LexaGene

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended November 30, 2021 and 2020
(Unaudited)

LexaGene

LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in US Dollars)

	Note		November 30, 2021 (Unaudited)		February 28, 2021
ASSETS					
Current assets					
Cash		$	1,715,440	$	9,624,259
Accounts receivable	5		38,916		44,084
Inventories	6		1,398,319		1,065,929
Prepaid			504,946		384,620
			3,657,621		11,118,892
Non-current					
Intangible license	7		51,936		61,900
Right-of-use asset	9		1,156,163		1,498,689
Property and equipment	8		409,261		515,218
Other long-term asset			87,387		-
TOTAL ASSETS		**$**	**5,362,368**	**$**	**13,194,700**
LIABILITIES					
Current liabilities					
Accounts payables and accrued liabilities		$	343,658	$	716,247
Current portion of lease liabilities	9		336,362		305,875
			680,020		1,022,122
Non-current					
Lease liabilities	9		925,576		1,289,058
Total Liabilities			**1,605,596**		**2,311,180**
EQUITY					
Share capital	10		41,122,931		40,556,242
Share-based payment reserve	10		4,803,183		4,400,886
Accumulated other comprehensive income (loss)			343,835		191,272
Deficit			(42,513,177)		(34,264,880)
TOTAL EQUITY		**$**	**3,756,772**	**$**	**10,883,520**
TOTAL LIABILITIES AND EQUITY		**$**	**5,362,368**	**$**	**13,194,700**

Nature and continuance of operations (Note 1)
Commitments (Note 17)
Subsequent events (Note 18)

Approved on behalf of the Board on January 31, 2022

"John Regan"	*"Stephen Mastrocola"*
John Regan, Chairman & Chief Executive Officer	Stephen Mastrocola, Director

The accompanying notes are an integral part of the condensed interim consolidated financial statements

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LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Comprehensive Loss

(Expressed in US Dollars) (Unaudited)

	Note	Three months ended November 30, 2021	Three months ended November 30, 2020	Nine months ended November 30, 2021	Nine months ended November 30, 2020
Net Product Revenue	4	**$ 48,309**	**$ -**	**$ 88,934**	**$ -**
Costs and expenses					
Cost of goods sold		49,688	-	88,045	-
Manufacturing costs		99,301	-	288,741	-
		148,989	**-**	**376,786**	**-**
Gross loss		**(100,680)**	**-**	**(287,852)**	**-**
Operating expenses					
Sales, marketing and promotion	15	548,718	699,057	1,735,740	1,382,053
General and administrative	14	560,155	786,443	1,565,954	1,772,718
Research and development	13	1,516,381	1,495,646	4,684,101	4,379,000
Total operating expenses		**2,625,254**	**2,981,146**	**7,985,795**	**7,533,771**
Loss from operations		**(2,725,934)**	**(2,981,146)**	**(8,273,647)**	**(7,533,771)**
Other item					
Foreign exchange gain (loss)		(18)	-	25,350	28
Net loss		**(2,725,952)**	**(2,981,146)**	**(8,248,297)**	**(7,533,743)**
Other comprehensive income (loss)					
Items that may be reclassified subsequently to income or loss:					
Unrealized gain (loss) on translation to reporting currency		(4,081)	212,262	152,563	261,149
Comprehensive loss		**$ (2,730,033)**	**$ (2,768,884)**	**$ (8,095,734)**	**$ (7,272,594)**
Net loss per share – basic and diluted		**$ (0.02)**	**$ (0.03)**	**$ (0.07)**	**$ (0.08)**
Weighted average number of common shares outstanding – basic and diluted		**119,230,207**	**112,699,390**	**118,971,167**	**100,409,772**

The accompanying notes are an integral part of the condensed interim consolidated financial statements

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LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in US Dollars) (Unaudited)

