

LexaGene

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Periods ended May 31, 2020 and 2019

(Unaudited)



LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in US Dollars)

(Unaudited)

	Note	May 31, 2020	February 29, 2020 (Audited)
ASSETS			
Current assets			
Cash		\$ 2,314,312	\$ 3,185,535
Receivables		5,380	3,159
Prepaid		233,019	278,861
		<u>2,552,711</u>	<u>3,467,555</u>
Non-current			
Intangible license	5	63,597	67,568
Right-of-use asset	7	1,764,685	1,851,322
Property and equipment	6	566,448	602,376
TOTAL ASSETS		\$ 4,947,441	\$ 5,988,821
LIABILITIES			
Current Liabilities			
Accounts payables and accrued liabilities		\$ 595,054	\$ 217,016
Current portion of lease liabilities		366,270	310,537
		<u>\$ 961,324</u>	<u>\$ 527,553</u>
Non-current liabilities			
Lease liabilities	7	1,473,687	1,606,015
Total non-current liabilities		\$ 1,473,687	\$ 1,606,015
Total Liabilities		\$ 2,435,011	\$ 2,133,568
EQUITY			
Share capital	8	25,439,919	24,337,456
Share-based payment reserve	8	4,031,198	3,961,539
Accumulated other comprehensive loss		(140,680)	(69,877)
Deficit		(26,818,007)	(24,373,865)
TOTAL EQUITY		\$ 2,512,430	\$ 3,855,253
TOTAL LIABILITIES AND EQUITY		\$ 4,947,441	\$ 5,988,821

Nature and continuance of operations (Note 1)

Subsequent events (Note 15)

Approved on behalf of the Board on July 30, 2020:

“Jack Regan”

“Joseph Caruso”

Jack Regan, Chairman & CEO

Joseph Caruso, Director



LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Comprehensive Loss
(Expressed in US Dollars) (Unaudited)

		For the three months ended May 31,	
	Note	2020	2019
Operating Expenses			
Marketing and promotion	13	\$ 306,119	\$ 285,426
General and administrative	12	524,865	475,897
Research and development	11	1,613,158	1,244,734
		\$ 2,444,142	\$ 2,006,057
Other Items			
Foreign Exchange (gain) loss		-	519
Net Loss		\$ 2,444,142	\$ 2,006,576
Other Comprehensive loss			
Items that may be reclassified subsequently to income or loss:			
Unrealized loss (gain) on translation to reporting currency		70,803	25,524
Comprehensive Loss		\$ 2,514,945	\$ 2,032,100
Net loss per share - basic and diluted		\$ 0.03	\$ 0.03
Weighted average number of common shares outstanding - basic and diluted		90,696,291	70,074,878



LEXAGENE HOLDINGS INC.

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

	Share Capital		Share based payment reserve	Deficit	Accumulated Other comprehensive income (loss)	Total
	Number	Amount				
Balance February 28, 2019	66,704,103	\$ 15,373,384	\$ 2,805,102	\$ (16,874,703)	\$ 80,910	\$ 1,384,693
Shares issued in private placements	4,375,271	2,128,481	-	-	-	2,128,481
Share issuance costs	-	(165,746)	20,992	-	-	(144,754)
Stock options	-	-	186,280	-	-	186,280
Restricted share units	459,850	293,814	29,834	-	-	323,648
Warrants exercised	10,000	4,455	-	-	-	4,455
Comprehensive income (loss) for the period	-	-	-	(2,006,576)	(25,524)	(2,032,100)
Balance May 31, 2019	71,549,224	17,634,388	3,042,208	(18,881,279)	55,386	1,850,703
Balance February 29, 2020	89,535,388	\$ 24,337,456	\$ 3,961,539	\$ (24,373,865)	\$ (69,877)	\$ 3,855,253
Stock-based compensation of stock options	-	-	66,259	-	-	66,259
Stock-based compensation of restricted share units	211,750	118,765	6,017	-	-	124,782
Warrants exercised	2,138,103	983,698	(2,617)	-	-	981,081
Comprehensive income (loss) for the period	-	-	-	(2,444,142)	(70,803)	(2,514,945)
Balance May 31, 2020	91,885,241	25,439,919	4,031,198	(26,818,007)	(140,680)	2,512,430



LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended May 31, 2020 and May 31, 2019

(Expressed in US Dollars)

(Unaudited)

