



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the nine months ended November 30, 2019 and 2018

(Unaudited)

These condensed interim consolidated financial statements of LexaGene Holdings Inc. for the three and nine months ended November 30, 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	November 30, 2019	February 28, 2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 2,840,361	\$ 670,921
Prepaid		310,557	270,836
		3,150,918	941,757
<b>Non-current</b>			
Intangible license	5	71,037	80,024
Right-of-use asset	3	1,935,701	-
Property and equipment	6	591,569	682,105
<b>TOTAL ASSETS</b>		<b>\$ 5,749,225</b>	<b>\$ 1,703,886</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payables and accrued liabilities		221,574	319,194
		<b>\$ 221,574</b>	<b>\$ 319,194</b>
<b>Non-current liabilities</b>			
Lease liabilities	7	1,875,494	-
Total non-current liabilities		<b>\$ 1,875,494</b>	<b>\$ -</b>
<b>Total Liabilities</b>		<b>\$ 2,097,068</b>	<b>\$ 319,194</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	8	22,763,931	15,373,384
Share-based payment reserve	8	3,552,988	2,805,102
Accumulated other comprehensive income (loss)		29,634	80,910
Deficit		(22,694,396)	(16,874,704)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>\$ 3,652,157</b>	<b>\$ 1,384,692</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 5,749,225</b>	<b>\$ 1,703,886</b>

**Nature and continuance of operations (Note 1)**

**Subsequent event (Note 14)**

Approved on behalf of the Board on January 29, 2020:

*"Jack Regan"*

*"Jeffrey Mitchell"*

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Jack Regan, Chairman & CEO

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Jeffrey Mitchell, CFO



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

	Note	Three months ended November 30,		Nine months ended November 30,	
		2019	2018	2019	2018
<b>Operating Expenses</b>					
Marketing and promotion	12	\$ 288,411	\$ 299,612	\$ 732,462	\$ 944,564
General and administrative	12	733,324	370,706	1,647,766	1,324,778
Research and development	11	1,261,736	1,725,981	3,439,877	4,159,133
		\$ 2,283,471	\$ 2,396,299	\$ 5,820,105	\$ 6,428,475
<b>Other Items</b>					
Foreign Exchange (gain) loss		247,222	(142,175)	(413)	(278,169)
<b>Net Loss</b>		\$ 2,530,693	\$ 2,254,124	\$ 5,819,692	\$ 6,150,306
<b>Other Comprehensive loss</b>					
Items that may be reclassified subsequently to income or loss:					
Unrealized loss (gain) on translation to reporting currency		(193,239)	2,023	51,276	267,530
<b>Comprehensive Loss</b>		\$ 2,337,454	\$ 2,256,147	\$ 5,870,968	\$ 6,417,836
<b>Net loss per share - basic and diluted</b>		\$ 0.03	\$ 0.03	\$ 0.08	\$ 0.10
<b>Weighted average number of common shares outstanding - basic and diluted</b>		72,243,983	66,096,999	73,005,056	64,862,994



