

# LexaGene

## **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the nine months ended November 30, 2020 and 2019

(Unaudited)

These condensed interim consolidated financial statements of LexaGene Holdings Inc. for the three and nine months ended November 30, 2020 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)

(Unaudited)

	Note	November 30, 2020	February 29, 2020 (Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 9,231,759	\$ 3,185,535
Receivables		7,502	3,159
Inventories	5	419,114	-
Prepaid		442,398	278,861
		10,100,773	3,467,555
<b>Non-current</b>			
Intangible license	6	62,920	67,568
Right-of-use asset	8	1,586,848	1,851,322
Property and equipment	7	508,671	602,376
<b>TOTAL ASSETS</b>		<b>\$ 12,259,212</b>	<b>\$ 5,988,821</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payables and accrued liabilities		\$ 222,215	\$ 217,016
Current portion of lease liabilities		305,875	310,537
		<b>\$ 528,090</b>	<b>\$ 527,553</b>
<b>Non-current liabilities</b>			
Lease liabilities	8	1,378,041	1,606,015
Total non-current liabilities		<b>\$ 1,378,041</b>	<b>\$ 1,606,015</b>
<b>Total Liabilities</b>		<b>\$ 1,906,131</b>	<b>\$ 2,133,568</b>
<b>EQUITY</b>			
Share capital	9	37,638,606	24,337,456
Share-based payment reserve	9	4,430,811	3,961,539
Accumulated other comprehensive loss		191,272	(69,877)
Deficit		(31,907,608)	(24,373,865)
<b>TOTAL EQUITY</b>		<b>\$ 10,353,081</b>	<b>\$ 3,855,253</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 12,259,212</b>	<b>\$ 5,988,821</b>

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

**Subsequent events (Note 16)**

Approved on behalf of the Board on January 29, 2021:

*“Jack Regan”*

Jack Regan, Chairman & CEO

*“Joseph Caruso”*

Joseph Caruso, Director



LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Comprehensive Loss

(Expressed in US Dollars) (Unaudited)

	Note	Three months ended November 30,		Nine months ended November 30,	
		2020	2019	2020	2019
<b>Operating Expenses</b>					
Research and development	12	\$ 1,832,356	\$ 1,261,736	\$ 4,715,710	\$ 3,439,877
General and administrative	13	786,443	733,324	1,772,718	1,647,766
Sales, marketing and promotion	14	699,057	288,411	1,382,053	732,462
		\$ 3,317,856	\$ 2,283,471	\$ 7,870,481	\$ 5,820,105
<b>Other Items</b>					
Inventory recovery adjustment	5	\$ (336,710)	\$ -	\$ (336,710)	\$ -
Foreign Exchange (gain) loss		-	247,222	(28)	(413)
<b>Net Loss</b>		<b>\$ 2,981,146</b>	<b>\$ 2,530,693</b>	<b>\$ 7,533,743</b>	<b>\$ 5,819,692</b>
<b>Other Comprehensive Loss</b>					
Items that may be reclassified subsequently to income or loss:					
Unrealized loss (gain) on translation to reporting currency		(212,262)	(193,239)	(261,149)	51,276
<b>Comprehensive Loss</b>		<b>\$ 2,768,884</b>	<b>\$ 2,337,454</b>	<b>\$ 7,272,594</b>	<b>\$ 5,870,968</b>
<b>Net loss per share - basic and diluted</b>		<b>\$ 0.03</b>	<b>\$ 0.04</b>	<b>\$ 0.08</b>	<b>\$ 0.08</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b>		<b>112,699,390</b>	<b>72,243,983</b>	<b>100,409,772</b>	<b>73,005,056</b>



