

Lexaria Bioscience Corp.  
Form 10-K  
November 27, 2017

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **August 31, 2017**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from [ ] to [ ]

Commission file number **000-52138**

**LEXARIA BIOSCIENCE CORP.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**20-2000871**

(I.R.S. Employer Identification No.)

**156 Valleyview Rd, Kelowna BC Canada**

(Address of principal executive offices)

**V1X 3M4**

(Zip Code)

Registrant's telephone number, including area code:

**250-765-6424**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

**N/A**

Name of Each Exchange On Which Registered

**N/A**

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, Par Value \$0.001**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 the Securities Act.  
Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act

Yes [ ] No [X]

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the

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Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the last 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-K (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of Common Stock held by non-affiliates of the Registrant on February 28, 2017 was \$12,520,308 based on the average of the high and low bid and asked price of the Registrant's shares of common stock on the OTC Bulletin Board or \$0.545 on February 28, 2017. For purposes of this computation, all executive officers and directors have been deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers and directors are, in fact, affiliates of the Registrant.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

**69,435,198 common shares as of November 22, 2017**

DOCUMENTS INCORPORATED BY REFERENCE

None.

## TABLE OF CONTENTS

<b><u>Item 1. Business</u></b>	<b>4</b>
<b><u>Item 1A. Risk Factors</u></b>	<b>20</b>
<b><u>Item 1B. Unresolved Staff Comments</u></b>	<b>29</b>
<b><u>Item 2. Properties</u></b>	<b>29</b>
<b><u>Item 3. Legal Proceedings</u></b>	<b>30</b>
<b><u>Item 4. Mine Safety Disclosures</u></b>	<b>30</b>
<b><u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></b>	<b>30</b>
<b><u>Item 6. Selected Financial Data</u></b>	<b>33</b>
<b><u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>34</b>
<b><u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>41</b>
<b><u>Item 8. Financial Statements and Supplementary Data</u></b>	<b>41</b>
<b><u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u></b>	<b>65</b>
<b><u>Item 9A. Controls and Procedures</u></b>	<b>66</b>
<b><u>Item 9B. Other Information</u></b>	<b>67</b>
<b><u>Item 10. Directors, Executive Officers and Corporate Governance</u></b>	<b>67</b>
<b><u>Item 11. Executive Compensation</u></b>	<b>71</b>
<b><u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></b>	<b>75</b>
<b><u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u></b>	<b>76</b>
<b><u>Item 14. Principal Accounting Fees and Services</u></b>	<b>77</b>
<b><u>Item 15. Exhibits, Financial Statement Schedules</u></b>	<b>78</b>

## PART I

### Item 1. Business

#### *Forward-Looking Statements*

This annual report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors" that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Lexaria's consolidated financial statements are stated in United States Dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to "common shares" refer to the shares in our common stock. References to "CAD\$" refers to Canadian dollars.

As used in this current report and unless otherwise indicated, the terms "we", "us", "our" and "our company" mean Lexaria Bioscience Corp., our wholly owned subsidiary, Lexaria CanPharm Corp., a Canadian corporation, our 51% owned (100% as of October 2017) subsidiary PoViva Tea, LLC ("PoViva"), an entity incorporated in the state of Nevada, and our 50% ownership of Ambarii Trade Corporation ("Ambarii"), a Canadian corporation, unless otherwise stated.

#### *General and Historical Overview of Our Business*

The Company was formed on December 9, 2004 under the laws of the State of Nevada as an independent oil and gas company engaged in the exploration, development and acquisition of oil and gas properties in the United States and Canada. In March of 2014, the Company began its entry into the bioscience and alternative health and wellness business and discontinued its involvement in the oil and gas business in November 2014. In May 2016, the Company also commenced out-licensing its patented technology for improved delivery of bioactive compounds that promotes healthy ingestion methods, lower overall dosing and higher effectiveness in active molecule delivery. The Company has its office in Kelowna, BC, Canada.

Effective at the opening of trading on October 28, 2009, our shares of common stock began trading on the Canadian Securities Exchange (formerly, Canadian National Stock Exchange) under the trading symbol "LXX".

Our common stock is quoted on the OTCQB under the symbol "LXRP" and on the Canadian Securities Exchange under the symbol "LXX".

In 2014, the Company submitted an application to enter the legal medical marijuana business in Canada and also launched a hemp oil-based food supplement company in the USA.

The Company entered into a joint venture agreement with Enertopia Corp for a prospective medical marijuana business under the Canadian Marijuana for Medical Purposes Regulations ( MMPR ) for a 49% net ownership interest in the business (Enertopia 51%) utilizing an identified location in Burlington, Ontario. On September 15<sup>th</sup>, 2017, the Company issued 625,000 shares of its common stock from the exercise of warrants previously granted for proceeds of \$93,750. All warrants were exercised by third parties who are neither officers nor directors of the Company.

On June 26, 2015, the Company entered into a definitive agreement with Enertopia Corp. and Shaxon Enterprises Ltd. to sell its 49% interest in the Burlington Joint Venture and the MMPR application number 10MMPR0610. Pursuant to the agreement, the joint venture received a non-refundable \$10,000 deposit and is entitled to receive up to \$1,500,000 in milestone payments upon the Burlington facility becoming licensed under the MMPR. All payments made pursuant to the agreement would be divided 51% to Enertopia Corp. and 49% to Lexaria Bioscience. Notwithstanding the foregoing, the Company can neither guarantee nor provide a meaningful time estimate regarding the grant of a production license for the Burlington facility.

The Company's food sciences activities include the development of our proprietary nutrient infusion technologies for the production of superfoods, and the production of enhanced food products under our two consumer product brands, ViPova and Lexaria Energy. The Company's patented lipid nutrient infusion technology DehydraTECH™ is believed to improve taste, rapidity and delivery of bioactive compounds that include cannabinoids, vitamins NSAIDs Nicotine and other molecules compared to what is possible without lipophilic enhancement technology. This can allow for lower overall dosing requirements and/or higher effectiveness in active molecule delivery. Lexaria has caused to be filed several patent pending applications with the US Patent Office, and also internationally under the Patent Cooperation Treaty (PCT). On October 26, 2016, the USPTO issued U.S. Patent No. 9,474,725 (granted June 15 2017 in Australia No. 2015274698), Cannabinoid Infused Food and Beverage Compositions and Methods of Use Thereof, pertaining to Lexaria's method of improving bioavailability and taste of certain cannabinoid lipophilic active agents in food products. Lexaria hopes to reduce other common but less healthy ingestion methods, such as smoking, as it embraces the benefits of its technology for public health.

As at August 31, 2017, we only had one reportable segment, being the development and usage, including licensing of our proprietary nutrient infusion technology.

We maintain our registered agent's office and our U.S. business office at Nevada Agency and Transfer Company, 50 West Liberty, Suite 880, Reno, Nevada 89501. Our telephone number is (755) 322-0626.

The address of our principal executive office is 156 Valleyview Rd, Kelowna BC Canada V1X3M4. We have administrative functions located in Vancouver, British Columbia and Phoenix, Arizona.

### ***Our Current Business***

Our company's business plan is currently focused on the development of strategic partnerships with licensees for our patented technology in exchange for up front and/or staged licensing fees over time. Secondly and more generally, we continue to investigate national and international opportunities for development and distribution of the Company's enhanced functional food and supplement product offerings; to investigate expansions and additions to our intellectual property portfolio; and, to search for additional opportunities in alternative health sectors. This includes the acquisition or development of intellectual property if and when we believe it advisable to do so. We announced issuance of our first patent by the U.S. Patent and Trademark Office (USPTO) on October 26, 2016 and have received a Notice of Acceptance from the Australian Patent Office with related patent issuance date June 15 2017 No. 2015274698. We announced on November 2, 2017 a new Notice of Allowance from the USPTO that included the delivery of additional molecules such as psychoactive cannabinoids, vitamins, non-steroidal anti-inflammatories, and nicotine all utilizing our DehydraTECH™ delivery technology. We are seeking additional patent protection for what we believe to be a unique process for the nutritional delivery of certain molecules such as cannabinoids, Nicotine, Non-Steroidal Anti-Inflammatory Drugs (NSAIDs), and Vitamins. To achieve sustainable and profitable growth, our company intends to control the timing and costs of our projects wherever possible.

### **During the past fiscal year the Company experienced the following significant corporate developments:**

On September 8th, 2016, the Company announced signing new definitive technology licensing and private label agreements. Lexaria will earn a pre-defined premium to costs on all raw ingredient sourcing and manufacturing, and

will further earn a pre-defined royalty rate on all gross product sales revenues earned by Timeless Herbal Care Limited. The agreement is for an initial term of 5 years. No business activity has occurred as yet under this agreement.

On October 11, 2016, in exchange of business advisory services including marketing strategies and assistance in preparing presentation materials, dissemination of information and other business and capital advisory services, the Company granted 250,000 stock options to a consultant with a strike price of \$0.14 per share, and expiry term of two years. The Company also paid a compensation of CAD\$5,000 to the consultant. This contract was terminated December 12, 2016.



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On October 11, 2016, pursuant to its agreement with Docherty Management Ltd., the Company issued 252,000 restricted common shares and cash compensation of \$6,240.

On October 11, 2016, the Company issued 750,000 warrants with an exercise price of \$0.14 per share and valid for five years, in return for consulting services provided in August, September, and October.

On October 11, 2016, the Company reached an agreement with a director to settle the outstanding amount pursuant to an advisory agreement with him, through issuance of common shares of the Company. To settle the outstanding amount of \$16,000 for four months to October 31, 2016, the Company issued 114,286 shares of its common stock at a value of \$0.14 per share.

On October 11, 2016, the Company retained a consultant to provide market maintenance service for the Company in compliance with regulatory guidelines. The consultant trades shares of the Company on the Canadian Securities Exchange for purposes of maintaining a reasonable market and improving the liquidity of Lexaria's shares.

On October 16, 2016, the Company received \$12,500 from exercise of 55,000 stock options.

On October 26, 2016, the Company announced the USPTO issued U.S. Patent No. 9,474,725, Cannabinoid Infused Food and Beverage Compositions and Methods of Use Thereof, pertaining to Lexaria's method of improving bioavailability and taste of certain cannabinoid lipophilic active agents in food products.

On October 27, 2016, the Company received approval to offer existing warrant holders an incentive to exercise warrants early. For each exercise, in addition to the shares, the warrant holders were offered an additional warrant with identical terms. During the period ended February 28, 2017, a total of 3,245,000 warrants were exercised at a weighted average price of \$0.2273 and the Company issued 3,245,000 common shares and 3,245,000 warrants with a weighted average exercise price of \$0.2273 to buy one additional common share of the Company, expiring May 14, 2017. Total proceeds raised from such incentive amounted to \$737,500.

On November 1, 2016, the Company issued 56,250 shares of its common stock in settlement of \$9,000, recognized within accounts payable and accrued liabilities as at August 31, 2016.

On November 1, 2016, the Company received \$37,505 from exercise of 165,000 share purchase warrants.

On November 1, 2016, the Company issued 500,000 warrants to a consultant. Each warrant is valid for purchase of one new common share of the Company at a price of \$0.31 per share with an expiration date of May 31, 2017.

On November 16, 2016, the Company received \$50,003 from exercise of 220,000 share purchase warrants.

On November 21, 2016, the Company received \$50,000 from exercise of 220,000 share purchase warrants.

On November 22, 2016, the Company signed a Memorandum of Understanding with NeutriSci International Inc. ( NeutriSci ) for forming a 50/50 joint venture to develop, produce, and sell a line of healthy edible cannabinoid products using Lexaria's patented technology and NeutriSci proprietary pterostilbene tablet formula and international distribution network. The joint venture expects to commercialize any newly created cannabinoid edible products through distribution programs and existing strategic partners. Product development is underway and a joint venture subsidiary has been formed.

On November 29, 2016, the Company announced the entry of a letter of intent for the licensing of its proprietary absorption and palatability enhancing technology to Hempco Food and Fiber Inc. ( Hempco ). It was expected that the letter of intent would advance into a definitive agreement, however Hempco has since been majority acquired by another firm and our letter of intent has expired although casual business discussions remain.



On December 1, 2016, the Company amended its agreement with CAB for a revised consulting fee of \$12,000 per month. The term of the amended agreement is two years but can be terminated by either party by providing two months notice.

On December 19, 2016, the Company filed to internationally expand its U.S patent number 9474725, granted on October 26, 2016. National filing patent applications in Canada, Australia, Japan, China, India and all 37 countries belonging to the European Patent Convention were filed. All of these filings follow the Company's initial international Patent Cooperation Treaty patent application.

On December 22, 2016, the Company extended the services of Frontier Merchant Capital Group ( Frontier ) for a period of three months, for a total fee of CAD\$25,000. Frontier will assist the Company by increasing market awareness utilizing a number of financial market communication initiatives including media outreach, facilitating in-person introduction for the Company with institutional and retail brokers and investors in cities across Canada and the U.S., and more.

On January 10, 2017, the Company issued 500,000 incentive warrants to an arm's length party in exchange for corporate development services. The exercise price of the incentive warrants is \$0.44, vesting immediately, and expiring on January 9, 2018. The expiry date of these warrants has since been extended by one year, to January 9, 2019.

On January 19, 2017, the Company and NeutriSci International Inc. ( NeutriSci ) announced the successful development and initial trial of the industry's first zero-sugar cannabinoid / pterostilbene edible tablet utilizing both NeutriSci's and Lexaria's proprietary and patented technologies. NeutriSci and Lexaria confirmed that the companies expect to officially bind the JV agreement to market and commercialize a line of edible products. Product development is continuing.

On February 8, 2017, the Company through its wholly owned Canadian subsidiary Lexaria CanPharm Corp., signed and entered a master collaborative research agreement with the National Research Council of Canada ( NRC ) to investigate technical aspects and new opportunities associated with bioavailability enhancement of lipophilic active ingredient compositions. Under the agreement, the Company and the NRC will both provide up to CAD\$125,000 in funding for this research, a total investment of up to CAD\$250,000. The master research agreement has an 18-month term, during which a number of shorter-term studies will be undertaken. The collaboration will investigate and define the chemical nature of the molecular association that Lexaria's patented technology is believed to effectuate between lipophilic active agents and fatty acids as solubility and bioavailability enhancing agents. The first phase of research under this agreement was underway as of August 31, 2017.

On February 8, 2017, the Company issued 29,091 shares of its common stock in settlement of \$16,000 service fee, previously recognized within accounts payable and accrued liabilities.

On February 27, 2017, the Company received a Notice of Acceptance from the Australian Patent Office that Lexaria's Australian patent application 2015274698 was accepted with a patent issuance date expected in June, 2017. The Notice of Acceptance covers Lexaria patent application entitled "Food and beverage compositions infused with lipophilic active agents and methods of use thereof", which has been accepted with the same set of claims previously issued in US Patent No 9,474,725 specific to non-psychoactive cannabinoids. Subsequently the Company received a Certificate of Grant for a Standard Patent No. 2015274698 dated June 15 2017 with a twenty year term.

On March 14, 2017, the Company commenced the formal design phase for studies to be conducted under the master collaborative research agreement with the NRC. A number of studies have been proposed and are currently being evaluated, with the intention to begin work and produce results over multiple intervals in the coming months. As noted above, the first phase of research under this agreement was underway as of August 31, 2017. In aggregate, results from these studies will add to the understanding of the physical and biochemical characteristics imparted on

molecules that have been subjected to Lexaria's technology, with a view to further demonstrating the power of the technology to prospective commercial partners across the various consumer product sectors the Company is targeting.

On March 24, 2017, the Company executed a twelve month marketing and lead generation campaign with Dig Media Inc. Investing News Network for \$48,000.

On April 27, 2017, the Company issued 1,075,000 shares of its common stock from the exercise of warrants previously granted for proceeds of \$242,047.50. All warrants were exercised by third parties who are neither officers nor directors of the Company.

On June 1<sup>st</sup>, 2017, the Company appointed Mr. Allan Spissinger as acting CFO, Corporate Secretary and Treasurer. The Company executed a twelve month consulting contract with M&E Services Ltd., solely owned by Mr. Allan Spissinger with monthly compensation of CAD\$8,000. The Company may pay Mr. Spissinger a bonus from time to time, at its sole discretion. Mr. Spissinger was awarded 200,000 incentive stock options exercisable at \$0.37 vesting immediately.

On June 19<sup>th</sup>, 2017, the Company entered into an agreement with a third party researcher for CAD\$3,854 per month for a period of twelve months and continuing month to month and may be terminated thereafter with sixty days notice.

On June 19<sup>th</sup>, 2017, the Company executed a contract with Alex Blanchard Capital as manager of investor relations & communications. The agreement is for six months continuing month to month and may be terminated thereafter with one month's notice for CAD\$7,500 per month. Mr. Blanchard was granted 200,000 warrants exercisable at \$0.29 and 300,000 stock options exercisable at \$0.295 vesting 100,000 options at each of the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> anniversaries of the contract provided that the contract is not terminated. As at August 31<sup>st</sup>, 2017 \$37,878 was recognized in consulting for the grant of the warrants.

On June 22<sup>nd</sup>, 2017, pursuant to its agreement with Docherty Management Ltd. and C.A.B. Financial Services Ltd. the company issued 420,000 restricted common shares and cash compensation of \$23,600.

On August 16<sup>th</sup>, 2017, the Company issued 663,525 shares of its common stock from the exercise of warrants and options previously granted for proceeds of \$97,030. All warrants and options were exercised by third parties who are neither officers nor directors of the Company.

On August 16<sup>th</sup>, 2017, the Company entered into a consulting agreement with a third party issuing 500,000 warrants to buy one common share each at an exercise price of \$0.44 and valid for one year. 200,000 warrants vested immediately and a value of \$34,344 was recognized in consulting. 150,000 warrants vest December 15<sup>th</sup>, 2017 and 150,000 warrants vest April 15<sup>th</sup> 2018.

As at August 31, 2017, certain existing convertible debt was converted into common shares for the amount of \$45,000 @ \$0.15 for 300,000 common shares plus the accrued interest of \$1,125 for 7,500 shares for a total issuance of 307,500 common shares.

On August 31, 2017, the Company issued 32,433 shares of its common stock in settlement of \$12,000, previously recognized within accounts payable and accrued liabilities.