**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				
<b>Balance February 28, 2018</b>	<b>58,893,553</b>	<b>\$ 10,988,932</b>	<b>\$ 905,631</b>	<b>\$ (8,553,328)</b>	<b>\$ 125,438</b>	<b>\$ 3,466,673</b>
Shares issued in private placements, net of share issue costs	5,750,000	2,390,929	1,536,864	-	-	3,927,793
Share issuance costs - warrants	-	(165,579)	165,579	-	-	-
Stock options	-	-	619,336	-	-	619,336
Restricted share units	177,000	154,516	660,956	-	-	815,472
Warrants exercised	1,345,800	302,669	(147,703)	-	-	154,966
Comprehensive income (loss) for the period	-	-	-	(6,150,306)	(267,530)	(6,417,836)
<b>Balance November 30, 2018</b>	<b>66,166,353</b>	<b>\$ 13,671,467</b>	<b>\$ 3,740,663</b>	<b>\$ (14,703,634)</b>	<b>\$ (142,092)</b>	<b>\$ 2,566,404</b>
<b>Balance February 28, 2019</b>	<b>66,704,103</b>	<b>\$ 15,373,384</b>	<b>\$ 2,805,102</b>	<b>\$ (16,874,703)</b>	<b>\$ 80,910</b>	<b>\$ 1,384,693</b>
Shares issued in private placements, net of share issue costs	17,144,897	6,646,870	-	-	-	6,646,870
Share issuance costs - warrants	-	(297,815)	153,061	-	-	(144,754)
Stock options	-	-	568,728	-	-	568,728
Restricted share units	933,800	632,490	26,097	-	-	658,586
Warrants exercised	906,000	409,002	-	-	-	409,002
Comprehensive income (loss) for the period	-	-	-	(5,819,692)	(51,276)	(5,870,968)
<b>Balance November 30, 2019</b>	<b>85,688,800</b>	<b>\$ 22,763,931</b>	<b>\$ 3,552,988</b>	<b>\$ (22,694,395)</b>	<b>\$ 29,634</b>	<b>\$ 3,652,157</b>



**LEXAGENE HOLDINGS INC.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**For the nine months ended November 30, 2019 and November 30, 2018**  
**(Expressed in US Dollars)**

	<b>Nine months ended November 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating Activities</b>		
Net loss for the year	\$ (5,819,692)	\$ (6,150,306)
Items not involving cash:		
Amortization of intangible license	8,988	7,303
Amortization of property and equipment	106,553	101,712
Amortization of right-of-use asset	206,418	-
Interest expense for right-of-use asset	23,211	-
Share based compensation	1,224,498	1,441,167
Change in working capital balances:		
Accounts receivable	-	(4,055)
Prepaid	39,723	(15,471)
Accounts payable and accrued liabilities	(97,618)	229,812
<b>Cash Used in Operating Activities</b>	<b>\$ (4,307,919)</b>	<b>\$ (4,389,838)</b>
<b>Investing activities</b>		
Purchases of property and equipment	(16,017)	(126,214)
Payments for intangible license	(15,000)	-
<b>Cash Used in Investing Activities</b>	<b>\$ (31,017)</b>	<b>\$ (126,214)</b>
<b>Financing Activities</b>		
Payment of lease liability	(291,077)	-
Proceeds from shares issued, net of cash share issue costs	6,502,486	3,927,792
Proceeds from warrants exercises	409,002	154,966
<b>Cash Provided by Financing Activities</b>	<b>\$ 6,620,411</b>	<b>\$ 4,082,758</b>
<b>Increase (decrease) in Cash</b>	<b>2,281,475</b>	<b>(433,294)</b>
<b>Cash, Beginning</b>	<b>670,921</b>	<b>2,648,354</b>
<b>Effect of foreign exchange</b>	<b>(112,035)</b>	<b>(240,268)</b>
<b>Cash, Ending</b>	<b>\$ 2,840,361</b>	<b>\$ 1,974,792</b>



## **LEXAGENE HOLDINGS INC.**

### **Notes to the condensed interim consolidated financial statements**

#### **For the nine months ended November 30, 2019 and 2018**

(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 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 November 30, 2019, the Company had not generated revenue and had an accumulated deficit of \$22,694,395 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.