	Share Capital					
	Number	**Amount**	**Share-based payment reserve**	**Deficit**	**Accumulated other comprehensive income (loss)**	**Total**
Balance, February 29, 2020	**89,535,388**	**$ 24,337,456**	**$ 3,961,539**	**$ (24,373,865)**	**$ (69,877)**	**$ 3,855,253**
Shares issued in prospectus offering, net of issuance costs	15,640,000	9,195,819	-	-	-	9,195,819
Share issuance costs	-	(234,693)	204,441	-	-	(30,252)
Share-based payment of stock options	1,296,850	360,162	275,642	-	-	635,804
Share-based payment of restricted share units	676,834	442,383	5,647	-	-	448,030
Warrants exercised	7,212,481	3,537,479	(16,458)	-	-	3,521,201
Comprehensive income (loss) for the period	-	-	-	(7,533,743)	261,149	(2,272,594)
Balance, November 30, 2020	**114,361,553**	**37,638,606**	**4,430,811**	**(31,907,608)**	**191,272**	**10,353,081**
Balance, February 28, 2021	**118,566,834**	**40,556,242**	**4,400,886**	**(34,264,880)**	**191,272**	**10,883,520**
Warrants exercised	41,200	24,330	(142)	-	-	24,188
Options exercised	63,750	106,755	(78,983)	-	-	27,772
Restricted share units vested	672,076	435,604	(432,258)	-	-	3,346
Share-based payment of stock options	-	-	375,552	-	-	375,552
Share-based payment of restricted share units	-	-	538,128	-	-	538,128
Comprehensive income (loss) for the period	-	-	-	(8,248,297)	152,563	(8,095,734)
Balance, November 30, 2021	**119,343,860**	**41,122,931**	**4,803,183**	**(42,513,177)**	**343,835**	**3,756,772**

The accompanying notes are an integral part of the condensed interim consolidated financial statements

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LEXAGENE HOLDINGS INC.

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in US Dollars) (Unaudited)

	Nine months ended November 30, 2021		Nine months ended November 30, 2020	
Cash generated by (used in):				
Operating Activities				
Net Loss	$	(8,248,297)	$	(7,533,743)
Items not involving cash:				
Depreciation of intangible license		6,902		4,648
Depreciation of property and equipment		123,817		115,197
Depreciation of right-of-use asset		254,046		264,474
Interest on right-of-use asset		52,756		64,635
Share-based payments		913,680		853,062
Change in working capital balances				
Accounts receivable		5,168		(4,343)
Inventory		(332,390)		(419,114)
Prepaid		(120,325)		(163,357)
Other long-term asset		(87,387)		-
Accounts payable and accrued liabilities		(372,589)		(96,976)
	$	**(7,804,619)**	**$**	**(6,915,697)**
Investing Activities				
Purchases of property and equipment	$	(17,860)	$	(21,492)
	$	**(17,860)**	**$**	**(21,492)**
Financing Activities				
Proceeds received for share units issued, net of costs	$	-	$	9,195,819
Proceeds from the exercise of warrants, net of costs		24,188		3,458,340
Proceeds from exercise of stock options, net of costs		27,772		360,162
Principal payments on lease liability		(297,271)		(292,057)
	$	**(245,311)**	**$**	**12,722,264**
Change in cash		(8,067,790)		5,785,075
Cash, Beginning		9,624,259		3,185,535
Effects of foreign exchange		158,971		261,149
Cash, Ending	**$**	**1,715,440**	**$**	**9,231,759**

The accompanying notes are an integral part of the condensed interim consolidated financial statements

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. As of November 30, 2021, the Company had an accumulated deficit of $42,513,177 since inception. The Company's operations are dependent on obtaining additional financing to further 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. Management's plans to meet the Company's current and future obligations are to raise capital in equity and private debt markets, private placements, rely on the financial support of its shareholders and related parties as well as to further expand commercial sales of the MiQLab.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a novel and highly contagious form of coronavirus, known as COVID-19, to be a pandemic. Since then, LexaGene's development and material procurement and sales processes have been somewhat impacted with long lead-time delays and restricted travel.

The Company cannot accurately predict the on-going impacts COVID-19 will have on its operations and the ability of others to meet their obligations with the Company. Unchanged from the last reporting period, LexaGene is continually monitoring the situation closely and may take additional measures to reduce its costs and preserve its liquidity.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34, *Interim Financial Reporting* under International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**"). These unaudited condensed interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements of the Company. These unaudited condensed interim consolidated financial statements do not contain all of the information required for full annual consolidated financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended February 28, 2021, which were prepared in accordance with IFRS as issued by the IASB and International Financial Reporting Interpretations Committee ("**IFRIC**") interpretations. The accounting policies set out below have been applied consistently to all periods presented in these unaudited condensed interim consolidated financial statements as if the policies have always been in effect.

These 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.

Translation gains and losses resulting from the consolidation of operations in Canada are recognized in other comprehensive loss in the consolidated statements of comprehensive loss, and in accumulated other comprehensive loss as a separate component of shareholders' equity on the consolidated statement of changes in equity.

The functional currency of the Company and its Canadian subsidiary is the Canadian dollar ("**CAD**"), and the USD for the Company's US subsidiary.

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. Under this method, the Canadian entities are translated to USD.

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

Period end dates	US to CAN	CAN to US
February 28, 2021	1.2685	0.7883
November 30, 2021	1.2792	0.7817

Period averages	US to CAN	CAN to US
Nine months ended November 30, 2020	1.3533	0.7395
Nine months ended November 30, 2021	1.2470	0.8021

(b) Use of estimates and judgments

The preparation of 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the consolidated financial statements are disclosed in Note 2 (p) of the consolidated financial statements.