**The Company experienced the following significant corporate developments subsequent to August 31, 2017**

On September 15<sup>th</sup>, 2017, the Company issued 625,000 shares of its common stock from the exercise of warrants previously granted for proceeds of \$93,750. All warrants were exercised by third parties who are neither officers nor directors of the Company.

On October 31<sup>st</sup>, 2017, the Company announced it received a Notice of Allowance from the United States Patent and Trademark Office ( USPTO ) for the use of its technology as a delivery platform for all cannabinoids including THC; fat soluble vitamins; non steroidal anti-inflammatory pain medications ( NSAIDs ); and nicotine. The patent application number is 15/225,799, Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof .

On November 2<sup>nd</sup>, 2017, the Company announced it acquired 100% ownership interest in its majority owned subsidiary Poviva Tea, LLC. The Company previously owned a 51% interest in Poviva Tea, LLC and acquired the remaining 49% interest. Compensation was US\$70,000, a waiver on certain debts, and a 5%, 20-year royalty on net profits of ViPova Tea™ tea, coffee, and hot chocolate sales. No Lexaria stock or options were issued.

Subsequent to August 31, 2017, the company plans to hold an annual and special meeting of stockholders at the office of our law firm, Macdonald Tuskey located in North Vancouver, British Columbia, Canada, to include as part of the proceedings the approval of the plan of conversion whereby our corporate jurisdiction will be changed from the State of Nevada to the Province of British Columbia, Canada by means of a process called a conversion and a continuation. Important details for stockholders related to the conversion and the associated risks for the company and stockholders are included in the S-4 Registration Statement to be released, as of the writing of this document. There are risks associated with not proceeding with the conversion regarding the increasing complexity of compliance with the regulatory framework and the associated increasing costs, the restrictions on the promotion and sale of our stocks to US investors that limit the potential liquidity of our stock, and an increasingly complex environment that can negatively impact Lexaria even as an ancillary involved company via technology licensing to entities in the state legal cannabidiol and cannabis markets. As at the time of the writing of this document the date of the meeting had not been specified.

### **Food Science and Technology**

Lexaria is a Biotechnology and food science company focused on developing and out-licensing its proprietary technology for improved taste, rapidity, and delivery of bioactive compounds in foods and other ingestible products. Lexaria is focusing its capital and management time on its pursuit of intellectual property, technology licensing opportunities, an expanding portfolio of patent pending applications, and functional food and supplement formulations.

On November 11, 2014, the Company acquired 51% of PoViva Tea LLC and executed an operating agreement to develop a business of legally producing, manufacturing, importing/exporting, testing, researching and developing, a line of hemp oil with cannabidiol-infused teas, drinks and foods. Lexaria oversees all aspects of the business including, but not limited to, production, product quality, licensing, testing, product legality, accounting, marketing, capital investment, capital raising, sales, branding, advertising and fulfillment. Pursuant to the agreement, there is a Management Committee, whereby there are two representatives from Lexaria and one of the founding members of PoViva. On October 31, 2017, Lexaria purchased all remaining ownership interest to own 100% of Poviva Tea LLC.

The Company introduced an expanding variety of hemp fortified consumer food products throughout 2015 to demonstrate Lexaria's DehydraTEC™ technology to both consumers and potential licensees. From January 2015 to December 2015, seven (7) flavors of teas; hot chocolate; coffee, and two (2) flavors of protein energy bars were introduced all utilizing Lexaria's patented technology DehydraTEC™ for the more efficient delivery of bioactive molecules infused within those food products.

In the production of the products, for each raw material to be used in ViPova-branded products, the Company assesses if the product inputs and the completed products comply with all applicable food and drug laws, and that the inputs and the finished products meet all applicable legal and quality standards including and as it relates to hemp oil content; THC content; molds and mildews; heavy metals; and may measure additional components.

The US Federal government, through the US Department of Health and Human Services, owns US Patent #6630507, which among other things, claims that

*Cannabinoids have been found to have antioxidant properties, unrelated to NMDA receptor antagonism. This new found property makes cannabinoids useful in the treatment and prophylaxis of wide variety of oxidation associated diseases, such as ischemic, age-related, inflammatory and autoimmune diseases. The cannabinoids are found to have particular application as neuroprotectants, for example in limiting neurological damage following ischemic insults, such as stroke and trauma, or in the treatment of neurodegenerative diseases, such as Alzheimer's disease, Parkinson's disease and HIV dementia.*

For reference, cannabinoids are compounds that affect cannabinoid receptors located on many human cells. CB1 receptors are widely found within the human brain; and CB2 receptors are found with the human immune system and have been linked to anti-inflammatory and other responses.

Despite independent scientific findings in many locations around the world, some regulatory agencies do not officially recognize that a human endocannabinoid system exists.



Over one hundred different cannabinoids have been isolated from the cannabis plant, most of which do not have psychoactive properties. One that does have psychoactive properties is tetrahydrocannabinol (THC). Endocannabinoids are produced naturally in the human body while phytocannabinoids are produced in several plant species, most abundantly in the Cannabis plant.

Cannabidiol ( CBD ) is one of the major phytocannabinoid forms of cannabinoids and is not psychoactive, often contributing more than 35% of the extracts from the cannabis plant resin. Cannabidiol occurs naturally in other plant species beyond cannabis. For example, the most widely acknowledged alternative source of phytocannabinoid is in the better understood Echinacea species, in widespread use as a dietary supplement. Most phytocannabinoids are virtually insoluble in water but are soluble in lipids and alcohol. The World Anti Doping Agency ( WADA ) has exempted CBD from its 2018 list of banned substances.

The Alternative Health sector is large and growing. A long term Medical Expenditure Panel Survey was conducted from 2002 until 2008 with at least 29,370 subjects asked repeatedly if they had seen any kind of health care practitioner in the previous six months. The survey recorded whether the health care provider was a complementary and alternative medicine care professional, including homeopathic, naturopathic, or herbalist.

Between 5.3% and 5.8% of the survey group at any one time reported that they had seen a complementary or alternative medicine provider. Based on the US population of ~323,000,000, this suggests between 17.1 million and 18.7 million Americans are seeking an alternative health care professional at any given time.

Meanwhile the Centers for Disease Control and Prevention, in an April 2011 NCHS Data Brief, reported that more than 50% of the population uses dietary supplements of one kind or another. Detailed findings from that report included:

- Use of dietary supplements is common among the U.S. adult population. Over 40% used supplements in 1988-1994, and over one-half in 2003-2006.
- Multivitamins/multiminerals are the most commonly used dietary supplements, with approximately 40% of men and women reporting use during 2003-2006.
- Use of supplemental calcium increased from 28% during 1988-1994 to 61% during 2003-2006 among women aged 60 and over.

*Status of operation; Consumer product development and sales*

More than 150 million Americans drink tea every day, amounting to some 79 billion servings of tea in America every year. Our launch of ViPova Tea brand is meant to tap into this existing demand. Part of our corporate strategy is to build national brands through products that large groups of potential customers are already familiar and comfortable with.

PoViva Tea LLC has filed patents pending to bind active hemp oil ingredients with a lipid, potentially allowing for more efficient and comforting delivery of the CBD.

Lexaria began producing cash flows from its products in January 2015; focused on the immediate opportunities in the hemp-oil-sectors that are federally legal. Cannabinoids have been found by many researchers to have antioxidant properties and Lexaria plans to use the DehydraTECH™ patented process to infuse hemp oils into a number of popular food and beverages.

Lexaria has launched a line of premium products, always relying on our DehydraTECH™ patented infusion process, to bring hemp oil into the mainstream. Because hemp oil does not have psychoactive properties we expect our products to appeal to the widest possible customer base. To date we have focused our sales efforts across the continental USA. Some studies have found that 3% of the Canadian population regularly consumes hemp food

products, while 1% of the American population regularly consumes hemp food products. We believe the consumption of hemp based food products offers exceptional growth possibilities.

According to Nutrition Business Journal, the Organic Food sector was a \$246 billion industry in the USA during 2014, while Dietary Supplements was a \$34.6 billion industry. According to Arcview, state-legal Cannabis was a \$4.7 billion US industry in 2015 and expected to grow to over a \$20 billion sector before 2025 but is clearly a much smaller industry sector than the more established food sectors. Lexaria has not yet determined whether our hemp oil-infused products will be accepted into any or all three of these particular sectors.

Lexaria has a main corporate website as well as smaller e-commerce focused websites devoted to consumer products. The majority of product sales have taken place through the e-commerce websites. A contracted national distribution center ensures rapid and accurate fulfillment of all orders. A 1-800 ordering center has also been placed into operation.

Lexaria had previously launched the Lexaria Energy brand that is 100% owned by the Company. Under this brand, the Company plans to develop hemp oil-infused food products for people with active lifestyles, such as protein bars, protein shakes and other similar products. On November 3, 2015, Lexaria Energy<sup>10</sup> protein bars became available for retail sales with two flavors. The original contract manufacturer of these protein bars was unable to fulfill additional orders and we have not currently been able to locate and contract an alternative location to manufacture this more complicated food product, with the result that the product is temporarily discontinued while we search for a suitable manufacturing location.

Through the November 2014 acquisition of 51% of Poviva Teas LLC, and October 2017 100% acquisition, Lexaria acquired control of certain patents pending, allowances and grants with the United States Patent Office. Lexaria has worked to broaden the patents and extend their utility to molecules other than those originally named.

On June 11, 2015, Lexaria initiated the simultaneous filing of a U.S. utility patent application and an International patent application under the Patent Cooperation Treaty (PCT) procedure, both at the U.S. Patent and Trademark Office ( USPTO ). These applications follow the Company's 2014 and 2015 family of provisional patent application filings in the U.S. and serve two additional broad purposes:

1. Lexaria is seeking protection of its intellectual property under international treaties. To this end Lexaria has filed for PCT patent application protection. There are 148 countries that are signatories to the Patent Cooperation Treaty, including such major markets as Canada, China, India, much of Europe and the Middle East, the United Kingdom and Japan among others.
2. Lexaria believes its lipid infusion technology has applications beyond the delivery of just cannabinoids. Based on further formulation testing, Lexaria has included additional lipophilic molecules that may be delivered via food and beverage formats utilizing its technology, widely encompassing three major new market opportunities for the Company: Nicotine; Nonsteroidal Anti-Inflammatories (NSAIDs); and Vitamins.

In December 2015, the Company filed two further provisional patent applications in the U.S. These new applications served to further broaden the variety and applicability of base compounds that can be used when formulating the Company's lipid based technology. The first of these applications identify compounds like edible starches (e.g., tapioca starch) that are commonly used in food products today and could, therefore, serve as a base for formulating and incorporating the Company's Technology into a wide variety of every day food products. The second of these applications identify emulsifier compounds like gum Arabic that are commonly used in beverage products today in order to facilitate similar flexibility for formulating the Company's Technology in every day, shelf-stable beverages.

On October 26, 2016, the USPTO issued U.S Patent No. 9474725, Cannabinoid Infused Food and Beverage Compositions and Methods of Use Thereof, pertaining to our method of improving bioavailability and taste of certain cannabinoid lipophilic active agents in food products. This is the Company's first patent granted and has a publish date of October 27, 2016 (June 10 2017 in Australia No. 2015274698) and protects our technology for twenty years.

The Company does not know and cannot know whether these strategies will be successful, or if successful, how long it will take to gain consumer acceptance and customer loyalty. It can be a challenge to be successful by introducing new consumer products to a competitive retail marketplace, and we can offer no assurances that our products will be a commercial success.



*International patent protection*

When Lexaria first began examining the legal medical cannabis market in 2013, the Company believed it could make an impact in perhaps both the Canadian and U.S. marketplaces. Our pursuit and development of technology has expanded our potential area of impact, both geographically and by sector. Because of the applicability of our technology to markets outside of the legal cannabis sector, we have taken the necessary steps to protect that intellectual property within larger global markets, regardless of whether they lie within the medical cannabis sector or in other unrelated sectors.

*Additional molecules*

**NICOTINE.** More than 99% of all nicotine that is consumed worldwide is delivered through smoking cigarettes. Approximately 6,000,000 deaths per year, worldwide, are attributed primarily to the delivery of nicotine through the act of smoking according to the Centers for Disease Control and Prevention, which also estimates that over \$170 billion per year is spent just in the USA on direct medical care costs for adult smokers. 69% of U.S. adult smokers want to quit smoking and 43% of US adult smokers have attempted to quit in any twelve-month period.

Worldwide, retail cigarette sales were worth \$722 billion in 2013, with over 5.7 trillion cigarettes sold to more than 1 billion smokers.

**RELEVANCE:** Lexaria postulates that delivery of nicotine to satisfy current demand, utilizing our patent pending lipid-delivery technology in common food groups, could shift demand from smoking cigarettes to alternative nicotine-based food products. Since most of the adverse health outcomes of nicotine consumption are associated with the delivery method and only to a lesser degree to the actual ingestion of nicotine, there could be a vast positive community health outcome through the reduction in smoking cigarettes. Additional research and regulatory compliant investigations would need to be conducted before otherwise healthy foods such as tea, coffee or energy bar snacks containing nicotine could be introduced. Nicotine is a named molecule in the latest Lexaria patent applications.

**NSAID.** Non-steroidal Anti-inflammatories are the second-largest category of pain management treatment options in the world. The global pain management market was estimated at \$22 billion in 2011, with \$5.4 billion of this market being served by NSAID s. The U.S. makes up over one-half of the global market. The opioids market (such as morphine) form the largest single pain management sector but are known to be associated with serious dependence and tolerance issues.

Some of the most commonly known NSAIDs are ASA (Aspirin), Ibuprofen (Advil, Motrin), and Acetaminophen (Tylenol). (Acetaminophen is not accepted by all persons to be an NSAID.) Although NSAIDs are generally a safe and effective treatment method for pain, they have been associated with a number of gastrointestinal problems including dyspepsia and gastric bleeding.

**RELEVANCE:** Lexaria postulates that delivery of NSAIDs through a lipid-based mechanism could provide the beneficial properties of pain relief with lessened negative gastrointestinal effects, and also potentially deliver lower dosages of active ingredients with similar pain management outcomes as current pill forms at higher dosages. ASA, Piroxicam, Diclofenac, Indomethacin, Ibuprofen, and Acetaminophen are all named molecules in the latest Lexaria patent applications.

**VITAMINS.** The global vitamin and supplement market is worth \$68 billion according to Euromonitor. The category is both broad and deep, comprised of many popular and some lesser known substances. Vitamins in general are thought to be an \$8.5 billion annual market in the U.S. The U.S. is the largest single national market in the world, and China and Japan are the 2<sup>nd</sup> and 3<sup>rd</sup> largest vitamin markets.

Vitamin E is fat soluble and can be incorporated into cell membranes which can protect them from oxidative damage. Global consumption of natural source vitamin E was 10,900 metric tons in 2013 worth \$611.9 million.

**RELEVANCE:** Lexaria postulates that delivery of fat soluble vitamins through its patent-pending lipid-based delivery mechanism may result in less waste and lower dosages required than most current pill forms. As well, ingestion of pills is an unpleasant experience for many people so it is possible that vitamin delivery through common food groups could vastly expand market demand for this sector. Vitamin E is a named molecule in the latest Lexaria patent applications.

On August 11, 2015, Lexaria signed a license agreement with PoViva Tea LLC for \$10,000, granting Lexaria a 35-year non exclusive worldwide license to unencumbered use of PoViva Tea LLC's IP Rights, including rights of resale. This license agreement ensures Lexaria has full access to the underlying patent pending infusion technology.

#### *Scientific testing and validation*

On August 24, 2015, the Company announced potential industry-changing achievements in enhanced gastro-intestinal absorption of cannabidiol (CBD) utilizing Lexaria's patented technology. The third-party testing was conducted in two phases of in vitro tests beginning in June and completed in August, 2015.

The independent laboratory results delivered average CBD permeability of 499% of baseline permeability, compared to CBD permeability without Lexaria's technology. These results exceed Company expectations. This was assessed in a strictly controlled, in vitro experiment using a human intestinal tissue model. Samples of Lexaria's commercially available CBD-fortified ViPova black tea were administered in the model compared with concentration-matched CBD control preparations that lacked Lexaria's patented formulation and process enhancements. Lexaria believes that its in vitro findings provide compelling evidence of the intestinal absorption enhancing capabilities of its technology, based on which it is exploring opportunities to progress to more advanced, follow-on bioavailability testing in animals.

The tests also showed 325% of baseline gastro-intestinal permeability of CBD comparing Lexaria's CBD-fortified ViPova black tea to a second control of CBD and black tea combined, without Lexaria's patented formulation enhancements. This confirmed that the specialized processing undertaken by Lexaria during its manufacturing process together with its formulation enhancements, does indeed significantly improve absorption levels.

The bioavailability of CBD (or of THC) varies greatly by delivery method. Smoking typically delivers cannabinoids at an average bioavailability rate of 30% (Huestis (2007) Chem. Biodivers. 4:1770-1804; McGilveray (2005) Pain Res. Manag. 10 Suppl. A:15A-22A). By comparison, orally consumed cannabis edibles typically deliver cannabinoids at an average bioavailability rate of only 5% (Karschner et al. (2011) Clin. Chem. 57:66-75).

The Company's present findings suggest that its DehydraTEC™ technology may achieve a 5-fold improvement in cannabinoid absorption in edible form over that which can be achieved without its proprietary process and formulation enhancements. This conceptually supports that Lexaria's technology represents a significant breakthrough in cannabinoid delivery by approximating the high absorption levels achieved as though through administration by smoking, but without the associated negative effects on human health caused by smoking.

The tests were completed in two phases culminating with testing using simulated intestinal fluid conditions that delivered these findings. These results were stronger than earlier iterations of the tests that did not use a simulated intestinal fluid environment and contributed to Lexaria's understanding of the mechanisms at work. For these and other reasons, Lexaria believes that bioavailability testing in animals is likely to yield even stronger absorption results in the presence of natural intestinal fluid conditions.

CBD has been repeatedly found to provide beneficial pain relieving, anti-inflammatory, anti-anxiety, neuroprotection, anti-psychotic, and anti-convulsive effects among others. Lexaria's DehydraTEC™ technology could significantly reduce individual serving requirements for CBD to consumers. This could lead to reduced costs of consumption for consumers and increased profitability for Lexaria.

