LEXSTON LIFE SCIENCES CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MAY 31, 2022 AND 2021

(EXPRESSED IN CANADIAN DOLLARS)

SATURNA GROUP
CHARTERED PROFESSIONAL ACCOUNTANTS LLP
Suite 1605, 1166 Alberni Street
Vancouver, BC Canada V6E 3Z3

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Lexston Life Sciences Corp.

Opinion

We have audited the consolidated financial statements of Lexston Life Sciences Corp. (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2022 and 2021 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows for the year ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at May 31, 2022 and 2021 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company used cash of $1,401,453 for operating activities and incurred a net loss of $2,320,214 during the year ended May 31, 2022 and had an accumulated deficit of $3,196,344 as at May 31, 2022. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Henry Chow.

Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

September 22, 2022

LEXSTON LIFE SCIENCES CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	May 31, 2022 $	May 31, 2021 $
ASSETS		
Current assets		
Cash	**590,494**	949,171
Accounts receivable (Note 6)	**37,565**	37,459
Prepaid expenses and deposits	**187,387**	2,000
Total current assets	**815,446**	988,630
Non-current assets		
Investment (Note 7)	**29,000**	–
Property and equipment (Note 9)	**108,353**	114,201
Total non-current assets	**137,353**	114,201
Total assets	**952,799**	1,102,831
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**79,088**	34,747
Due to related party (Note 13)	**–**	4,061
Total current liabilities	**79,088**	38,808
Shareholders' equity		
Share capital (Note 10)	**3,276,996**	1,506,184
Share-based payment reserves (Notes 10 and 12)	**793,059**	433,969
Deficit	**(3,196,344)**	(876,130)
Total shareholders’ equity	**873,711**	1,064,023
Total liabilities and shareholders’ equity	**952,799**	1,102,831

Nature of operations and continuance of business (Note 1)
Subsequent events (Note 15)

Approved and authorized for issuance by the Board of Directors on September 22, 2022:

/s/ Clinton Sharples
Clinton Sharples, Director

/s/ Jagdip Bal
Jagdip Bal, Director

(The accompanying notes are an integral part of these consolidated financial statements)

LEXSTON LIFE SCIENCES CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

	Year ended May 31, 2022 $	Period from July 1, 2020 (date of incorporation) to May 31, 2021 $
Revenues (Note 8)	**361,011**	149,110
Cost of sales	**119,524**	89,007
Gross profit	**241,487**	60,103
Operating expenses		
Advertising and promotion	**303,252**	3,021
Amortization (Note 9)	**31,982**	11,267
Bad debt expense (Note 6)	**135,964**	32,530
Consulting	**148,079**	29,744
Management fees (Note 13)	**70,000**	–
Office and miscellaneous	**28,489**	21,743
Professional fees	**129,005**	104,529
Regulatory and transfer agent fees	**78,142**	4,588
Rent	**20,270**	16,100
Research and development	**125,448**	43,198
Salaries and benefits (Note 13)	**456,413**	287,396
Share-based compensation (Notes 12 and 13)	**707,199**	21,194
Travel and promotion	**6,865**	8,409
Total operating expenses	**2,241,108**	583,719
Net loss before other income (expense)	**(1,999,621)**	(523,616)
Other income (expense)		
Gain on settlement of debt	**13,400**	–
Impairment of intangible assets (Note 5)	**(287,993)**	–
Listing expense (Note 4)	**–**	(352,514)
Unrealized loss on investment (Note 7)	**(46,000)**	–
Total other income (expense)	**(320,593)**	(352,514)
Net loss and comprehensive loss	**(2,320,214)**	(876,130)
Loss per share, basic and diluted	**(0.21)**	(0.17)
Weighted average number of shares outstanding, basic and diluted	**11,162,186**	5,063,070

(The accompanying notes are an integral part of these consolidated financial statements)

