-ended February 29, 2020, 66,152 shares were issued upon warrant exercise at CAD$0.75 per share for gross proceeds of approximately $ 36,950 (CAD$49,615).

- Subsequent to the year-ended February 29, 2020, 3,647,547 shares were issued upon warrant exercise at CAD$0.65 per share for gross proceeds of approximately $1,765,613 (CAD$2,370,906).

- Subsequent to the year ended February 29, 2020, 234,250 shares have been issued upon vesting of RSUs.

- On June 12, 2020, 200,000 stock options were exercised at a price of CAD$0.33 for gross proceeds of approximately $49,150 (CAD$66,000). The original grant date for these options were January 27, 2017.