### **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



**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

**For the nine months ended November 30, 2019 and 2018**

(Expressed in US Dollars)

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

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, November 30, 2018:

	November 30, 2018	Reclassifications			Totals
		Marketing and Promotion	General and administrative	Research and Development	
<b>Expenses:</b>					
Administration	\$ 4,704	\$ -	\$ 1,215	\$ 166,179	\$ 167,394
Advertising and promotion	123,180	130,152	4,264	-	134,416
Amortization of intangible license	2,421	-	-	4,820	4,820
Amortization of property and equipment	38,844	-	12,811	26,034	38,845
Consulting fees	31,099	-	6,774	-	6,774
Insurance	17,436	-	3,866	-	3,866
Office and miscellaneous	160,189	-	32,759	-	32,759
Professional fees	43,968	-	44,060	-	44,060
Research and development	924,879	-	-	866,736	866,736
Share based compensation	379,023	39,133	186,948	203,409	429,490
Transfer agent and filling fees	8,599	-	8,626	-	8,626
Travel	79,654	38,730	18,435	19,568	76,733
Wages and salaries	582,303	91,597	50,950	439,233	581,780
	<b>\$ 2,396,299</b>	<b>\$ 299,612</b>	<b>\$ 370,708</b>	<b>\$ 1,725,979</b>	<b>\$ 2,396,299</b>

For the nine months ended, November 30, 2018:

	November 30, 2018	Reclassifications			Totals
		Marketing and Promotion	General and administrative	Research and Development	
<b>Expenses:</b>					
Administration	\$ 36,974	\$ -	\$ 10,985	\$ 463,041	\$ 474,026
Advertising and promotion	399,242	405,224	51,747	-	456,971
Amortization of intangible license	7,303	-	-	7,248	7,248
Amortization of property and equipment	101,712	-	31,423	66,155	97,578
Consulting fees	62,029	-	14,459	-	14,459
Insurance	23,715	-	5,964	-	5,964
Office and miscellaneous	532,551	-	122,111	-	122,111
Professional fees	141,714	-	141,773	-	141,773
Research and development	1,576,176	-	-	1,561,884	1,561,884
Share based compensation	1,441,167	99,098	667,347	728,457	1,494,902
Transfer agent and filling fees	38,049	-	38,220	-	38,220
Travel	309,934	148,624	78,558	67,845	295,027
Wages and salaries	1,757,909	291,618	162,193	1,264,501	1,718,312
	<b>\$ 6,428,475</b>	<b>\$ 944,564</b>	<b>\$ 1,324,780</b>	<b>\$ 4,159,131</b>	<b>\$ 6,428,475</b>

**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.





**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

**For the nine months ended November 30, 2019 and 2018**

(Expressed in US Dollars)

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

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:

<b>Period end dates</b>	<b>US to CDN</b>	<b>CDN to US</b>
February 28, 2019	1.3169	0.7594
November 30, 2019	1.3289	0.7525

  

<b>Period averages</b>	<b>US to CDN</b>	<b>CDN to US</b>
Nine months ended November 30, 2018	1.3008	0.7689
Nine months ended November 30, 2019	1.3282	0.7530

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

(a) Definition of a lease:

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



**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

**For the nine months ended November 30, 2019 and 2018**

(Expressed in US Dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

(b) As a lessee:

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

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

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

- (ii) Transition:

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

(c) Impacts on consolidated financial statements:

- (i) Impacts on transition:

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:



**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

**For the nine months ended November 30, 2019 and 2018**

(Expressed in US Dollars)

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

	<b>March 1, 2019</b>
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%.

	<b>March 1, 2019</b>
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 November 30, 2019, the Company recognized in its condensed interim consolidated statement of loss and other comprehensive loss \$69,721 of depreciation expense (of which \$25,455 is presented in research and development expenses and \$44,266 is presented in general and administrative expenses) and \$6,621 of interest expense, presented in finance costs, from this lease.

During the nine-month period ended November 30, 2019, the Company recognized in its condensed interim consolidated statement of loss and other comprehensive loss \$206,418 of depreciation expense (of which \$75,363 is presented in research and development expenses and \$131,055 is presented in general and administrative expenses) and \$23,211 of interest expense, presented in finance costs, from this lease.