LEXSTON LIFE SCIENCES CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserves	Deficit	Total
	Number of shares	Amount $	$	$	$
Balance, July 1, 2020 (date of incorporation)	20	1	–	–	1
Issuance of founders' shares for cash	2,999,980	14	–	–	14
Issuance of common shares for cash	1,600,000	120,000	–	–	120,000
Shares issued pursuant to recapitalization transaction	5,393,652	1,386,169	412,775	–	1,798,944
Fair value of stock options granted	–	–	21,194	–	21,194
Net loss for the period	–	–	–	(876,130)	(876,130)
Balance, May 31, 2021	9,993,652	1,506,184	433,969	(876,130)	1,064,023
Issuance of common shares pursuant to the exercise of stock options	540,000	767,109	(348,109)	–	419,000
Issuance of common shares pursuant to the exercise of warrants	978,333	733,750	–	–	733,750
Shares issued pursuant to acquisition	234,742	269,953	–	–	269,953
Fair value of stock options granted	–	–	707,199	–	707,199
Net loss for the year	–	–	–	(2,320,214)	(2,320,214)
Balance, May 31, 2022	**11,746,727**	**3,276,996**	**793,059**	**(3,196,344)**	**873,711**

(The accompanying notes are an integral part of these consolidated financial statements)

LEXSTON LIFE SCIENCES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	Year ended May 31, 2022 $	Period from July 1, 2020 (date of incorporation) to May 31, 2021 $
OPERATING ACTIVITIES		
Net loss	**(2,320,214)**	(876,130)
Items not involving cash:		
Amortization	**31,982**	11,267
Impairment of intangible assets	**287,993**	–
Listing expense	**–**	352,514
Share-based compensation	**707,199**	21,194
Unrealized loss on investment	**46,000**	–
Changes in non-cash operating working capital:		
Amounts receivable	**(106)**	(34,623)
Prepaid expenses and deposits	**(184,587)**	4,000
Accounts payable and accrued liabilities	**34,341**	34,555
Due to related party	**(4,061)**	4,061
Net cash used in operating activities	**(1,401,453)**	(483,162)
INVESTING ACTIVITIES		
Cash acquired from recapitalization transaction	–	937,786
Cash acquired from acquisition of Zenalytic Laboratories Ltd.	**15,460**	–
Acquisition of Zenalytic Laboratories Ltd.	**(50,000)**	–
Purchase of investment	**(75,000)**	–
Purchase of property and equipment	**(434)**	(125,468)
Net cash provided by (used in) investing activities	**(109,974)**	812,318
FINANCING ACTIVITIES		
Proceeds from shares issued	**–**	120,015
Proceeds from exercise of stock options	**419,000**	–
Proceeds from exercise of warrants	**733,750**	–
Proceeds from loan payable	**–**	500,000
Net cash provided by financing activities	**1,152,750**	620,015
Change in cash	**(358,677)**	949,171
Cash, beginning of period	**949,171**	–
Cash, end of period	**590,494**	949,171
Non-cash investing and financing activities:		
Fair value of shares issued for acquisition	**269,953**	–
Fair value of shares issued for recapitalization transaction	**–**	1,798,944
Transfer of fair value of stock options to share capital upon exercise	**348,109**	–

(The accompanying notes are an integral part of these consolidated financial statements)

1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS

Lexston Life Sciences Corp. (the "Company") was incorporated on January 3, 2020 under the laws of the province of British Columbia. The address of the Company's registered and records of is 1150 – 789 West Pender Street, Vancouver, BC, V6C 1H2 and its principal place of business is 929 Mainland Street, Vancouver, BC V6B 1S3. On January 18, 2021, the Company changed its name to Lexston Life Sciences Corp. in conjunction with the Share Exchange Agreement (the "Agreement") with Egret Biosciences Inc. ("Egret"). Refer to Note 4.

On September 22, 2020 (as amended on October 20, 2020, December 3, 2020, December 28, 2020, and January 6, 2021), the Company entered into an Agreement with Egret, a company specializing in the research and development of pharmaceutical products which included a research license issued by Health Canada to the principal of Egret in accordance with the Cannabis Act and Cannabis Regulations. On September 3, 2020, Egret was issued an analytical testing license by Health Canada, which authorizes Egret to acquire and hold cannabis for the purpose of testing. Concurrent with the Agreement, Lexston issued 3,768,652 units at $0.375 per unit for proceeds of $1,413,245 prior to the closing date of the Agreement. On February 4, 2021, the Agreement was completed. Refer to Note 4.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The impact on the Company has not been significant, but management continues to monitor the situation.

