



**CONSOLIDATED FINANCIAL STATEMENTS**

For the three months ended May 31, 2017 and May 31, 2016

(Unaudited)

These unaudited condensed consolidated interim financial statements of Lexagene Holdings Inc. (former Wolfeye Resource Corp). for the three months ended May 31, 2017 have been prepared by management and approved by the Board of Directors. These unaudited condensed consolidated interim financial statements have not been reviewed by the Company's external auditors.

**LEXAGENE HOLDINGS INC.**

Consolidated statements of financial position

(Expressed in US dollars)

	Note	May 31, 2017	February 29, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 1,572,967	\$ 867,483
Receivables		10,078	11,375
Prepaid		118,935	69,895
		1,701,980	948,753
<b>Non-current</b>			
Intangible license	5	69,947	73,574
Property and equipment	6	28,380	29,947
<b>TOTAL ASSETS</b>		<b>\$ 1,800,307</b>	<b>\$ 1,052,274</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payables and accrued liabilities	9	\$ 118,684	\$ 130,615
		118,684	130,615
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	7	6,159,630	4,469,182
Share subscriptions		(84,019)	132,413
Share-based payment reserve	7	742,225	857,496
Accumulated other comprehensive income (loss)		29,565	10,444
Deficit		(5,165,778)	(4,547,876)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,681,623</b>	<b>921,659</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 1,800,307</b>	<b>\$ 1,052,274</b>

Nature and continuance of operations (Note 1)

Subsequent event (Note 12)

Approved on behalf of the Board on July 17, 2017:

*"Jack Reagan"*\_\_\_\_\_  
Jack Reagan, Chairman*"Daryl Rebeck"*\_\_\_\_\_  
Daryl Rebeck, Director

**LEXAGENE HOLDINGS INC.**Consolidated statements of comprehensive loss  
(Expressed in US Dollars)

		<b>Three months ended May 31,</b>	
	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Expenses</b>			
Administration	9	\$ 11,129	\$ -
Advertising and promotion		82,649	-
Amortization of intangible license		2,260	1,560
Amortization of property and equipment		1,567	-
Consulting fees	9	31,020	-
Insurance		2,053	-
Office and miscellaneous		6,375	56
Professional fees		8,673	17,549
Research and development		259,065	84,104
Share based compensation	9	80,059	-
Transfer agent and filing fees		6,964	-
Travel		35,276	-
Wages and salaries	9	90,074	-
		617,164	103,269
<b>Other items</b>			
Foreign exchange		738	-
<b>Net loss</b>		<b>617,902</b>	<b>103,269</b>
<b>Other comprehensive loss</b>			
Unrealized gain (loss) on translation to reporting currency		(19,121)	(1,157)
<b>Comprehensive loss</b>		<b>\$ 598,781</b>	<b>\$ 102,112</b>
<b>Net loss per share – basic and diluted</b>		<b>\$ 0.012</b>	<b>\$ 0.006</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>		<b>49,097,857</b>	<b>16,910,870</b>

**LEXAGENE HOLDINGS INC.**

**Consolidated statements of changes in shareholders' equity**

(Expressed in US Dollars)