	Three months ended May 31,	
	2020	2019
Operating Activities		
Net loss	\$ (2,444,142)	\$ (2,006,576)
Items not involving cash:		
Depreciation of intangible license	3,971	4,816
Depreciation of property and equipment	38,577	35,327
Depreciation of right to use asset	86,637	68,955
Interest on right-of-use asset	22,495	8,849
Stock-based compensation	263,024	508,551
Change in working capital balances:		
Accounts receivable	(2,221)	-
Prepaid	45,842	52,699
Accounts payable and accrued liabilities	273,225	136,976
Cash Used in Operating Activities	\$ (1,712,592)	\$ (1,190,403)
Investing activities		
Purchases of property and equipment	\$ (2,649)	\$ (10,865)
Addition to intangible licence	-	(15,000)
Office lease payments	(99,090)	(95,785)
Cash Used in Investing Activities	\$ (101,739)	\$ (121,650)
Financing Activities		
Proceeds received for share units issued	\$ -	\$ 1,983,727
Proceeds from warrants exercises	981,081	4,455
Cash Provided by Financing Activities	\$ 981,081	\$ 1,988,182
Increase (decrease) in Cash	\$ (833,250)	\$ 676,129
Cash, Beginning	3,185,535	670,921
Effect of foreign exchange	(37,973)	(9,149)
Cash, Ending	\$ 2,314,312	\$ 1,337,901



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2020 and 2019

(Expressed in US Dollars) (Unaudited)

1. NATURE AND CONTINUANCE OF OPERATIONS

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

These unaudited condensed interim consolidated financial statements are prepared on a going concern basis, which assumes that the Company will continue on a going-concern basis. At May 31, 2020, the Company had not generated revenue and had an accumulated deficit of \$26,818,007 since inception. The Company's operations are dependent on obtaining additional financing to develop its genetic analyzer, the MiQLab™, and generating cash flow from operations in the future. These factors form a material uncertainty which may raise significant doubt about the Company’s ability to continue as a going concern.

These 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 capital in equity markets, private placements, rely on the financial support of its shareholders and related parties as well as to commercially launch the MiQLab during 2020.

Novel Coronavirus

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

2. 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 are 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 these unaudited condensed interim consolidated financial statements be read in conjunction with the annual consolidated financial statements of the Company for the year ended February 29, 2020.

2. BASIS OF PREPERATION (CONTINUED)

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 unaudited 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 unaudited condensed interim consolidated financial statements and the reported amounts of 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 unaudited condensed consolidated financial statements are disclosed in Note 3 (l) of the consolidated financial statements for the year ended February 29, 2020.

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 CAN	CAN to US
February 29, 2020	1.3428	0.7447
May 31, 2020	1.3787	0.7253

Period averages	US to CAN	CAN to US
Three months ended May 31, 2019	1.3403	0.7461
Three months ended May 31, 2020	1.3993	0.7149

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements are prepared using the same accounting policies as the consolidated financial statements of the Company for the year ended February 29, 2020 with the exception of the following accounting policies adopted on a mandatory basis effective March 1, 2020:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose consolidated financial statements make on the basis of those condensed interim consolidated financial statements.

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

The adoption of these accounting policies did not have a material impact on the Company’s condensed interim consolidated financial statements.

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 has contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices (interest rate risk, currency risk and other price risk). Such fluctuations may be significant.

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 paid a non-refundable License Issue Fee of \$60,000.



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2020 and 2019

(Expressed in US Dollars) (Unaudited)

5. INTANGIBLE LICENSE (continued)

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

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

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

In addition, the Company will pay LLNS 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 carrying value of the intangible license:

Cost	
Balance, February 28, 2019	\$ 111,448
Additions	-
Effect of foreign exchange differences	(2,308)
Balance February 29, 2020	\$ 109,140
Additions	-
Effect of foreign exchange differences	(2,836)
Balance May 31, 2020	\$ 106,304
Accumulated amortization	
Balance, February 28, 2019	\$ 31,424
Additions	11,056
Effect of foreign exchange differences	(908)
Balance February 29, 2020	\$ 41,572
Additions	2,184
Effect of foreign exchange differences	(1,049)
Balance May 31, 2020	\$ 42,707
Carrying values	
February 29, 2020	\$ 67,568
May 31, 2020	\$ 63,597