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				
<b>Balance February 28, 2019</b>	<b>66,704,103</b>	<b>\$ 15,373,384</b>	<b>\$ 2,805,102</b>	<b>\$ (16,874,704)</b>	<b>\$ 80,910</b>	<b>\$ 1,384,692</b>
Shares issued in private placements, net of share issue costs	17,144,897	6,646,870	-	-	-	6,646,870
Share issuance costs	-	(297,815)	153,061	-	-	(144,754)
Stock options	-	-	568,728	-	-	568,728
Restricted share units	933,800	632,490	26,097	-	-	658,587
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>(22,694,396)</b>	<b>29,634</b>	<b>3,652,157</b>
<b>Balance February 29, 2020</b>	<b>89,535,388</b>	<b>\$ 24,337,456</b>	<b>\$ 3,961,539</b>	<b>\$ (24,373,865)</b>	<b>\$ (69,877)</b>	<b>\$ 3,855,253</b>
Shares issued in prospectus offering, net of share issue costs	15,640,000	9,195,819	-	-	-	9,195,819
Share issuance costs	-	(234,693)	204,441	-	-	(30,252)
Stock-based compensation of stock options	1,296,850	360,162	275,642	-	-	635,804
Stock-based compensation of restricted share units	676,834	442,383	5,647	-	-	448,030
Warrants exercised	7,212,481	3,537,479	(16,458)	-	-	3,521,021
Comprehensive income (loss) for the period	-	-	-	(7,533,743)	261,149	(7,272,594)
<b>Balance November 30, 2020</b>	<b>114,361,553</b>	<b>37,638,606</b>	<b>4,430,811</b>	<b>(31,907,608)</b>	<b>191,272</b>	<b>10,353,081</b>



**LEXAGENE HOLDINGS INC.**

**Condensed Interim Consolidated Statements of Cash Flows**

**For the nine months ended November 30, 2020 and November 30, 2019**

**(Expressed in US Dollars)**

**(Unaudited)**

	<b>Nine months ended November 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating Activities</b>		
Net loss	\$ (7,533,743)	\$ (5,819,692)
Items not involving cash:		
Depreciation of intangible license	4,648	8,988
Depreciation of property and equipment	115,197	106,553
Depreciation of right to use asset	264,474	206,418
Interest on right-of-use asset	64,635	23,211
Stock-based compensation	853,062	1,224,498
Change in working capital balances:		
Accounts receivable	(4,343)	-
Inventory	(419,114)	-
Prepaid	(163,537)	39,723
Accounts payable and accrued liabilities	(96,976)	(112,618)
<b>Cash Used in Operating Activities</b>	<b>\$ (6,915,697)</b>	<b>\$ (4,322,919)</b>
<b>Investing activities</b>		
Purchases of property and equipment	\$ (21,492)	\$ (16,017)
Office lease payments	(292,057)	(291,077)
<b>Cash Used in Investing Activities</b>	<b>\$ (313,549)</b>	<b>\$ (307,094)</b>
<b>Financing Activities</b>		
Proceeds received for share units issued	\$ 9,195,819	\$ 6,502,486
Proceeds from the exercise of stock options, net net of issuance costs	\$ 360,162	\$ -
Proceeds from warrants exercises, net of issuance costs	3,458,340	409,002
<b>Cash Provided by Financing Activities</b>	<b>\$ 13,014,321</b>	<b>\$ 6,911,488</b>
<b>Change in cash</b>	<b>\$ 5,785,075</b>	<b>\$ 2,281,475</b>
<b>Cash, Beginning</b>	<b>3,185,535</b>	<b>670,921</b>
<b>Effect of foreign exchange</b>	<b>261,149</b>	<b>(112,035)</b>
<b>Cash, Ending</b>	<b>\$ 9,231,759</b>	<b>\$ 2,840,361</b>



**LEXAGENE HOLDINGS INC.**

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

**For the nine months ended November 30, 2020 and 2019**

**(Expressed in US Dollars) (Unaudited)**

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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 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 November 30, 2020, the Company had not generated revenue and had an accumulated deficit of \$31,907,608 since inception. The Company’s operations are dependent on obtaining additional financing to develop its genetic analyzer, the MiQLab™ System, 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 and 2021.

### **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.



**LEXAGENE HOLDINGS INC.**

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

**For the nine months ended November 30, 2020 and 2019**

**(Expressed in US Dollars) (Unaudited)**

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**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. The condensed interim consolidated financial statements include the accounts of the Company, the Company's wholly-owned Canadian subsidiary Bionomics Diagnostics Inc. ("BDI") and the Company's wholly-owned US subsidiary LexaGene Inc. All inter-company transactions and balances have been eliminated.