(c) Basis of consolidation

The unaudited condensed interim consolidated financial statements for the three and nine months ended November 30, 2021 and 2020, 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.

(Expressed in US Dollars)

The consolidated financial statements include the financial statements of LexaGene Holdings Inc. and its subsidiaries listed as follows:

		% Ownership Interest	
Name	**Country of Incorporation**	**2021**	**2020**
Bionomics Diagnostics Inc.	Canada	100%	100%
LexaGene, Inc.	United States of America	100%	100%

(d) Accounting pronouncements not yet adopted by the Company

In January 2020, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, which clarify the criteria used to determine whether liabilities are classified as current or non-current. The amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

In May 2021, the IASB issued targeted amendments to IAS 12, *Income Taxes.* The amendments aim to reduce diversity in reporting through clarifying that companies are required to recognize deferred taxes on transactions where both assets and liabilities are recognized. These transactions generally include right-of-use assets and lease liabilities and decommissioning and similar liabilities. The amendments are effective for annual periods beginning on or after January 1, 2023, and earlier application is permitted.

The Company is currently assessing the impact of these amended standards but does not expect them to have a material impact on the financial statements.

3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to the short-term maturity of these 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.

Credit risks associated with accounts receivable risk is the risk of a financial loss if a customer fails to meet its obligations under a sales contract. This risk primarily arises from the Company's receivables from customers. The Company regularly reviews the collectability of its accounts receivable and would establish an allowance account for credit losses based on its best estimate of any potentially uncollectible accounts receivables. As of November 30, 2021, the balance of the allowance account for credit losses was $0 (February 28, 2021 - $0).

(Expressed in US Dollars)

(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. See Note 9 for maturities of the lease liability.

(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.

(i) Interest rate risk

The Company has cash balances and no interest-bearing investments or debt. If the Company had excess cash to invest, the Company's policy would be to invest the excess cash in investment-grade short-term deposit certificates issued by its banking institutions.

(ii) Foreign currency risk

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company is exposed to currency risk through financial assets and liabilities denominated in currencies other than the US dollar, the Company's presentation currency.

The Company's financial instruments denominated in currencies that are not the United States dollar as at November 30, 2021 are as follows:

	CAD$	USD$ Equivalent
Cash	$ 963,767	$ 753,376
Accounts payable and accrued liabilities	(173,062)	(135,282)
Net exposure	$ 790,705	$ 618,094

The impact of a 5% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company as of November 30, 2021 is estimated to have an impact in the Company's loss (holding all other variables constant) in the amount of approximately $31,000 (February 28, 2021 - $329,000). The carrying amount of cash, accounts payable and accrued liabilities in USD represents the Company's exposure as of November 30, 2021.

(iii) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

(Expressed in US Dollars)

4. REVENUES

Revenues are recognized when control of the products has transferred to the customer, being when the products are delivered to the customer, the customer takes control of the goods, the customer has full discretion over the use of the products, sales are final and there are no unfulfilled performance obligations that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location requested by the customer, the customer takes control of the goods at a designated warehouse, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Corporation has objective evidence that all criteria for acceptance have been satisfied.

All of the Company's sales and performance obligations occur as at a point in time. As at the end of the reporting period, there are no unfulfilled performance obligations. The Company's products are sold without any subsequent pricing adjustments and accordingly there has been no variable consideration assessment. No element of financing is present as all sales require advance payment, or payment within 30 to 60 days. The Company's only obligation is to provide an exchange for products under the standard assurance warranty terms and conditions. The warranty requirements, if any, are recognized as a provision under IAS 37, *Provisions, Contingent Liabilities, and Contingent Assets*. A receivable is recognized when the goods are controlled by the customer. This is the point in time that the consideration is unconditional as only the passage of time is required before payment is due. All advance payments, if any, are recorded as a liability called deferred revenue.

The Company determines the geographic location of revenues from operations based on the location of its customers.

Revenues for periods ended	Three months ended November 30, 2021	2020	Nine months ended November 30, 2021	2020
United States	$ 48,309	$ -	$ 88,934	$ -
Total	**$ 48,309**	**$ -**	**$ 88,934**	**$ -**

5. TRADE AND OTHER ACCOUNTS RECEIVABLE

As at	November 30, 2021	February 28, 2021
Accounts receivable	$ 38,916	$ 44,084
Loss allowance	-	-
Total	**$ 38,916**	**$ 44,084**

Impairment

The Company assesses, on a forward-looking basis, the expected credit losses associated with its assets carried at fair value. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables only, the Corporation applies the simplified approach permitted by IAS 9, *Financial Instruments*, which requires expected lifetime losses to be recognized from initial recognition of the receivables. Trade receivables are non-interest bearing and are on 30- to 60-day terms.

