



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended August 31, 2019 and 2018

(Unaudited)

These condensed interim consolidated financial statements of LexaGene Holdings Inc. for the three and six months ended August 31, 2019 have been prepared by management and approved by the Board of Directors. These unaudited condensed interim consolidated financial statements have not been reviewed by the Company's external auditors.



LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Financial Position
(Expressed in US Dollars)

	Note	August 31, 2019	February 28, 2019
ASSETS			
Current assets			
Cash		\$ 429,649	\$ 670,921
Prepaid		183,513	270,836
		613,162	941,757
Non-current			
Intangible license	5	73,764	80,024
Right-of-use asset	3	2,005,421	-
Property and equipment	6	621,893	682,105
TOTAL ASSETS		\$ 3,314,240	\$ 1,703,886
LIABILITIES			
Current Liabilities			
Accounts payables and accrued liabilities		300,599	319,194
		\$ 300,599	\$ 319,194
Non-current liabilities			
Lease liabilities	7	1,965,898	-
Total non-current liabilities		\$ 1,965,898	\$ -
Total Liabilities		\$ 2,266,497	\$ 319,194
SHAREHOLDERS' EQUITY			
Share capital	8	18,198,126	15,373,384
Share-based payment reserve	8	3,176,925	2,805,102
Accumulated other comprehensive income (loss)		(163,605)	80,910
Deficit		(20,163,703)	(16,874,704)
TOTAL SHAREHOLDERS' EQUITY		\$ 1,047,743	\$ 1,384,692
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 3,314,240	\$ 1,703,886

Nature and continuance of operations (Note 1)

Subsequent event (Note 14)

Approved on behalf of the Board on October 29, 2019:

"Jack Regan"

"Jeffrey Mitchell"

Jack Regan, Chairman & CEO

Jeffrey Mitchell, CFO



LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Comprehensive Loss

(Expressed in US Dollars)

	Note	Three months ended August 31,		Six months ended August 31,	
		2019	2018	2019	2018
Operating Expenses					
Marketing and promotion	12	\$ 158,626	\$ 316,635	\$ 444,051	\$ 644,952
General and administrative	12	438,132	514,185	914,029	954,072
Research and development	11	933,407	1,245,987	2,178,141	2,432,452
		\$ 1,530,165	\$ 2,076,807	\$ 3,536,221	\$ 4,031,476
Other Items					
Foreign Exchange (gain) loss		(247,741)	(50,543)	(247,222)	(135,994)
Net Loss		\$ 1,282,424	\$ 2,026,264	\$ 3,288,999	\$ 3,895,482
Other Comprehensive loss					
Items that may be reclassified subsequently to income or loss:					
Unrealized loss (gain) on translation to reporting currency		218,990	20,014	244,515	124,038
Comprehensive Loss		\$ 1,501,414	\$ 2,046,278	\$ 3,533,514	\$ 4,019,520
Net loss per share - basic and diluted		\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.07
Weighted average number of common shares outstanding - basic and diluted		71,815,659	63,293,689	70,918,086	61,299,817



LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Changes in Shareholder Equity

(Expressed in US Dollars)