	<b>Share Capital</b>		<b>Share subscriptions</b>	<b>Share based payment reserve</b>	<b>Deficit</b>	<b>Other comprehensive income (loss)</b>	<b>Total</b>
	<b>Number</b>	<b>Amount</b>					
<b>Balance, February 29, 2016</b>	16,150,000	94,973	-	-	(64,661)	(835)	29,477
Shares issued for cash	1,000,000	76,697	-	-	-	-	76,697
Comprehensive loss for the year	-	-	-	-	(103,269)	1,157	(102,112)
<b>Balance, May 31, 2016</b>	<b>17,150,000</b>	<b>171,670</b>	-	-	<b>(167,930)</b>	<b>322</b>	<b>4,062</b>
<b>Balance, February 28, 2017</b>	<b>42,471,060</b>	<b>\$ 4,469,182</b>	<b>\$ 132,413</b>	<b>\$ 857,496</b>	<b>\$ (4,547,876)</b>	<b>\$ 10,444</b>	<b>\$ 921,659</b>
Shares issued in private placements, net of share issue costs	6,685,363	1,437,253	-	-	-	-	1,437,253
Stock options	-	-	-	80,059	-	-	80,059
Warrants exercised	1,249,180	292,613	-	(195,330)	-	-	97,283
Share subscription received, net of costs	-	(39,418)	(132,413)	-	-	-	(171,831)
Share subscriptions receivable	-	-	(85,778)	-	-	-	(85,778)
Funds received for warrants exercise	-	-	1,759	-	-	-	1,759
Comprehensive income (loss) for the year	-	-	-	-	(617,902)	19,121	(598,781)
<b>Balance, May 31, 2017</b>	<b>50,405,603</b>	<b>\$ 6,159,630</b>	<b>\$ (84,019)</b>	<b>\$ 742,225</b>	<b>\$ (5,165,778)</b>	<b>\$ 29,565</b>	<b>\$ 1,681,623</b>

(The Accompanying Notes form an Integral Part of These Interim Consolidated Financial Statements)

**LEXAGENE HOLDINGS INC.**  
**Consolidated statements of cash flows**  
**For the three months ended May 31, 2017 and May 31, 2016**  
(Expressed in US Dollars)

	<b>Three months ended May 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating Activities</b>		
Net loss for the year	\$ (617,902)	\$ (103,269)
Item not involving cash		
Amortization of intangible license	2,260	284
Amortization of property and equipment	1,567	-
Share based compensation	80,059	-
Change in working capital balances		
Accounts receivable	1,297	(59)
Prepaid	(49,040)	-
Accounts payable and accrued liabilities	(11,931)	(9,059)
<b>Cash Used in Operating Activities</b>	<b>(593,690)</b>	<b>(112,103)</b>
<b>Financing Activities</b>		
Proceeds from loan payable	-	19,084
Proceeds from shares issued, net of cash share issue costs	1,280,494	76,697
Proceeds received for future share issuances	(84,019)	-
Proceeds received from warrants exercises	82,211	-
<b>Cash Provided by Financing Activities</b>	<b>1,278,686</b>	<b>95,781</b>
<b>Increase (decrease) in Cash</b>	<b>684,996</b>	<b>(16,322)</b>
<b>Cash, Beginning</b>	<b>867,483</b>	<b>18,716</b>
Effect of foreign exchange	20,488	589
<b>Cash, Ending</b>	<b>\$ 1,572,967</b>	<b>\$ 2,983</b>

**LEXAGENE HOLDINGS INC.**  
**Notes to the consolidated financial statements**  
**For the three months ended May 31, 2017 and 2016**  
(Expressed in US Dollars)

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**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, principal address, records office and registered address of the Company are located at 750 West Pender Street, Suite 303, Vancouver, British Columbia, Canada, V6C 2T7. The Company’s common shares are listed on the TSX Venture exchange under the trading symbol “LXG”. On October 12, 2016, the Company completed a reverse takeover transaction (Note 5) for its TSX-V listing. Concurrent with the closing of the reverse takeover transaction the Company changed its name from Wolfeye Resources Corp. to LexaGene Holdings Inc. The principal business of the Company is to .

These 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, 2017, the Company had not generated revenue and had an accumulated deficit of \$5,165,778 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 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. The Company completed additional financing after year end, refer to Note 15.

**2. BASIS OF PREPARATION**

**Statement of compliance**

These unaudited interim consolidated financial statements, including comparatives, 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”) and interpretations of the IFRS Interpretations Committee.

These unaudited condensed interim consolidated financial statements do not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended February 28, 2017.