During the year ended May 31, 2022, the Company incurred a net loss of $2,320,214 and has used net cash in operating activities of $1,401,453. As at May 31, 2022, the Company has an accumulated deficit of $3,196,344. The Company expects to incur further losses in the development of its operations. While the Company has positive working capital, the ability of the Company to carry out its business objectives is dependent on its ability to secure continued financial support from related parties, to obtain public equity financing, or to ultimately attain profitable operations in the future. If and when the Company can attain profitability and positive cash flows is uncertain. While the Company has been successful in securing financing in the past, there is no assurance that financing will be available in the future on terms acceptable to the Company. These 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 thus 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 these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis and in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments which are measured at fair value. These financial statements are presented in Canadian dollars, which is also the Company's functional currency.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Egret Bioscience Ltd. and Zenalytic Laboratories Ltd. ("Zen").

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation (continued)

The Company's consolidated financial statements include the accounts of all subsidiaries subject to control by the Company. Control is achieved when the Company has the power to, directly or indirectly, govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is obtained and continue to be consolidated until the date that such control ceases. Intercompany balances, transactions, and unrealized intercompany gains and losses are eliminated upon consolidation.

Use of Estimates and Judgments

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both the current and future periods.

Significant areas requiring the use of management estimates include the collectability of accounts receivable, carrying value of investment, the useful lives and carrying value of property and equipment and intangible assets, fair value of share-based compensation, and recoverability of unrecognized deferred income tax assets.

Significant judgments include:

- Assessment of whether the going concern assumption is appropriate which requires management to take into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period;
- Determining whether the acquisitions of Egret and Zen are a business combination or an asset acquisition. In a business combination, all identifiable assets, liabilities, and contingent liabilities acquired are recorded at their fair values. In determining the allocation of the purchase price in a business combination, including any acquisition related contingent consideration, estimates include market based and appraisal values are used. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in the acquisition transaction. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.
- Judgment with respect to the assessment of fair value of investment in a private company. The fair value of common shares in a private company is determined by valuation techniques such as recent arm's length transactions, option pricing models, or other valuation techniques commonly used by market participants; and
- Costs to develop products that will be sold are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38, *Intangible Assets,* are met. Those criteria require that the product is technically and economically feasible, which management assesses based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risks of changes in value to be cash equivalents.

Accounts receivable

The Company reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on the age of the receivable and factors that identify receivables that are at risk of collection.

Property and equipment

Property and equipment is recorded at historical cost less related accumulated depreciation and impairment losses. Cost is determined as the expenditure directly attributable to the asset at acquisition, only when it is probable that future economic benefits will flow to the Company and the cost can be reliably measured. When an asset is disposed of, its carrying cost is derecognized. All repairs and maintenance costs are charged to the consolidated statement of operations during the financial period in which they are incurred. The Company provides for depreciation of property and equipment on a straight-line basis unless otherwise noted using the following annual rates:

Computer equipment	3 years straight line
Laboratory equipment	3 - 5 years straight line

Financial instruments

Classification and measurement – initial recognition

On initial recognition, all financial assets and liabilities are classified and recorded at fair value, net of attributable transaction costs, except for financial assets and liabilities classified as at fair value through profit or loss (“FVTPL”).

Classification and measurement – subsequent to initial recognition

Subsequent measurement of financial assets and liabilities depends on their classification and measurement basis.

Financial Assets

Subsequent to initial recognition, financial assets are measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that do not meet the above conditions are classified as fair value through profit or loss. The Company's cash and accounts receivable are measured at amortized cost. The Company's investment is measured at FVTPL.

Financial Liabilities

Subsequent to initial recognition, financial liabilities are measured at amortized cost, unless designated as fair value through profit or loss. The Company's accounts payable and accrued liabilities and amounts due to a related party are measured at amortized cost.

Impairment of Financial Assets

The Company applies the expected credit loss ("ECL") model to its financial assets measured at amortized cost. Under the ECL model, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Upon recognition of a financial asset, 12-month ECLs are recognized in the consolidated statement of operations and a loss allowance is established. At each reporting date, if the credit risk associated with a financial asset has increased significantly and is not considered low, lifetime ECLs are recognized in the consolidated statement of operations.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of long-lived assets to determine whether there is an indication that those assets have suffered an impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment charge (if any). The Company's long-lived assets consists of property, equipment and furniture, and intangible assets.