Lexaria believes that the same technology used to enhance the absorption of CBD in laboratory tests, is applicable to THC, nicotine, NSAIDs and other lipophilic compounds that are widely used today.

During January 2015, Lexaria conducted a study of nitric oxide levels in humans, as a biomarker for absorption of cannabidiol, with the expectation that it would provide additional evidence of the efficient absorption of cannabidiol from Lexaria food products enhanced with hemp oil, by demonstrating the elevation of nitric oxide in the human body in response to product ingestion.



The study data from human subjects demonstrated significant elevation of systemic nitric oxide levels as a surrogate biomarker for cannabidiol (CBD) bioabsorption in response to ingestion of Lexaria's products. This provided clinical support for the CBD bioavailability enhancing properties of Lexaria's patented DehydraTECH™ technology, on the premise that bioavailable CBD is known to elevate levels of the endocannabinoid anandamide in the human body which, in turn, stimulates release of nitric oxide in the vascular system.

In summary, consuming Lexaria and ViPova food products resulted in elevated levels of nitric oxide within the body. The results of the study indicated that all Lexaria and ViPova food products elicited significant increases in salivary nitric oxide, achieving levels from 110 µM to as high as 220 µM in the test subjects. The beverage products generally had faster initial responses in as little as 15 minutes after product ingestion, whereas the initial responses from the protein-energy bars required 30 minutes. The faster response time with the beverage products was to be expected, given the relative ease of digesting liquids versus solids. All products sustained their maximum levels of nitric oxide detection through to the 60-minute end-points used in the study, indicating a need for additional study to determine the length of time that nitric oxide levels remain elevated following production consumption.

The study assessed six flavors of ViPova tea (Yunan Black, Herbal Cherry Black, Earl Grey, Herbal Bengal Chai, Herbal Masala Chai and Decaf English Breakfast), ViPova Columbian Supremo Coffee, ViPova Hot Chocolate and Lexaria Energy Foods Chocolate Berry Date and Cashew Berry Date protein-energy bars.

Six healthy human subjects (3 male and 3 female) between the ages of 22 and 65 years of age were recruited for the study. Subjects were screened for cardiovascular and allergic response to hemp products, were non-smokers and did not have any history of substance or alcohol abuse. One product was studied per day across all six subjects, with each subject consuming a full product serving size. Subjects were required to refrain from eating food or using vape products for at least 12 hours before test article administration on each day of the study. Nitric oxide levels in the test subjects were assessed using a commercially available, colorimetric test kit designed to quantify systemic nitric oxide via a detectable salivary marker. Immediately before test article administration each day, all subjects were required to demonstrate a negative baseline nitric oxide saliva test. Subjects were considered to have a negative test strip reading at a level of 20 µM according to the test strip scale, and positive readings anywhere above this. Subjects performed salivary nitric oxide testing at 15, 30, 45 and 60 minutes post-consumption of each product. All subjects remained sedentary from baseline through to the completion of testing for each product.

#### *Product distribution agreements*

On January 28, 2016, Lexaria signed a distribution agreement with Telluride Coffee Roasters, LLC. This agreement has since ended and will not be renewed due to inactivity.

#### *Technology out-licensing*

On May 14, 2016, the Company entered into a Licensing Agreement allowing the Licensee, for a two-year period, to utilize the Company's technology to create, test, manufacture, and sell marijuana-infused consumable and/or topical products, in the state of Colorado, with an option of extending the terms of the Licensing Agreement to Washington, Oregon, and California. In addition to the granting of the license, the Company will provide support services to the Licensee in connection with the use of the Company's technology during the term of the Licensing Agreement. The Licensing Agreement is the first contracted, predictable, and significant revenue stream to be achieved as a direct result of Lexaria's technological advantage in the marketplace. Under the terms of the Licensing Agreement, the Licensee will pay a minimum of \$122,000 in pre-defined staged payments to Lexaria over the initial two-year term. As per the Licensing Agreement, if the Licensee were to introduce certain product lines utilizing Lexaria's technology in each of the four states contemplated, Lexaria could expect to receive a maximum of \$1,064,000 over approximately 3.5 years, and the Licensee would enjoy semi-exclusivity to introduce its products in each of those states. As of August 31 2017 the company had received all of the pre-defined payments to August 31 2017 for a total receipt of \$70,000 corresponding to the areas under the license agreement where the licensee has been active to-date.



The continuation of our business interests in these sectors is dependent upon obtaining further financing, a successful programs of development, and, ultimately, achieving a profitable level of operations. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

We are not yet profitable and have not yet demonstrated our ability to generate significant revenues from our business plan. We will require additional corporate funds if our existing capital is not sufficient to support the Company until potential future profitability is reached. There are no assurances that we will be able to obtain further funds required for our long-term operations. We do not expect to require additional operating capital during our fiscal 2018 year. There can be no assurance that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to obtain the additional financing on a timely basis, we will be unable to conduct our operations as planned, and we will not be able to meet our other longer-term obligations as they become due. In such event, we could be forced to scale down or perhaps even cease our operations. There is uncertainty as to whether we can obtain additional long-term financing if we do in fact require it.

Our business plan does not anticipate that we will hire a large number of employees or that we will require extensive office space. We expect to be able to utilize contracted third parties for most of our production and distribution needs, instead focusing on our capital on higher value added aspects of the business such as research and development, and scientific testing. We have no current plans to build our own production facility.

Our company relies on the business experience of our existing management, on the technical abilities of consulting experts, and on the technical and operational abilities of its operating partner companies to evaluate business opportunities.

#### *Competition*

The legal marijuana industry is comprised of several sub-sectors, and is legal under different guidelines in many states though it remains illegal under most federal laws. Notwithstanding, the overall sector is generally recognized to be one of the fastest growing in the USA, with state-legal revenue of over \$8 billion in 2016. Independent projections and publicized reports expect revenue of \$20 billion or more in 2020, both as the sector gains in credibility and acceptance, and as more and more states legalize either medical use or adult recreational use; or both. In any fast growing industry, competition is expected to be both strong and also difficult to evaluate as to the most effective competitive threats. While we are an early adopter within the cannabinoid delivery sector, there are already reports of more than 300 public companies that have claimed to be involved in the sector in some fashion; and an unknown number of private companies. Our current strategies may prove to be ineffective as the sector grows and matures, and if so, we will have to adapt quickly to changing sectoral circumstances. Accordingly, the Company intends to aggressively pursue technology out-licensing opportunities not only within the cannabinoids sector where it is already active, but also across other sectors where its DehydraTECH™ technology is patent allowed and/or pending, including the opportunities in the vitamin and supplements sector, the pain relief sector and the nicotine products sector.

Competition in alternative health sectors and in consumer products in the USA is fierce. We expect to encounter competitive threats from existing participants in the sector and new entrants. Although PoViva Tea LLC has filed numerous patent pending applications to protect intellectual property, there is no assurance that patent applications beyond those already allowed and issued will be granted nor that other firms may not file superior patents pending. Food supplements, organic foods, and health food markets are all well established and our Company will face many challenges trying to enter these markets.

#### *Compliance with Government Regulation*

At least 24 States in the USA have passed some form of legislation related to that state's permission to grow, cultivate, sell or use marijuana either for medical purposes or for recreational or adult use purposes; or both. The various state legislation is not necessarily harmonious with one another, leading to potential conflicts between state laws. It is most often not legal to transport cannabis-related products across state lines.

Lexaria does not touch the plant in any location within or outside of the USA. The Company complies with federal law that provides for certain exemptions for agricultural (industrial) hemp and certain byproducts to be manufactured and sold in the US. The DehydraTECH™ technology may have applications within the legal marijuana sector and Lexaria may seek to license that technology to companies that have met and comply with state regulations for the sale or distribution of cannabis related products in any particular jurisdiction.

Lexaria's position is that, just as a telephone company provides communications services, and an electric company provides electrical power, our provision of technological services to a state-legal cannabis company is in compliance with laws and required regulations.

Lexaria's patented DehydraTEC<sup>TM</sup> technology may also have application in completely separate sectors such as vitamins, non-steroidal anti-inflammatories, and nicotine. We have no products nor operations in any of these sectors today. If we enter any of these sectors at any time, we will be exposed to and of necessity will have to comply with, all local, state and federal regulations in each of those sectors. As a result of the possibility of Lexaria being involved in a number of disparate business sectors, compliance with government regulations could require significant resources and expertise from our company.

### **Our Former Planned Medical Marijuana Production Operations**

On June 7, 2013 the Government of Canada implemented then-new legislation, the Marijuana for Medical Purposes Regulations (MMPR), concerning the production and sale of medical marijuana. The MMPR permitted the licensing of commercial growers beginning April 1, 2014, while eliminating existing regulations permitting the production of medical marijuana on a personal-use basis. The revised regulations created conditions for a commercial industry in Canada that is responsible for medical marijuana production and distribution, by eliminating small-scale, personal-use production. Commercial growers are now able to submit applications to Health Canada for the production of medical marijuana and, if licensed, supply patients who qualify for the product at a price that would be established by market forces and at the discretion of producers. As of June 2017, 50 producers have become licensed under the latest versions of Canadian regulations.

On June 26, 2015, we entered into a share purchase agreement with Shaxon Enterprises Ltd. and Enertopia Corp. to sell our 49% interest in our Burlington, Ontario medical marijuana project application, including the MMPR application (no. 10MMPR0610) for our proposed production facility. The Burlington MMPR license application has continued in the application process under new ownership. Pursuant to the agreement, the joint venture received a non-refundable \$10,000 deposit and is entitled to receive up to \$1,500,000 in milestone payments upon the Burlington facility becoming licensed under the MMPR. These monies would be split 51% to Enertopia and 49% to our Company. Notwithstanding the foregoing, we can neither guarantee nor provide a meaningful time estimate regarding the grant of a production license for the Burlington facility and at this time believe it may be unlikely to be awarded.

Since June 12, 2015 the Company has had no direct involvement or ownership interest in any active or prospective operations or permit applications under the MMPR. The Company has no plans at this time to apply for a license in any jurisdiction for the production or sale of legal medical marijuana.

#### *Market for Medical Marijuana in Canada*

It is estimated by Health Canada that the overall market for medical marijuana in Canada under the new MMPR will be approximately \$1.3 billion per year by 2024 (source: Health Canada/Canadian Broadcasting Corporation). Health Canada projects that the number of licensed users will increase to over 450,000 by 2024. Health Canada formerly sold medical marijuana, produced on contract by Prairie Plant Systems (formerly the only licensed producer in Canada), for \$5 a gram. It is estimated that the price per gram under the new licensing system will average \$7.60 per gram as producers set prices without interference from government (source Health Canada/Canadian Broadcasting Corporation).

Despite these estimates the medical marijuana market is relatively new and largely unproven. The adoption rate of commercial medical marijuana by qualified patients is difficult to determine but a portion (approximately 13%) of the qualified patient population is already conditioned to purchasing government contracted producers under the old system (source: Health Canada). Furthermore, it is anticipated that the convenience of a wide selection of medical marijuana strains delivered directly to patients in a discrete and concealed package will be attractive. Healthcare

practitioners are key stakeholders as they will be signing and providing the medical documentation needed for patients to register with commercial producers. Regulations under the MMPR are not significantly different for healthcare practitioners already familiar with the process under the former MMAR. Licensed producers are held responsible for quality of the product provided as the MMPR outlines strict rules for quality assessment and control, cleanliness, manufacturing, and pesticide use. Security and diversion to the black market remain a concern but MMPR outlines strict rules for segregation of duties and security clearances, background checks for employees and officers, tracking of product in and out of the premises, and camera surveillance.

*The Use of Marijuana for Medical Purposes (source Cantech Letter: Canada's Medical Marijuana Industry: A Top Down Look)*

The marijuana or cannabis plant, aka cannabis sativa, contains more than 80 cannabinoids, a group of chemical compounds which includes delta 9-tetrahydrocannabinol (THC) and cannabidiol (CBD). Research has shown that THC and CBD influence different regions of the central nervous system and have different effects on cannabis users [Borgwardt, Biol Psychiatry, 2008]. Most of the psychoactive effects associated with the use of cannabis are caused by THC, whereas CBD has been shown to have anti-anxiety, anti-nausea, anti-inflammatory, and anti-psychotic effects [Bergamaschi, Curr Drug Saf., 2011; Niesink, Front Psychiatry, 2013]. Cannabis smoking often leads to adverse effects such as increases and fluctuations in heart rate and blood pressure, euphoria, anxiety, and impairment of cognition and memory. Cannabis also contains a similar array of detrimental and carcinogenic compounds compared to cigarette smoke, some of which are present even at higher concentrations [Leung, J Am Board Fam Med, 2011].

Medical marijuana is used and has been tested in a variety of indications. In the last ten years, there have been estimated 300 individually registered trials used cannabis, THC, or CBD as the intervention. Excluding addiction, the indication that accounted for the majority (42%) of trials, medical marijuana has been tested in a wide range of indications to help patients cope with pain not only from disease itself, but also for relief from strong and sometimes toxic medication, such as chemotherapy. Neurological disorders, mental health, muscle and back problems, and inflammation (such as gastrointestinal disorders) are common indications under study.

*Current Status of our Previous Medical Marijuana Business*

Following the announcement of the MMPR in June, 2013, our management began identifying and evaluating opportunities for entry into the medical marijuana industry in Canada. We do not currently have any direct involvement in marijuana related activities in the United States or Canada.

*Enertopia Joint Venture*

On May 28, 2014, our company and Enertopia Corp. entered into a definitive agreement to develop a joint business for the production, manufacture, propagation, import/export, testing, research and development of marijuana in the Province of Ontario under the MMPR.

On June 26, 2015, we signed a Definitive agreement to sell our interest in the Burlington joint venture along with the MMPR application number 10MMPR0610. The Burlington MMPR license application will continue in the application process under new ownership. Pursuant to the agreement, the joint venture received a non-refundable \$10,000 deposit and is entitled to receive up to \$1,500,000 in milestone payments upon the Burlington facility becoming licensed under the MMPR. These monies would be split 51% to Enertopia and 49% to Lexaria. The Enertopia and Lexaria Master Joint Venture Agreement entered into on March 5, 2014 still governs the relationship between the Company and Enertopia. Notwithstanding the foregoing, we can neither guarantee nor provide a meaningful time estimate regarding the grant of a production license for the Burlington facility. There is no assurance that any monies will in fact ever be received from our sale of the license application.

*Marijuana Production in the United States*

In the United States it is still illegal under federal law to grow, cultivate and sell medical or adult use marijuana. However more than twenty-five states have approved medical marijuana for use and at least eight states have approved adult use regulations. The United States Federal government justice department has released memos that will respect the individual states where strict guidelines are followed and enforced so that the health, safety and security are protected at all times by state authorities but there is no assurance that federal laws will not at any time be more vigorously enforced. If the individual state framework fails to protect the public the Federal government will act

in enforcing the controlled substances act of 1970 and the DEA will enforce the federal law.



As at the date of this document, our company has not entered into any prospective or definitive arrangements to produce or distribute marijuana products in the United States and has no intention of engaging in such marijuana related activities in the United States. However, our company continually reviews opportunities and monitors legal and regulatory developments related the medical marijuana sector in both Canada and the United States. We anticipate that we may re-evaluate our participation in the United States medical marijuana sector in the event that medical marijuana production becomes federally sanctioned and, in the meantime, we plan to limit our foray into the marijuana industry to ancillary involvement based on out-licensing of our DehydraTECH™ technology to state licensed producers.

On November 8 2016 referendums held in various US states increased those areas in the USA where either medical or recreational use marijuana was state-legal. More than 50% of the US population now lives in a state where either medical or recreational marijuana use is permitted by state law, although it is still banned by US federal laws.

### **Contractors**

The Company primarily uses sub-contractors and consultants in the intellectual property development and licensing, and alternative health product sectors. It primarily engages with consultants to serve our executive needs.

On November 27, 2008, the Company entered into a consulting agreement with CAB Financial Services Ltd. ( "CAB") wholly owned by Christopher Bunka for \$8,000 per month plus applicable taxes. Effective December 1, 2014, the Company updated the consulting agreement for consulting services of \$10,000 a month plus applicable taxes.

On December 1 2016 the Company entered into a new consulting agreement for consulting services of \$12,000 a month plus applicable taxes with CAB, superseding the prior agreement. The term of the agreement is two years but can be terminated by either party by providing two months notice. The Company may pay Mr. Bunka a bonus from time to time, at its sole discretion. Mr. Bunka will be entitled to receive common stock-based and stock option based bonuses upon achieving certain milestones during the time of his consultancy with the Company. These milestones are during the first 12 months after the date of the agreement with CAB,:

#### ***Revenue Incentive Milestones (Revenue Incentives A )***

- Upon the Company achieving non-refundable revenues of \$200,000 to any single customer in any consecutive 60-day period, CAB would be entitled to an award of 100,000 restricted common shares of the Company and after the first 12-month period, expiring after 24 months of the amended agreement, upon the Company achieving non-refundable revenues of \$200,000 to any single customer in any consecutive 60-day period, CAB would be entitled to an award of 50,000 restricted common shares of the Company. These awards are limited to one payment per customer during the 24-month period but payable for each customer that meets the revenue thresholds.
- Upon the Company achieving non-refundable revenues of \$500,000 in any fiscal quarter would result in an award to CAB of 200,000 common shares of the Company and after the first 12 months, expiring 24 months after the amended agreement, the Company achieving non-refundable revenues of \$500,000 in any fiscal quarter would result in an award to CAB of 100,000 common shares of the Company. These awards are limited to one payment per fiscal quarter.

#### ***Intellectual Property Milestones (IP Incentives B )***

- During the term of the agreement, for each provisional patent application substantively devised by CAB and successfully created, written and filed with the US Patent Office for the Company s Technology, CAB will be entitled to an award of 250,000 restricted common shares of the Company.



On December 1, 2014, the Company updated its consulting agreement for consulting services of CAD\$7,500 a month plus applicable taxes (from CAD\$5,500 plus applicable taxes) with BKB Management Ltd a consulting company controlled by Lexaria's former Chief Financial Officer, Bal Bhullar. Ms. Bhullar resigned as the Company's chief financial officer effective April 29, 2016.

On December 23, 2014, the Company entered into an Executive Management consulting agreement with Mr. Tom Ihrke for consulting services of \$3,000 a month. Mr. Ihrke subsequently tendered his resignation on March 8, 2016.