(Expressed in US Dollars)

As of November 30, 2021 and February 28, 2021, no trade receivables were impaired. The ageing analysis of trade receivables is as follows:

As at	November 30, 2021	February 28, 2021
Amounts past due:		
Current	$ 13,367	$ 33,250
Past due 1-30 days	438	10,834
Past due 31-60 days	21,100	-
Past due 61-120 days	1,948	-
Past due more than 120 days	2,064	-
Total	**$ 38,916**	**$ 44,084**

Amounts in accounts receivable are based on customer sales, and goods and service tax ("**GST**") refunds due to the Company from the Canada Revenue Agency. As of November 30, 2021 $21,538 related to previous customer sales from October and November 2021, $6,956 was in relation to GST refunds and $10,422 relates to a vendor refund. Amounts due for more than 61 days relate to GST receivable from Canada Revenue Agency and are not considered impaired. As of February 28, 2021, $33,250 related to customer sales and $10,834 was in relation to GST refunds.

6. INVENTORIES

Raw materials, work in process, and finished goods inventories are stated at the lower of cost and net realizable value, with cost being determined using a weighted average costing formula. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The Company maintains three categories of inventory: raw materials, work in process and finished goods.

As of November 30, 2021 and February 28, 2021, the Company valued its inventory as follows:

As at	November 30, 2021	February 28, 2021
Finished goods	$ 75,650	$ 36,665
Raw materials	699,892	749,626
Work in process	622,777	279,638
Total	**$ 1,398,319**	**$ 1,065,929**

On November 30, 2021, the inventory consisted of completed MiQLab Systems, raw materials, work in process and supplies required for manufacturing. These parts and supplies totaling $1,398,319 were purchased at cost (February 28, 2021 - $1,065,929).

The amount of inventory recognized as expense during the nine-month period ended November 30, 2021, was $376,786 (2020 - $0).

Cost comprises of direct materials and delivery costs, direct labor, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

7. 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 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.

(Expressed in US Dollars)

A continuity schedule of changes in carrying value of the intangible license:

Cost		
Balance, February 29, 2020	$	109,140
Additions		-
Effect of foreign exchange differences		6,397
Balance, February 28, 2021	$	115,537
Additions		-
Effect of foreign exchange differences		(967)
Balance, November 30, 2021	**$**	**114,570**
Accumulated amortization		
Balance, February 29, 2020	$	41,572
Additions		5,668
Effect of foreign exchange differences		6,397
Balance, February 28, 2021	$	53,637
Additions		6,902
Effect of foreign exchange differences		2,095
Balance, November 30, 2021	**$**	**62,634**
Carrying values		
February 28, 2021	$	61,900
November 30, 2021	**$**	**51,936**

(Expressed in US Dollars)

8. PROPERTY AND EQUIPMENT

As of November 30, 2021 and February 28, 2021, the continuity schedule of changes in the net book value of property and equipment is as follows:

Cost	Computer Equipment	Lab Equipment	Furniture & Fixtures	Leasehold Improvements	Total
Balance, February 29, 2020	$ 15,577	$ 375,644	$ 88,062	$ 406,749	$ 886,032
Additions	-	61,157	-	6,969	68,126
Balance, February 28, 2021	$ 15,577	$ 436,801	$ 88,062	$ 413,718	$ 954,158
Additions	-	12,135	-	5,725	17,860
Balance, November 30, 2021	**$ 15,577**	**$ 448,936**	**$ 88,062**	**$ 419,443**	**$ 972,018**
Accumulated amortization					
Balance, February 29, 2020	$ 8,921	$ 138,538	$ 27,544	$ 108,652	$ 283,655
Additions	4,090	77,584	14,677	58,934	155,285
Balance, February 28, 2021	$ 13,011	$ 216,122	$ 42,221	$ 167,586	$ 438,940
Additions	1,294	66,004	11,058	45,461	123,817
Balance, November 30, 2021	**$ 14,305**	**$ 282,126**	**$ 53,279**	**$ 213,047**	**$ 562,757**
Carrying values					
February 28, 2021					$ 515,218
November 30, 2021					**$ 409,261**

9. RIGHT-OF-USE ASSET AND LEASE LIABILITY

As of November 30, 2021 and February 28, 2021, the balance of the lease liability is as follows:

		Carrying Value
Balance, March 1, 2020	$	1,916,552
Interest expense		74,742
Lease payments		(396,362)
Balance, February 28, 2021	$	1,594,933
Current portion of the lease liability		(305,875)
Non -current portion of the lease liability, February 28, 2021	$	1,289,058
Balance February 28, 2021	$	1,594,933
Interest expense		52,756
Lease payments		(297,271)
Revaluation of the right-of use asset and lease liability		(88,480)
Balance November 30, 2021	$	1,261,938
Current portion of the lease liability		(336,362)
Non -current portion of the lease liability, November 30, 2021	**$**	**925,576**

(Expressed in US Dollars)

As of November 30, 2021 and February 28, 2021, the balance of the right-of-use asset is as follows:

		Carrying Value
Balance, March 1, 2020	$	1,851,322
Depreciation		(352,633)
Balance, February 28, 2021	$	1,498,689
Depreciation		(254,046)
Revaluation of the right-of use asset and lease liability		(88,480)
Balance, November 30, 2021	**$**	**1,156,163**

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

10. 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 period ended November 30, 2021:

- In March 2021, the Company issued 41,200 shares upon exercise of warrants. 40,000 warrants were exercised at CAD$0.75 per share and 1,200 warrants were exercised at CAD$0.52 per share.

- In June 2021, the Company issued 63,750 shares upon exercise of options at CAD$0.53. The Company received cash proceeds of $27,772 and reclassified $78,983 from share-based payment reserve in connection with the option exercise.

- During the period ended November 30, 2021, the Company issued 672,076 shares on vesting of the RSUs, and an amount of $435,605 was reclassified from share-based payment reserve upon vesting of the RSUs.

Issuances during the year ended February 28, 2021:

- On September 9, 2020, the Company sold 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 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 year ended, February 28, 2021, 1,331,150 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 231,150 stock options were exercised at CAD$0.53.

(Expressed in US Dollars)

- During the year ended, February 28, 2021, 857,209 RSUs vested, and an amount of $560,519 was reclassified from share-based payment reserve to share capital upon vesting of the RSUs.

- During the year ended, February 28, 2021, 11,203,087 warrants were exercised. 261,079 warrants were exercised at CAD$0.52 per warrant, 997,167 warrants were exercised at CAD$0.60 per warrant, 4,233,424 were exercised at CAD$0.65 per warrant, 4,469,752 were exercised at CAD$0.75 per warrant, 42,661 were exercised at CAD$0.85 per warrant, 28,050 were exercised at CAD$1.00 per warrant, 1,062,554 were exercised at CAD$1.10 per warrant and 108,400 were exercised at CAD$1.30 per warrant. $42,552 was reclassified from share-based payment reserve to share capital upon exercise of broker warrants.

(c) Warrants

The changes in warrants during the period ended November 30, 2021 and the year ended February 28, 2021 are summarized as follows:

	Number of warrants	Weighted average exercise price, CAD	
Warrants outstanding, February 29, 2020	**24,953,191**	**$**	**0.90**
Warrants issued	8,914,801	$	1.10
Warrants exercised	(261,079)	$	0.52
Warrants exercised	(997,167)	$	0.60
Warrants exercised	(4,233,424)	$	0.65
Warrants exercised	(4,469,752)	$	0.75
Warrants exercised	(42,661)	$	0.85
Warrants exercised	(28,050)	$	1.00
Warrants exercised	(1,062,554)	$	1.10
Warrants exercised	(108,400)	$	1.30
Warrants expired	(3,339,914)	$	1.34
Warrants outstanding, February 28, 2021	**19,324,991**	**$**	**0.97**
Warrants exercised	(40,000)	$	0.75
Warrants exercised	(1,200)	$	0.52
Warrants expired	(374,450)	$	1.00
Warrants expired	(2,766,600)	$	1.30
Warrants expired	(62,981)	$	0.75
Warrants outstanding, November 30, 2021	**16,079,760**	**$**	**0.91**

Details of warrants outstanding as of November 30, 2021 are as follows:

Number of Warrants	Exercise Price, CAD$	Expiry Date
450,620	0.52	October 29, 2022
7,776,893	0.75	October 29, 2022
7,852,247	1.10	September 9, 2023
16,079,760		

(Expressed in US Dollars)

As of November 30, 2021, the weighted average remaining contractual life of warrants outstanding was 1.33 years (February 28, 2021 - 1.84 years) with a weighted average exercise price of $0.71 (CAD$0.91) (February 28, 2021 - $0.77 (CAD$0.97)).