The recoverable amount used for this purpose is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its recorded amount, the recorded amount of the asset is reduced to its recoverable amount. An impairment charge is recognized immediately in the consolidated statements of operations, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to a maximum amount equal to the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

Business combinations

The Company evaluates acquisitions to determine whether it is a business combination or an asset acquisition. The Company accounts for business combinations under the acquisition method of accounting. The Company includes the results of operations of acquired businesses in its consolidated financial statements as of the respective dates of acquisition. The purchase price is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date, with the excess recorded to goodwill.

The determination of fair value requires considerable judgment and is sensitive to changes in the underlying assumptions. The Company's estimates are preliminary and subject to adjustment, which may result in material changes to the final valuation. During the measurement period, which will not exceed one year from closing, the Company may continue to obtain information to assist in finalizing the acquisition date fair values. Any qualifying changes to the preliminary estimates will be recorded as adjustments to the respective assets and liabilities, with any residual amounts allocated to goodwill. Acquisition costs are expensed as incurred, unless they qualify to be treated as debt issue costs, or as cost of issuing equity securities.

Asset acquisitions are accounted for using a cost accumulation model, with the cost of the acquisition allocated to the acquired assets based on their relative fair values. Goodwill is not recognized in an asset acquisition.

Intangible assets

Intangible assets consist of a pathogen license and customer relationships acquired from the acquisition of Zen. Intangible assets are carried at cost less accumulated amortization and impairment and are capitalized when the costs can be measured reliably and its probable that future economic benefits that are attributable to the asset will flow to the Company. The Company's customer relationships have an estimated useful life of 15 years and the pathogen license has an indefinite useful life.

Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share. Stock options, share purchase warrants, and other equity instruments are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options, warrants and other equity instruments. As at May 31, 2022, the Company had 3,586,319 (2021 – 4,168,652) potentially dilutive shares outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

(i) Current income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of each reporting period.

(ii) Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Share capital

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are issued, and any excess is allocated to warrants.

Incremental costs directly attributed to the issuance of common shares are shown in equity as a reduction, net of tax, of the proceeds received on issue. Shares issued for non-monetary consideration are valued based on the fair value of the goods or services received unless the fair value of the shares are a more reliable measure.

Revenue recognition

The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

1) Identifying the contract with a customer;
2) Identifying the performance obligations within the contract;
3) Determining the transaction price;
4) Allocating the transaction price to the performance obligations; and
5) Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is earned through the product sales and consulting services. Revenues from product sales is primarily derived from product outputs and data derived from the Company's laboratory which is based an agreement with a customer on their specific needs and a transaction price. The amounts are billed when the output or data has been completed and received by the customer.

Revenue from consulting services is derived from services provided to third parties where the Company provides services based on the direction of the customer at pre-determined consulting rates which are billed monthly and is based on the amount of time incurred to the customer.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Company grants share-based awards to employees, directors, and consultants as an element of compensation. The fair value of the awards is recognized over the vesting period as share-based compensation expense and share-based payment reserve. The fair value of share-based payments is determined using the Black-Scholes option pricing model using estimates at the date of the grant. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the statement of operations with a corresponding entry within equity, against share-based payment reserve. No expense is recognized for awards that do not ultimately vest. When stock options are exercised, the proceeds received, together with any related amount in share-based payment reserve, are credited to share capital.

Share-based payments arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, unless the fair value cannot be estimated reliably. If the Company cannot reliably estimate the fair value of the goods or services received, the Company will measure their value by reference to the fair value of the equity instruments granted.

Research and development

The Company incurs costs on activities that relate to research and development of new products. Research and development costs are expensed, except in cases where development costs meet certain identifiable criteria for deferral, including technical feasibility. Development costs are capitalized only if the expenditures can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Deferred development costs are amortized over the life of related commercial production, or in the case of serviceable property and equipment, are included in the appropriate property group and are depreciated over its estimated useful life.

Foreign currency translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses are included in the consolidated statement of operations.

Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended May 31, 2022, and have not been early adopted in preparing these consolidated financial statements. These new standards, and amendments to standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

(Expressed in Canadian dollars)

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, price risk, currency risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

Fair values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated statement of financial position as at May 31, 2022 as follows:

	Fair Value Measurements Using			
	Quoted prices in active markets for identical instruments (Level 1) $	Significant other observable inputs (Level 2) $	Significant unobservable inputs (Level 3) $	Carrying Amount $
Investments	–	29,000	–	29,000

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - Inputs for assets or liabilities that are not based on observable market data. comprehensive income or loss.