On June 1<sup>st</sup>, 2017, the Company appointed Mr. Allan Spissinger as acting CFO, Corporate Secretary and Treasurer. The Company executed a twelve month consulting contract with M&E Services Ltd., a wholly owned company by Mr. Allan Spissinger, with monthly compensation of CAD\$8,000 superseding the previously CAD\$3,400 plus hourly billing for additional work and applicable taxes. The Company may pay Mr. Spissinger a bonus from time to time, at its sole discretion. Mr. Spissinger was awarded 200,000 incentive stock options exercisable at \$0.37 vesting immediately. Mr. Spissinger will be entitled to receive additional common stock-based and stock option based bonuses upon achieving certain milestones during the time of his consultancy with the Company. These milestones are during the first 12 months after the date of the agreement with M&E Services Ltd.:

- Revenue Incentives A as defined above.

The Company appointed Mr. John Docherty as President of Lexaria effective April 15, 2015. On March 1, 2017, the Company executed a twenty four month consulting contract with Docherty Management Limited, solely owned by Mr. John Docherty with monthly compensation of CAD\$15,000 plus applicable taxes, superseding the previous agreement with monthly compensation of CAD\$12,500 plus applicable taxes. The Company may pay Mr. Docherty a bonus from time to time, at its sole discretion. Pursuant to the previous agreement, Mr. Docherty received 800,000 stock options and 924,000 restricted common shares of the Company. Mr. Docherty will be entitled to receive additional common stock-based and stock option based bonuses upon achieving certain milestones during the time of his consultancy with the Company. These milestones are during the first 12 months after the date of the agreement with Docherty Management Ltd.:

- Revenue Incentives A as defined above.
- IP Incentives B as defined above.

On June 19<sup>th</sup>, 2017, the Company executed a contract with Alex Blanchard Capital as manager for investor relations and communications. The agreement is for six months continuing month to month and may be terminated thereafter with one month's notice for CAD\$7,500 per month. Mr. Blanchard was granted 200,000 warrants exercisable at \$0.29 and 300,000 stock options exercisable at \$0.295 vesting 100,000 options at 1<sup>st</sup> - 3<sup>rd</sup> anniversaries of the contract provided that the contract is not terminated. Mr. Blanchard will be entitled to receive additional common stock-based and stock option based bonuses upon achieving certain milestones during the time of his consultancy with the Company. These milestones are during the first 12 months after the date of the agreement with Alex Blanchard Capital:

- Revenue Incentives A as defined above.

We do not expect any material changes in the number of contractors over the next 12 month period although individual personnel changes and fluctuations should always be expected. We do and will continue to outsource contract employment as needed. However, with product advancement or retail acceptance of our new products, we may need to retain additional contractors particularly in the fields of product manufacturing, development, sales and distribution. It is not possible to accurately project potential needs into the future based on circumstances that may or may not occur.

## Research and Development

Lexaria incurred \$54,185 (2016 \$9,024) in research and development expenditures over the last fiscal year. With the successful financing efforts during fiscal 2017, the Company announced a \$1 million budget to conduct research and development and additional scientific testing. Specific R&D programs are in development at this time and will be tightly related to our financial ability to undertake such steps. Due to the notice of allowance in October 2017 significantly expanding the Company's portfolio coverage, Lexaria is examining accelerated timetable options for testing, research and development.

The Company's plans include *in vitro* absorption tests of our patented technology of molecules such as: Vitamin E, Ibuprofen, and Nicotine. We also plan to conduct our first ever *in vivo* absorption tests on CBD and on nicotine, all during the upcoming fiscal year.

Depending on how many of these tests are undertaken, it could require budgets of as much as \$1,000,000, or as little as \$65,000, to do so. It is in our best interests to remain flexible at this early stage of our R&D efforts in order to capitalize on potential novel findings from early-stage tests and thus re-direct research into specific avenues that offer the most reward.

## **Subsidiaries**

Lexaria has one wholly owned subsidiary, Lexaria CanPharm Corp., a Canadian corporation. We also have a 51%-owned subsidiary Poviva Tea, LLC which was incorporated on December 12, 2014, under the laws of the State of Nevada. As of October 2017 Poviva Tea, LLC is a 100% owned subsidiary. We also have a 50%-owned subsidiary Ambarii Trade Corporation that was incorporated on April 24, 2017 under the laws of the Province of British Columbia.

## **Item 1A. Risk Factors**

Much of the information included in this quarterly report includes or is based upon estimates, projections or other "forward looking statements". Such forward looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

### **Risks Associated with Our Business**

*Because cannabis is a controlled substance in some regulatory jurisdictions our Licensee's operations may be subject to regulatory actions.*

Lexaria and its subsidiaries are not involved directly or indirectly in the cultivation, processing, distribution, or utilization of Cannabis or Cannabis derived components. All of Lexaria's consumer products utilize legally sourced Hemp and Hemp components in their production. Lexaria has an ancillary involvement exposure via out-licensing of its patented technology to licensees that may utilize the technology in the production of products that contain contents which are locally or state approved but federally controlled. Where licensee's products contain controlled contents any revenue streams from such licensee's may be interrupted by regulatory involvement in their business. It is possible some jurisdictions may even interpret Lexaria's ancillary involvement as in contravention with regulations.

Lexaria has no knowledge of any non-compliance by its licensees with the regulatory framework(s) in which its licensee(s) operate.

*Because there is no assurance that we will generate material revenues, we face a high risk of business failure.*

There can be no assurance that our current or future products will be successful, and we cannot be sure that our overall business model within any particular sector will ever come to fruition, and if they do, will not decline over time. We may not recover all or any portion of our capital investment in product development, marketing, or other aspects of the business. Although we will exercise due consideration in our development of new products, and the marketing of them, ultimate consumer acceptance of these products is not reliably forecastable.

In addition, our product development plans may be curtailed, delayed or cancelled as a result of lack of adequate capital and other factors, such as weather, compliance with governmental regulations, current and forecasted prices for input costs of food products and changes in the estimates of costs to complete the projects. We will continue to gather information about our planned products, and it is possible that additional information may cause our company to alter our schedule or determine that a product should not be pursued at all. You should understand that our plans regarding our products are subject to change.

Our revenues now are generated from being a food sciences and products company. We should be considered to be a start-up: the revenue recognized for the year ended August 31, 2017 was \$63,639.

*The food industry is highly competitive and there is no assurance that we will be successful in developing or successfully selling products.*

The food industry is intensely competitive. We compete with numerous individuals and companies, including many food manufacturing and production companies, which have substantially greater technical, financial and operational resources and staff. Accordingly, there is a high degree of competition for desirable distribution channels, shelf space and salespeople in both the food industries as well as the legal cannabis industries. We cannot predict if the necessary funds can be raised to assist in our development of any distribution channels that may be helpful to our ability to generate sales and potential profits.

*There can be no assurance that we will develop any product that will meet with widespread consumer acceptance.*

Both new and established food and cannabis products fail to generate consumer interest on a regular basis. There is no assurance that a food or cannabis product that is successfully adopted by consumers at one time; will still be in demand at a future time. If we cannot develop and sell products in commercial quantities, our business will fail.

*Even if we develop food or intellectual property-based products or revenue streams, the potential profitability of each depends upon factors beyond the control of our company.*

The potential profitability of food products and of intellectual property revenue streams is dependent upon many factors beyond our control. For instance, prices and markets for food products are unpredictable, highly volatile, potentially subject to controls or any combination of other factors, and respond to changes in domestic, international, political, social and economic environments. These changes and events may materially affect our future financial performance. These factors cannot be accurately predicted and the combination of these factors may result in our company not receiving an adequate return on invested capital.

In addition, a product or technology that is initially successful and possibly even profitable may not remain so due to changes in consumer demand, regulatory environments, or other causes. There is no assurance that an initially successful product or technology will remain so.

*Our failure to protect our intellectual property may have a material adverse effect on our ability to develop and commercialize our products*

Because patents involve complex legal and factual questions, the issuance, scope, validity, and enforceability of patents cannot be predicted with certainty.

Some of our patent pending applications may not be granted as patents. Even if patents are issued, they may not be issued with claims of sufficient breadth to protect our nutrient infusion technology or may not provide us with competitive advantage against competitors with similar products or technologies. Issued patents may be challenged, invalidated, or circumvented. If patents issued to us are invalidated or found to be unenforceable, we could lose the ability to exclude others from making, using or selling the inventions claimed. Moreover, an issued patent does not give us the right to use the patented technology or commercialize a product using the technology. Third parties may have blocking patents that could be used to prevent us from developing our products, selling our products, or commercializing our nutrient infusion technology. Others may also independently develop products or technologies similar to those that we have developed or may reverse engineer or discover our trade secrets through proper means.

Enforcing a claim that a third party infringes on, has illegally obtained or is using an intellectual property right, is expensive and time-consuming and the outcome is unpredictable. In addition, enforcing such a claim could divert

management's attention from our business. If any intellectual property rights were to be infringed, disclosed to, or independently developed by a competitor, our competitive position could be harmed. Any adverse outcome of such litigation or settlement of such dispute could subject us to significant liabilities and could put one or more of our patent pending applications at risk of being invalidated.



Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is risk that some of our confidential information could be compromised. This disclosure could provide our competitors with access to our proprietary information and may harm our competitive position.

*The marketability of food products will be affected by numerous factors beyond our control which may result in us not receiving an adequate return on invested capital to be profitable or viable.*

The marketability of food products will be affected by numerous factors beyond our control. These factors include market fluctuations in consumer preferences for various food items based on factors such as pricing, macro trends for certain ingredients or flavors, ruling by regulators on health issues associated with certain foods, and more. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in us not receiving an adequate return on invested capital to be profitable or viable.

*Both food products and cannabis products are subject to comprehensive regulation which may cause substantial delays or require capital outlays in excess of those anticipated causing an adverse effect on our company.*

Food production and safety operations, and cannabis products and sales operations, are subject to federal, state, and local laws relating to the protection of human health and safety. Food production and cannabis operations are each also subject to federal, state, and local laws and regulations which seek to maintain health and safety standards through a wide variety of regulations. Various permits from government bodies may be required by us in order to conduct our business. Regulations and standards imposed by federal, provincial, or local authorities may be changed at any moment in time and any such changes may have material adverse effects on our activities. Changes in regulations are impossible to foresee and could be disruptive or destructive to our business plans and execution. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on us. Additionally, we may be subject to liability for contaminants or other damages. To date, we have not been required to spend any material amount on compliance with environmental regulations. However, we may be required to do so in the future and this may affect our ability to expand or maintain our operations.

*If we are unable to hire and retain key personnel, we may not be able to implement our business plan.*

Our success is largely dependent on our ability to hire highly qualified personnel. This is particularly true in those parts of our business that are related to intellectual property generation or exploitation. These individuals are in high demand and we may not be able to attract the personnel we need. In addition, we may not be able to afford the high salaries and fees demanded by qualified personnel, or may lose such employees after they are hired. Failure to hire key personnel when needed, or on acceptable terms, would have a significant negative effect on our business.

*We are not the "operator" of vertically integrated food production facilities, and so we are exposed to the risks of our third-party operators.*

We rely on the expertise of contracted third-parties for their judgment, experience and advice related to the manufacturing and/or packaging of our food products. We can give no assurance that these third party operators or consultants will always act in our best interests, and we are exposed as a third party to their operations and actions and advice in those operations and activities in which we are contractually bound.

*Our management has limited experience and training in the food processing and manufacturing industries, and in the cannabis products industries, and could make uninformed decisions that negatively impact our operations and our company.*

Because our management has limited experience and training in the food processing and manufacturing industry, and in the cannabis products industry, we may not have sufficient expertise to make informed best practices decisions regarding our operations. It is possible that, due to our limited knowledge, we might elect to undergo manufacturing processes and incur financial burdens that a more experienced food manufacturing team might elect not to complete. Our ability to internally evaluate food and cannabis operations and opportunities could be less thorough than that of a more highly trained management team.

*Our independent certified public accounting firm, in the notes to the audited financial statements for the year ended August 31, 2016 states that there is a substantial doubt that we will be able to continue as a going concern.*

We have experienced significant losses since inception. Failure to arrange adequate financing on acceptable terms and to achieve profitability would have an adverse effect on our financial position, results of operations, cash flows and prospects. As a result of the financings completed during the year ended August 31 2017, management believes it has sufficient funds to meet its obligations as they become due for the next twelve months.

*The possession, cultivation and distribution of marijuana may under certain circumstances lead to prosecution under United States federal law, which may cause our business to fail.*

All applicable Regulations, in the United States, over 20 states, including our state of incorporation, Nevada, have approved and regulate medical marijuana use. Similarly, four states have approved and regulate non-medical marijuana use by adults. However, it remains illegal under United States federal law to grow, cultivate or sell marijuana for any purpose. In that regard, the United States Justice Department has released the COLE Memorandum of 8-29-13 which states that the Justice Department will not prioritize the prosecution of marijuana related activities authorized under state laws provided that state authorities implement and enforce strict guidelines to ensure the health, safety and security of the public. Where the individual state framework fails to protect the public, the Justice Department has instructed federal prosecutors to enforce the Controlled Substances Act of 1970. The Department of Justice has not, to our knowledge, published any policy or guidance specifically regarding the participation of a United States corporation in lawful medical marijuana related activities outside of the United States.

We do not currently, nor at any time in our corporate history have we ever cultivated, grown, processed, manufactured or sold marijuana in any location. Although we believe this fact to provide protection against prosecution related to marijuana legislation, we cannot provide any assurance to that effect. We do not hold a license in any jurisdiction enabling us to grow or sell marijuana or cannabis related edibles, but because of our business model we do not feel that is a barrier to entry for us. Instead, we plan to license our technology related to bio-absorption of THC, to those entities that do have valid licenses in various North American jurisdictions to sell cannabis related edibles. If we are unable to license our technology to any valid license holders, then we may be shut out of this market.

*Our company has no operating history and an evolving business model, which raises doubt about our ability to achieve profitability or obtain financing.*

Our company has no significant history of operations in the legal medical marijuana sector, the legal hemp oil infused products sector, or in the food products sector. Moreover, our business model is still evolving and subject to change. Our company's ability to continue as a going concern is dependent upon our ability to obtain adequate financing and to reach profitable levels of operations. In that regard we have no proven history of performance, earnings or success. There can be no assurance that we will achieve profitability or obtain future financing.

*Uncertain demand for our products may cause our business plan to be unprofitable.*

Demand for medical marijuana and for cannabis or hemp related products is dependent on a number of social, political and economic factors that are beyond the control of our company. While we believe that demand for marijuana and hemp products will continue to grow across North America, there is no assurance that such increase in demand will happen or that our endeavors will be profitable.

*We may not acquire market share or achieve profits due to competition in our industries.*

Our company operates in highly competitive marketplaces with various competitors. Increased competition may result in reduced gross margins and/or loss of market share, either of which would seriously harm its business and results of operations. Management cannot be certain that the company will be able to compete against current or future competitors or that competitive pressure will not seriously harm its business. Some of our company's competitors are much larger and have greater access to capital, sales, marketing and other resources. These competitors may be able to respond more rapidly to new regulations or devote greater resources to the development and promotion of their business model than the company can. Furthermore, some of these competitors may make acquisitions or establish co-operative relationships among themselves or with third parties in the industry to increase their ability to rapidly gain market share.

*Conflicts of interest between our company and our directors and officers may result in a loss of business opportunity.*

Our directors and officers are not obligated to commit their full time and attention to our business and, accordingly, they may encounter a conflict of interest in allocating their time between our future operations and those of other businesses. In the course of their other business activities, they may become aware of investment and business opportunities which may be appropriate for presentation to us as well as other entities to which they owe a fiduciary duty. As a result, they may have conflicts of interest in determining to which entity a particular business opportunity should be presented. They may also in the future become affiliated with entities, engaged in business activities similar to those we intend to conduct.

In general, officers and directors of a corporation are required to present business opportunities to a corporation if:

- The corporation could financially undertake the opportunity;
- The opportunity is within the corporation's line of business; and
- It would be unfair to the corporation and its stockholders not to bring the opportunity to the attention of the corporation.

We have adopted a code of ethics that obligates our directors, officers and employees to disclose potential conflicts of interest and prohibits those persons from engaging in such transactions without our consent. Despite our intentions, conflicts of interest may nevertheless arise which may deprive our company of a business opportunity, which may impede the successful development of our business and negatively impact the value of an investment in our company.

*The speculative nature of our business plan may result in the loss of your investment.*

Our operations are in the start-up stage only, and are unproven. We may not be successful in implementing our business plan to become profitable. There may be less demand for our services than we anticipate. There is no assurance that our business will succeed and you may lose your entire investment.

*Changing consumer preferences may cause our planned products to be unsuccessful in the marketplace.*

The decision of a potential client to purchase our products may be motivated by cultural phenomena or by perceived health or nutritional benefits. The cultural desirability or popularity of hemp related products is subject to change due to factors beyond our immediate control. Similarly, the perceived nutritional or health related benefits of our products are subject to change in light of continuing research or the introduction of competitive products. Changes in consumer and commercial preferences, or trends, toward or away from cannabis or hemp related products would have a corresponding impact on the development of the market for our current and planned products. There can be no assurance that the products supplied by our company and or its partners will be successful in establishing or maintaining a significant share of the consumer market.



*General economic factors may negatively impact the market for our planned products.*

The willingness of businesses to spend time and money on non-essential food and health products may be dependent upon general economic conditions; and any material downturn may reduce the likelihood of consumers incurring costs toward what some may consider a discretionary expense item. Willingness by customers to buy our products may be dependent upon general economic conditions and any material downturn may reduce the potential profitability of the food sciences or medical marijuana business sectors.

*A wide range of economic and logistical factors may negatively impact our operating results.*

Our operating results will be affected by a wide variety of factors that could materially affect revenues and profitability, including the timing and cancellation of customer orders and projects, competitive pressures on pricing, availability of personnel, and market acceptance of our services. As a result, we may experience material fluctuations in future operating results on a quarterly and annual basis which could materially affect our business, financial condition and operating results.

*Loss of consumer confidence in our company or in our industry may harm our business.*

Demand for our services may be adversely affected if consumers lose confidence in the quality of our services or the industry's practices. Adverse publicity may discourage businesses from buying our services and could have a material adverse effect on our financial condition and results of operations.