**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:

<b>Period end dates</b>	<b>US to CAN</b>	<b>CAN to US</b>
February 29, 2020	1.3428	0.7447
November 30, 2020	1.2965	0.7713

  

<b>Period averages</b>	<b>US to CAN</b>	<b>CAN to US</b>
Nine months ended November 30, 2019	1.3282	0.7530
Nine months ended November 30, 2020	1.3533	0.7395

**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. INVENTORY

	November 30, 2020	February 29, 2020
Raw materials	\$ 419,114	\$ -
	<u>\$ 419,114</u>	<u>\$ -</u>

As at November 30, 2020, the inventory consisted of unfinished MiQLab Systems and supplies required for manufacturing. These parts and supplies totaling \$419,114 were purchased at cost (February 29, 2020 - \$Nil).



**LEXAGENE HOLDINGS INC.**

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

**For the nine months ended November 30, 2020 and 2019**

**(Expressed in US Dollars) (Unaudited)**

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**5. INVENTORY (continued)**

During the period ended November 30, 2020, the Company conducted a review of its materials and supplies on hand. The Company recognized \$336,710 as inventory at November 30, 2020 in relation to the parts previously expensed as research and development costs because at November 30, 2020 the value of these materials and supplies is considered to be recoverable.

**6. 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 identify bacteria and viruses that can cause disease with applications in both food safety and healthcare.

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

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

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

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

In addition, the Company will pay LLNS 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 (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:



**LEXAGENE HOLDINGS INC.**

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

**For the nine months ended November 30, 2020 and 2019**

**(Expressed in US Dollars) (Unaudited)**

**6. INTANGIBLE LICENSE (continued)**

**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		3,905
Balance November 30, 2020	\$	113,045

**Accumulated amortization**

Balance, February 28, 2019	\$	31,424
Additions		11,056
Effect of foreign exchange differences		(908)
Balance February 29, 2020	\$	41,572
Additions		4,648
Effect of foreign exchange differences		3,905
Balance November 30, 2020	\$	50,125

**Carrying values**

February 29, 2020	\$	67,568
November 30, 2020	\$	62,920

**7. 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, 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	\$ -	\$ 14,524	\$ -	\$ 6,968	\$ 21,492
Balance November 30, 2020	\$ 15,577	\$ 390,168	\$ 88,062	\$ 413,717	\$ 907,524
<b>Accumulated amortization</b>					
Balance, February 28, 2019	\$ 4,905	\$ 71,920	\$ 12,827	\$ 50,373	\$ 140,025
Additions	\$ 4,016	\$ 66,618	\$ 14,717	\$ 58,281	\$ 143,632
Balance, February 29, 2020	\$ 8,921	\$ 138,538	\$ 27,544	\$ 108,654	\$ 283,657
Additions	\$ 3,299	\$ 56,604	\$ 11,058	\$ 44,235	\$ 115,197
Balance November 30, 2020	\$ 12,220	\$ 195,142	\$ 38,602	\$ 152,889	\$ 398,853
<b>Carrying value</b>					
February 29, 2020					\$ 602,376
November 30, 2020					\$ 508,671

## 8. RIGHT-OF-USE ASSET AND LEASE LIABILITY

Lease liability:

	<b>Carrying Value</b>
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	64,635
Lease payments	(297,271)
Balance as at November 30, 2020	\$ 1,683,916
Current portion of the lease liability	(305,875)
Non-current portion of lease liability	\$ 1,378,041

At November 30, 2020, the balance of the right-to-use asset is as follows:

	<b>Carrying Value</b>
Balance as at February 29, 2020	\$ 1,851,322
Depreciation	(264,474)
Balance as at November 30, 2020	\$ 1,586,848

The property lease expires on May 30, 2025 and the lease payments were discounted with a 5% interest rate.

## 9. 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 nine months ended November 30, 2020:*

- On September 9, 2020, the Company closed a bought deal financing of 15,640,000 units at an offering price of \$0.65 (CAD\$0.85) per Unit for aggregate net proceeds to the Company of approximately \$9.2 million (CAD\$10.1 million). Each unit consisted of one common share and one –half of one common share purchase warrant. Each whole warrant entitles the holder to purchase, subject to adjustment in certain circumstances, one additional common share at a price of CAD\$1.10 per common share until September 9, 2023. The Company

## 9. SHARE CAPITAL (continued)

paid approximately \$99,700 (CAD \$131,390) in finders and legal fees and granted 1,094,800 broker warrants exercisable at CAD\$1.10 until September 9, 2023.