The fair values of other financial instruments, which include cash, accounts receivable, accounts payable and accrued liabilities, and amounts due to a related party approximate their carrying values due to the relatively short-term maturity of these instruments.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt and equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. The Company has cash of $590,494 at May 31, 2022 (2021 – $949,171) in order to meet short-term liabilities of $79,088 (2021 – $38,808). There is no assurance that financing will be available or, if available, that such financing will be on terms acceptable to the Company. The Company monitors its risk of shortage of funds by monitoring the maturity dates of its existing liabilities. The Company's accounts payable and amounts due to related parties are all due within one year.

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets which primarily is cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. The Company's cash is held with a major Canadian-based financial institution. The carrying amount of financial assets represents the maximum credit exposure.

Foreign exchange rate and interest rate risk

The Company is not exposed to any significant foreign exchange rate or interest rate risk.

(Expressed in Canadian dollars)

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of cash, and equity comprised of issued share capital and share subscriptions receivable. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or sell assets to fund operations. Management reviews its capital management approach on a regular basis. The Company is not subject to externally imposed capital requirements.

4. ACQUISITION OF EGRET BIOSCIENCE LTD.

On February 4, 2021, the Company completed a reverse takeover transaction (the "Transaction") pursuant to which it acquired all of the issued and outstanding common shares of Egret Bioscience Ltd. ("Egret"), a company incorporated in the province of British Columbia. Under the terms of the Transaction, the Company issued 4,600,000 common shares and up to 2,000,000 additional common shares (the "performance shares") for certain milestones attained by Egret management subsequent to the Transaction.

The acquisition has been accounted for as an asset acquisition for accounting purposes, as the Transaction is considered to be outside of the scope of IFRS 3, *Business Combinations,* as Lexston was not a business prior to the Transaction. As such, the Transaction is accounted for in accordance with IFRS 2, *Share-based Payments*, whereby Egret is deemed to have issued common shares in exchange for the net assets of Lexston. The accounting for the Transaction includes the consolidated financial information of Lexston and Egret but are issued under the legal parent, Lexston, but are considered a continuation of the financial statements of the legal subsidiary, Egret. As Egret is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

The total consideration of the common shares and the performance shares has been allocated to the fair value of the net assets acquired and liabilities assumed, as follows:

Net Assets Acquired	$
Cash	937,786
Loan receivable	500,000
Sales tax receivable	2,836
Prepaid expenses and deposits	6,000
Accounts payable and accrued liabilities	(192)
Net assets over liabilities	1,446,430
Consideration:	
Fair value of common shares	1,386,169
Fair value of performance shares	412,775
Fair value of consideration	1,798,944
Listing expense	352,514

(Expressed in Canadian dollars)

4. ACQUISITION OF EGRET BIOSCIENCE LTD. (continued)

The fair value of the common shares issued was $1,386,169, which was determined based on concurrent private placement offering at $0.375 per unit related to the transaction, bifurcated to remove the portion of the fair value of the unit offering related to the share purchase warrant.

The fair value of the performance shares was $412,775 and was determined based on an independent valuation. Each performance share is issuable based on the following performance milestones:

(i) Egret generating monthly revenues of at least $100,000 for six consecutive months (the calculation of which to exclude revenues relating to Pre-Exiting Profits as detailed in Section 19 of the Share Exchange Agreement);
(ii) Egret generating at least $3,000,000 in total cumulative gross revenues;
(iii) Egret expanding and upgrading a licensed revenue generating cannabis research and development laboratory;
(iv) Lexston or Egret within 18 months from the date of the signing of this Letter submitting and obtaining an Exemption To Use Controlled Substance For Clinical Studies pursuant to Section 56 of the Controlled Drugs and Substances Act (S.C. 1996, c. 19);
(v) Lexston or Egret obtaining a license to sell products under the Controlled Drugs and Substances Act (S.C. 1996, c. 19);
(vi) Lexston or Egret entering into a commercial agreement satisfactory to Lexston to generate revenue in a foreign jurisdiction; and
(vii) Lexston or Egret entering into a commercial agreement satisfactory to Lexston to generate revenue in the United States of America.