**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**



## LEXAGENE HOLDINGS INC.

### Notes to the condensed interim consolidated financial statements

#### For the nine months ended November 30, 2019 and 2018

(Expressed in US Dollars)

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#### 4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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

##### (c) Market risk

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

#### 5. INTANGIBLE LICENSE

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

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

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

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

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

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

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

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



**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

**For the nine months ended November 30, 2019 and 2018**

(Expressed in US Dollars)

**5. INTANGIBLE LICENSE (CONTINUED)**

<b>Cost</b>	
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	(1,158)
<b>Balance, November 30, 2019</b>	<b>\$ 110,290</b>
<b>Accumulated amortization</b>	
Balance, February 28, 2018	\$ 22,254
Additions	9,809
Effect of foreign currency exchange differences	(639)
Balance, February 28, 2019	\$ 31,424
Additions	8,278
Effect of foreign currency exchange differences	(449)
<b>Balance, November 30, 2019</b>	<b>\$ 39,253</b>
<b>Carrying values</b>	
February 28, 2018	\$ 76,630
February 28, 2019	\$ 80,024
November 30, 2019	\$ 71,037

**6. PROPERTY AND EQUIPMENT**

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

	<b>Computer Equipment</b>	<b>Lab Equipment</b>	<b>Furniture &amp; Fixtures</b>	<b>Leasehold</b>	<b>Total</b>
<b>Cost</b>					
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	\$ 9,815	\$ -	\$ 1,050	\$ 16,018
Balance November 30, 2019	\$ 15,577	\$ 327,760	\$ 88,062	\$ 406,749	\$ 838,148
<b>Accumulated amortization</b>					
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	\$ 2,721	\$ 48,992	\$ 11,058	\$ 43,783	\$ 106,554
Balance November 30, 2019	\$ 7,626	\$ 120,912	\$ 23,885	\$ 94,156	\$ 246,579
<b>Carrying value</b>					
February 28, 2018					\$ 682,672
February 28, 2019					\$ 682,105
November 30, 2019					\$ 591,569



**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

**For the nine months ended November 30, 2019 and 2018**

(Expressed in US Dollars)

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

Lease liability:

	<b>Carrying value</b>
Balance as at March 1, 2019	\$ 2,142,120
New issue	-
Interest expense	23,211
Lease payments	(289,837)
<b>Balance as at November 30, 2019</b>	<b>\$ 1,875,494</b>

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.

(b) Issuances

Issued during the nine months ended November 30, 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.



**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

**For the nine months ended November 30, 2019 and 2018**

(Expressed in US Dollars)

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**8. SHARE CAPITAL (CONTINUED)**

- 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.
- 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.
- On September 30, 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 15, 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 21, 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 23, 2019, 11,250 restricted share units vested, the fair value of the restricted share units of \$4,969 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.

- On November 18, 2019, 29,500 restricted share units vested, the fair value of the restricted share units of \$28,354 was deducted from share-based payment reserve.
- During the nine months ended November 30, 2019, 906,000 warrants were exercised at CAD\$0.60 per warrant.



**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

**For the nine months ended November 30, 2019 and 2018**

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**8. SHARE CAPITAL (CONTINUED)**

(c) Warrants

The changes in warrants during the nine months ended November 30, 2019 and year ended February 28, 2018 are summarized as follows:

	<b>Number of warrants</b>	<b>Weighted average exercise price, CAD</b>
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	(906,000)	\$ 0.60
Warrants expired	(5,000)	\$ 0.08
Warrants outstanding, November 30, 2019	28,325,054	\$ 0.87

Details of warrants outstanding as at November 30, 2019 are as follows:

<b>Number of Warrants</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
4,050,033	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
735,229	CAD\$ 0.52	October 29, 2022
12,769,626	CAD\$ 0.75	October 29, 2022

At November 30, 2019, the weighted average remaining contractual life of warrants outstanding was 1.82 years (February 28, 2019 – 1.63 years), with a weighted average exercise price of CAD\$0.87 (February 28, 2018 – CAD\$0.77).