- During the nine months ended, November 30, 2020, 676,834 restricted share units (RSUs) vested, and an amount of \$442,383 was reclassified from share-based payment reserve to share capital upon vesting of the RSUs.
- During the nine months ended, November 30, 2020, 1,296,850 stock options were exercised. 500,000 stock options were exercised at CAD\$0.36 per stock option, 600,000 stock options were exercised at CAD\$0.33 per stock option and 196,850 stock options were exercised at CAD\$0.53.
- During the nine months ended, November 30, 2020, 7,212,481 warrants were exercised. 108,227 warrants were exercised at CAD\$0.52 per warrant, 997,167 warrants were exercised at CAD\$0.60, 4,223,117 were exercised at CAD\$0.65 per warrant, 1,775,652 were exercised at CAD\$0.75 per warrant and 63,276 were exercised at CAD\$0.85 per warrant. \$16,458 was reclassified from share-based payment reserve to share capital upon exercise of broker warrants.

### (c) Warrants

The changes in warrants during the nine months ended November 30, 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 issued	8,914,801	\$ 1.10
Warrants exercised	(108,227)	\$ 0.52
Warrants exercised	(997,167)	\$ 0.60
Warrants exercised	(4,223,117)	\$ 0.65
Warrants exercised	(1,775,652)	\$ 0.75
Warrants exercised	(63,276)	\$ 0.85
Warrants expired	(471,626)	\$ 0.75
Warrants outstanding, November 30, 2020	26,178,927	\$ 1.00

## 9. SHARE CAPITAL (continued)

Details of warrants outstanding as at November 30, 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
3,277,500	CAD\$ 1.30	July 11, 2021
604,672	CAD\$ 0.52	October 29, 2020
10,523,974	CAD\$ 0.75	October 29, 2020
8,914,801	CAD\$ 1.10	September 9, 2023
<u>26,178,927</u>		

At November 30, 2020, the weighted average remaining contractual life of warrants outstanding was 1.84 years (February 29, 2020 – 1.73 years), with a weighted average exercise price of \$0.77 (CAD\$1.00). 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
Stock options cancelled, expired or forfeiture	(100,000)	\$ 0.72
Balance, February 29, 2020	4,653,000	\$ 0.61
Stock options issued	567,500	\$ 0.69
Stock options exercised	(1,296,850)	\$ 0.37
Stock options cancelled, expired or forfeiture	(161,250)	\$ 0.53
Stock options cancelled, expired or forfeiture	(350,000)	\$ 0.33
Balance, November 30, 2020	3,412,400	\$ 0.74

After shareholder approval, the Company amended its Omnibus Incentive Plan on July 25, 2017, August 23, 2019 and November 10, 2020. 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 7,996,201 Common Shares reserved for stock options.

*Stock option transactions during the nine months ended November 30, 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.

## 9. SHARE CAPITAL (continued)

- On September 17, 2020, the Company granted Thomas Slezak, a non-executive director, 350,000 stock options that have an exercise price of \$0.66 per stock option with an expiration date September 17, 2030. These replace 350,000 stock options with an exercise price of CAD\$0.33 that had expired on July 27, 2020. The options for the subsequent grant vested 100% upon grant.
- On September 17, 2020, the Company granted 100,000 stock options to a consultant with an exercise price of CAD\$0.81 per stock option with an expiration date of September 17, 2025. The stock options vest 25% upon grant, 25% on January 17, 2021, 25% on May 17, 2021 and 25% on September 17, 2021.
- On September 17, 2020, the Company granted 17,500 stock options to a consultant with an exercise price of CAD\$0.82 per stock option with an expiration date of December 9, 2023. The stock options vest 10% upon grant and 15% each 6 months thereafter with the last vest date of September 17, 2023.
- During the nine months ended, November 30, 2020, 511,250 stock options were cancelled.