5. ACQUISITION OF ZENALYTIC LABORATORIES LTD.

On September 20, 2021, the Company completed the acquisition of Zenalytic Laboratories Ltd. (“Zen”) a company incorporated in the province of British Columbia which is licensed under the Public Health Agency of Canada to test human and animal pathogens in its facility located in Kelowna, British Columbia. Under the terms of the transaction, the Company acquired all the issued and outstanding common shares for consideration with a fair value of $319,953 comprised of $50,000 cash and the issuance of 234,742 common shares at $1.15 per share (closing share price on the day of acquisition) with a fair value of $269,953.

The Company elected to apply the optional test to identify concentration of fair value to determine whether the transaction constitutes a business combination or an asset acquisition, and determined that the property and equipment and intangible assets constituted a group of assets that comprised over 90% of the fair value of the acquisition. The Company has elected to record the transaction as an asset acquisition in accordance with IFRS 3. The following table summarizes the purchase price allocation:

Net Assets Acquired	$
Cash	15,460
Prepaid expenses and deposits	800
Laboratory equipment	25,700
Intangible assets	287,993
Accounts payable and accrued liabilities	(10,000)
Net assets over liabilities	319,953
Consideration:	
Cash	50,000
Fair value of 234,742 common shares at $1.15 per share	269,953
Fair value of consideration	319,953

(Expressed in Canadian dollars)

5. ACQUISITION OF ZENALYTIC LABORATORIES LTD. (continued)

The intangible assets acquired from Zen reflects the fair value of the pathogen license and customer relationships at the date of acquisition. As at May 31, 2022, the Company relieved the services of its laboratory team that generates the lab testing and consulting revenues for Egret and Zen due to continuing operating losses. Although the Company is in the process of sourcing a new laboratory team to continue its existing operations, it acknowledges that it has yet to be successful and that there is a likelihood that the Company may need to alter their strategic direction. Given the significant doubt that Zen's pathogen license and customer relationships can continue to generate future economic benefit for the Company due to lack of profitability from Zen's business and the lack of qualified staffing to run its operations, the Company has recorded an impairment loss of $287,993 of its intangible assets as at May 31, 2022.

6. ACCOUNTS RECEIVABLE

	2022	2021
	$	$
Trade accounts receivable	**29,518**	26,530
Taxes receivable	**8,047**	10,929
	37,565	37,459

During the year ended May 31, 2022, the Company recorded an allowance for doubtful accounts of $135,964 (2021- $32,530).

7. INVESTMENT

On July 7, 2021, the Company acquired 750,000 Class C non-voting common shares of Psy Integrated Health Inc. ("Psy Integrated"), a private company incorporated in the province of British Columbia, at $0.10 per share for $75,000, representing 13% of the total issued and outstanding shares of Psy Integrated and no voting rights, board representation, or involvement in the day-to-day nature of its operations. The Company's investment in Psy Integrated is recorded as FVTPL.

During the year ended May 31, 2022, the Company recorded an unrealized loss of $46,000 (2021 - $nil) on its investment in Psy Integrated, and as at May 31, 2022, has a carrying value of $29,000 (2021 - $nil).

8. REVENUES

	Year ended May 31, 2022	Period from July 1, 2020 (date of incorporation) to May 31, 2021
	$	$
Consulting	**126,100**	32,666
Product sales and services	**234,911**	116,444
	361,011	149,110

The Company's consulting and product sales and services are comprised primarily of revenue transactions that are recognized at a point in time.

(Expressed in Canadian dollars)

9. PROPERTY AND EQUIPMENT

	Computer equipment $	Laboratory equipment $	Total $
Cost			
Balance, July 1, 2020 (date of incorporation)	–	–	–
Additions	8,057	117,411	125,488
Balance, May 31, 2021	8,057	117,411	125,468
Additions	434	25,700	26,134
Balance, May 31, 2022	8,491	143,111	151,602
Accumulated depreciation:			
Balance, July 1, 2020 (date of incorporation)	–	–	–
Additions	1,137	10,130	11,267
Balance, May 31, 2021	1,137	10,130	11,267
Additions	2,789	29,193	31,982
Balance, May 31, 2022	3,926	39,323	43,249
Carrying amount:			
Balance, May 31, 2021	6,920	107,281	114,201
Balance, May 31, 2022	**4,565**	**103,788**	**108,353**

10. SHARE CAPITAL

Authorized

The Company has authorized share capital of an unlimited number of common shares without par value.