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, 2019	\$ 10,424	\$ 317,945	\$ 88,062	\$ 405,699	\$ 822,130
Additions	\$ 5,153	\$ 57,699	\$ -	\$ 1,050	\$ 63,902
Balance, February 28, 2020	\$ 15,577	\$ 375,644	\$ 88,062	\$ 406,749	\$ 886,032
Additions	\$ -	\$ -	\$ -	\$ 2,649	\$ 2,649
Balance May 31, 2020	\$ 15,577	\$ 375,644	\$ 88,062	\$ 409,398	\$ 888,681
Accumulated amortization					
Balance, February 28, 2019	\$ 4,905	\$ 71,920	\$ 12,827	\$ 50,373	\$ 140,025
Additions	\$ 4,016	\$ 66,618	\$ 14,717	\$ 58,280	\$ 143,631
Balance, February 29, 2020	\$ 8,921	\$ 138,538	\$ 27,544	\$ 108,653	\$ 283,656
Additions	\$ 1,178	\$ 18,937	\$ 3,699	\$ 14,763	\$ 38,577
Balance May 31, 2020	\$ 10,099	\$ 157,475	\$ 31,243	\$ 123,416	\$ 322,233
Carrying value					
February 29, 2020					\$ 602,376
May 31, 2020					\$ 566,448

7. RIGHT-OF-USE ASSET AND LEASE LIABILITY

Lease liability:

Balance as at March 1, 2019	\$ 2,203,955
Interest expense	101,523
Lease payments	(388,926)
Balance as at February 29, 2020	\$ 1,916,552
Current portion of the lease liability	(310,537)
Non-current portion of lease liability	\$ 1,606,015
Balance as at February 29, 2020	\$ 1,916,552
Interest expense	22,495
Lease payments	(99,090)
Balance as at May 31, 2020	\$ 1,839,957
Current portion of the lease liability	(366,270)
Non-current portion of lease liability	\$ 1,473,687

At May 31, 2020, the balance of the right-to-use asset is as follows:

	Carrying Value
Balance as at February 29, 2020	\$ 1,851,322
Depreciation	(86,637)
Balance as at May 31, 2020	\$ 1,764,685

The property lease 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

The Company issues its shares for CAD\$ proceeds that are translated to US\$, as stated in rounded per share amounts as disclosed.

Issuances during the three months ended May 31, 2020:

- During the three months ended, May 31, 2020, 211,750 restricted share units (RSUs) vested, and an amount of \$118,765 was reclassified from share-based payment reserve to share capital upon vesting of the RSUs.
- During the three months ended, May 31, 2020, 1,33,182 warrants were exercised at approximately CAD\$0.60 per warrant, 1,038,769 warrants were exercised at CAD\$0.65 and 66,152 were exercised at CAD\$0.75 per warrant.

(c) Warrants

The changes in warrants during the three months ended May 31, 2020 and year ended February 29, 2020 are summarized as follows:

	Number of warrants	Weighted average exercise price, CAD
Warrants outstanding, February 28, 2019	11,096,513	\$ 1.01
Warrants issued	18,139,541	\$ 0.77
Warrants exercised	(22,330)	\$ 0.52
Warrants exercised	(3,805,533)	\$ 0.60
Warrants exercised	(420,000)	\$ 0.75
Warrants exercised	(80,000)	\$ 0.85
Warrants expired	(5,000)	\$ 0.08
Warrants outstanding, February 29, 2020	24,903,191	\$ 0.90
Warrants exercised	(15,400)	\$ 0.52
Warrants exercised	(997,167)	\$ 0.60
Warrants exercised	(1,038,769)	\$ 0.65
Warrants exercised	(66,152)	\$ 0.75
Warrants exercised	(20,615)	\$ 0.85
Warrants expired	(153,333)	\$ 0.75
Warrants outstanding, May 31, 2020	22,611,755	\$ 0.90

8. SHARE CAPITAL (warrants continued)

Details of warrants outstanding as at May 31, 2020 are as follows:

Number of Warrants	Exercise Price	Expiry Date
2,485,200	CAD\$ 1.45	December 19, 2020
372,780	CAD\$ 1.45	January 22, 2021
2,875,000	CAD\$ 1.30	July 11, 2021
402,500	CAD\$ 1.00	July 11, 2021
3,235,887	CAD\$ 0.65	June 29, 2020
259,415	CAD\$ 0.85	June 29, 2020
697,499	CAD\$ 0.52	October 29, 2020
12,283,474	CAD\$ 0.75	October 29, 2020
<u>22,611,755</u>		

At May 31, 2020, the weighted average remaining contractual life of warrants outstanding was 1.63 years (February 29, 2020 – 1.73 years), with a weighted average exercise price of \$0.64 (CAD\$0.90). At February 29, 2020, the weighted average exercise price of warrants was \$0.67 (CAD\$0.90).