	Share Capital		Share based payment reserve	Deficit	Accumulated Other comprehensive income (loss)	Total
	Number	Amount				
Balance February 28, 2018	58,893,553	\$ 10,988,932	\$ 905,631	\$ (8,553,328)	\$ 125,438	\$ 3,466,673
Shares issued in private placements, net of share issue costs	5,750,000	2,391,294	1,536,863	-	-	3,928,157
Share issuance costs - warrants	-	(165,579)	165,579	-	-	-
Stock options	-	-	461,545	-	-	461,545
Restricted share units	147,500	132,089	468,594	-	-	600,683
Warrants exercised	1,195,000	302,669	(147,702)	-	-	154,967
Comprehensive income (loss) for the period	-	-	-	(3,895,482)	(124,038)	(4,019,520)
Balance August 31, 2018	65,986,053	\$ 13,649,405	\$ 3,390,510	\$ (12,448,810)	\$ 1,400	\$ 4,592,505
Balance February 28, 2019	66,704,103	\$ 15,373,384	\$ 2,805,102	\$ (16,874,704)	\$ 80,910	\$ 1,384,692
Shares issued in private placements, net of share issue costs	4,375,271	2,128,481	-	-	-	2,128,481
Share issuance costs - warrants	-	(165,746)	20,992	-	-	(144,754)
Stock options	-	-	352,492	-	-	352,492
Restricted share units	728,450	512,342	(1,661)	-	-	510,681
Warrants exercised	774,245	349,665	-	-	-	349,665
Comprehensive income (loss) for the period	-	-	-	(3,288,999)	(244,515)	(3,533,514)
Balance August 31, 2019	72,582,069	\$ 18,198,126	\$ 3,176,925	\$ (20,163,703)	\$ (163,605)	\$ 1,047,743



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

	Six months ended May 31,	
	2019	2018
Operating Activities		
Net loss for the year	\$ (3,288,999)	\$ (3,895,482)
Items not involving cash:		
Amortization of intangible license	6,260	7,300
Amortization of property and equipment	71,076	62,868
Share based compensation	913,822	1,062,144
Change in working capital balances:		
Accounts receivable	-	238
Prepaid	(87,322)	(132,846)
Accounts payable and accrued liabilities	(18,592)	63,267
Cash Used in Operating Activities	\$ (2,403,755)	\$ (2,832,511)
Investing activities		
Purchases of property and equipment	(1,050)	(118,920)
Cash Used in Investing Activities	\$ (1,050)	\$ (118,920)
Financing Activities		
Payment of lease liability	(192,812)	-
Proceeds from shares issued, net of cash share issue costs	2,128,481	3,928,157
Proceeds from warrants exercises	349,665	154,967
Cash Provided by Financing Activities	\$ 2,285,334	\$ 4,083,124
Increase (decrease) in Cash	(119,471)	1,131,693
Cash, Beginning	670,921	2,648,354
Effect of foreign exchange	(121,801)	143,160
Cash, Ending	\$ 429,649	\$ 3,923,207



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

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

These unaudited condensed interim consolidated financial statements are prepared on a going concern basis, which assumes that the Company will continue on a going-concern basis. At August 31, 2019, the Company had not generated revenue and had an accumulated deficit of \$20,216,533 since inception. The Company’s operations are dependent on obtaining additional financing to develop its pathogen device so that it can generate cash flow from operations in the future. These factors form a material uncertainty which raise significant doubt about the Company’s ability to continue as a going concern.

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

2. BASIS OF PREPARATION

Statement of Compliance

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

These unaudited condensed interim consolidated financial statements do not include all of the disclosures required of a full annual financial statement and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last fiscal year. It is therefore recommended that this financial report be read in conjunction with the annual consolidated financial statements of the Company for the year ended February 28, 2019.

Basis of measurement

These unaudited condensed interim consolidated financial statements are expressed in US dollars and have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value.



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

2. BASIS OF PREPARATION (continued)

Use of estimates and judgments

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the consolidated financial statements are disclosed in Note 3 (l) of the consolidated financial statements for the year ended February 28, 2019.

Reclassifications

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

For the three months ended, August 31, 2018:

	August 31, 2018	Reclassifications			Totals
		Marketing and Promotion	General and administrative	Research and Development	
Expenses:					
Administration	\$ 17,795	\$ -	\$ 5,450	\$ 169,489	\$ 174,939
Advertising and promotion	122,719	133,436	18,886	-	152,322
Amortization of intangible license	4,835	-	-	2,428	2,428
Amortization of property and equipment	34,732	-	12,343	18,254	30,597
Consulting fees	24,406	-	5,491	-	5,491
Insurance	1,511	-	504	-	504
Office and miscellaneous	205,916	-	51,467	-	51,467
Professional fees	71,478	-	71,430	-	71,430
Research and development	272,156	-	-	271,985	271,985
Share based compensation	548,466	39,324	247,125	268,273	554,722
Transfer agent and filling fees	9,765	-	9,753	-	9,753
Travel	77,593	25,681	17,237	24,825	67,743
Wages and salaries	685,435	118,194	74,499	490,733	683,426
	\$ 2,076,807	\$ 316,635	\$ 514,185	\$ 1,245,987	\$ 2,076,807