(d) Stock options

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

	Options	Weighted Average Exercise Price, CAD	
Balance, February 29, 2020	**4,653,000**	**$**	**0.61**
Stock options issued	1,062,000	$	0.73
Stock options exercised	(1,331,150)	$	0.38
Stock options cancelled, expired or forfeited	(350,000)	$	0.33
Stock options cancelled, expired or forfeited	(311,850)	$	0.67
Balance, February 28, 2021	**3,722,000**	**$**	**0.75**
Stock options issued	396,000	$	0.66
Stock options issued	644,500	$	0.49
Stock options issued	690,000	$	0.59
Stock options issued[1]	690,000	$	0.59
Stock options issued	150,000	$	0.57
Stock options issued	100,000	$	0.66
Stock options cancelled, expired or forfeited	(220,000)	$	1.05
Stock options cancelled, expired or forfeited	(105,000)	$	1.15
Stock options cancelled, expired or forfeited	(136,250)	$	0.53
Stock options cancelled, expired or forfeited	(90,000)	$	0.79
Stock options cancelled, expired or forfeited	(61,150)	$	0.49
Stock options cancelled, expired or forfeited	(7,500)	$	0.65
Stock options cancelled, expired or forfeited	(20,000)	$	0.72
Stock options cancelled, expired or forfeited	(64,800)	$	0.66
Stock options exercised	(63,750)	$	0.53
Balance, November 30, 2021	**5,624,050**	**$**	**0.66**

[1] These are Performance Options, vesting if the performance conditions are satisfied by December 31, 2021. As these conditions were not satisfied, the options expired subsequent to November 30, 2021.

After shareholder approval, the Company amended its Omnibus Incentive Plan on July 25, 2017, August 23, 2019, November 10, 2020 and on December 16, 2021. 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 8,354,070 Common Shares reserved for stock options.

Stock option transactions during the period ended November 30, 2021:

- On May 11, 2021, the Company granted 396,000 stock options to non-executive directors exercisable at CAD$0.66 per share expiring on May 11, 2031. The options vest 10% on the grant date and 15% every six months thereafter.

- On May 28, 2021, the Company granted 644,500 stock options exercisable at CAD$0.49 per share. The options vest 10% on the grant date and 15% every six months thereafter, expiring on May 28, 2025.

- On May 28, 2021, the Company granted 690,000 stock options to executive officers. Each Option is exercisable into one common share of the Company at a price of CAD$0.59 per share for a period of ten years from the date of the grant. The Options vest 10% on the grant date, and 15% every six months thereafter. The Options expire on May 28, 2031.

- On May 28, 2021, the Company granted an additional 690,000 stock options to executive officers ("Performance Options"), exercisable at a price of CAD$0.59 per share. The performance conditions are associated with 2021 performance milestone goals set forth by the Board of Directors for executive management. The conditions are as follows: meeting the requirements to list the Company's shares on NASDAQ and filing of the Form 40-F with the SEC. If the performance conditions are not satisfied on or before December 31, 2021, the Performance Options will be cancelled. If both performance conditions are met on or before December 31, 2021, the Performance Options will vest on January 1, 2022 and will have an expiry date of May 28, 2031.

- The Company also granted 150,000 incentive stock options to employees on October 13, 2021. Stock options are exercisable at $0.57 per common share and vest at 10% 6 months after the grant date and 15% every 6 months thereafter. Stock options expire on October 13, 2026.

- On November 10, 2021, the Company granted 100,000 non-statutory stock options to a director of the Company. The options are exercisable at $0.66 per common share for a period of 10 years. 10% of the options vested on grant date and 15% vest every 6 months thereafter.

Stock option transactions during the year ended February 28, 2021:

- 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.

- On September 17, 2020, the Company granted to 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 December 10, 2020, the Company granted 464,500 stock options to employees with an exercise price of CAD$0.79 per stock option with an expiration date of December 10, 2024. The stock options vest 10% on June 10, 2021 and 15% each 6 months thereafter with the last vest date of June 10, 2024.

- On December 10, 2020, the Company granted 30,000 stock options to consultants with an exercise price of CAD$0.79 per stock option with an expiration date of December 10, 2024. The stock options vest 10% on June 10, 2021 and 15% each 6 months thereafter with the last vest date of June 10, 2024.

(Expressed in US Dollars)

- During the year ended, February 28, 2021, 663,050 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, 2021	November 30, 2020
Annualized volatility	73%	132%
Risk-free interest rate	0.77%	1.42%
Expected life of options in years	4.80	3.2
Expected dividend rate	0.00%	0.00%

Fair value of equity-settled stock options are measured at the grant date based on the market value of the Company's common shares on that date. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of options is determined using the Black–Scholes Option Pricing Model.

The average share price during the period ended November 30, 2021 was \$0.50 (CAD\$0.62) (2020 - \$0.58 (CAD\$0.78)).