*Unethical business practices may compromise the growth and development of our business.*

The production and sale of medical marijuana is an emerging industry in which business practices are not yet standardized and are subject to frequent scrutiny and evaluation by federal, state, provincial, and municipal authorities, academics, and media outlets, among others. Although we intend to develop our business in accordance with best ethical practices, we may suffer negative publicity if we, our partners, contractors, or customers are found to have engaged in any environmentally, insensitive practices or other business practices that are viewed as unethical.

*The failure to secure customers may cause our operations to fail.*

We currently do not have many long-term agreements with any customers. Many of our products and services may be provided on a one-time basis. Accordingly, we will require new customers on a continuous basis to sustain our operations.

*We could be required to enter into fixed price contracts which will expose us to significant market risk.*

Fixed price contracts require the service provider to perform all agreed services for a specified lump-sum amount. We anticipate a material percentage of our services will be performed on a fixed price basis. Fixed price contracts expose us to some significant risks, including under-estimation of costs, ambiguities in specifications, unforeseen costs or difficulties, and delays beyond our control. These risks could lead to losses on contracts which may be substantial and which could adversely affect the results of our operations.

*If we fail to effectively and efficiently advertise, the growth of our business may be compromised.*

The future growth and profitability of our food products business will be dependent in part on the effectiveness and efficiency of our advertising and promotional expenditures, including our ability to (i) create greater awareness of our services, (ii) determine the appropriate creative message and media mix for future advertising expenditures, and (iii) effectively manage advertising and promotional costs in order to maintain acceptable operating margins. There can be no assurance that we will experience benefits from advertising and promotional expenditures in the future. In addition,

no assurance can be given that our planned advertising and promotional expenditures will result in increased revenues, will generate levels of service and name awareness or that we will be able to manage such advertising and promotional expenditures on a cost-effective basis.

*Our success is dependent on our unproven ability to attract qualified personnel.*

We will depend on our ability to attract, retain and motivate our management team, consultants and other employees. There is strong competition for qualified technical and management personnel in the food science sector, and it is expected that such competition will increase. Our planned growth will place increased demands on our existing resources and will likely require the addition of technical personnel and the development of additional expertise by existing personnel. There can be no assurance that our compensation packages will be sufficient to ensure the continued availability of qualified personnel who are necessary for the development of our business.

*Without additional financing to develop our business plan, our business may fail.*

Because we have generated only minimal revenue from our business and cannot anticipate when we will be able to generate meaningful revenue from our business, we will need to raise additional funds to conduct and grow our business. We do not currently have sufficient financial resources to completely fund the development of our business plan. We anticipate that we will need to raise further financing. We do not currently have any arrangements for financing and we can provide no assurance to investors that we will be able to find such financing if required. The most likely source of future funds presently available to us is through the sale of equity capital. Any sale of share capital will result in dilution to existing security-holders.

*We may not be able to obtain all of the licenses necessary to operate our business, which would cause our business to fail.*

Our operations may require licenses and permits from various governmental authorities to conduct our business activities. We believe that we will be able to obtain all necessary licenses and permits under applicable laws and regulations for our operations and believe we will be able to comply in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in various circumstances. There can be no guarantee that we will be able to obtain or maintain all necessary licenses and permits.

*If we fail to effectively manage our growth our future business results could be harmed and our managerial and operational resources may be strained.*

As we proceed with our business plan, we expect to experience significant and rapid growth in the scope and complexity of our business. We will need to add staff to market our services, manage operations, handle sales and marketing efforts and perform finance and accounting functions. We will be required to hire a broad range of additional personnel in order to successfully advance our operations. This growth is likely to place a strain on our management and operational resources. The failure to develop and implement effective systems, or to hire and retain sufficient personnel for the performance of all of the functions necessary to effectively service and manage our potential business, or the failure to manage growth effectively, could have a materially adverse effect on our business and financial condition.

### **Risks Associated with Our Common Stock**

*Trading on the OTCQB and CSE may be volatile and sporadic, which could depress the market price of our common stock and make it difficult for our stockholders to resell their shares.*

Our common stock is quoted on the OTCQB electronic quotation service operated by OTC Markets Group Inc. Trading in stock quoted on the OTCQB is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with our operations or business prospects. This volatility could depress the market price of our common stock for reasons unrelated to operating performance. Moreover, the OTCQB is not a stock exchange, and trading of securities on the OTCQB is often more sporadic than the trading of securities listed on a quotation system like NASDAQ or a stock exchange like Amex. Accordingly, shareholders may have difficulty



reselling any of the shares.

*Our stock is a penny stock. Trading of our stock may be restricted by the Securities and Exchange Commission's penny stock regulations which may limit a stockholder's ability to buy and sell our stock.*

Our stock is a penny stock. The Securities and Exchange Commission has adopted Rule 15c-9 which generally defines "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the Securities and Exchange Commission which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

*The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements which may also limit a stockholder's ability to buy and sell our stock.*

In addition to the "penny stock" rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

*Because we do not intend to pay any dividends on our shares, investors seeking dividend income or liquidity should not purchase our shares.*

We have not declared or paid any dividends on our shares since inception, and do not anticipate paying any such dividends for the foreseeable future. We presently do not anticipate that we will pay dividends on any of our common stock in the foreseeable future. If payment of dividends does occur at some point in the future, it would be contingent upon our revenues and earnings, if any, capital requirements, and general financial condition. The payment of any common stock dividends will be within the discretion of our Board of Directors. We presently intend to retain all earnings to implement our business plan; accordingly, we do not anticipate the declaration of any dividends for common stock in the foreseeable future.

Investors seeking dividend income or liquidity should not invest in our shares.

*Because we can issue additional shares, purchasers of our shares may incur immediate dilution and may experience further dilution.*

We are authorized to issue up to 220,000,000 shares. The board of directors of our company has the authority to cause us to issue additional shares, and to determine the rights, preferences and privileges of such shares, without consent of any of our stockholders. Consequently, our stockholders may experience more dilution in their ownership of our company in the future.

## Other Risks

*Protection against environmental risks.*

We believe that our operations comply, in all material respects, with all applicable environmental regulations.

Our operating partners maintain insurance coverage customary to the industry; however, we are not fully insured against all possible environmental risks.

*Any change to government regulation/administrative practices may have a negative impact on our ability to operate and our profitability.*

The laws, regulations, policies or current administrative practices of any government body, organization or regulatory agency in the United States, Canada, or any other jurisdiction, may be changed, applied or interpreted in a manner which will fundamentally alter the ability of our company to carry on our business.

The actions, policies or regulations, or changes thereto, of any government body or regulatory agency, or other special interest groups, may have a detrimental effect on us. Any or all of these situations may have a negative impact on our ability to operate and/or our profitability.

*Our by-laws contain provisions indemnifying our officers and directors against all costs, charges and expenses incurred by them.*

Our by-laws contain provisions with respect to the indemnification of our officers and directors against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, actually and reasonably incurred by him, including an amount paid to settle an action or satisfy a judgment in a civil, criminal or administrative action or proceeding to which he is made a party by reason of his being or having been one of our directors or officers.

*Investors' interests in our company will be diluted and investors may suffer dilution in their net book value per share if we issue additional shares or raise funds through the sale of equity securities.*

Our constating documents authorize the issuance of 220,000,000 shares of common stock with a par value of \$0.001. In the event that we are required to issue any additional shares or enter into private placements to raise financing through the sale of equity securities, investors' interests in our company will be diluted and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. If we issue any such additional shares, such issuances also will cause a reduction in the proportionate ownership and voting power of all other shareholders. Further, any such issuance may result in a change in our control.

*Our by-laws do not contain anti-takeover provisions, which could result in a change of our management and directors if there is a take-over of our company.*

We do not currently have a shareholder rights plan or any anti-takeover provisions in our By-laws. Without any anti-takeover provisions, there is no deterrent for a take-over of our company, which may result in a change in our management and directors.

*As a result of a majority of our directors and officers are residents of other countries other than the United States, investors may find it difficult to enforce, within the United States, any judgments obtained against our company or our directors and officers.*

Other than our operations offices in Kelowna, British Columbia, we do not currently maintain a permanent place of business within the United States. In addition, a majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against our company or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

*Trends, risks and uncertainties.*

We have sought to identify what we believe to be the most significant risks to our business, but we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to our common shares.

#### **Item 1B. Unresolved Staff Comments**

As a smaller reporting company, we are not required to provide the information required by this Item.

#### **Item 2. Properties**

*Executive Offices*

The address of our principal executive office is 156 Valleyview Road, Kelowna BC Canada V1X3M4, where we share ~1,200 square feet of office space, which includes several offices for a monthly rental of CAD\$1,052. Our telephone number is (250) 765 6424. We have an additional administrative office space in Langley British Columbia and Phoenix Arizona at nominal costs. Our current locations provide adequate office space for our purposes at this stage of our development.

#### ***Significant Acquisitions and Dispositions***

On November 12, 2014, the Company signed an agreement with PoViva and acquired 51% of PoViva with an initial consideration of \$50,000. Lexaria serves as the Manager of Business Operations of PoViva's Teas. As Manager, Lexaria oversees most aspects of the business including, but not limited to, Accounting, Marketing, Capital Investment, Capital Raising, Sales, Branding, Advertising and Fulfillment. The Founders served until 2015 as Production Manager and were responsible for all aspects of production, product quality, licensing, testing, and product legality. It is also expected that both parties to this Agreement will assist the other to fulfill their obligations as needed and the cost of business will be borne by revenues earned by the company and general corporate funds. As of October 2017 Lexaria acquired 100% of PoViva for US\$70,000, a waiver on certain debts, and a 5%, 20-year royalty on net profits of ViPova Tea™ tea, coffee, and hot chocolate sales. No Lexaria stock or options were issued.

On June 26, 2015, we entered into a definitive agreement with our joint venture partner Enertopia Corp., and Shaxon Enterprises Ltd. to sell our 49% interest in the Burlington Joint Venture and the MMPR application number 10MMPR0610. The Burlington MMPR license application will continue in the application process under new ownership. Pursuant to the agreement, the joint venture received a non-refundable \$10,000 deposit and is entitled to receive up to \$1,500,000 in milestone payments upon the Burlington facility becoming licensed under the MMPR. All payments made pursuant to the Definitive Agreement would be divided 51% to Enertopia Corp. and 40% to our Company. Notwithstanding the foregoing, we can neither guarantee nor provide a meaningful time estimate regarding

the grant of a production license for the Burlington facility.

**Item 3. Legal Proceedings**

We know of no other material, existing or pending legal proceedings against our company, nor are we involved as a plaintiff in any other material proceeding or pending litigation. There are no other proceedings in which any of our directors, executive officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our interest.

**Item 4. Mine Safety Disclosures**

None.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common shares are quoted on the OTCQB under the symbol LXRP. Our common shares are also quoted on the Canadian Securities Exchange under the symbol LXX. The following quotations, obtained from Yahoo Finance, reflect the high and low bids for our common shares as quoted on the OTCQB based on inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

The high and low bid prices of our common stock for the periods indicated below are as follows:

<b>OTC Bulletin Board<sup>(1)</sup></b>		
<b>Quarter Ended</b>	<b>High</b>	<b>Low</b>
November 30, 2014	\$0.12	\$0.04
Feb 28, 2015	\$0.12	\$0.07
May 31, 2015	\$0.225	\$0.076
August 31, 2015	\$0.27	\$0.13
November 30, 2015	\$0.235	\$0.111
Feb 28, 2016	\$0.28	\$0.08
May 31, 2016	\$0.169	\$0.08
August 31, 2016	\$0.154	\$0.08
November 30, 2016	\$0.35	\$0.11
February 28, 2017	\$0.699	\$0.20
May 31, 2017	\$0.625	\$0.27
August 31, 2017	\$0.43	\$0.27

<sup>(1)</sup> Over-the-counter market quotations reflect inter-dealer prices without retail mark-up, mark-down or commission, and may not represent actual transactions.

As of November 14, 2017, there were 80 holders of record of our common stock. As of such date, 69,020,011 shares of common stock were issued and outstanding.

Our common shares are issued in registered form. Computershare, 2nd Floor, 510 Burrard Street, Vancouver, BC V6C 3B9 (Telephone: 604-661-9400; Facsimile: 604-661-9549) is the transfer agent for our common shares.

Nevada Agency and Trust Company, 50 West Liberty Street, Suite 880, Reno, Nevada 89501 (Telephone: 775.322.0626; Facsimile: 775.322.5623) is our registrar.



*Dividend Policy*

We have not paid any cash dividends on our common stock and have no present intention of paying any dividends on the shares of our common stock. Our current policy is to retain earnings, if any, for use in our operations and in the development of our business. Our future dividend policy will be determined from time to time by our board of directors.

*Recent Sales of Unregistered Securities*

Other than set out below, we did not sell any equity securities which were not registered under the Securities Act during the year ended August 31, 2017 that were not otherwise disclosed on our quarterly reports on Form 10-Q or our current reports on Form 8-K filed during the year ended August 31, 2017.

On October 11, 2016, pursuant to its agreement with Docherty Management Ltd., the Company issued 252,000 restricted common shares with a value of \$35,760.

On October 11, 2016, pursuant to the Advisory Agreement, the Company issued 750,000 warrants with an exercise price of \$0.14 per share and term of five years, in return for consulting services provided in August, September, and October. The Company recognized the fair value of \$32,252 from 250,000 of such warrants for services received during the month of August 2016, during the year ended August 31, 2016, and during the three months ended November 30, 2016, further recognized \$59,490 for the remaining 500,000 warrants issued in return for consulting services received during the months of September and October 2016.

The Company reached an agreement with a director to settle the outstanding amount pursuant to an advisory agreement (Note 14), through issuance of common shares of the Company. To settle the outstanding amount of \$16,000 for four months to October 31, 2016, the Company issued 114,286 shares of its common stock at a value of \$0.14 per share, on October 11, 2016. On February 17, 2017, the Company issued a further 29,091 common shares to settle \$16,000 of fees incurred during the four months ended February 28, 2017. A total of \$8,000 of the \$32,000 was recognized as consulting fees during the year ended August 31, 2016.

On October 27, 2016, the Company issued 56,250 shares of its common stock in settlement of \$9,000, recognized within accounts payable and accrued liabilities as at August 31, 2016.

On November 1, 2016, the Company issued 500,000 warrants to a consultant. Each warrant entitles the consultant to purchase one common share of the Company at a price of \$0.31 per share with a term expiring on May 31, 2017. The Company recognized \$48,313, representing the fair value of such warrants, during the nine months ended May 31, 2017.

During November, 2016, the Company provided to its warrant holders, an incentive for early exercise of their previously held warrants. Upon exercise of each warrant, in addition to the common shares of the Company, the warrant holders received a second warrant with identical terms to purchase one additional common share of the Company. The Company raised \$737,508 from this early exercise warrant incentive program. A total of 3,245,000 warrants were exercised at a weighted average exercise price of \$0.23 and the Company issued 3,245,000 common shares as well as 3,245,000 additional warrants to purchase common shares with an exercise price of \$0.23 per share, expiring on May 14, 2017. The fair value of these additional warrants was determined to be \$298,777.

On January 10, 2017, the Company issued 500,000 warrants to a consultant. Each warrant entitles the consultant to purchase one common share of the Company at a price of \$0.44 per share with a term expiring on January 9, 2018. The Company recognized \$112,725, representing the fair value of such warrants, during the nine months ended May 31, 2017.

On April 3, 2017, the Company closed its brokered private placement of 4,104,280 units at a price per Unit of \$0.42 for total gross proceeds of \$1,723,798. Each Unit consists of one common share and one-half of one Share purchase warrant. Each whole Warrant entitles the holder to acquire one common share of the Company at a price of \$0.60 per Share for a period of 24 months. The Agents received a cash commission of seven percent of the gross proceeds and 287,300 compensation units exercisable for a period of 24 months at an exercise price of \$0.42 consisting of one common share and one half share purchase warrant. Each whole compensation warrant is exercisable for one common share at an exercise price of \$0.60 for a period of 24 months following closing.

On May 31, 2017, the Company reached an agreement with a director to settle the outstanding amount pursuant to a advisory agreement (Note 14), through issuance of common shares of the Company. To settle the outstanding amount of \$12,000 to May 31, 2017, the Company issued 35,294 shares of its common stock at a value of \$0.34 per share, on May 31, 2017.

On June 22, 2017, pursuant to the agreement with Mr. Chris Bunka (Note 16), the Company issued 210,000 common shares valued at \$61,950, for services rendered as the Chief Executive Officer of the Company.

On June 22, 2017, pursuant to the agreement with Mr. John Docherty (Note 16), the Company issued 210,000 common shares valued at \$61,950, for services rendered as the President of the Company.

On August 25, 2017, the Company issued 307,500 shares of its common stock for the conversion of the convertible debt of \$45,000 plus accrued interest of \$1,125 (Note 10).

On August 25, 2017, the Company issued 32,433 shares of its common stock at \$0.37 in settlement of \$12,000, recognized within accounts payable and accrued liabilities as at August 25, 2017.

### **Equity Compensation Plan Information**

We have no long-term incentive plans other than the stock option plans described below:

#### **2007 Equity Plan**

On April 25, 2007, our shareholders approved our 2007 Equity Incentive Stock Option Plan.

The 2007 Plan permits our company to issue up to 550,000 shares of our common stock to eligible employees and directors of our company upon the exercise of stock options granted under the 2010 Plan.

#### **2010 Equity Compensation Plan**

On February 26, 2010, our shareholders approved and adopted our 2010 equity incentive plan.

The 2010 Plan permits our Company to issue up to 1,980,000 shares of our common stock to directors, officers, employees and eligible consultants of our Company upon exercise of stock options granted under the 2010 plan.

#### **2014 Stock Option Plan**

On June 11, 2014, our shareholders approved and adopted our company's 2014 Stock Option Plan which permits our company to grant up to an aggregate of 3,850,000 options to acquire shares of our common stock, to directors, officers, employees and consultants of our company.

The Board may amend, subject to the approval of any regulatory authority whose approval is required, suspend or terminate this Plan or any portion thereof. No such amendment, suspension or termination shall alter or impair any outstanding unexercised Options or any rights without the consent of such Participant. If this Plan is suspended or terminated, the provisions of this Plan and any administrative guidelines, rules and regulations relating to this Plan shall continue in effect for the duration of such time as any Option remains outstanding.