**LEXAGENE HOLDINGS INC.**  
**Notes to the consolidated financial statements**  
**For the three months ended May 31, 2017 and 2016**  
(Expressed in US Dollars)

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**2. BASIS OF PREPARATION (continued)**

**Basis of measurement**

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

**Use of estimates and judgments**

The preparation of 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 interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the consolidated financial statements are disclosed in Note 3 (1) of the consolidated financial statements for the year ended February 28, 2017.

**Functional and presentation currency**

Effective December 1, 2016, the Company's presentation currency was changed to the U.S. dollar ("USD"). The change in presentation currency has been applied to the consolidated financial statements for the year ended February 28, 2017. The consolidated financial statements previously issued for the three, six, and nine months ended June 30, 2016, September 30, 2016, and November 30, 2016 respectively, were presented in Canadian dollars ("CAD") which was the presentation currency prior to the change to USD. The purpose of the change in presentation currency is to align the Company's presentation currency to the functional currency of its operations in the United States. As the Company's target market is expected to be in the United States and research and development operations are located in the United States. The change has been applied retrospectively as if the USD has always been the Company's presentation currency. For comparative figures, assets and liabilities are translated at the applicable period end rates of exchange, and the results of operations are translated at average rates of exchange for the period. Shareholders' equity balances have been translated using historical rates in effect on the date of the associated transactions. Exchange differences arising on translation were recognized in foreign currency translation reserve in shareholders' equity. See Note 14 of the consolidated financial statements for the year ended February 28, 2017 for the resulting change in presentation currency on the comparative figures.

The functional currency of the Company and its Canadian subsidiary is the CAD, and the USD for the Company's U.S. subsidiary. Translation gains and losses resulting from the consolidation of operations in Canada and U.S. are recognized in other comprehensive loss in the statement of comprehensive income, and in foreign currency translation reserve 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 condensed combined interim financial statements include:

<b>Period end dates</b>	<b>US to CDN</b>	<b>CDN to US</b>
February 28, 2017	1.3248	0.7548
May 31, 2017	1.3500	0.7407



**LEXAGENE HOLDINGS INC.**  
**Notes to the consolidated financial statements**  
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(Expressed in US Dollars)

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**2. BASIS OF PREPARATION (continued)**

<b>Period averages</b>	<b>US to CDN</b>	<b>CDN to US</b>
Three months ended May 31, 2016	1.3099	0.7634
Three months ended May 31, 2017	1.3478	0.7419

**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 financial institutions. The Company considers credit risk on its cash to be minimal.

**(b) Liquidity risk**

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

**(c) Market risk**

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

**5. REVERSE TAKE OVER AND LISTING TRANSACTION**

On October 12, 2016 the Company completed a reverse takeover transaction ("RTO"). Concurrent with the closing of the reverse take over transaction the Company changed its name from Wolfeye Resources Corp. ("Wolfeye") to LexaGene Holdings Inc. On October 12, 2016, Wolfeye acquired 100% ownership of Bionomics Diagnostics Inc. ("BDI") by issuing 10,195,260 of its common shares and 6,980,000 common share purchase warrants. For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3 Business Combinations since Wolfeye, prior to the RTO did not constitute a business. The RTO is accounted for in accordance with IFRS 2 Share-based Payments whereby BDI is deemed to have issued shares and share purchase warrants in exchange for the net assets of Wolfeye together with its TSX-V listing status at the fair value of the consideration received by BDI. The accounting for the RTO resulted in the following:

- (i) The interim consolidated financial statements of the combined entities are issued under the legal parent, Wolfeye, but are considered a continuation of the financial statements of the legal subsidiary, BDI.

**LEXAGENE HOLDINGS INC.**  
**Notes to the consolidated financial statements**  
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(Expressed in US Dollars)

**4. REVERSE TAKE OVER AND LISTING TRANSACTION. (continued)**

(ii) Since BDI is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

The Company cannot identify specifically some or all of the goods or services received in return for the allocation of the shares and warrants, the value in excess of the net identifiable assets or obligations of Wolfeye acquired on closing was expensed in the consolidated statement of comprehensive loss as a listing transaction expense.