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

	November 30, 2020	November 30, 2019
Annualized volatility	132%	173%
Risk-free interest rate	1.42%	1.69%
Expected life of options in years	3.2	3.5
Dividend rate	0.00%	0.00%

The following table summarizes information on stock options outstanding as at November 30, 2020:

Options Outstanding	Options Exercisable	Exercise Price, CAD\$	Expiry Date
50,000	50,000	0.53	March 12, 2021
220,000	220,000	1.05	March 12, 2021
511,900	348,400	0.53	February 20, 2022
520,000	364,000	1.15	February 20, 2022
98,000	98,000	0.65	April 11, 2022
75,000	52,500	0.53	May 16, 2022
100,000	55,000	0.97	June 26, 2022
650,000	357,500	0.65	September 29, 2022
300,000	165,000	0.53	October 19, 2022
17,500	1,750	0.82	December 9, 2023
100,000	25,000	0.81	September 17, 2025
320,000	-	0.72	February 19, 2030
100,000	25,000	0.63	April 21, 2030
350,000	350,000	0.66	September 17, 2030
3,412,400	2,112,150		

## 9. SHARE CAPITAL (continued)

At November 30, 2020, the weighted average remaining contractual life of options outstanding was 3.32 years (February 29, 2020 – 2.10 years), with a weighted average exercise price of \$0.57 (CAD\$0.74). At February 29, 2020, the weighted average exercise price of options outstanding was \$0.55 (CAD\$0.78).

The Company recorded stock-based compensation expense related to stock options of \$355,866 for the nine months ended November 30, 2020 and \$567,457 for the same period ended November 30, 2019, respectively. For the nine months ended November 30, 2020, \$2,023 was recorded in sales and marketing, \$284,355 in general and administrative and \$69,488 in research and development expense as compared to \$38,822 recorded in sales and marketing, \$249,212 in general and administrative and \$279,423 in research and development for the same period in 2019.

### (e) Restricted share units

After shareholder approval, the Company amended its Omnibus Incentive Plan on July 25, 2017, August 23, 2019 and November 10, 2020. 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 restricted share units (RSUs). The amended Omnibus Incentive Plan grants the Company 7,996,201 Common Shares reserved for RSUs.

*Restricted share unit transactions during the nine months ended November 30, 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 September 17, 2020, the Company granted Dr. Manohar Furtado, a non-executive director, 170,000 restricted share units. These restricted share units replace the previous 170,000 restricted share units that had expired on September 12, 2020. These newly granted restricted share units vest 33% on September 17, 2021, 33% on September 17, 2022 and 34% on September 17, 2023. These restricted share units have an expiration date of September 17, 2023.
- On September 17, 2020, the Company granted 17,500 restricted share units to a consultant with an expiration date of September 17, 2023. The restricted share units vest 10% upon grant and 15% each 6 months thereafter with the last vest date of September 17, 2023.
- During the nine months ended, November 30, 2020, 280,250 restricted shares units were cancelled.

The Company recorded stock-based compensation expense related to restricted share units of \$497,197 for the nine months ended November 30, 2020 and \$657,041 for the same period ended November 30, 2019, respectively. For the nine months ended November 30, 2020, \$55,081 was recorded in sales and marketing, \$465,044 in general and administrative and reduced research and development expense by \$22,928 due to the cancellation of restricted share units as compared to \$138,747 recorded in sales and marketing, \$274,817 in general and administrative and \$279,423 in research and development for the same period in 2019.

At November 30, 2020, 2,495,629 RSUs were outstanding as compared to 2,055,350 for the same period in 2019.



## 10. 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.

## 11. 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 and nine months ended, November 30, 2020 and 2019, expenses incurred for key management compensation are summarized as:

	Three months ended, November 30,		Nine months ended, November 30,	
	2020	2019	2020	2019
Salaries and benefits	\$ 688,961	\$ 434,650	\$ 1,049,457	\$ 790,419
Consulting fees	10,800	10,800	32,400	32,400
Stock-based compensation	434,714	147,639	976,018	585,236
	<u>\$ 1,134,475</u>	<u>\$ 593,089</u>	<u>\$ 2,057,875</u>	<u>\$ 1,408,055</u>

As at November 30, 2020, (\$nil) was payable to key management as compared to \$26,785 which was payable to a director and officer of the Company at February 29, 2020.

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.

## 12. 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 November 30, 2020, the Company is progressing through the commercialization phase for the MiQLab and has completed 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.