**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

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**8. SHARE CAPITAL (CONTINUED)**

(d) Stock options

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

	<b>Number</b>	<b>Weighted average exercise price, CAD</b>
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	(75,000)	\$ 0.72
Balance, November 30, 2019	4,533,000	\$ 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 total of 5,015,488 Common Shares under the Omnibus Plan.
- On November 22, 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



**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

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**8. SHARE CAPITAL (CONTINUED)**

the fair value of these options of \$124,528 determined using the BlackScholes 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 71% and dividend yield of nil. The Company recognized \$15,278 in the stock based compensation in sales and marketing expense, \$1,913 in stock based compensation in general and administrative expense and \$107,336 in stock based compensation in research and development for the increased value of the stock options.

No stock options were exercised during the three months and nine months ended November 30, 2019.

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

<b>November 30, 2019</b>	
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 November 30, 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	154,000	1.05	March 12, 2021
50,000	35,000	0.53	March 12, 2021
770,000	308,000	0.53	February 20, 2022
520,000	208,000	1.15	February 20, 2022
75,000	30,000	0.53	May 16, 2022
100,000	25,000	0.97	June 26, 2022
375,000	125,000	0.53	October 19, 2022
650,000	162,500	0.65	Septmber 29, 2022
98,000	73,500	0.65	April 12, 2022

At November 30, 2019, the weighted average remaining contractual life of options outstanding was 1.76 years with a weighted average exercise price of \$0.54 (CAD\$0.73). At November 30, 2019, 2,502,250 stock options were exercisable.

The Company recorded stock-based compensation expense related to stock options of \$567,457 for the nine months ended November 30, 2019 and \$695,067 for the same period ended November 30, 2018, respectively. For the nine months ended November 30, 2019, \$38,822 was recorded in marketing, \$249,212 in general and administrative and \$279,423 in research and development expense. For the nine months ended November 30, 2018, \$42,431 was recorded in marketing, \$333,886 in general and administrative and \$318,750 in research and development expense as stock-based compensation.

**(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



## LEXAGENE HOLDINGS INC.

### Notes to the condensed interim consolidated financial statements

#### For the nine months ended November 30, 2019 and 2018

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#### 8. SHARE CAPITAL (CONTINUED)

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 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.
- 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 \$657,041 for the nine months ended November, 2019 and \$799,835 for the same period ended November 30, 2018, respectively. For the nine months ended November 30, 2019, \$138,747 was recorded in marketing, \$274,817 was recorded in general and administrative and \$279,423 was recorded in research and development expense. For the nine months ended November 30, 2018, \$56,667 was recorded in marketing, \$333,461 in general and administrative and \$409,707 was recorded in research and development expense. At November 30, 2019, 2,055,350 RSUs were outstanding (2018 – 2,615,000).

#### 9. CAPITAL MANAGEMENT

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

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



**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

**For the nine months ended November 30, 2019 and 2018**

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**9. CAPITAL MANAGEMENT (CONTINUED)**

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 nine months ended, November 30, 2019 and 2018, expenses incurred for key management compensation are summarized as:

	<b>Three month ended,</b>		<b>Nine month ended,</b>	
	<b>November 30,</b>		<b>November 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Salaries and benefits	\$ 434,650	\$ 183,937	\$ 790,419	\$ 587,296
Stock-based compensation	73,484	206,505	290,437	685,309
	<u>\$ 508,134</u>	<u>\$ 390,442</u>	<u>\$ 1,080,856</u>	<u>\$ 1,272,605</u>

As at November 30, 2019 and 2018, \$7,200 (2018 - \$nil) was payable to directors of the Company.