(d) Stock options

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

	Options	Weighted average exercise price, CAD
Balance, February 28, 2019	3,860,000	\$ 0.74
Stock options issued	1,068,000	\$ 0.65
Stock options exercised	(175,000)	\$ 0.33
Cancelled, expired or forfeited	(100,000)	\$ 0.72
Balance, February 29, 2020	4,653,000	\$ 0.74
Stock options issued	100,000	\$ 0.63
Cancelled, expired or forfeited	(60,000)	\$ -
Balance, May 31, 2020	4,693,000	\$ 0.73

After shareholder approval, the Company amended its Omnibus Incentive Plan on July 25, 2017 and again on August 23, 2019. LexaGene increased the number of Common Shares reserved for the Company's Omnibus Incentive Plan and increased the number of Common Shares reserved for issuance as share incentive options. The amended Omnibus Incentive Plan grants the Company 5,015,488 Common Shares reserved for stock options.

Stock option transactions during the three months ended May 31, 2020:

- On April 21, 2020, the Company granted 100,000 stock options to an employee to purchase common shares at a price of CAD\$0.63 per common share. The stock options vested 25% at grant date, 25% on April 21, 2021, 25% on April 21, 2022, 25% on April 21, 2023, and expiring on April 21, 2030.

8. SHARE CAPITAL (stock options continued)

- On May 29, 2020, 60,000 stock options were cancelled.

No stock options were exercised during the three months ended May 31, 2020.

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

	May 31, 2020
Annualized volatility	150%
Risk-free interest rate	1.64%
Expected life of options in years	3.5 years
Dividend rate	0.00%

The following table summarizes information on stock options outstanding as at May 31, 2020:

Options Outstanding	Options Exercisable	Exercise Price, CAD\$	Expiry Date
500,000	500,000	0.36	July 27, 2020
950,000	950,000	0.33	July 27, 2020
50,000	42,500	0.52	March 12, 2021
220,000	187,000	1.05	March 12, 2021
770,000	423,500	0.52	February 20, 2022
520,000	286,000	1.15	February 20, 2022
75,000	41,250	0.52	May 16, 2022
100,000	40,000	0.97	June 26, 2022
340,000	160,000	0.52	October 19, 2022
650,000	260,000	0.65	September 29, 2022
98,000	98,000	0.65	April 11, 2022
320,000	-	0.72	February 19, 2030
100,000	25,000	0.63	April 21, 2030
4,693,000	3,013,250		

At May 31, 2020, the weighted average remaining contractual life of options outstanding was 2.03 years (February 29, 2020 – 2.10 years), with a weighted average exercise price of \$0.43 (CAD\$0.61). At February 29, 2020, the weighted average exercise price of options outstanding was \$0.55 (CAD\$0.74). At May 31, 2020, 3,013,250 stock options were exercisable.

The Company recorded stock-based compensation expense related to stock options of \$91,884 for the three months ended May 31, 2020 and \$185,532 for the same period ended May 31, 2019, respectively. For the three months ended May 31, 2020, \$801 was recorded in marketing, \$71,212 in general and administrative and \$19,871 in research and development expense as compared to \$11,214 recorded in marketing, \$97,531 in general and administrative and \$76,787 in research and development for the same period in 2019.

8. SHARE CAPITAL (restricted share units continued)

(e) Restricted share units

Restricted share unit transactions during the three months ended May 31, 2020:

- On April 21, 2020, the Company granted 156,088 restricted share units to employees. The restricted share units have trigger dates of 10% at October 21, 2020, and 15% every six months thereafter, expiring on October 22, 2023. The fair value per restricted share unit in this grant was CAN\$0.63, based on the TSX.V market price of the Company's share on the date the RSUs were granted.
- On May 29, 2020, 66,000 restricted shares units were cancelled.

The Company recorded stock-based compensation expense related to restricted share units of \$171,140 for the three months ended May 31, 2020 and \$323,020 for the same period ended May 31, 2019, respectively. For the three months ended May 31, 2020, \$16,631 was recorded in marketing, \$139,992 in general and administrative and \$14,517 in research and development expense as compared to \$102,132 recorded in marketing, \$119,625 in general and administrative and \$101,263 in research and development for the same period in 2019.

At May 31, 2020, 2,970,213 RSUs were outstanding as compared to 2,712,800 for the same period in 2019.