The following table summarizes information on stock options outstanding as of November 30, 2021:

Options Outstanding	Options Exercisable	Exercise Price, CAD$	Expiry Date
455,000	455,000	0.53	February 21, 2022
370,000	370,000	1.15	February 21, 2022
98,000	98,000	0.65	April 11, 2022
100,000	85,000	0.97	June 26, 2022
642,500	552,500	0.65	September 29, 2022
217,000	184,450	0.53	October 19, 2022
17,500	7,000	0.82	December 9, 2023
404,500	41,350	0.79	December 10, 2024
583,350	146,475	0.49	May 28, 2025
100,000	100,000	0.81	September 17, 2025
225,000	-	0.72	February 19, 2030
100,000	50,000	0.63	April 21, 2030
350,000	350,000	0.66	September 17, 2030
331,200	109,800	0.66	May 11, 2031
690,000	172,500	0.59	May 28, 2031
690,000	-	0.59	May 28, 2031[1]
150,000	-	0.57	October 13, 2026
100,000	10,000	0.66	November 10, 2031
5,624,050	**2,732,075**		

[1] These are Performance Options, vesting if the performance conditions are satisfied by December 31, 2021. As these conditions were not satisfied, the options expired subsequent to November 30, 2021.

As of November 30, 2021, the weighted average remaining contractual life of options outstanding was 5.03 years (February 28, 2021 – 3.13 years), with a weighted average exercise price of $0.51 (CAD$0.66) (February 28, 2021 - $0.49 (CAD$0.62)). As of November 30, 2021 2,732,075 stock options were exercisable (February 28, 2021 - 2,241,600).

The Company recorded stock-based compensation expense related to stock options of $95,794 and $375,552 for the three and nine months ended November 30, 2021, respectively (2020 - $239,680 and $355,866). For the nine months ended November 30, 2021, $30,520 was recorded in sales and marketing (2020 - $2,023), $204,467 in general and administrative (2020 - $284,355), $3,590 in manufacturing (2020 - $0) and $136,975 in research and development expense (2020 - $69,448). For the three months ended November 30, 2021, $7,785 was recorded in sales and marketing (2020 - $605), $52,154 in general and administrative (2020 - $201,701), $916 in manufacturing (2020 - $0) and $34,939 in research and development expense (2020 - $37,334).

(e) Restricted share units

After shareholder approval, the Company amended its Omnibus Incentive Plan on July 25, 2017, August 23, 2019, November 10, 2020 and on December 16, 2021. 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 allows the Company to grant up to 8,354,070 Common Shares reserved for RSUs.

Restricted share unit transactions during the period ended November 30, 2021:

- On May 11, 2021, the Company granted 396,000 RSUs to non-executive directors. RSUs start vesting on May 11, 2023, in equal 10% increments on the 11th day of each month thereafter, expiring on February 11, 2024.

- On May 28, 2021, the Company granted 644,500 RSUs to non-insider employees with the expiration date of February 28, 2024. The restricted share units vest 10% on October 28, 2021, and 15% every four months thereafter.

- On October 13, 2021, the Company granted 150,000 RSUs to employees. The RSUs vest as follows: 10% on March 13, 2022, 15% on each of July 13, 2022, December 13, 2022, May 13, 2023, October 13, 2023, December 13, 2023, and February 13, 2024. RSUs expire on February 13, 2024.

- On November 10, 2021, the Company granted 100,000 RSUs to a director. The RSUs will vest at 10% on May 11, 2023, and 10% each month thereafter, expiring on February 11, 2024.

- During the period ended November 30, 2021, 558,150 RSUs were cancelled.

Restricted share unit transactions during the year ended February 28, 2021:

- 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% each 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 restricted share units vest 33% on September 17, 2021, 33% on September 17, 2022 and 34% on September 17, 2023. On November 8, 2021, Dr. Furtado resigned from the Board of Directors, and the unvested portion of these RSUs forfeited.

- 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 December 10, 2020, the Company granted 539,500 restricted share units to employees. The restricted share units have trigger dates of 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, expiring on February 10, 2023.

- On December 10, 2020, the Company granted 30,000 restricted share units to consultants. The restricted share units have trigger dates of 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, expiring on February 10, 2023.

- During the year ended, February 28, 2021, 780,250 restricted shares units were cancelled.

The Company recorded stock-based compensation expense related to restricted share units of $166,610 and $538,128 for the three and nine months ended November 30, 2021, respectively (2020 - $383,505 and $657,041). For the nine months ended November 30, 2021, $(677) was recorded in sales and marketing (2020 - $55,081), $331,895 in general and administrative (2020 - $465,044), $10,032 in manufacturing (2020 - $0) and $196,878 in research and development expense (2020 - $(22,928)). For the three months ended November 30, 2021, $(210) was recorded in sales and marketing (2020 - $16,718), $102,758 in general and administrative (2020 - $175,321), $3,106 in manufacturing (2020 - $0) and $60,956 in research and development expense (2020 - $31,632).