On May 27, 2022, the Company consolidated its issued and outstanding common shares on the basis of 5 old common shares to 1 new common share. Unless otherwise noted, all share, options and warrants have been retroactively adjusted to reflect the consolidation.

Escrow Shares

Pursuant to an escrow agreement to be effective June 7, 2021, 4,260,000 common shares of the Company have been deposited into escrow for certain principal shareholders. Under the escrow agreement, 10% of the escrowed common shares are to be released (date of listing) and 15% will be subsequently released every 6 months thereafter over a period of 36 months. As of May 31, 2022, 3,195,000 (2021 – 4,260,000) shares are held in escrow.

(Expressed in Canadian dollars)

10. SHARE CAPITAL (continued)

Share Issuances

Year ended May 31, 2022:

(a) During the year ended May 31, 2022, the Company issued a total of 540,000 common shares for proceeds of $419,000 pursuant to the exercise of stock options which resulted in a transfer from share-based payments reserve to share capital of $348,109.

(b) During the year ended May 31, 2022, the Company issued 978,333 common shares for proceeds of $733,750 pursuant to the exercise of share purchase warrants at $0.75 per common share.

(c) On September 20, 2021, the Company issued 234,742 common shares with a fair value of $269,953 in connection with its acquisition of Zen. Refer to Note 5.

Period from July 1, 2020 (date of incorporation) to May 31, 2021:

(d) On July 1, 2020, the Company issued 20 founders' share to the Chief Executive Officer of the Company for proceeds of $1.

(e) On October 2, 2020, the Company issued 2,999,980 founders' share for proceeds of $14, including 1,724,980 common shares to the Chief Executive Officer of the Company.

(f) On October 29, 2020, the Company issued 1,600,000 common shares at $0.075 per share for proceeds of $120,000.

(g) On February 4, 2021, the Company finalized its reverse takeover transaction and issued 5,393,652 common shares. The common shares included the issuance of 3,768,652 units at $0.375 per unit for proceeds of $1,413,245 in accordance with the share exchange agreement between Lexston and Egret, which was received prior to the closing date of the agreement. Each unit is comprised of one common share and one share purchase warrant where each share purchase warrant entitles the holder to purchase one additional common share of the Company at $0.75 per share for a period of three years from the date of issuance subject to the following acceleration clause: if the common shares of the Company are listed on a Canadian stock exchange and trade at a price of $2.00 per share or higher for ten consecutive business days, the share purchase warrants will expire within 30 days from the date when the acceleration clause was achieved.

11. SHARE PURCHASE WARRANTS

The continuity of share purchase warrants is summarized below:

	Number of warrants	Weighted average exercise price $
Balance, July 1, 2020 (date of incorporation)	–	–
Issued	3,768,652	0.75
Balance, May 31, 2021	3,768,652	0.75
Exercised	(978,333)	0.75
Balance, May 31, 2022	**2,790,319**	**0.75**

(Expressed in Canadian dollars)

11. SHARE PURCHASE WARRANTS (continued)

The following table summarizes the warrants outstanding and exercisable at May 31, 2022:

Number of warrants	Exercise price	Expiry date
953,320	$0.75	June 25, 2023
1,295,666	$0.75	July 14, 2023
541,333	$0.75	October 16, 2023
2,790,319		

The share purchase warrants are subject to an acceleration where they will expire within 30 days if the common shares of the Company are listed on a Canadian stock exchange and trade at a price of $2.00 per share or higher for ten consecutive business days. As at May 31, 2022, the weighted average remaining contractual life of all warrants outstanding was 1.15 years.

12. STOCK OPTIONS

The Company has a Stock Option Plan whereby stock options are granted in accordance with the policies of regulatory authorities at an exercise price equal to the market price of the Company's stock on the date of the grant and, unless otherwise stated, vest on the grant date and with a term not to exceed five years. Under the plan, the board of directors may grant up to 10% of the issued number of shares outstanding as at the date of the stock option grant.