9. CAPITAL MANAGEMENT

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

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

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

10. KEY MANAGEMENT COMPENSATION

Key management includes personnel having the authority and responsibility for planning, directing and controlling the Company and includes the directors and current executive officers. For the three months ended, May 31, 2020 and 2019, expenses incurred for key management compensation are summarized as:

	May 31, 2020	May 31, 2019
Salaries and benefits	\$ 207,585	\$ 182,749
Consulting fees	10,800	10,800
Stock-based compensation	147,797	122,312
	\$ 366,182	\$ 315,861



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2020 and 2019

(Expressed in US Dollars) (Unaudited)

10. KEY MANAGEMENT COMPENSATION (continued)

As at May 31, 2020, \$10,800 was payable to a director as compared to \$50,281 which was payable to a director and officer of the Company for the same period in 2019.

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 EXPENSES

LexaGene's product research and development plan was divided into three phases: alpha prototype, beta prototype, and commercialization of its finished product the MiQLab. As at May 31, 2020, the Company is progressing through the commercialization phase for the MiQLab and has completed the both the alpha and beta prototype phases.

On occasion, the Company engages various contractors to assist the Company in the development of its MiQLab and other technologies.

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

	May 31, 2020	May 31, 2019
MiQLab and product development consulting expense	\$ 394,803	\$ 193,667
Depreciation of lab related equipment	26,107	23,135
Depreciation of the intangible license	2,184	2,734
Depreciation of right-of-use asset	31,631	25,175
Lab administration and supplies	143,862	89,171
MiQLab materials	326,667	186,141
Travel	-	8,386
Salaries	653,516	538,276
Share-based compensation	34,388	178,049
Total research and development expenses	\$ 1,613,158	\$ 1,244,734



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2020 and 2019

(Expressed in US Dollars) (Unaudited)

12. GENERAL AND ADMINISTRATIVE EXPENSES

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

	May 31, 2020	May 31, 2019
Office and administration	\$ 13,470	\$ 18,672
Depreciation of property and equipment	12,470	12,192
Depreciation of right of use asset	55,006	43,779
Consulting	1,771	2,339
Marketing and promotion	62,330	49,484
Professional fees	90,580	37,821
Insurance	4,518	5,809
Interest expense - right of use asset	22,495	8,849
Transfer agent and filing fees	9,931	8,686
Travel	515	10,986
Salaries	40,575	60,124
Share-based compensation	211,204	217,156
Total general and administrative expenses	\$ 524,865	\$ 475,897

13. MARKETING AND PROMOTIONAL EXPENSES

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

	May 31, 2020	May 31, 2019
Marketing and promotion	\$ 170,151	\$ 59,586
Travel	1,331	18,649
Salaries	117,205	93,845
Stock-based compensation	17,432	113,346
Total marketing and promotional expenses	\$ 306,119	\$ 285,426

14. SEGMENTED INFORMATION

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

15. SUBSEQUENT EVENTS

- Subsequent to May 31, 2020, 3,229,390 shares were issued upon the exercise of warrants with an exercise price of CAD\$0.65 per share for gross proceeds of approximately \$1.6M (CAD\$2.0M).
- Subsequent to May 31, 2020, 1,604,500 shares were issued upon the exercise of warrants with an exercise price of CAD\$0.75 per share for gross proceeds of approximately \$889,000 (CAD\$1.2M).
- Subsequent to May 31, 2020, 35,016 shares were issued upon the exercise of warrants with an exercise price of CAD\$0.52 per share for gross proceeds of approximately \$13,500 (CAD\$18,200).



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the three months ended May 31, 2020 and 2019

(Expressed in US Dollars) (Unaudited)

- Subsequent to May 31, 2020, 42,661 shares were issued upon the exercise of warrants with an exercise price of CAD\$0.85 per share for gross proceeds of approximately \$27,000 (CAD\$36,200).
- Subsequent to May 31, 2020, 51,375 shares were issued upon the vesting of restricted share units.
- On June 12, 2020, 200,000 stock options were exercised at a price of CAD\$0.33 for gross proceeds of approximately \$49,150 (CAD\$66,000). The original grant date for these options was January 27, 2017.
- On June 29, 2020, 216,754 warrants with an exercise price of CAD\$0.85 expired.
- On June 29, 2020, 51,539 warrants with an exercise price of CAD\$0.65 expired.
- On July 27, 2020, 900,000 stock options were exercised as follows: 500,000 stock options were exercised at a price of CAD\$0.36 and 400,000 stock options were exercised at a price of CAD\$0.33 for gross proceeds of approximately \$232,315 (CAD\$312,000). The original grant date for these options was January 27, 2017. 350,000 options with an exercise price of CAD\$0.33 expired.
- On July 29, 2020, 123,750 stock options were exercised at a price of CAD\$0.53 for gross proceeds of approximately \$49,000 (CAD\$65,588)