The listing transaction expense in the amount of \$3,484,271 is comprised of the fair value of common shares and warrants of the Company retained by the former shareholders of Wolfeye, the assumption of a working capital deficiency as well as other direct expenses of the Transaction.

The fair value of the common shares issued was \$1,919,722, based on the price of shares issued in the concurrent private placement of \$0.188 (CAD\$0.25) per share. The average fair value of Wolfeye warrants of \$0.164 was determined using the Black-Scholes option pricing model with the following weighted average assumptions: a 2.37 year expected life; share price at the grant date of US\$0.188 (CAD\$0.25); 154% volatility; risk free interest rate of 0.60%; and a dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the warrants.

The listing transaction expense is summarized as follows:

	Number	Amount
Shares and warrants issued:		
Outstanding common shares of Wolfeye deemed to be issued	10,195,260	\$1,919,722
Outstanding warrants of Wolfeye deemed to be issued	6,980,000	1,145,682
Shares issued to finders	1,000,000	188,296
		<u>\$3,253,700</u>
Net working capital deficiency assumed:		
Trade payables and accrued liabilities		167,492
Receivables		(3,838)
Prepaid expenses		(7,983)
Intangible license		(19,735)
Short term loan		(18,830)
		<u>117,106</u>
Legal and other transaction costs		<u>113,465</u>
Total listing transaction expense		<u>\$3,484,271</u>

**LEXAGENE HOLDINGS INC.**  
**Notes to the consolidated financial statements**  
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(Expressed in US Dollars)

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

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

In addition, the Company will pay LLNS a minimum annual royalty. This minimum annual royalty will be credited against the earned royalty of 3% due on all net sales. The minimum annual royalty is due as follows:

- \$5,000 (paid) on or before February 28, 2017;
- \$10,000 to be paid on or before February 28, 2018;
- \$10,000 to be paid on or before February 28, 2019;
- \$25,000 to be paid on or before February 28, 2023 and each year thereafter.

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

**LEXAGENE HOLDINGS INC.**  
**Notes to the consolidated financial statements**  
**For the three months ended May 31, 2017 and 2016**  
(Expressed in US Dollars)

**5. INTANGIBLE LICENSE (continued)**

A continuity schedule of changes in the net book value of the intangible license:

<b>Cost</b>		
Balance, February 29, 2016	\$	59,993
Additions		25,000
Effect of foreign currency exchange differences		982
Balance, February 28, 2017	\$	85,975
Additions		-
Effect of foreign currency exchange differences		(1,601)
Balance, May 31, 2017	\$	84,374
<b>Accumulated Amortization</b>		
Balance, February 29, 2016	\$	3,235
Additions		9,085
Effect of foreign currency exchange differences		81
Balance, February 28, 2017		12,401
Additions		2,260
Effect of foreign currency exchange differences		(234)
Balance, May 31, 2017	\$	14,427
<b>Carrying value</b>		
February 29, 2016	\$	56,758
February 28, 2017	\$	73,574
May 31, 2017	\$	69,947

**LEXAGENE HOLDINGS INC.**  
**Notes to the consolidated financial statements**  
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**6. PROPERTY AND EQUIPMENT**

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

	Computer equipment	Lab equipment	Total
<b>Cost</b>			
Balance, February 29, 2016	\$ -	\$ -	\$ -
Additions	2,348	30,851	33,199
Balance, February 28, 2017	\$ 2,348	\$ 30,851	\$ 33,199
Additions	-	-	-
Balance, May 31, 2017	\$ 2,348	\$ 30,851	\$ 33,199
<b>Accumulated Amortization</b>			
Balance, February 29, 2016	\$ -	\$ -	\$ -
Additions	270	2,982	3,252
Balance, February 28, 2017	\$ 270	\$ 2,982	\$ 3,252
Additions	174	1,393	1,567
Balance, May 31, 2017	\$ 444	\$ 4,375	\$ 4,819
<b>Carrying value</b>			
February 29, 2016	\$ -	\$ -	\$ -
February 28, 2017	2,078	27,869	29,947
May 31, 2017	\$ 1,904	\$ 26,476	\$ 28,380

**7. SHARE CAPITAL**

(a) Authorized

Unlimited common shares without par value.