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

**11. RESEARCH AND DEVELOPMENT**

The Company's product research and development plan is divided into three milestones: alpha prototype, beta prototype, and production unit for commercialization. The Company has completed the alpha 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:



**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

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**11. RESEARCH AND DEVELOPMENT (CONTINUED)**

	Three month ended, November 30,		Nine month ended, November 30,	
	2019	2018	2019	2018
General research and development expenses	\$ 113,335	\$ 183,215	\$ 292,054	\$ 517,826
Depreciation of lab related equipment	23,324	26,034	70,000	66,155
Depreciation of right to use asset	25,455	-	75,363	-
Depreciation of the intangible license	2,771	4,820	8,277	7,248
Lab administration and supplies	2,735	1,250	14,349	1,250
LX analyzer materials	60,425	212,870	310,716	530,835
LX analyzer consultants	6,885	652,618	253,842	1,029,801
Travel	6,704	2,532	18,875	13,060
Salaries	825,619	439,233	1,873,502	1,264,501
Share-based compensation	194,483	203,409	522,899	728,457
<b>Total research and development expenses</b>	<b>\$ 1,261,736</b>	<b>\$ 1,725,981</b>	<b>\$ 3,439,877</b>	<b>\$ 4,159,133</b>

**12. EXPENSE DETAIL**

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

	Three month ended, November 30,		Nine month ended, November 30,	
	2019	2018	2019	2018
Office and administration	\$ 16,952	\$ 33,973	\$ 47,723	\$ 133,096
Depreciation of property and equipment	12,142	12,811	36,541	31,423
Depreciation of right to use asset	44,266	-	131,055	-
Consulting	4,222	6,774	8,875	14,459
Marketing and promotion	330,121	4,264	424,819	51,747
Professional fees	37,674	44,060	133,700	141,773
Insurance	5,718	3,865	17,748	5,964
Interest expense - right to use asset	6,621	-	23,211	-
Transfer agent and filing fees	16,358	8,626	30,124	38,218
Travel	9,337	18,435	28,602	78,558
Salaries	117,050	50,950	241,338	162,193
Share-based compensation	132,863	186,948	524,030	667,347
<b>Total general and administrative expenses</b>	<b>\$ 733,324</b>	<b>\$ 370,706</b>	<b>\$ 1,647,766</b>	<b>\$ 1,324,778</b>

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

	Three month ended, November 30,		Nine month ended, November 30,	
	2019	2018	2019	2018
Marketing and promotion	\$ 43,098	\$ 130,152	\$ 128,874	\$ 405,224
Travel	12,810	38,730	41,392	148,624
Salaries	196,344	91,597	384,627	291,618
Stock-based compensation	36,159	39,133	177,569	99,098
<b>Total marketing and promotional expenses</b>	<b>\$ 288,411</b>	<b>\$ 299,612</b>	<b>\$ 732,462</b>	<b>\$ 944,564</b>



**LEXAGENE HOLDINGS INC.**

**Notes to the condensed interim consolidated financial statements**

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**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 December 26, 2019, 28,875 restricted share units vested, the fair value of the restricted share units of \$18,588 will be deducted from share-based payment reserve.

On December 31, 2019, 26,500 warrants were exercised at CAD\$0.60 per warrant.

On January 2, 2020, 24,500 warrants were exercised at CAD\$0.52 per warrant.

On January 7, 2020, 1,925 warrants were exercised at CAD\$0.52 per warrant.

On January 7, 2020, 40,000 warrants were exercised at CAD\$0.60 per warrant.

On January 9, 2020, 100,000 warrants were exercised at CAD\$0.60 per warrant.

On January 13, 2020, 92,500 warrants were exercised at CAD\$0.60 per warrant.

On January 16, 2020, 20,000 warrants were exercised at CAD\$0.60 per warrant.

On January 17, 2020, 20,000 warrants were exercised at CAD\$0.60 per warrant.

On January 22, 2020, 75,000 warrants were exercised at CAD\$0.60 per warrant.

On January 24, 2020, 100,000 warrants were exercised at CAD\$0.60 per warrant.