<b>Equity Compensation Plan Information</b>			
<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans not approved by shareholders	Nil	Nil	Nil
Equity compensation plans approved by shareholders:			
2007 Equity compensation plan	Nil	Nil	550,000
2010 Equity compensation plan	247,500	\$0.09	1,732,500
2014 Stock Option Plan approved by security holders	3,073,375	\$0.15	776,625
<b>Total</b>	<b>3,320,875</b>	<b>\$0.15</b>	<b>3,059,125</b>

### **Convertible Securities**

As of August 31, 2017, we had outstanding options to purchase 3,320,000 shares of our common stock exercisable between prices of \$0.09 and \$0.37. In December 2015 we experienced a 1.1 for 1.0 forward stock split that adjusted quantities and strike prices of all previously granted options. Those adjustments are reflected herein.

On October 10, 2016, the Company granted 250,000 stock options to a consultant for business advisory services. The exercise price of the stock options is \$0.14 per share, vesting immediately and expiring on October 10, 2018.

On June 2, 2017, the Company granted 200,000 stock options to an officer of the Company. The exercise price of the stock options is \$0.37 per share, vesting immediately and expiring five years from the date of grant.

On June 21, 2017, the Company granted 300,000 stock options to a consultant, 100,000 vesting annually for 3 years, with an exercise price of \$0.295 and expiring five years from the date of grant. The company also granted 100,000 options to consultants vesting immediately with an exercise price of \$0.295 and expiring five years from the date of grant.

### **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

We did not purchase any of our shares of common stock or other securities during our fiscal year ended August 31, 2017.

### **Item 6. Selected Financial Data**

As a smaller reporting company, we are not required to provide the information required by this Item.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with our audited consolidated financial statements and the related notes that appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to; those discussed below and elsewhere in this annual report, particularly in the section entitled "Risk Factors".

Our audited financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles.

**Plan of Operation**

During the next twelve month period (beginning September 1, 2017), we intend to:

- continue sales and marketing efforts for consumer product lines
- pursue technology out-licensing opportunities for our patented DehydraTECH™ technology. This will be focused first primarily on cannabinoid sector, and will evolve as time allows for completed R&D in other sectors, to the NSAID, vitamin, and nicotine sectors;
- identify and secure sources of equity and/or debt financing for intellectual property pursuit and maintenance, R&D, and consumer product formulation and marketing;

Our plans beyond fiscal 2018 are dependent upon our ability to obtain sufficient capital to execute. During the previous year we did raise sufficient capital to fulfill all our plans. Without sufficient capital, our plans will change, and could change materially. We anticipate that we will incur the following operating expenses during this period:

**Estimated Funding Required During the 12 Months beginning September 1, 2017**

Expense	Amount (\$)	Estimated Completion/Due Date
Research and Development of additional products	70,000	12 months
Research and Development (General)	800,000	12 months
Patent applications and trademark	250,000	12 months
Marketing and Sales	200,000	12 months
Consulting Fees (~50% is officers and directors)	900,000	12 months
Professional fees	160,000	12 months
Rent	20,000	12 months
Other general administrative expenses (including travel, insurance, conferences, and fees)	300,000	12 months
Interest Expense	10,000	12 months
<b>Total</b>	<b>2,710,000</b>	



*12 Month Outlook for Current Product Line, Product Development & Design, Patents*

As at August 31, 2017, we had a working capital surplus of \$2,703,148 and cash on hand of \$2,533,337. We therefore estimate that we will be required to raise approximately \$nil in cash to finance our planned expenditures for the 12 months beginning September 1, 2017. In the uncertain event that we are unable to raise sufficient funds to execute our current business plan, or in the uncertain event that all of our debt obligations become due, we will be required to scale back our operations to prioritize immediate and necessary expenses in our longer term planning into fiscal 2019. These necessary expenses include professional fees and general and administrative expenses necessary to satisfy our public reporting requirements.

Our business strategy involves several elements. We intend to prioritize our revenue generating efforts in 2017/18 on technology licensing, with a secondary focus on our consumer food products enriched with full spectrum hemp oil.

Our patented technology was developed to aid absorption and bioavailability of certain payload molecules, including cannabinoids such as cannabidiol (CBD) and tetrahydrocannabinol (THC). CBD is not psychoactive and may have desirable qualities, and is found in plant species such as hemp, cannabis, and Echinacea. Our technology appears to improve absorption and bioavailability of CBD into human epi-intestinal cells. We are developing a line of food products fortified with full spectrum hemp oil that contains cannabinoids such as CBD, but contains less than 0.3% THC. Because of the low amounts of THC, and because the hemp oil is derived from legally imported hemp, the products are legal under Federal law.

We first began selling trial amounts of ViPova branded black tea fortified with hemp oil and utilizing our technology, in January 2015. In August 2015 we added six new flavors of tea to expand the brand's reach. Sales of these products have been modest but are expected to improve in the long term.

We also began offering our first coffee and hot chocolate also fortified with full spectrum hemp oil, and also under the ViPova brand. Together, tea, coffee and hot chocolate comprise all our product offerings under the ViPova brand, despite modest changes to flavors or perhaps packaging, etc. Offering a variety of self-made beverages to the consumers helps us to establish the ViPova brand and may also help us to develop relationships with retail distributors who are less likely to place orders from manufacturers that can only offer a single product.

Generating meaningful revenue from product sales will be challenging and will rely in part on our ability to achieve widespread retail distribution access. We are also investigating the possibility of generating sales from international markets, in those locations where hemp oil fortified foods are permissible by law.

ViPova branded products are owned by our 51%-owned Poviva Tea LLC subsidiary. As of October 2017 Lexaria acquired 100% of Poviva Tea LLC.

While the ViPova line is focused on a coffee house experience, the Lexaria Energy line is focused on athletic performance and active lifestyle needs. The first Lexaria Energy product is believed to be unique or nearly so: a protein energy bar utilizing our technology to fortify with full spectrum hemp oil. We first offered the Lexaria Energy Bar for sale in November, 2015.

Lexaria Energy branded products are owned 100% by Lexaria Corp.

A manufacturing facility was contracted to produce the bar in 2015. Recipes have evolved and at the time of this report the Company had no inventories of protein bars to be offered for sales, and was negotiating for a suitable 2016/17 manufacturing facility and prices.

Our strategy was to encourage online sales via a dedicated website, and also to encourage fitness enthusiasts to become aware of the Lexaria Energy Bars at fitness clubs and gyms, which they are likely to frequent. We did pursue



traditional grocery store, convenience store, and roadside store distribution channels in 2016 with some success but limited due to our lack of an established distribution system.

It is our intention, subject to sufficient funding being available, to provide R&D to develop additional fitness-style products in 2017 under the Lexaria Energy brand, such as protein powders for shakes or smoothies, and protein energy drinks. We are also pursuing other product development and expect to launch new products.

We believe the range of products available and under development are sufficient to prepare for revenue growth and potentially profitable long term operations if we are able to generate sufficient consumer demand and obtain sufficiently widespread retail distribution locations.

Meanwhile our business strategy contains a second element that we believe will be more impactful to future corporate growth that involves the further development and out-licensing of our intellectual property of molecule delivery that enhances bioactivity or absorption.

At this time we are not planning to offer for sale any products containing THC in quantities higher than 0.3% . However we envision licensing our technology to companies legally state-licensed to offer THC products in the states or international jurisdictions where they do business. We also plan to license our technology to other companies for the delivery of molecules other than THC or cannabinoids. Our October 31, 2017 announcement of the USPTO Notice of Allowance of our technology related to new molecule groups may enhance our ability to successfully pursue this initiative during fiscal 2018.

We will attempt to communicate the benefits of our technology to potential licensing partners, i.e. with higher absorption levels a manufacturer could infuse smaller amounts of active molecules into a product, thus reducing their manufacturing input costs. We believe this to a meaningful competitive advantage that may lead to the potential to generate licensing revenue, and will pursue these opportunities within the THC market both within the USA and also internationally, in those locations where it is legal and regulated by government.

We would not ourselves be selling any THC products we would only be licensing technology to already-licensed participants in valid jurisdictions. We expect a low number of licensees initially and currently have one revenue generating agreement with such a licensee and additional letters of intent and negotiations with other potential licensees.

Subject to budgetary availability, we also plan to conduct additional in vitro and in vivo studies testing the absorption of some or all of the molecules named within our patent applications CBD, NSAIDs, Vitamins, and Nicotine to substantiate the effectiveness of our invention. More than simply satisfying scientific curiosity, successful tests could lead to increased awareness and acceptance of our technology as a meaningful method by which to deliver some or all of the named molecules more effectively than their current delivery methods. Therefore absorption tests could become an important element leading towards higher rates of acceptance of our technology licensing initiatives.

We will pursue technology licensing opportunities as a method of generating highly profitable revenue streams over long periods of time. In addition, while one of our patent applications has been granted by the USPTO and another patent application has generated a Notice of Allowance, our remaining patent applications have not yet been granted. It is not possible to forecast with certainty when, or if, our remaining patent pendings will become granted patents. But if our remaining patent applications do become granted patents, our ability to generate meaningful license revenue from our intellectual property may increase in a very short period of time.

We will continue to pursue our remaining patents pending as vigorously as we are able, since the successful granting of more of those applications could lead to material increases in shareholder value. We are pursuing patent protection in more than 40 countries around the world.

**Results of Operations for our Year Ended August 31, 2017 and August 31, 2016**

Our net loss and comprehensive loss for the year ended August 31, 2017, for the year ended August 31, 2016 and the changes between those periods for the respective items are summarized as follows:

	<b>Year Ended August 31, 2017</b>	<b>Year Ended August 31, 2016</b>	<b>Change</b>
	\$	\$	\$
Revenue	63,639	40,718	22,921
General and administrative	1,963,354	1,272,352	691,002
Interest expense	6,015	2,250	3,765
Consulting fees	1,017,872	565,543	452,329
Professional Fees	210,297	133,860	76,437
Net loss	(1,929,465)	(1,277,249)	(652,216)

**Revenue**

Licensing revenues represent the majority of the \$63,639 in revenues during the year ended August 31, 2017. Consumer product sales revenues were lower due to challenges in securing expansive distribution opportunities, production challenges and payment processing changes. Total licensing revenues increased as they were included on a pro-rated basis and also included additional contracted fees. Licensing revenues were recognized on a pro-rated basis over the term of the licensing agreement as the Company is required to provide additional support services during the term and is in a very early stage of this revenue cycle to identify a vendor-specific objective evidence of fair value of such services. Additional contracted fees were included as earned. As of August 31 2017 the company had received all of the pre-defined Licensing payments to August 31 2017 for a cash receipts of \$50,000 of Licensing fees and \$20,392 of additional fees corresponding to the areas under the license agreement where the licensee has been active to-date. During the year ended August 31, 2017, \$25,417 of the \$50,000 was included (2016 \$7,500) on a pro-rated basis and \$20,392 (2016 \$NIL) of additional fees as licensing revenue for a total of \$45,809 in licensing revenue and \$17,830 in product and other revenues.

As fiscal 2017 came to a close, hemp oil fortified foods, and hemp seed products continued gaining consumer acceptance and provide a reason to believe that sales could increase. Those trends should support higher potential consumer product sales. Release of the TurboCBD product was successful but sales were limited by changes to payment processing services outside of the Company's control. At the time of this report the Company had extinguished its supplies of certain products like protein bars and the lack of inventory was also a negative impact on consumer product sales potential.

For 2018 the Company expects to derive ever larger proportions of its revenues from technology licensing to third parties. At August 31, 2015 the Company had zero technology licensing agreements entered. By August 31, 2016 we had entered several LOI's or definitive agreements related to technology out-licensing. At the time of this report the Company has entered more than 10 formal letters of intent or definitive agreements and is negotiating more. The Company also has formed a joint venture to develop, produce, and sell a line of healthy edible cannabinoid products using our patented technology. It is the Company's view that the October 2017 notice of allowance of its expanding patent portfolio will be a positive step in enabling the generation of more significant revenues during 2018.

We do not expect that all of the Letters of Intent into which we enter will result in definitive agreements with paying customers and cannot predict how many will. We believe that strengthening and expanding our intellectual property portfolio and conducting supportive R&D will jointly contribute to strengthening revenue prospects.

**General and Administrative**

Our general and administrative expenses increased by \$691,002 during the year ended August 31, 2017. The increase in our general and administrative expenses was largely due to expected increases in executing budgeted work. Examples are many and include additional consultants; increasing legal fees for patent and trademark filings, new product development and launch, and more. However roughly two-thirds of the increase included in the G&A total is \$258,406 valuation of warrants issued for services and \$207,660 of share issuance for contracts and in settlement of services recognized in accounts payable regarding contractors. Significant increases are expected during fiscal 2018 executing the budgeted scientific testing and research and development.

**Interest Expense**

Interest expense for the year ended August 31, 2017 was \$6,015 (2016 \$2,250). The increase was primarily due to the issuance of a convertible debt and related payments. As of the year ended August 31, 2017 we eliminated our long-term loan and the convertible debt was converted.

**Consulting fees**

Our consulting fees increased during the year ended August 31, 2017 due to the involvement of additional consultants, including the appointment of our interim CFO. Our executives are typically hired and compensated as consultants and costs associated with those agreements comprise the largest majority of our consulting fees expense.

**Professional Fees**

Our professional fees increased by \$76,437 during fiscal 2017 primarily due to increases in patent and trademark filings, but were offset by some reductions due to the appointment of our interim CFO reducing financial report preparation fees from third party service providers. These efficiencies reduced outside professional fees.

**Liquidity and Financial Condition**

	August 31 2017	August 31 2016
	\$	\$
<b>Working Capital</b>		
Current assets	2,795,495	510,166
Current liabilities	92,347	433,881
Working capital balance	2,703,148	76,285

The Company's working capital balance increased during the year ended August 31, 2017 as a result of its financing activities. The warrant conversions from previous equity financings, and the new equity financings during fiscal 2017 resulted in a significant improvement in our working capital position of \$2,626,863 compared to the year earlier period.

	August 31 2017	Year Ended August 31 2016
	\$	\$
<b>Cash flows</b>		
Cash flows (used in) provided by operating activities	(1,545,909)	(660,856)
Cash flows (used in) provided by investing activities	(9,699)	(20,102)
Cash flows (used in) provided by financing activities	3,995,536	514,292
Increase (decrease) in cash	2,439,928	(166,666)

**Operating Activities**

Net cash used in operating activities was \$1,545,909 for the year ended August 31, 2017 compared with cash used in operating activities of \$660,856 during the same period in 2016. This difference was largely due to the increased costs pertaining to consulting, advertising and promotion, patent and trademark related filings, research and development, and travel.

**Investing Activities**

Net cash used in investing activities was \$9,699 (2016 \$20,102) for the year ended August 31, 2017 is primarily due to the Company's cost incurred related to its patent related applications.



### ***Financing Activities***

Net cash provided from financing activities was \$3,995,536 during the year ended August 31, 2017 compared to net cash provided of \$514,292 during the same period in 2016. During fiscal 2017, the Company closed a brokered private placement and had significant warrant exercises. The Company also repaid its loan due to our Chief Executive Officer. We raised \$1,635,242 from equity private placements \$177,262 from option and \$2,233,032 from warrant exercises in fiscal 2017 compared to \$419,292 of equity from private placements and \$95,000 in debt during fiscal 2016.

### **Contractual Obligations**

As a smaller reporting company, we are not required to provide tabular disclosure obligations.

### **Going Concern**

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has a net loss attributable to its common shareholders of \$1,869,277 for the year ended August 31, 2017 (2016: \$1,214,773) and at August 31, 2017 had a deficit accumulated since its inception of \$13,169,939 (2016: \$11,300,662). The Company has a working capital balance of \$2,703,148 as at August 31, 2017 (2016: \$76,285). The Company requires additional funds to maintain its operations and developments beyond fiscal 2018. Management's plans in this regard are to raise equity and debt financing as required, but there is no certainty that such financing will be available or that it will be available at acceptable terms. The outcome of these matters cannot be predicted at this time.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to stockholders.

### **Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with the accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the aspects of our financial statements are critical to an understanding of our financial statements as more particularly described in Note 3 to our audited annual consolidated financial statements included herein.

### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (the FASB) issued a new standard related to the revenue recognition. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has recently issued several amendments to the standards, including clarification on the accounting for licenses of intellectual property and identifying

performance obligations.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company will apply the full retrospective approach to adopt the standard but does not anticipate that this standard will have a material impact on its consolidated financial statements.



In July 2015, FASB issued ASU 2015-11, Simplifying the Measurement of Inventory ( ASU 2015-11 ). ASU 2015-11 requires that an entity measure inventory at the lower of cost and net realizable value. This ASU does not apply to inventory measured using last-in, first-out methodology. ASU 2015-11 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company does not expect the new standard to have a significant impact on its consolidated financial position, results of operations or cash flows.

In November 2015, the FASB issued guidance that requires companies to classify all deferred tax assets or liabilities as noncurrent on the balance sheet rather than separately disclosing deferred taxes as current and noncurrent. This standard is effective for the Company beginning on September 1, 2017 and can be applied either prospectively or retrospectively to all periods presented upon adoption. The standard is not expected to have any impact on the Company's financial statements.

In January 2016, FASB issued a new standard to amend certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most prominent among the amendments is the requirement for changes in fair value of equity investments, with certain exceptions, to be recognized through profit or loss rather than other comprehensive income. The new standard will be effective for the Company beginning September 1, 2018. The standard is not expected to have any impact on the Company's financial statements.

In February 2016 FASB issued ASU No. 2016-02, Leases (Topic 842) which supersedes FASB ASC Topic 840, Leases (Topic 840) and provides principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and the lessors. The new standard requires the lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. The classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. The standard is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted upon issuance. When adopted, the Company does not expect this guidance to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. Under ASU 2016-09, companies will no longer record excess tax benefits and certain tax deficiencies in additional paid in capital ( APIC ). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement and the APIC pools will be eliminated. In addition, ASU 2016-09 eliminates the requirement that excess tax benefits be realized before companies can recognize them. ASU 2016-09 also requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. Furthermore, ASU 2016-09 will increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. An employer with a statutory income tax withholding obligation will now be allowed to withhold shares with the fair value up to the amount of taxes owed using the maximum statutory rate in the employee's applicable jurisdiction(s). ASU 2016-09 requires a company to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on the statement of cash flows. Under current U.S. GAAP, it is not specified how these cash flows should be classified. In addition, companies will now have to elect whether to account for forfeitures on share-based payments by (1) recognizing forfeiture awards as they occur or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as in currently required. The amendments of this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted but all of the guidance must be adopted in the same period. The Company is currently assessing the impact the standard will have on its consolidated financial statements.