As of November 30, 2021, 2,391,278 RSUs were outstanding (February 28, 2021 - 2,368,254).

11. CAPITAL MANAGEMENT

The Company is a biotechnology company developing, manufacturing and selling 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 significant 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.

(Expressed in US Dollars)

12. 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. During the three and nine months ended November 30, 2021 and 2020, expenses incurred for key management compensation are summarized as:

	Three months ended November 30, 2021	Three months ended November 30, 2020	Nine months ended November 30, 2021	Nine months ended November 30, 2020
Salaries and benefits	$ 242,336	$ 688,961	$ 678,286	$ 1,049,457
Consulting fees	-	10,800	-	32,400
Board fees	35,750	-	109,250	-
Stock-based compensation	100,928	434,714	424,226	976,018
	$ 379,014	**$ 1,134,475**	**$ 1,211,762**	**$ 2,057,875**

As of November 30, 2021, $0 was payable to key management (February 28, 2021 - $0).

There are no post-employment expenses or other long-term expenses for key management.

13. 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 of November 30, 2021, the Company is in 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 November 30, 2021	Three months ended November 30, 2020	Nine months ended November 30, 2021	Nine months ended November 30, 2020
Product development consulting expense	$ -	$ 203,246	$ 48,630	$ 925,572
Depreciation of lab related equipment	28,389	25,797	87,108	77,994
Depreciation of the intangible license	4,177	2,319	9,673	6,778
Depreciation of right-of-use asset	28,328	32,187	92,701	96,560
Lab administration and supplies	141,042	12,362	395,768	37,480
Materials	327,210	18,675	999,528	740,878
Travel	5,109	2,322	17,554	4,204
Salaries	886,232	1,129,742	2,699,286	2,442,974
Share-based compensation	95,894	68,996	333,853	46,560
Total research and development expenses	**$ 1,516,381**	**$ 1,495,646**	**$ 4,684,101**	**$ 4,379,000**

(Expressed in US Dollars)

14. GENERAL AND ADMINSTRATIVE EXPENSES

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

	Three months ended November 30, 2021	Three months ended November 30, 2020	Nine months ended November 30, 2021	Nine months ended November 30, 2020
Office and administration	$ 16,170	$ 16,288	$ 44,037	$ 50,623
Depreciation of property and equipment	12,382	12,291	36,708	37,204
Depreciation of right-of-use asset	49,402	55,972	161,345	167,915
Consulting	430	27,454	3,119	31,890
Promotional services	110,776	58,006	257,040	174,193
Professional fees	101,743	47,058	258,194	199,004
Insurance	5,008	4,698	12,352	14,251
Interest expense (right-of-use asset)	16,567	20,583	52,756	64,635
Transfer agent and filing fees	27,533	11,698	66,097	31,419
Travel	2,467	3,522	3,055	4,636
Salaries	62,764	151,851	134,889	247,549
Share-based compensation	154,913	377,022	536,362	749,399
Total general and administrative expenses	**$ 560,155**	**$ 786,443**	**$ 1,565,954**	**$ 1,772,718**

15. SALES, MARKETING AND PROMOTIONAL EXPENSES

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

	Three months ended November 30, 2021	Three months ended November 30, 2020	Nine months ended November 30, 2021	Nine months ended November 30, 2020
Sales, marketing and promotion	$ 131,950	$ 123,421	$ 509,670	$ 449,139
Office and miscellaneous	7,000	-	7,096	-
Travel	20,604	14,144	31,561	22,317
Salaries	381,589	544,169	1,157,571	853,493
Share-based compensation	7,575	17,323	29,842	57,104
Total sales, marketing and promotional expenses	**$ 548,718**	**$ 699,057**	**$ 1,735,740**	**$ 1,382,053**

16. SEGMENTED INFORMATION

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

(Expressed in US Dollars)

17. COMMITMENTS

The Company has one operating lease agreement for their office and laboratory premises. Commitment in respect of this lease agreement is as follows:

		2021
Not more than one year	$	396,362
Later than one year and not later than five years		990,904
Later than five years		-
	$	**1,387,266**

18. SUBSEQUENT EVENTS

Subsequent to November 30, 2021, the Company issued 22,500 shares upon vesting of RSUs and options.

On January 10, 2022, the Company granted 392,500 stock options exercisable at $0.2850 and expiring on January 10, 2022, and 392,500 RSUs that expire February 28, 2025, on to employees of the Company.