	Number of options	Weighted average exercise price $
Outstanding, July 1, 2020 (date of incorporation)	–	–
Granted	400,000	0.50
Outstanding, May 31, 2021	400,000	0.50
Granted	936,000	0.82
Exercised	(540,000)	0.78
Outstanding, May 31, 2022	**796,000**	**0.69**
Exercisable, May 31, 2022	**596,000**	**0.75**

Additional information regarding stock options outstanding as at May 31, 2022 is as follows:

Exercise price	Stock options outstanding	Stock options exercisable	Weighted average remaining contractual life (years)
$0.50	400,000	200,000	3.62
$0.88	340,000	340,000	4.10
$0.90	56,000	56,000	4.27
	796,000	**596,000**	**3.88**

During the year ended May 31, 2022, the Company recognized share-based compensation of $707,199 (2021 - $21,194) on the vesting of stock options to directors, officers, and consultants, of which $137,628 (2021 - $14,256) pertains to officers and directors of the Company. The weighted average fair value of options granted during the year ended May 31, 2022, was $0.82 (May 31, 2021 – $0.50) per option. The fair value of the share price for stock options exercised for the year ended May 31, 2022 was $1.01 (2021 - $nil) per share.

(Expressed in Canadian dollars)

12. STOCK OPTIONS (continued)

Share-based compensation is determined using the Black-Scholes option pricing model using the following assumptions and assuming no expected dividends or forfeiture rates:

	Year ended May 31, 2022	Period from July 1, 2020 (date of incorporation) to May 31, 2021
Annualized volatility	**122%**	127%
Risk-free interest rate	**1.11%**	0.34%
Expected life	**5 years**	5 years

As at May 31, 2022, there was $25,487 (2021 - $84,284) of unrecognized share-based compensation related to unvested stock options.

13. RELATED PARTY TRANSACTIONS

Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and Board of Director members.

	Year ended May 31, 2022 $	Period from July 1, 2020 (date of incorporation) to May 31, 2021 $
Management fees	**70,000**	–
Salaries and benefits	**112,500**	60,000
Share-based compensation	**137,628**	14,256

(a) As at May 31, 2022, the Company owed $6,923 (2021 - $4,061) to the Chief Scientific Officer of the Company, which is recorded in accounts payable and accrued liabilities. The amount owing is unsecured, non-interest bearing, and due on demand. During the year ended May 31, 2022, the Company incurred $90,000 (2021 - $60,000) of salaries and benefits to the Chief Scientific Officer of the Company.

(b) During the year ended May 31, 2022, the Company incurred $22,500 (2021 - $nil) of salaries and benefits to a director of the Company.

(c) During the year ended May 31, 2022, the Company incurred $70,000 (2021 - $nil) of management fees to the Chief Executive Officer of the Company.

(Expressed in Canadian dollars)

14. INCOME TAXES

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2022 $	2021 $
Canadian statutory income tax rate	**27%**	27%
Income tax recovery at statutory rate	**(626,458)**	(236,555)
Tax effect of:		
Permanent differences and other	**301,571**	85,961
Change in unrecognized deferred income tax assets	**324,887**	150,594
Income tax provision	**–**	–

The significant components of deferred income tax assets and liabilities are as follows:

	2022 **$**	2021 $
Deferred income tax assets		
Non-capital losses carried forward	**453,251**	149,302
Investment	**12,420**	–
Property and equipment	**11,560**	3,042
Unrecognized deferred income tax assets	**(477,231)**	(152,344)
Net deferred income tax asset	**–**	–

As at May 31, 2022, the Company has non-capital losses carried forward of $1,678,705 which are available to offset future years' taxable income which will expire as follows:

	$
2040	6,483
2041	546,588
2042	1,125,734
	1,678,705

15. SUBSEQUENT EVENTS

(a) On June 3, 2022, the Company cancelled 796,000 incentive stock options previously held by certain directors, officers, employees, and consultants of the Company.

(b) On July 4, 2022, the Company issued 18,562,440 units at $0.05 per unit for proceeds of $928,122, including 800,000 units issued to officers and directors of the Company for proceeds of $40,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share for a period of five years at $0.075 per share. As part of the private placement, the Company paid finders' fees of $19,880 and issued 397,600 brokers' warrants under the same terms and conditions as the warrants issued pursuant to the private placement.