

LexaGene

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended August 31, 2020 and 2019

(Unaudited)

These condensed interim consolidated financial statements of LexaGene Holdings Inc. for the three and six months ended August 31, 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	August 31, 2020	February 29, 2020 (Audited)
ASSETS			
Current assets			
Cash		\$ 3,243,651	\$ 3,185,535
Receivables		6,106	3,159
Prepaid		288,632	278,861
		<u>3,538,389</u>	<u>3,467,555</u>
Non-current			
Intangible license	5	64,894	67,568
Right-of-use asset	7	1,675,006	1,851,322
Property and equipment	6	527,916	602,376
TOTAL ASSETS		\$ 5,806,205	\$ 5,988,821
LIABILITIES			
Current Liabilities			
Accounts payables and accrued liabilities		\$ 532,172	\$ 217,016
Current portion of lease liabilities		323,246	310,537
		<u>\$ 855,418</u>	<u>\$ 527,553</u>
Non-current liabilities			
Lease liabilities	7	1,439,177	1,606,015
Total non-current liabilities		<u>\$ 1,439,177</u>	<u>\$ 1,606,015</u>
Total Liabilities		\$ 2,294,595	\$ 2,133,568
EQUITY			
Share capital	8	28,488,085	24,337,456
Share-based payment reserve	8	3,970,977	3,961,539
Accumulated other comprehensive loss		(20,990)	(69,877)
Deficit		(28,926,462)	(24,373,865)
TOTAL EQUITY		\$ 3,511,610	\$ 3,855,253
TOTAL LIABILITIES AND EQUITY		\$ 5,806,205	\$ 5,988,821

Nature and continuance of operations (Note 1)

Subsequent events (Note 15)

Approved on behalf of the Board on October 29, 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)

	Note	Three months ended August 31,		Six months ended August 31,	
		2020	2019	2020	2019
Operating Expenses					
Research and development	11	1,269,326	933,407	2,883,352	2,178,141
General and administrative	12	462,856	438,132	987,062	914,029
Sales, marketing and promotion	13	\$ 376,064	\$ 158,626	\$ 682,183	\$ 444,051
		\$ 2,108,246	\$ 1,530,165	\$ 4,552,597	\$ 3,536,221
Other Items					
Foreign Exchange (gain) loss		-	(247,741)	-	(247,222)
Net Loss		\$ 2,108,246	\$ 1,282,424	\$ 4,552,597	\$ 3,288,999
Other Comprehensive Loss					
Items that may be reclassified subsequently to income or loss:					
Unrealized loss (gain) on translation to reporting currency		(119,690)	218,990	(48,887)	244,515
Comprehensive Loss		\$ 1,988,556	\$ 1,501,414	\$ 4,503,710	\$ 3,533,514
Net loss per share - basic and diluted		\$ 0.02	\$ 0.02	\$ 0.05	\$ 0.05
Weighted average number of common shares outstanding - basic and diluted		96,387,905	71,815,659	93,766,689	70,918,086



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	\$ (16,874,704)	\$ 80,910	\$ 1,384,692
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	-	-	352,492	-	-	352,492
Restricted share units	728,450	512,342	(1,661)	-	-	510,681
Warrants exercised	774,245	349,665	-	-	-	349,665
Comprehensive income (loss) for the period	-	-	-	(3,288,999)	(244,515)	(3,533,514)
Balance August 31, 2019	72,582,069	18,198,126	3,176,925	(20,163,703)	(163,605)	1,047,743
Balance February 29, 2020	89,535,388	\$ 24,337,456	\$ 3,961,539	\$ (24,373,865)	\$ (69,877)	\$ 3,855,253
Share issuance costs - other	-	(30,252)	-	-	-	(30,252)
Stock-based compensation of stock options	1,263,750	346,857	90,188	-	-	437,045
Stock-based compensation of restricted share units	431,875	296,545	(64,292)	-	-	232,253
Warrants exercised	7,212,481	3,537,479	(16,458)	-	-	3,521,021
Comprehensive income (loss) for the period	-	-	-	(4,552,597)	48,887	(4,503,710)
Balance August 31, 2020	98,443,494	28,488,085	3,970,977	(28,926,462)	(20,990)	3,511,610



LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Cash Flows

For the six months ended August 31, 2020 and August 31, 2019

(Expressed in US Dollars)

(Unaudited)

	Six months ended August 31,	
	2020	2019
Operating Activities		
Net loss	\$ (4,552,597)	\$ (3,288,999)
Items not involving cash:		
Depreciation of intangible license	4,459	6,260
Depreciation of property and equipment	77,109	71,076
Depreciation of right to use asset	176,316	136,698
Interest on right-of-use asset	44,062	16,590
Stock-based compensation	389,722	913,822
Change in working capital balances:		
Accounts receivable	(2,948)	-
Prepaid	(9,771)	(87,322)
Accounts payable and accrued liabilities	315,157	(18,592)
Cash Used in Operating Activities	\$ (3,558,491)	\$ (2,250,467)
Investing activities		
Purchases of property and equipment	\$ (2,649)	\$ (1,050)
Office lease payments	(198,181)	(192,812)
Cash Used in Investing Activities	\$ (200,830)	\$ (193,862)
Financing Activities		
Proceeds received for share units issued	\$ -	\$ 2,128,481
Proceeds from the exercise of stock options, net net of issuance costs	\$ 346,857	\$ -
Proceeds from warrants exercises, net of issuance costs	3,507,227	349,665
Cash Provided by Financing Activities	\$ 3,854,084	\$ 2,478,146
Increase (decrease) in Cash	\$ 94,763	\$ 33,817
Cash, Beginning	3,185,535	670,921
Effect of foreign exchange	(36,647)	(275,089)
Cash, Ending	\$ 3,243,651	\$ 429,649



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 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 August 31, 2020, the Company had not generated revenue and had an accumulated deficit of \$28,926,462 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.

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 six months ended August 31, 2020 and 2019

(Expressed in US Dollars) (Unaudited)

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
August 31, 2020	1.3042	0.7668

Period averages	US to CAN	CAN to US
Six months ended August 31, 2019	1.3311	0.7513
Six months ended August 31, 2020	1.3709	0.7299

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 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 six months ended August 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	3,246
Balance August 31, 2020	\$ 112,386
Accumulated amortization	
Balance, February 28, 2019	\$ 31,424
Additions	11,056
Effect of foreign exchange differences	(908)
Balance February 29, 2020	\$ 41,572
Additions	4,459
Effect of foreign exchange differences	1,461
Balance August 31, 2020	\$ 47,492
Carrying values	
February 29, 2020	\$ 67,568
August 31, 2020	\$ 64,894

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 August 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	\$ 2,289	\$ 37,873	\$ 7,399	\$ 29,548	\$ 77,109
Balance August 31, 2020	\$ 11,210	\$ 176,411	\$ 34,943	\$ 138,201	\$ 360,765
Carrying value					
February 29, 2020					\$ 602,376
August 31, 2020					\$ 527,916

7. RIGHT-OF-USE ASSET AND LEASE LIABILITY

Lease liability:

	Carrying Value
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	44,062
Lease payments	(198,191)
Balance as at August 31, 2020	\$ 1,762,423
Current portion of the lease liability	(323,246)
Non-current portion of lease liability	\$ 1,439,177

At August 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	(176,316)
Balance as at August 31, 2020	\$ 1,675,006

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

**LEXAGENE HOLDINGS INC.****Notes to the condensed interim consolidated financial statements****For the six months ended August 31, 2020 and 2019****(Expressed in US Dollars) (Unaudited)****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 six months ended August 31, 2020:

- During the six months ended, August 31, 2020, 431,875 restricted share units (RSUs) vested, and an amount of \$296,545 was reclassified from share-based payment reserve to share capital upon vesting of the RSUs.
- During the six months ended, August 31, 2020, 1,263,750 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 163,750 stock options were exercised at CAD\$0.53.
- During the six months ended, August 31, 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, 4,268,159 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 six months ended August 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	(108,227)	\$ 0.52
Warrants exercised	(997,167)	\$ 0.60
Warrants exercised	(4,268,159)	\$ 0.65
Warrants exercised	(1,775,652)	\$ 0.75
Warrants exercised	(63,276)	\$ 0.85
Warrants expired	(471,626)	\$ 0.75
Warrants outstanding, August 31, 2020	17,219,084	\$ 0.96

8. SHARE CAPITAL (warrants continued)

Details of warrants outstanding as at August 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
3,277,500	CAD\$ 1.30	July 11, 2021
604,672	CAD\$ 0.52	October 29, 2020
10,478,932	CAD\$ 0.75	October 29, 2020
17,219,084		

At August 31, 2020, the weighted average remaining contractual life of warrants outstanding was 1.61 years (February 29, 2020 – 1.73 years), with a weighted average exercise price of \$0.74 (CAD\$0.96). 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
Stock options exercised	(1,263,750)	\$ 0.33
Cancelled, expired or forfeited	(161,250)	\$ 0.53
Cancelled, expired or forfeited	(350,000)	\$ 0.33
Balance, August 31, 2020	2,978,000	\$ 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 six months ended August 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)

- During the six months ended, August 31, 2020, 511,250 stock options were cancelled.
- During the six months ended, August 31, 2020, 1,263,750 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 163,750 stock options were exercised at CAD\$0.53.

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

	August 31, 2020	August 31, 2019
Annualized volatility	136%	173%
Risk-free interest rate	1.49%	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 August 31, 2020:

Options Outstanding	Options Exercisable	Exercise Price, CAD\$	Expiry Date
50,000	42,500	0.53	March 12, 2021
220,000	187,000	1.05	March 12, 2021
545,000	381,500	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	41,250	0.53	May 16, 2022
100,000	55,000	0.97	June 26, 2022
650,000	260,000	0.65	September 29, 2022
300,000	120,000	0.53	October 19, 2022
320,000	-	0.72	February 19, 2030
100,000	25,000	0.63	April 21, 2030
2,978,000	1,574,250		

At August 31, 2020, the weighted average remaining contractual life of options outstanding was 2.74 years (February 29, 2020 – 2.10 years), with a weighted average exercise price of \$0.58 (CAD\$0.75). At February 29, 2020, the weighted average exercise price of options outstanding was \$0.55 (CAD\$0.78). At August 31, 2020, 1,574,250 stock options were exercisable.

The Company recorded stock-based compensation expense related to stock options of \$116,186 for the six months ended August 31, 2020 and \$351,018 for the same period ended August 31, 2019, respectively. For the six months ended August 31, 2020, \$1,418 was recorded in sales and marketing, \$82,654 in general and administrative and \$32,114 in research and development expense as compared to \$20,574 recorded in sales and marketing, \$184,480 in general and administrative and \$145,964 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 six months ended August 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.
- During the six months ended, August 31, 2020, 280,250 restricted shares units were cancelled.

The Company recorded stock-based compensation expense related to restricted share units of \$273,536 for the six months ended August 31, 2020 and \$509,974 for the same period ended August 31, 2019, respectively. For the six months ended August 31, 2020, \$38,363 was recorded in sales and marketing, \$289,723 in general and administrative and reduced research and development expense by \$54,550 due to the cancellation of restricted share units as compared to \$120,836 recorded in sales and marketing, \$206,686 in general and administrative and \$182,452 in research and development for the same period in 2019.