For the six months ended, August 31, 2018:

	August 31, 2018	Reclassifications			Totals
		Marketing and Promotion	General and administrative	Research and Development	
Expenses:					
Administration	\$ 32,270	\$ -	\$ 9,769	\$ 296,862	\$ 306,631
Advertising and promotion	271,811	275,072	47,483	-	322,555
Amortization of intangible license	7,300	-	-	2,428	2,428
Amortization of property and equipment	62,868	-	18,612	40,121	58,733
Consulting fees	30,929	-	7,685	-	7,685
Insurance	6,279	-	2,098	-	2,098
Office and miscellaneous	372,362	-	89,353	-	89,353
Professional fees	97,746	-	97,713	-	97,713
Research and development	652,431	-	-	691,047	691,047
Share based compensation	1,062,144	59,965	480,399	525,048	1,065,412
Transfer agent and filling fees	29,450	-	29,593	-	29,593
Travel	230,280	109,894	60,124	48,277	218,295
Wages and salaries	1,175,606	200,021	111,243	828,669	1,139,933
	\$ 4,031,476	\$ 644,952	\$ 954,072	\$ 2,432,452	\$ 4,031,476



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

2. BASIS OF PREPARATION (continued)

Functional and presentation currency

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

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

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

Period end dates	US to CDN	CDN to US
February 28, 2019	1.3169	0.7594
August 31, 2019	1.3295	0.7522

Period averages	US to CDN	CDN to US
Six months ended August 31, 2018	1.2973	0.7710
Six months ended August 31, 2019	1.3311	0.7513

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Definition of a lease:

Previously, LexaGene determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after March 1, 2019. The Company has not entered into new lease contracts during the three months ended May 31, 2019.

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

(b) As a lessee:

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

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

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



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Transition:

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

(c) Impacts on consolidated financial statements:

(i) Impacts on transition:

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

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

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

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

(ii) Impacts for the period:

Under IFRS 16, the Company has recognized depreciation and interest expense on its right-of-use asset and lease liability, respectively, instead of an operating lease expense. During the three-month period ended August 31, 2019, the Company recognized in its condensed interim consolidated statement of loss and other comprehensive loss \$67,743 of depreciation expense (of which \$24,733 is presented in research and development expenses and \$43,010 is presented in general and administrative expenses) and \$7,742 of interest expense, presented in finance costs, from this lease. For the three-month period ended August 31, 2019, the Company recognized \$97,026 of operating lease expense.

During the six-month period ended August 31, 2019, the Company recognized in its condensed interim consolidated statement of loss and other comprehensive loss \$136,698 of depreciation expense (of which \$49,908 is presented in research and development expenses and \$86,789 is presented in general and administrative expenses) and \$16,590 of



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

interest expense, presented in finance costs, from this lease. For the six-month period ended August 31, 2019, the Company recognized \$194,052 of operating lease expense.

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

(b) Liquidity risk

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

(c) Market risk

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

5. INTANGIBLE LICENSE

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

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

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



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

5. INTANGIBLE LICENSE (continued)

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

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

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

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

The license agreement will remain in effect until the expiration or abandonment of the last of the patent rights. A continuity schedule of changes in the net book value of the intangible license:

Cost		
Balance, February 29, 2018	\$	98,884
Additions		15,000
Effect of foreign currency exchange differences		(2,436)
Balance, February 28, 2019	\$	111,448
Additions		-
Effect of foreign currency exchange differences		(1,202)
Balance, August 31, 2019	\$	110,246
Accumulated amortization		
Balance, February 29, 2018	\$	22,254
Additions		9,809
Effect of foreign currency exchange differences		(639)
Balance, February 28, 2019	\$	31,424
Additions		5,506
Effect of foreign currency exchange differences		(448)
Balance, August 31, 2019	\$	36,482
Carrying values		
August 31, 2018	\$	67,910
February 28, 2019	\$	80,024
August 31, 2019	\$	73,764

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

(Expressed in US Dollars)

6. PROPERTY AND EQUIPMENT

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

	Computer Equipment	Lab Equipment	Furniture & Fixtures	Leasehold	Total
Cost					
Balance, February 28, 2018	\$ 10,424	\$ 224,500	\$ 88,062	\$ 372,930	\$ 695,916
Additions	\$ -	\$ 93,445	\$ -	\$ 32,769	\$ 126,214
Balance, February 28, 2019	\$ 10,424	\$ 317,945	\$ 88,062	\$ 405,699	\$ 822,130
Additions	\$ -	\$ 9,815	\$ -	\$ 1,050	\$ 10,865
Balance August 31, 2019	\$ 10,424	\$ 327,760	\$ 88,062	\$ 406,749	\$ 832,995
Accumulated amortization					
Balance, February 28, 2018	\$ 1,431	\$ 11,812	\$ -	\$ -	\$ 13,243
Additions	\$ 3,474	\$ 60,108	\$ 12,827	\$ 50,373	\$ 126,782
Balance, February 28, 2019	\$ 4,905	\$ 71,920	\$ 12,827	\$ 50,373	\$ 140,025
Additions	\$ 1,752	\$ 32,649	\$ 7,399	\$ 29,277	\$ 71,077
Balance August 31, 2019	\$ 6,657	\$ 104,569	\$ 20,226	\$ 79,650	\$ 211,102
Carrying value					
February 28, 2018					\$ 682,672
February 28, 2019					\$ 682,105
August 31, 2019					\$ 621,893

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

Lease liability:

	Carrying value
Balance as at March 1, 2019	\$ 2,142,120
New issue	-
Interest expense	16,590
Lease payments	(192,812)
Balance as at August 31, 2019	\$ 1,965,898

The Company's office lease located at 500 Cummings Center, Beverly Massachusetts, expires on May 30, 2025 and the lease payments were discounted with a 5% interest rate.

8. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value.



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

8. SHARE CAPITAL (continued)

(b) Issuances

Issued during the six months ended August 31, 2019:

- On March 12, 2019, 145,000 restricted share units vested. The fair value of the restricted share units of \$113,807 was deducted from share-based payment reserve.
- On March 29, 2019, 188,000 restricted share units vested, the fair value of the restricted share units of \$96,680 was deducted from share-based payment reserve.
- On March 29, 2019, the Company closed an over-subscribed private placement. The Company issued 4,375,271 units (the "Units") at a price of \$0.65 CAD per Unit. Each Unit is comprised of one common share and one warrant, with each whole warrant entitling the holder to purchase one common share of the Company for a period of up to fifteen months at a price of \$0.85 CAD. The warrants are subject to an accelerated expiry in circumstances where, at any time commencing two (2) months from the date the warrants are issued, if for the preceding five (5) consecutive trading days, the daily volume weighted average trading price of the Company's common shares is greater than \$1.10 CAD, in which case the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th calendar day after the date of such notice.

In addition, the Company paid finders' fees totaling \$168,620 CAD and issued an aggregate 259,455 non-transferable finders' warrants (the "Finders' Warrants"). Each Finder's Warrant is exercisable into one common share for a period of up to fifteen months at a price of \$0.85 CAD.