In June 2016, the FASB issued a new standard to replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss credit loss estimates. For trade and other receivables, loans and other financial instruments, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. Credit losses relating to available for sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The new standard will be effective for Lexaria beginning September 1, 2020, with early adoption permitted. Application of the amendments is through a cumulative-effect adjustment to deficit as of the effective date. The Company is currently assessing the impact of the standard on its consolidated financial statements.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting company, we are not required to provide the information required by this Item.

**Item 8. Financial Statements and Supplementary Data**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Directors of  
Lexaria Bioscience Corp.

We have audited the accompanying consolidated financial statements of Lexaria Bioscience Corp. (the Company), which comprise the consolidated balance sheets as of August 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive loss, changes in cash flows, and stockholders' equity for the years ended August 31, 2017 and 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lexaria Bioscience Corp. as of August 31, 2017 and 2016, and the results of its operations and its cash flows for the years ended August 31, 2017 and 2016 in conformity with accounting principles generally accepted in the United States of America.

**DAVIDSON & COMPANY LLP**

Vancouver, Canada

Chartered Professional Accountants

November 22, 2017

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**LEXARIA BIOSCIENCE CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in U.S. Dollars)

	<b>August 31 2017</b>	<b>August 31 2016</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 2,533,337	\$ 93,409
Accounts and other receivable (Note 6)	45,293	131,083
Inventory (Note 7)	67,174	134,724
Prepaid expenses and deposit	149,691	150,950
Patent (Note 8)	2,795,495	510,166
	62,827	53,997
Equipment	1,856	2,475
	64,683	56,472
<b>TOTAL ASSETS</b>	<b>\$ 2,860,178</b>	<b>\$ 566,638</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 32,574	\$ 90,010
Unearned revenue (Note 9)	17,083	12,500
Due to related parties (Note 14)	42,690	331,371
<b>Total Current Liabilities</b>	<b>92,347</b>	<b>433,881</b>
<b>Convertible debenture (Note 10)</b>	<b>-</b>	<b>45,000</b>
<b>TOTAL LIABILITIES</b>	<b>92,347</b>	<b>478,881</b>
<b>STOCKHOLDERS' EQUITY</b>		
<b>Share Capital (Note 11)</b>		
Authorized: 220,000,000 common voting shares with a par value of \$0.001 per share Issued and outstanding: 67,975,761 common shares at August 31, 2017 and 51,288,477 common shares at August 31, 2016	67,976	51,288
<b>Additional paid-in capital (Note 11)</b>	<b>16,108,270</b>	<b>11,515,419</b>

<b>Deficit</b>	<b>(13,169,939)</b>	<b>(11,300,662)</b>
<b>Equity attributable to shareholders of the Company</b>	<b>3,006,307</b>	<b>266,045</b>
<b>Non-Controlling Interest (Note 8)</b>	<b>(238,476)</b>	<b>(178,288)</b>
<b>Total Stockholders' Equity</b>	<b>2,767,831</b>	<b>87,757</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,860,178</b>	<b>\$ 566,638</b>

The accompanying notes are an integral party of these consolidated financial statements.

**LEXARIA BIOSCIENCE CORP.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Expressed in U.S. Dollars, except number of shares)

	YEAR ENDED	
	August 31 2017	August 31 2016
<b>Revenue</b>		
Sales (Note 13)	\$ 63,639	\$ 40,718
<b>Cost of Goods Sold</b>		
Cost of goods sold	29,750	45,615
<b>Gross Profit / (Loss)</b>	<b>33,889</b>	<b>(4,897)</b>
<b>Expenses</b>		
Accounting and audit	74,087	95,921
Depreciation and Amortization (Note 8)	1,488	619
Insurance	19,652	17,237
Advertising and promotions	209,034	185,459
Bank charges and exchange loss	(6,415)	15,382
Consulting (Note 12, 16)	1,130,916	657,813
Interest expense (Note 10)	6,015	2,250
Investor relations (Note 12)	91,681	61,574
Legal and professional	136,210	37,939
Office and miscellaneous	118,863	97,077
Research and development	54,185	9,024
Taxes	(2,374)	3,983
Travel	61,401	44,034
Inventory write-off (Note 7)	68,611	44,040
	<b>1,963,354</b>	<b>1,272,352</b>
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (1,929,465)</b>	<b>\$ (1,277,249)</b>
<b>Net loss and comprehensive loss attributable to:</b>		
Common shareholders	\$ (1,869,277)	\$ (1,214,773)
Non-controlling interest (Note 8)	\$ (60,188)	\$ (62,476)
<b>Basic and diluted loss per share</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of common shares outstanding - Basic and diluted</b>	<b>58,765,806</b>	<b>43,840,378</b>

The accompanying notes are an integral party of these consolidated financial statements.

**LEXARIA BIOSCIENCE CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in U.S. Dollars)

	YEAR ENDED	
	August 31 2017	August 31 2016
<b>Cash flows used in operating activities</b>		
Net loss and comprehensive loss for the year	\$ (1,929,465)	\$ (1,277,249)
Adjustments to reconcile net loss and comprehensive loss to net cash used in operating activities:		
Stock based compensation	113,044	122,015
Depreciation and amortization	1,488	619
Inventory write-off	68,611	44,040
Common shares issued for interest (Note 10)	1,125	-
Common shares issued for services	207,660	79,500
Warrants issued for services	292,750	32,252
Change in working capital:		
Accounts and other receivable	(7,710)	(6,201)
Inventory	(1,061)	(10,778)
Prepaid expenses and deposit	(17,817)	26,190
Accounts payable and accrued liabilities	(40,436)	56,937
Due to related parties	(238,681)	259,319
Unearned revenue	4,583	12,500
<b>Net cash used in operating activities</b>	<b>(1,545,909)</b>	<b>(660,856)</b>
<b>Cash flows used in investing activities</b>		
Patent	(9,699)	(17,008)
Acquisition of equipment	-	(3,094)
<b>Net cash used in investing activities</b>	<b>(9,699)</b>	<b>(20,102)</b>
<b>Cash flows from financing activities</b>		
Proceeds from (Payments of) loans/convertible debentures	(50,000)	95,000
Proceeds from issuance of equity	4,045,536	419,292
<b>Net cash from financing activities</b>	<b>3,995,536</b>	<b>514,292</b>
<b>Change in cash</b>	<b>2,439,928</b>	<b>(166,666)</b>
<b>Cash, beginning of year</b>	<b>93,409</b>	<b>260,075</b>
<b>Cash, end of year</b>	<b>\$ 2,533,337</b>	<b>\$ 93,409</b>
<b>Supplemental information of cash flows:</b>		
Interest paid in cash	\$ 4,890	\$ 2,250
Income taxes paid in cash	\$ -	\$ -
Shares issued to convert convertible debt	\$ 45,000	\$ -
Subscription funds receivable	\$ -	\$ 93,500
Stock based compensation recognized from prepaid expense	\$ 19,076	\$ 38,150
Shares issued for services in accounts payable and accrued liabilities	\$ 17,000	\$ -

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



**LEXARIA BIOSCIENCE CORP.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(Expressed in U.S. Dollars)**

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	DEFICIT	NCI	TOTAL EQUITY
	SHARES	AMOUNT \$				
<b>Balance, August 31, 2015</b>	<b>43,838,286</b>	<b>43,838</b>	<b>10,814,460</b>	<b>(10,085,889)</b>	<b>(115,812)</b>	<b>656,597</b>
Shares issued for services	625,000	625	78,875	-	-	79,500
Non-controlling Interest	-	-	-	-	(62,476)	(62,476)
Stock based compensation (Note 12)	-	-	83,865	-	-	83,865
Private placement of shares, net of issuance cost	5,266,858	5,267	414,025	-	-	419,292
Private placement subscription receivable	1,558,333	1,558	91,942	-	-	93,500
Warrants to be issued for services	-	-	32,252	-	-	32,252
Net loss	-	-	-	(1,214,773)	-	(1,214,773)
<b>Balance, August 31, 2016</b>	<b>51,288,477</b>	<b>51,288</b>	<b>11,515,419</b>	<b>(11,300,662)</b>	<b>(178,288)</b>	<b>87,757</b>
Shares issued for services	939,354	938	223,722	-	-	224,660
Non-controlling Interest	-	-	-	-	(60,188)	(60,188)
Stock based compensation (Note 12)	-	-	93,968	-	-	93,968
Private placement of shares, net of issuance cost	4,104,280	4,105	1,537,637	-	-	1,541,742
Warrants issued for services	-	-	292,750	-	-	292,750
Exercise of stock options	1,014,125	1,015	176,247	-	-	177,262
Exercise of warrants	10,322,025	10,322	2,222,710	-	-	2,233,032
Conversion of debt	307,500	308	45,817	-	-	46,125
Net loss	-	-	-	(1,869,277)	-	(1,869,277)
<b>Balance, August 31, 2017</b>	<b>67,975,761</b>	<b>67,976</b>	<b>16,108,270</b>	<b>(13,169,939)</b>	<b>(238,476)</b>	<b>2,767,831</b>

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

**LEXARIA BIOSCIENCE CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2017**  
**(Expressed in U.S. Dollars)**

**1. Organization, Business and Going Concern**

Lexaria Biosciences Corp. ( Lexaria , or the Company ) Company was formed on December 9, 2004 under the laws of the State of Nevada as an independent oil and gas company engaged in the exploration, development and acquisition of oil and gas properties in the United States and Canada. In March of 2014, the Company began its entry into the bioscience and alternative health and wellness business and discontinued its involvement in the oil and gas business in November 2014. In May 2016, the Company also commenced out-licensing its patented technology for improved delivery of bioactive compounds that promotes healthy ingestion methods, lower overall dosing and higher effectiveness in active molecule delivery. The Company has its office in Kelowna, BC, Canada.

The Company s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has a net loss attributable to its common shareholders of \$1,869,277 for the year ended August 31, 2017 (2016: \$1,214,773) and at August 31, 2017 had a deficit accumulated since its inception of \$13,169,939 (2016: \$11,300,662). The Company has a working capital balance of \$2,703,148 as at August 31, 2017 (2016: \$76,285).

The Company requires additional funds to maintain its operations and developments. Management s plans in this regard are to raise equity and debt financing as required, but there is no certainty that such financing will be available or that it will be available at acceptable terms. The outcome of these matters cannot be predicted at this time.

**2. Business Risk and Liquidity**

The Company is subject to several categories of risk associated with its operating activities. The production and sale of alternative health products is an emerging industry in which business practices are not yet standardized and are subject to frequent scrutiny and evaluation by federal, state, provincial, and municipal authorities, academics, and media outlets, among others. Although we intend to develop our businesses in accordance with best ethical practices, we may suffer negative publicity if we, our partners, contractors, or customers are found to have engaged in any environmentally insensitive practices or other business practices that are viewed as unethical.

Our operations may require licenses and permits from various governmental authorities. We believe that we will be able to obtain all necessary licenses and permits under applicable laws and regulations for our operations and believe we will be able to comply in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in various circumstances. There can be no guarantee that we will be able to obtain or maintain all necessary licenses and permits, and failing to obtain or retain required licenses could have a materially adverse effect on the Company.

Lexaria and its subsidiaries are not involved directly or indirectly in the cultivation, processing, distribution, or utilization of Cannabis or Cannabis derived components. All of Lexaria s consumer products utilize legally sourced Hemp and Hemp components in their production. Lexaria does have an ancillary involvement risk via

out-licensing of its patented technology to licensees that choose to utilize its technology to manufacture products that contain locally or state approved but federally regulated and controlled contents. There can be no guarantee that changes in the regulatory framework and environment will not occur and such changes could have a materially adverse effect on the Company. It is possible some jurisdictions may even interpret Lexaria's ancillary involvement as in contravention with regulations.

### 3. Significant Accounting Policies

#### a) Accounting Principles

These consolidated financial statements have been prepared in conformity with generally accepted accounting principles of the United States of America. All amounts, unless otherwise stated, are in United States dollars.

#### b) Basis of Presentation

On December 16, 2015, the Company completed a forward stock split of our authorized and issued and outstanding shares of common stock on a basis of 1 old share of common stock for 1.1 new shares of common stock. The forward stock split affected all the issued and outstanding common shares, stock options, and warrants at the effective date and increased authorized capital to 220,000,000, par value of \$0.001. All common shares numbers, numbers of stock options, and warrants and related per share amounts disclosed in these consolidated financial statements have been retroactively adjusted to reflect the forward stock split.

#### c) Basis of Consolidation

These consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiary, Lexaria CanPharm Corp. which was incorporated on April 4, 2014, under the laws of Canada, 51%-owned subsidiary PoViva Tea, LLC which was incorporated on December 12, 2014, under the laws of the State of Nevada, and the 50%-owned subsidiary Ambarii Trade Corporation, which has no assets or liabilities, that was incorporated on April 24, 2017 under the laws of the Province of British Columbia. All significant inter-company balances and transactions have been eliminated.

#### d) Revenue Recognition

Revenue from the sale of health products is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. In most cases, these conditions are met when the product is shipped to the customer. The Company reports its sales net of the amount of actual sales returns and the amount of reserves established for anticipated sales returns based upon historical return rates. Sales tax collected from customers is excluded from net sales.

Lexaria also enters into agreements to license out its patented technology that can include various combinations of services. Where elements are delivered over different periods of time, and when allowed under U.S. GAAP, revenue is allocated to the respective elements based on their relative selling prices at the inception of the arrangement, and revenue is recognized as each element is delivered. The Company uses a hierarchy to determine the fair value to be used for allocating revenue to elements: (i) vendor-specific objective evidence of fair value ( VSOE ), (ii) third-party evidence and (iii) best estimate of selling price ( ESP ). Generally VSOE is the price charged when the deliverable is sold separately or the price established by management for a product that is not yet sold if it is probable that the price will not change before introduction into the marketplace. ESPs are established as best estimates of what the selling prices would be if the deliverables were sold regularly on a stand-alone basis. Given Lexaria's early stage of such line of revenue, the Company's process for determining the VSOE and ESP requires judgment and considers multiple factors that may vary overtime depending upon the unique facts and circumstances related to each deliverable.



**e) Inventory and Cost of Sales**

The Company's inventory consists of finished goods, work in progress, and raw materials. In all classes, inventory is valued at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Cost of sales includes all expenditures incurred in bringing the goods to the point of sale. Inventory costs and costs of sales include direct costs of the raw material, inbound freight charges, warehousing costs, handling costs (receiving and purchasing) and utilities and overhead expenses related to the Company's manufacturing and processing facilities.

**f) Cash and Cash Equivalents**

Cash equivalents comprise certain highly liquid instruments with a maturity of three months or less when purchased. As of August 31, 2017, and August 31, 2016, The Company held cash only.

**g) Equipment**

Equipment is stated at cost less accumulated depreciation, and depreciated using the straight-line method over its useful life of five years.

**h) Patents**

Capitalized patent costs represent legal costs incurred to establish patents. When patents reach a mature stage, any associated legal costs are comprised mostly of maintenance fees and are expensed as incurred. Capitalized patent costs are amortized on a straight-line basis over the remaining life of the patent. The Company was granted its first patent on October 25, 2016 (Note 8), with a legal life of 20 years.

**i) Stock-Based Compensation**

Company accounts for its stock-based compensation awards in accordance with ASC Topic 718, Compensation - Stock Compensation (ASC 718). ASC 718 requires all stock-based payments to employees, including grants of employee stock options, to be recognized as expense in the statements of operations based on their grant date fair values. For stock options granted to employees and to members of the Board of Directors for their services on the Board of Directors, the Company estimates the grant date fair value of each option award using the Black-Scholes option-pricing model. The use of the Black-Scholes option-pricing model requires management to make assumptions with respect to the expected term of the option, the expected volatility of the common stock consistent with the expected life of the option, risk-free interest rates and expected dividend yields of the common stock.

Stock-based payments issued to non-employees are recorded at their fair values, and are periodically revalued as the equity instruments vest and are recognized as expense over the related service period in accordance with the provisions of ASC 718 and ASC Topic 505, Equity. For equity instruments granted to non-employees, the Company recognizes stock-based compensation expense on vesting.

**j) Loss Per Share**

The Company applies the guidance in ASC 260 Earnings Per Share. Loss per share is computed using the weighted average number of shares outstanding during the period. Diluted loss per share is equivalent to basic loss per share because the potential exercise of the equity-based financial instruments was anti-dilutive.



**k) Foreign Currency Translation**

The Company's operations are located in the United States of America and Canada, and it has offices in Canada. The Company maintains its accounting records in U.S. Dollars, as follows:

At the transaction date, each asset, liability, revenue and expense that was acquired or incurred in a foreign currency is translated into U.S. dollars by the using of the exchange rate in effect at that date. At the period end, monetary assets and liabilities are translated at the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in profit or loss.

**l) Financial Instruments**

ASC 820 Fair Value Measurements and Disclosures, requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and

Level 3 - Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The Company's financial instruments consist primarily of cash, accounts and other receivable, accounts payable and accrued liabilities, due to related parties, and convertible debenture. The carrying amounts of cash, accounts and other receivable, accounts payable and accrued liabilities, and due to related parties approximate their fair values due to their short maturities. The carrying value of the Company's convertible debenture approximates its fair value based on comparison of the interest rate and terms of such debt to the rates and terms of debt currently available to the Company.

The Company is located in Canada, which results in exposure to market risks from changes in foreign currency rates. The foreign currency exchange risk is the financial risk to the Company's operations that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk as the Company does not hold a significant position in foreign currencies, such as the Canadian dollar, and the impact of a change in a few basis points for USD/CAD is not expected to be material.

**m) Income Taxes**

The Company applies the guidance in ASC 740, Income Taxes, which requires the Company to recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns using the liability method. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the year in which the differences are expected to reverse.