At August 31, 2020, 2,552,838 RSUs were outstanding as compared to 2,346,700 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 and six months ended, August 31, 2020 and 2019, expenses incurred for key management compensation are summarized as:

**LEXAGENE HOLDINGS INC.****Notes to the condensed interim consolidated financial statements****For the six months ended August 31, 2020 and 2019****(Expressed in US Dollars) (Unaudited)****10. KEY MANAGEMENT COMPENSATION (continued)**

	Three months ended, August 31,		Six months ended, August 31,	
	2020	2019	2020	2019
Salaries and benefits	\$ 174,436	\$ 145,497	\$ 360,497	\$ 308,422
Consulting fees	10,800	10,800	21,600	21,600
Stock-based compensation	160,088	123,038	366,537	286,860
	<u>\$ 345,324</u>	<u>\$ 279,335</u>	<u>\$ 748,634</u>	<u>\$ 616,882</u>

As at August 31, 2020, (\$nil) was payable to key management as compared to \$61,081 which was payable to a director and officer of the Company for the same period in 2019.

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 August 31, 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.

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

	Three months ended, August 31,		Six months ended, August 31,	
	2020	2019	2020	2019
MiQLab and product development consulting expense	\$ 44,507	\$ 53,289	\$ 439,381	\$ 193,026
Depreciation of lab related equipment	26,090	23,541	52,196	46,677
Depreciation of the intangible license	2,275	2,771	4,459	5,506
Depreciation of right-of-use asset	32,742	24,733	64,373	49,908
Lab administration and supplies	14,813	5,652	25,118	11,615
MiQLab materials	394,017	64,149	720,250	250,290
Product development over head expenses	151,991	99,298	284,898	244,820
Travel	-	-	1,882	-
Salaries	659,715	509,607	1,313,232	1,047,883
Share-based compensation	(56,824)	150,367	(22,437)	328,416
Total research and development expenses	\$ 1,269,326	\$ 933,407	\$ 2,883,352	\$ 2,178,141

12. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Three months ended, August 31,		Six months ended, August 31,	
	2020	2019	2020	2019
Office and administration	\$ 21,498	\$ 12,098	\$ 34,308	\$ 30,771
Depreciation of property and equipment	12,442	12,208	24,913	24,399
Depreciation of right-of-use asset	56,937	43,010	111,943	86,789
Consulting	2,665	2,314	4,436	4,653
Marketing and promotion	53,858	44,801	116,188	94,286
Professional fees	61,366	58,205	151,946	96,026
Insurance	5,848	6,222	10,366	12,029
Interest expense (right-of-use asset)	21,556	7,742	44,052	16,590
Transfer agent and filing fees	9,790	5,080	19,721	13,765
Travel	600	8,277	1,114	19,265
Salaries	55,123	64,165	95,698	124,288
Share-based compensation	161,173	174,010	372,377	391,168
Total general and administrative expenses	\$ 462,856	\$ 438,132	\$ 987,062	\$ 914,029

13. MARKETING AND PROMOTIONAL EXPENSES

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

	Three months ended, August 31,		Six months ended, August 31,	
	2020	2019	2020	2019
Sales, marketing and promotion	\$ 154,755	\$ 26,191	\$ 324,905	\$ 85,777
Travel	6,841	9,933	8,173	28,582
Salaries	192,119	94,438	309,324	188,282
Stock-based compensation	22,349	28,064	39,781	141,410
Total sales, marketing and promotional expenses	\$ 376,064	\$ 158,626	\$ 682,183	\$ 444,051

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

- 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 \$10.1 million (CAD\$13.29 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 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.



LEXAGENE HOLDINGS INC.

Notes to the condensed interim consolidated financial statements

For the six months ended August 31, 2020 and 2019

(Expressed in US Dollars) (Unaudited)

- 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.
- 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.
- On September 18, 2020, 33,100 stock options were exercised at a price of CAD\$0.53 for gross proceeds of approximately \$13,305 (CAD\$17,543). The original grant date for these options was February 20, 2018.
- Subsequent to August 31, 2020, 215,459 shares were issued upon the vesting of restricted share units.