- On April 12, 2019, 10,100 restricted share units vested, the fair value of the restricted share units of \$4,774 was deducted from share-based payment reserve.
- On April 19, 2019, 65,000 restricted share units vested, the fair value of the restricted share units of \$34,975 was deducted from share-based payment reserve.
- On April 23, 2019, 7,500 restricted share units vested, the fair value of the restricted share units of \$3,408 was deducted from share-based payment reserve.
- On May 16, 2019, 44,250 restricted share units vested, the fair value of the restricted share units of \$40,170 was deducted from share-based payment reserve.
- On June 24, 2019, 22,500 restricted share units vested, the fair value of the restricted share units of \$14,687 was deducted from share-based payment reserve.

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

(Expressed in US Dollars)

8. SHARE CAPITAL (continued)

- On July 12, 2019, 10,100 restricted share units vested, the fair value of the restricted share units of \$4,812 was deducted from share-based payment reserve.
- On August 20, 2019, 210,750 restricted share units vested, the fair value of the restricted share units of \$181,917 was deducted from share-based payment reserve.
- During the six months ended May 31, 2019, 774,245 warrants were exercised at CAD\$0.60 per warrant.

(c) Warrants

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

	Number of warrants	Weighted average exercise price, CAD
Warrants outstanding, February 28, 2018	9,464,813	\$ 0.79
Warrants issued	3,277,500	\$ 1.26
Warrants exercised	(395,000)	\$ 0.60
Warrants exercised	(150,800)	\$ 0.25
Warrants exercised	(1,100,000)	\$ 0.08
Warrants outstanding, February 28, 2019	11,096,513	\$ 1.01
Warrants issued	4,634,686	\$ 0.85
Warrants exercised	(774,245)	\$ 0.60
Warrants expired	(5,000)	\$ 0.08
Warrants outstanding, August 31, 2019	14,951,954	\$ 0.99

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

Number of Warrants	Exercise Price	Expiry Date
4,181,788	CAD\$ 0.60	March 13, 2020
4,634,686	CAD\$ 0.85	June 29, 2020
2,691,180	CAD\$ 1.45	December 19, 2020
166,800	CAD\$ 1.45	January 22, 2021
3,277,500	CAD\$ 1.30	July 11, 2021

At August 31, 2019, the weighted average remaining contractual life of warrants outstanding was 1.07 years (February 28, 2019 – 1.63 years), with a weighted average exercise price of CAD\$0.99 (February 28, 2018 – CAD\$0.77).



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

8. SHARE CAPITAL (continued)

(d) Stock options

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

	Number	Weighted average exercise price, CAD
Balance, February 28, 2018	3,342,500	\$ 0.73
Stock options issued	675,000	\$ 0.81
Cancelled, expired or forfeited	(157,500)	\$ 0.69
Balance, February 28, 2019	3,860,000	\$ 0.74
Stock options issued	748,000	\$ 0.65
Cancelled, expired or forfeited	-	\$ -
Balance, August 31, 2019	4,608,000	\$ 0.73

- On July 25, 2017, the Company adopted an Omnibus Incentive Plan, where a fixed number (7% of outstanding shares at time of adoption) of Restricted Share Units (RSUs) and Non-Statutory Stock Options (NSOs) and Incentive Stock Options (ISOs) authorized for issuance totaled 3,530,905 RSUs and 3,530,905 stock options.
- On July 12, 2018, the Company amended its Omnibus Incentive Plan and increased the number of Common Shares reserved for issuance as share incentive options under the Company's Omnibus Plan dated July 25, 2017, as amended and restated July 12, 2018, by an additional 1,077,793 Common Shares, to a total of 4,608,698 Common Shares under the Omnibus Plan.
- On March 29, 2019, the Company granted 650,000 stock options to directors, officers and employees to purchase common shares at a price of CAD\$0.65 per common share. The stock options vest at 10% at grant date, and 15% every six months thereafter, expiring on September 29, 2022.
- On April 12, 2019, the Company granted 98,000 stock options to a consultant to purchase common shares at a price of CAD\$0.65 per common share. The stock options vest at 25% at grant date, 25% every three months thereafter, expiring on April 12, 2022.
- On June 26, 2019, the Company granted 72,500 RSUs to an employee. Trigger dates of RSUs are as follows: 10% on grant date and 15% every six months thereafter. Expiry date of the RSUs is June 26, 2022.
- On August 23, 2019, the Company amended its Omnibus Incentive Plan and increased the number of Common Shares reserved for issuance as share incentive options under the Company's Omnibus Plan dated July 25, 2017, as amended and restated July 12, 2018 and as amended on July 16, 2019 by an additional 406,790 Common Shares, to a



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

8. SHARE CAPITAL (continued)

total of 5,015,488 Common Shares under the Omnibus Plan.