(b) Issuances

Issued during the three months ended May 31, 2017:

- On March 13, 2017, the Company issued 6,685,363 units at a price of CAD\$0.30 per unit for total proceeds of CAD\$2,005,609. Share issue costs totaled CAD\$73,055. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire an additional common share for \$0.60 per share for a three-year period.
- During the three months ended May 31, 2017 1,070,000 warrants were exercised at CAD\$0.08 per warrant and 179,180 warrants at CAD\$0.25. The fair value of the warrants of CAD\$263,271 was deducted from share-based payment reserve.

**LEXAGENE HOLDINGS INC.**  
**Notes to the consolidated financial statements**  
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(Expressed in US Dollars)

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**7. SHARE CAPITAL (continued)**

(b) Issuances (continued)

Issued during the year ended February 28, 2017:

- On March 23, 2016, the Company issued 1,000,000 common shares at a price of CAD\$0.10 per common share for total proceeds of CAD\$100,000. Share issue costs totaled \$300.
- On July 7, 2016, the Company issued 1,000,000 common shares at a price of CAD\$0.10 per common share for total proceeds of CAD\$100,000.
- On July 21, 2016, the Company issued 500,000 common shares at a price of CAD\$0.10 per common share for total proceeds of CAD\$50,000.
- On July 22, 2016, the Company issued 1,350,000 common shares at a price of CAD\$0.001 per common share for total proceeds of CAD\$1,350. Share-based payment expense of CAD\$133,650 was recognized upon the issuance of these shares.
- On October 4, 2016, the Company issued 8,400,800 common shares at a price of CAD\$0.25 per common share for total proceeds of CAD\$2,100,200. The Company paid CAD\$196,730 in finders and legal fees. The Company granted 535,000 finders warrants exercisable at CAD\$0.25 and expiring on October 4, 2018. The fair value of the warrants of \$81,004 was recorded as share issue costs. The fair value of the warrants of CAD\$0.201 per warrant was determined using the Black-Scholes option pricing model with the following weighted average assumptions: 2 years expected life; share price at the grant date of CAD\$0.25; 182% volatility; risk free interest rate of 0.54%; 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 12, 2016, pursuant to the Transaction (note 5) 20,000,000 shares of BDI were cancelled and 20,225,000 shares were issued to BDI shareholders. 1,000,000 shares were issued to the Transaction finders. These shares were valued at the market price of CAD\$0.25 recorded as Transaction cost.
- During the year ended February 28, 2017 2,650,000 warrants were exercised at \$0.08 per warrant. The fair value of the warrants of CAD\$585,455 was deducted from share-based payment reserve.

**LEXAGENE HOLDINGS INC.**  
**Notes to the consolidated financial statements**  
**For the three months ended May 31, 2017 and 2016**  
(Expressed in US Dollars)

**7. SHARE CAPITAL (continued)**

(c) Warrants

The changes in warrants during the three months ended May 31, 2017 and year ended February 28, 2017 are as follows:

	Number of warrants	Weighted average exercise price, CAD
Warrants issued and outstanding at March 1, 2015 and February 29, 2016	-	\$ -
Deemed to be issued on the reverse takeover transaction	6,980,000	0.08
Warrants issued	535,000	0.25
Warrants exercised	(2,650,000)	0.08
Warrants outstanding, February 28, 2017	4,865,000	\$ 0.10
Warrants issued	6,685,363	0.60
Warrants exercised	(1,249,180)	0.10
Warrants outstanding, May 31, 2017	10,301,183	\$ 0.42

Details of warrants outstanding as at May 31, 2017 are as follows:

Number of warrants	Exercise Price	Expiry Date
2,260,000	CAD\$ 0.08	June 20, 2019
1,000,000	CAD\$ 0.08	May 7, 2018
355,820	CAD\$ 0.25	October 4, 2018
6,685,363	CAD\$0.60	March 13, 2020

At May 31, 2017, the weighted average remaining contractual life of warrants outstanding was 1.48 years, with a weighted average exercise price of US\$0.42.