## 12. RESEARCH AND DEVELOPMENT EXPENSES (continued)

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

	Three months ended, November 30,		Nine months ended, November 30,	
	2020	2019	2020	2019
MiQLab and product development consulting expense	\$ 51,108	\$ 6,885	\$ 490,417	\$ 253,842
Depreciation of lab related equipment	25,797	23,324	77,994	70,000
Depreciation of the intangible license	2,319	2,771	6,778	8,277
Depreciation of right-of-use asset	32,187	25,455	96,560	75,363
Lab administration and supplies	12,362	2,735	37,480	14,349
MiQLab materials	355,385	60,425	1,077,588	310,716
Product development over head expenses	152,138	113,335	435,155	292,054
Travel	2,322	6,704	4,204	18,875
Salaries	1,129,742	825,619	2,442,974	1,873,502
Share-based compensation	68,996	194,483	46,560	522,899
<b>Total research and development expenses</b>	<b>\$ 1,832,356</b>	<b>\$ 1,261,736</b>	<b>\$ 4,715,710</b>	<b>\$ 3,439,877</b>

## 13. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Three months ended, November 30,		Nine months ended, November 30,	
	2020	2019	2020	2019
Office and administration	\$ 16,288	\$ 16,952	\$ 50,623	\$ 47,723
Depreciation of property and equipment	12,291	12,142	37,204	36,541
Depreciation of right-of-use asset	55,972	44,266	167,915	131,055
Consulting	27,454	4,222	31,890	8,875
Marketing and promotion	58,006	330,121	174,193	424,819
Professional fees	47,058	37,674	199,004	133,700
Insurance	4,698	5,718	14,251	17,748
Interest expense (right-of- use asset)	20,583	6,621	64,635	23,211
Transfer agent and filing fees	11,698	16,358	31,419	30,124
Travel	3,522	9,337	4,636	28,602
Salaries	151,851	117,050	247,549	241,338
Share-based compensation	377,022	132,863	749,399	524,030
<b>Total general and administrative expenses</b>	<b>\$ 786,443</b>	<b>\$ 733,324</b>	<b>\$ 1,772,718</b>	<b>\$ 1,647,766</b>

## 14. MARKETING AND PROMOTIONAL EXPENSES

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

	Three months ended, November 30,		Nine months ended, November 30,	
	2020	2019	2020	2019
Sales, marketing and promotion	\$ 123,421	\$ 43,098	\$ 449,139	\$ 128,874
Travel	14,144	12,810	22,317	41,392
Salaries	544,169	196,344	853,493	384,627
Stock-based compensation	17,323	36,159	57,104	177,569
<b>Total sales, marketing and promotional expenses</b>	<b>\$ 699,057</b>	<b>\$ 288,411</b>	<b>\$ 1,382,053</b>	<b>\$ 732,462</b>



**LEXAGENE HOLDINGS INC.**

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

**For the nine months ended November 30, 2020 and 2019**

**(Expressed in US Dollars) (Unaudited)**

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## **15. 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.

## **16. SUBSEQUENT EVENTS**

- On December 10, 2020, the Company granted 569,500 restricted share units to consultants and employees with an expiration date of February 10, 2023. The restricted share units vest 20% on May 10, 2021, 20% on October 10, 2021, 20% on March 10, 2022, 20% on August 10, 2022 and 20% on February 10, 2023.
- On December 10, 2020, the Company granted 494,500 options to consultants and employees at an exercise price of CAD\$0.79 with an expiration date of December 10, 2024. The options vest 10% on June 10, 2021 and then 15% every six months thereafter.
- On December 10, 2020, the Company granted 30,000 stock options to a consultant with an expiration date of September 17, 2023. The restricted share units vest 10% upon grant and 15% each 6 months thereafter with the last vest date of September 17, 2023
- On January 14, 2021, 34,100 stock options were exercised at a price of CAD\$0.53 for gross proceeds of approximately \$14,331 (CAD\$18,073). The original grant date for these options was February 20, 2018.
- Subsequent to November 30, 2020, 51,375 shares were issued upon the vesting of restricted share units.
- Subsequent to November 30, 2020, 1,675,500 shares were issued upon the exercise of warrants with an exercise price of CAD\$0.75 per share for gross proceeds of approximately \$984,314 (CAD \$1,256,625)
- Subsequent to November 30, 2020, 2,857,980 warrants with an exercise price of CAD\$1.45 per share expired.
- Subsequent to November 30, 2020, 190,950 shares were issued upon the exercise of warrants with an exercise price of CAD\$1.10 per share for gross proceeds of approximately \$164,582 (CAD \$210,045)
- Subsequent to November 30, 2020, 150,852 shares were issued upon the exercise of broker warrants with an exercise price of CAD\$0.52 per share for gross proceeds of approximately \$61,444 (CAD \$78,443)