No stock options were exercised during the three months and six months ended August 31, 2019.

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

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

The following table summarizes information on stock options outstanding as at August 31, 2019:

Options Outstanding	Options Exercisable	Exercise Price, CAD\$	Expiry Date
500,000	425,000	0.36	July 27, 2020
1,125,000	956,250	0.33	July 27, 2020
270,000	148,500	1.05	March 12, 2021
1,290,000	516,000	1.15	February 20, 2022
75,000	18,750	1.27	May 16, 2022
100,000	25,000	0.97	June 26, 2022
500,000	50,000	0.72	October 19, 2022
650,000	65,000	0.65	September 29, 2022
98,000	49,000	0.65	April 12, 2022

At August 31, 2019, the weighted average remaining contractual life of options outstanding was 2.04 years with a weighted average exercise price of \$0.54 (CAD\$0.73). At August 31, 2019, 2,253,500 stock options were exercisable.

The Company recorded stock-based compensation expense related to stock options of \$351,018 for the six months ended August 31, 2019 and \$501,286 for the same period ended August 31, 2018, respectively. For the six months ended August 31, 2019, \$20,574 was recorded in marketing, \$184,480 in general and administrative and \$145,964 in research and development expense. For the six months ended August 31, 2018, \$27,210 was recorded in marketing, \$241,486 in general and administrative and \$232,590 in research and development expense as stock-based compensation.



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

8. SHARE CAPITAL (continued)

(e) Restricted share units

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

- On March 29, 2019, the Company granted 530,000 restricted share units to directors, officers and employees with the trigger dates for the RSUs of 10% at grant date, and 15% every six months thereafter, expiring on March 29, 2022. 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 12, 2019, the Company granted 40,400 restricted share units to a consultant with the trigger dates for the RSUs of 25% at the grant date, and 25% every three months thereafter, expiring on January 12, 2020. Fair value per RSU in this grant was \$0.63 per RSU, based on the TSX.V market price of the Company's share on the date the RSUs were granted.
- On April 23, 2019, the Company granted 75,000 restricted share units to a consultant with the trigger dates for the RSUs of 10% at grant date, and 15% every six months thereafter, expiring on April 23, 2022. Fair value per RSU in this grant was \$0.61 per RSU, based on the TSX.V market price of the Company's share on the date the RSUs were granted.
- On June 26, 2019, the Company granted 72,500 RSUs 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.
- On August 23, 2019, 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 July 12, 2018 and as amended on July 16, 2019 by an additional 406,790 Common Shares, to a total of 5,015,488 Common Shares under the Omnibus Plan.

The Company recorded stock-based compensation expense related to restricted share units of \$509,974 for the six months ended August 31, 2019 and \$564,126 for the same period ended August 31, 2018, respectively, of which \$120,836 was included in marketing, \$206,686 in general and administrative and \$182,452 in research and development expense. For the six months ended August 31, 2018, \$32,755 was recorded in marketing, \$238,913 in general and administrative and \$292,458 in research and development expense.

At August 31, 2019, 2,346,700 RSUs were outstanding (2018 – 2,022,000).