(d) Stock options

During the three months ended May 31, 2017 no stock options were granted or exercised. During the three months ended May 31, 2017 the Company recorded share-based compensation expense of \$80,059 (2016 - \$Nil) for stock options vested during the period.

During the year ended February 28, 2017 the Company granted stock options to purchase a total of 1,675,000 common shares at a price of CAD\$0.33 per common share, and 500,000 common shares at a price of CAD\$0.363 per common share. 217,500 stock options vested on the date of grant and the rest of the options vest every six months thereafter. The Company did not grant options during the year ended February 29, 2016.

**LEXAGENE HOLDINGS INC.**  
**Notes to the consolidated financial statements**  
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(Expressed in US Dollars)

**7. SHARE CAPITAL (continued)**

(d) Stock options (continued)

The fair value of the stock options exercisable at CAD\$0.363 of CAD\$0.2653 per option was determined using the Black-Scholes option pricing model with the following assumptions: 3.5 years expected life; share price at the grant date of CAD\$0.31; 159% volatility; risk free interest rate of 1.05%; and a dividend yield of 0%. The fair value of the stock options exercisable at CAD\$0.33 of CAD\$0.2672 per option was determined using the Black-Scholes option pricing model with the following assumptions: 3.5 years expected life; share price at the grant date of CAD\$0.31; 159% volatility; risk free interest rate of 1.05%; 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.

Details of options outstanding as at May 31, 2017 are as follows:

Options Outstanding	Options Exercisable	Exercise Price, CAD\$	Expiry Date
500,000	50,000	0.363	July 27, 2020
1,675,000	167,500	0.330	July 27, 2020

At May 31, 2017, the weighted average remaining contractual life of options outstanding was 3.08 years with a weighted average exercise price of CAD\$0.34 (US\$0.27). At May 31, 2017, 217,500 stock options were exercisable.

**8. CAPITAL MANAGEMENT**

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

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

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



**LEXAGENE HOLDINGS INC.**  
**Notes to the consolidated financial statements**  
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**9. RELATED PARTY TRANSACTIONS**

Key Management includes personnel having the authority and responsibility for planning, directing and controlling the Company and includes the directors and current executive officers. Expenses incurred for Key Management compensation are summarized as:

	May 31, 2017	May 31, 2016
Salaries and Benefits	\$ 90,074	\$ -
Administration	11,129	-
Consulting	11,870	-
Share based compensation	70,843	-
	<u>\$ 183,916</u>	<u>\$ -</u>

Balances with Key Management and other related parties are:

As at May 31, 2017, \$11,852 (2016 - \$nil) was payable to directors and/or officers and/or companies controlled by officers of the Company.

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

**10. 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 identified four phases within the first milestone and has completed phase 2 during fiscal 2017 and plans to be in phase 3 as of July 1, 2017. Phase 2 was the evaluation of the major technical risks of the pathogen detection instrument. Phase 3 is the determination of component placement within the instrument's casing. Upon concluding Phase 4 the Company will have demonstrated the proof-of-principal of the technology.

The Company has engaged Boston Engineering Corporation ("Boston Engineering") to build the alpha prototype. During the three months ended May 31, 2017, \$219,024 (2016 - \$nil) has been paid to Boston Engineering pursuant to this agreement.

**11. 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.

**12. SUBSEQUENT EVENTS**

Subsequent to the three months ended May 31, 2017 35,900 common shares were issued upon exercise of warrants at CAD\$0.25 per share.