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

9. CAPITAL MANAGEMENT

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

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

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

10. KEY MANAGEMENT COMPENSATION

Key management includes the directors and current executive officers that have the authority and responsibility for planning, directing and controlling the Company. For the six months ended, August 31, 2019 and 2018, expenses incurred for key management compensation are summarized as:

	Three month ended,		Six month ended,	
	August 31,		August 31,	
	2019	2018	2019	2018
Salaries and benefits	\$ 156,297	\$ 357,202	\$ 330,022	\$ 507,400
Stock-based compensation	123,038	387,263	286,860	478,804
	<u>\$ 279,335</u>	<u>\$ 744,465</u>	<u>\$ 616,882</u>	<u>\$ 986,204</u>

As at August 31, 2019 and 2018, \$61,081 (2018 - \$nil) was payable to directors and officers of the Company.

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



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

11. RESEARCH AND DEVELOPMENT

The Company's product research and development plan is divided into three milestones: alpha prototype, beta prototype, and production unit for commercialization. The Company has completed the alpha and beta prototype milestones. The Company has shipped beta prototypes to independent testing laboratories for in-field use and feedback. The Company has received such feedback and has begun designing its commercial product.

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

	Three month ended, August 31,		Six month ended, August 31,	
	2019	2018	2019	2018
General research and development expenses	\$ 99,298	\$ 169,487	\$ 193,026	\$ 296,862
Depreciation of lab related equipment	23,541	18,254	46,677	40,121
Depreciation of right to use asset	24,733	-	49,908	-
Depreciation of the intangible license	2,771	2,428	5,506	2,428
Lab administration and supplies	5,652	963	11,615	963
LX analyzer materials	64,149	150,956	250,290	312,901
LX analyzer consultants	53,289	120,067	244,820	377,183
Travel	-	24,825	-	48,277
Salaries	509,607	490,734	1,047,883	828,669
Share-based compensation	150,367	268,273	328,416	525,048
Total research and development expenses	\$ 933,407	\$ 1,245,987	\$ 2,178,141	\$ 2,432,452

12. EXPENSE DETAIL

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

	Three month ended, August 31,		Six month ended, August 31,	
	2019	2018	2019	2018
Office and administration	\$ 12,098	\$ 56,917	\$ 30,773	\$ 99,122
Depreciation of property and equipment	12,208	12,343	24,399	18,612
Depreciation of right to use asset	43,010	-	86,789	-
Consulting	2,315	5,491	4,653	7,685
Marketing and promotion	44,801	18,886	94,286	47,483
Professional fees	58,205	71,430	96,026	97,713
Insurance	6,222	504	12,029	2,098
Interest expense - right to use asset	7,742	-	16,590	-
Transfer agent and filing fees	5,080	9,753	13,765	29,593
Travel	8,277	17,237	19,265	60,124
Salaries	64,164	74,499	124,288	111,243
Share-based compensation	174,010	247,125	391,166	480,399
Total general and administrative expenses	\$ 438,132	\$ 514,185	\$ 914,029	\$ 954,072

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



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2019 and 2018

(Expressed in US Dollars)

12. EXPENSE DETAIL (continued)

	Three month ended, August 31,		Six month ended, August 31,	
	2019	2018	2019	2018
Marketing and promotion	\$ 26,191	\$ 133,436	\$ 85,776	\$ 275,072
Travel	9,933	25,681	28,582	109,894
Salaries	94,438	118,194	188,283	200,021
Stock-based compensation	28,064	39,324	141,410	59,965
Total marketing and promotional expenses	\$ 158,626	\$ 316,635	\$ 444,051	\$ 644,952

13. SEGMENTED INFORMATION

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

14. SUBSEQUENT EVENTS

On September 29, 2019, 57,000 restricted share units vested, the fair value of the restricted share units of \$27,976 was deducted from share-based payment reserve.

On October 8, 2019, 131,755 warrants were exercised at CAD\$0.60 per warrant.

On October 12, 2019, 10,100 restricted share units vested, the fair value of the restricted share units of \$4,969 was deducted from share-based payment reserve.

On October 19, 2019, 97,500 restricted share units vested, the fair value of the restricted share units of \$53,605 was deducted from share-based payment reserve.

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 \$0.52 CAD 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.