**n) Impairment of Long-Lived Assets**

Long-lived assets, including equipment, and intangible assets, such as the Company's patents, are assessed for potential impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is recognized when the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Any required impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value and is recorded as a reduction in the carrying value of the related asset and a charge to the profit or loss. Intangible assets with indefinite lives are tested for impairment annually and in interim periods if certain events occur indicating that the carrying value of the intangible assets may be impaired.

**o) Comprehensive Income**

The Company applies ASC 220, Comprehensive Income, which establishes standards for reporting and presentation of comprehensive income, its components and accumulated balances. The Company discloses this information on its Statement of Stockholders' Equity. Comprehensive income comprises equity changes except those transactions resulting from investments by owners and distributions to owners.

**p) Credit Risk and Receivable Concentration**

The Company places its cash with a high credit quality financial institution. As of August 31, 2017, the Company had approximately \$2,533,000 in the bank (August 31, 2016: \$93,000).

As at August 31, 2017, the Company had \$43,515 (2016 - \$27,583) in sales tax receivable (Note 6). The Company considers its credit risk to be low for such receivable.

**q) Convertible Debenture**

The Company accounts for its convertible debt instruments that may be settled in cash upon conversion according to ASC 470-20-30-22 which requires the proceeds from the issuance of such convertible debt instruments to be allocated between debt and equity components so that debt is discounted to reflect the Company's non-convertible debt borrowing rate.

Further, the Company applies ASC 470-20-35-13 which requires the debt discount to be amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense.

**r) Commitments and Contingencies**

In accordance with ASC 450-20, Accounting for Contingencies, the Company records accruals for such loss contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information. Historically, the Company has not experienced any material claims.

**s) Research and Development**

Research and development costs are expensed as incurred.



**t) Advertising**

The Company expenses advertising costs as they are incurred. The advertising expenses were \$209,034 and \$185,459 for the years ended August 31, 2017 and 2016, respectively.

**4. Estimates and Judgments**

The preparation of financial statements in conformity with U.S GAAP requires us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Some of the Company's accounting policies require us to make subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. These accounting policies involve critical accounting estimates because they are particularly dependent on estimates and assumptions made by management about matters that are highly uncertain at the time the accounting estimates are made. Although we have used our best estimates based on facts and circumstances available to us at the time, different estimates reasonably could have been used. Changes in the accounting estimates used by the Company are reasonably likely to occur from time to time, which may have a material effect on the presentation of financial condition and results of operations.

The Company reviews these estimates, judgments and assumptions periodically and reflect the effects of revisions in the period in which they are deemed to be necessary. We believe that these estimates are reasonable; however, actual results could differ from these estimates

Significant accounting estimates and assumptions are used for, but not limited to:

**a) The Valuation of Deferred Tax Assets**

Judgement is required in determining whether deferred tax assets are recognized on the balance sheet. The recognition of deferred tax assets requires management to assess the likelihood that the Company will generate taxable income in future periods to utilize the deferred tax assets. Due to the Company's history of losses, deferred tax assets have not be recognized by Lexaria.

**b) Convertible Debenture**

The Company entered into a convertible debenture agreement on March 8, 2016 (Note 10) and evaluated the terms of the various conversion options to assess if separate accounting is required for such embedded features, which are adjusted to fair value through earnings at each reporting period. The Company determined that the embedded features within the debenture do not meet the net settlement provision characteristic of a derivative and as a result, did not apply the bifurcation requirements for such conversion options.

**c) Revenue Recognition of Licenses**

Pursuant to the license agreement for the Company's lipid infusion technology (the Technology) (Note 9), the licensee acquired territorial licenses for an upfront fee. The Company is also required to provide support services in connection with the licensee's use of the Technology over the term of the license. As the support services will not be sold on a stand-alone basis, the Company is unable to establish VSOE of their fair value to be able to allocate the proceeds objectively to such services and the license. Accordingly, the up-front fee is being recognized ratably over the term of the license, which is initially for two years.



**d) Value of Stock Options**

The Company provides compensation benefits to its employees, directors, officers, and consultants, through a stock option plan. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatility assumptions used in the model is based on the historical volatility of the Company's share price. The Company uses historical data to estimate the period of option exercises for use in the valuation model. The risk-free interest rate for the expected term of the option is based on the yields of government bonds. Changes in these assumptions, especially the share price volatility and the expected life determination could have a material impact on the Company's profit and loss for the periods presented. All estimates used in the model are based on historical data which may not be representative of future results.

**5. New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (the FASB) issued a new standard related to the revenue recognition. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has recently issued several amendments to the standards, including clarification on the accounting for licenses of intellectual property and identifying performance obligations.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company will apply the full retrospective approach to adopt the standard but does not anticipate that this standard will have a material impact on its consolidated financial statements.

In July 2015, FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (ASU 2015-11). ASU 2015-11 requires that an entity measure inventory at the lower of cost and net realizable value. This ASU does not apply to inventory measured using last-in, first-out methodology. ASU 2015-11 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company does not expect the new standard to have a significant impact on its consolidated financial position, results of operations or cash flows.

In November 2015, the FASB issued guidance that requires companies to classify all deferred tax assets or liabilities as noncurrent on the balance sheet rather than separately disclosing deferred taxes as current and noncurrent. This standard is effective for the Company beginning on September 1, 2017 and can be applied either prospectively or retrospectively to all periods presented upon adoption. The standard is not expected to have any impact on the Company's financial statements.

In January 2016, FASB issued a new standard to amend certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most prominent among the amendments is the requirement for changes in fair value of equity investments, with certain exceptions, to be recognized through profit or loss rather than other comprehensive income. The new standard will be effective for the Company beginning September 1, 2018. The standard is not expected to have any impact on the Company's financial statements.

In February 2016 FASB issued ASU No. 2016-02, Leases (*Topic 842*) which supersedes FASB ASC Topic 840, Leases (*Topic 840*) and provides principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and the lessors. The new standard requires the lessees to apply a dual approach,

classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. The classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months

regardless of classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. The standard is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted upon issuance. When adopted, the Company does not expect this guidance to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. Under ASU 2016-09, companies will no longer record excess tax benefits and certain tax deficiencies in additional paid in capital ( APIC ). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement and the APIC pools will be eliminated. In addition, ASU 2016-09 eliminates the requirement that excess tax benefits be realized before companies can recognize them. ASU 2016-09 also requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. Furthermore, ASU 2016-09 will increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. An employer with a statutory income tax withholding obligation will now be allowed to withhold shares with the fair value up to the amount of taxes owed using the maximum statutory rate in the employee's applicable jurisdiction(s). ASU 2016-09 requires a company to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on the statement of cash flows. Under current U.S. GAAP, it is not specified how these cash flows should be classified. In addition, companies will now have to elect whether to account for forfeitures on share-based payments by (1) recognizing forfeiture awards as they occur or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is currently required. The amendments of this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted but all of the guidance must be adopted in the same period. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued a new standard to replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade and other receivables, loans and other financial instruments, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. Credit losses relating to available for sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The new standard will be effective for Lexaria beginning September 1, 2020, with early adoption permitted. Application of the amendments is through a cumulative-effect adjustment to deficit as of the effective date. The Company is currently assessing the impact of the standard on its consolidated financial statements.

## 6. Accounts and Other Receivable

	August 31 2017	August 31 2016
	\$	\$
Trade and deposits receivable	1,778	-
Territory License Fee receivable (Note 9)	-	10,000
Sales tax receivable	43,515	27,583
Private placement receivable (Note 11)	-	93,500
	45,293	131,083



**7. Inventory**

	August 31 2017	August 31 2016
	\$	\$
Raw materials	14,220	27,358
Finished goods	42,266	94,349
Work in progress	10,688	13,017
	67,174	134,724

During the year ended August 31, 2017, the Company wrote down \$68,611 (2016 - \$44,040) of inventory to reflect its net realisable value.

**8. Alternative Health Products**

On November 12, 2014, the Company signed an agreement with Poppy's Teas LLC. ( PoViva ) acquired 51% of ViPova . The Company had the option to acquire an additional 24% interest in PoViva. Lexaria acquired 100% ownership interest in PoViva Tea, LLC subsequent to August 31, 2017 via compensation of \$70,000, a waiver on certain debts owed to Lexaria, and a 5%, 20-year royalty on net profits of ViPova Tea™ tea, coffee, and hot chocolate sales. No Lexaria stock or options were issued.

As at August 31, 2017, the Company's granted patent has a priority date of June 10, 2014, a publish date of October 25, 2016, and protects the Company's technology for twenty years.

On August 11, 2015, Lexaria signed a license agreement with PoViva Tea LLC for \$10,000, granting Lexaria a 35-year non exclusive worldwide license to unencumbered use of PoViva Tea LLC's IP Rights, including rights of resale. This license agreement ensures Lexaria has full access to the underlying patent pending infusion Technology.

**Patents**

	August 31 2017	August 31 2016
	\$	\$
Balance Beginning	53,997	36,989
Additions	9,699	17,008
Amortization	(869)	-
Balance Ending	62,827	53,997

October 19, 2017, the Company received a new Notice of Allowance from the United States Patent and Trademark Office ( USPTO ) for the use of its technology as a delivery platform for all cannabinoids including THC; fat soluble vitamins; non steroidal anti-inflammatory pain medications ( NSAIDs ); and nicotine. Lexaria expects formal patent issuance within three to four months which is expected to provide protection until at least 2035. The patent application number is 15/225,799, Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof .

## 9. Unearned Revenue

On May 14, 2016, the Company entered into a licensing agreement (the "Licensing Agreement") with an arm's length party (the "Licensee") allowing the Licensee, for a two-year period, to utilize the Company's Technology to create, test, manufacture, and sell marijuana-infused consumable and/or topical products, in the state of Colorado, with an option of extending the terms of the Licensing Agreement to Washington, Oregon, and California (the "Territorial License"). In addition to the granting of the license, the Company is required to provide support services to the Licensee in connection with the use of the Company's Technology during the term of the Licensing Agreement.

The Company determined that the provision of the support services is a separate deliverable under the Licensing Agreement. As the support services will not be sold on a stand-alone basis, the Company is unable to establish a vendor-specific objective evidence of fair value of such services to be able to objectively allocate the Territorial License fee receipts between the license and the support services. Accordingly, the Company recognizes revenue ratably over the term of the Licensing Agreement. As of August 31, 2017, the Company had received the full \$50,000 of the Territory License Fee. During the year ended August 31, 2017, \$25,417 was recognized as revenue (Note 13) with the remaining \$17,083 deferred for recognition in future periods.

	August 31 2017	August 31 2016
	\$	\$
Balance Beginning	12,500	-
Territorial License fees received/receivable (Note 6)	30,000	20,000
Advance payments on product sales	4,900	-
Earned revenue (Note 13)	(30,317)	(7,500)
Balance Ending	17,083	12,500

## 10. Convertible Debenture

On March 8, 2016, the Company closed a private placement offering of a convertible debenture in the aggregate amount of \$45,000. The convertible debenture was to mature on August 31, 2020, with an interest rate of 10% per annum (on a simple basis) and was convertible at varying prices over time.

The Company determined that the conversion options did not qualify as derivatives as they did not meet the net settlement provision characteristics. The proceeds from the convertible debenture therefore were not bifurcated on the balance sheet.

During the year ended August 31, 2017, the Company paid interest of \$4,500 (2016 - \$2,250) in connection with the convertible debenture.

As at August 31, 2017, the convertible debenture was converted into common shares for the amount of \$45,000 at \$0.15 per share for 300,000 common shares plus the accrued interest of \$1,125 for 7,500 shares for a total of 307,500 common shares issued on conversion.

## 11. Common Shares and Warrants

### *Fiscal 2017 Activity*

During September and October 2017 the Company received \$93,500 of private placement receivable (Note 6) as at August 31, 2016.

On October 11, 2016, pursuant to its agreement with Docherty Management Ltd. (Note 16), the Company issued 252,000 common shares with a value of \$35,760.

On October 11, 2016, pursuant to the Advisory Agreement, the Company issued 750,000 warrants with an exercise price of \$0.14 per share and term of five years, in return for consulting services. The Company recognized the fair value of \$32,252 from 250,000 of such warrants for services received during the year ended August 31, 2016, and further recognized \$59,490 for the remaining 500,000 warrants issued in return for consulting services received during the year ended August 31, 2017.

The Company reached an agreement with a director to settle the outstanding amount pursuant to an advisory agreement (Note 14), through issuance of common shares of the Company.

<b>Date</b>	<b>Amount<sup>(2)</sup></b>	<b>Shares</b>	<b>Price</b>
October 31, 2016 <sup>(1)</sup>	\$16,000	114,286	\$0.14
February 27, 2017	\$16,000	29,091	\$0.55
May 31, 2017	\$12,000	35,294	\$0.34
August 25, 2017	\$12,000	32,433	\$0.37

(1) A Total of \$8,000 of the \$16,000 was recognized as consulting fees during the year ended August 31, 2016.

(2) There was a \$NIL difference between the fair value of the shares issued and the carrying value of the debt.

On November 1, 2016, the Company issued 56,250 shares of its common stock for services amounting to \$9,000, recognized within accounts payable and accrued liabilities as at August 31, 2016.

On November 1, 2016, the Company issued 500,000 warrants to a consultant. Each warrant entitles the consultant to purchase one common share of the Company at a price of \$0.31 per share with a term expiring on May 31, 2017. The Company recognized \$48,313, representing the fair value of such warrants.

During November, 2016, the Company provided to its warrant holders, an incentive for early exercise of their previously held warrants. Upon exercise of each warrant, in addition to the common shares of the Company, the warrant holders received a second warrant with identical terms to purchase one additional common share of the Company. The Company raised \$737,508 from this early exercise warrant incentive program. A total of 3,245,000 warrants were exercised at a weighted average exercise price of \$0.23 and the Company issued 3,245,000 common shares as well as 3,245,000 additional warrants to purchase common shares with an exercise price of \$0.23 per share, expiring on May 14, 2017. The fair value of these additional warrants was determined to be \$298,777, and is recorded within additional paid-in capital with a net effect of \$nil.

On January 10, 2017, the Company issued 500,000 warrants to a consultant. Each warrant entitles the consultant to purchase one common share of the Company at a price of \$0.44 per share with a term expiring on January 9, 2018. The Company recognized \$112,725, representing the fair value of such warrants.



On April 3, 2017, the Company closed its brokered private placement of 4,104,280 units at a price per Unit of \$0.42 for total gross proceeds of \$1,723,798. Each Unit consists of one common share and one-half of one Share purchase warrant (2,052,140). Each whole Warrant entitles the holder to acquire one common share of the Company at a price of \$0.60 per Share for a period of 24 months. The Agents received a cash commission of seven percent (\$120,666) of the gross proceeds and 287,300 compensation units exercisable for a period of 24 months at an exercise price of \$0.42 consisting of one common share and one half share purchase warrant. Each whole compensation warrant is exercisable for one common share at an exercise price of \$0.60 for a period of 24 months following closing. The fair value of these compensation units was determined to be \$64,162. There was \$61,390 of other share issuance costs.

On June 19, 2017, pursuant to the agreement with Alex Blanchard Capital (Note 16) the Company issued 200,000 warrants exercisable at \$0.29 for two years. The Company recognized \$37,878, representing the fair value of such warrants.

On June 22, 2017, pursuant to the agreement with Mr. Chris Bunka (Note 16), the Company issued 210,000 common shares at \$0.295 per share for \$61,950, for services rendered as the Chief Executive Officer of the Company.

On June 22, 2017, pursuant to the agreement with Mr. John Docherty (Note 16), the Company issued 210,000 common shares at \$0.295 per share for \$61,950, for services rendered as the President of the Company.

On August 15, 2017, the Company issued 500,000 warrants to a consultant. Each warrant entitles the consultant to purchase one common share of the Company at a price of \$0.44 per share with a term expiring on August 14, 2018. The Company recognized \$34,344, representing the fair value of such warrants.

On August 25, 2017, the Company issued 307,500 shares at \$0.15 per share of its common stock for the conversion of the convertible debt of \$45,000 plus accrued interest of \$1,125 (Note 10).

During the year ended August 31, 2017, a total of 1,014,125 incentive stock options were exercised for proceeds of \$177,262. A total of 10,322,025 warrants were exercised for proceeds of \$2,233,032, of which 3,245,000 warrants related to the early exercise warrant incentive program.

#### ***Fiscal 2016 Activity***

On September 16, 2015, the Company's Board appointed Ted McKechnie as a Director of the Company. Mr. McKechnie was issued 110,000 common shares of the Company valued at \$19,000.

On December 10, 2015, Lexaria closed a private placement by issuing 550,000 units for gross proceeds of \$90,000. Each unit consisted of one common share of the Company and one half transferable share purchase warrant. Each full warrant is exercisable into one further share at a price of \$0.27 per share for a period of 24 months. A cash finders fee for \$2,520 was paid to Leede Financial Markets Ltd.; and 15,400 broker warrants with an exercise price of \$0.27 for a period of twenty-four months were also issued to Leede Financial Markets Ltd. The fair value of these broker warrants was determined to be \$2,903.

On December 14, 2015, Lexaria signed an investor relations contract with Radius Consulting Inc. for a fee of \$2,500 and 55,000 common shares of Company valued at \$9,500.

On April 15, 2016, pursuant to the agreement with Mr. John Docherty (Note 16), the Company issued 210,000 common shares valued at \$21,000, for services rendered as the President of the Company.

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On April 15, 2016, the Company closed a private placement of 750,000 units at a price of \$0.08 per unit for gross proceeds of \$60,000. Each unit consisted of one common share of the Company and one non-transferrable share purchase warrant, entitling the holder to purchase one additional common share in the capital of the Company for a period of 18 months at an exercise price of \$0.15 per share. The Company also issued 8,750 broker warrants to Haywood Securities Ltd. The broker warrants have a term of 18 months and are each exercisable into one common share of the Company at a price of \$0.15. The fair value of these broker warrants was determined to be \$805.

On June 6, 2016, the Company closed a private placement of 700,000 units priced at \$0.11 per unit for gross proceeds of \$77,000. Each unit consisted of one common share of the Company and one-half of a non-transferrable share purchase warrant with each warrant entitling the holder to purchase one additional common share of the Company for a period of three years at an exercise price of \$0.14 per share.

On July 28, 2016, pursuant to an agreement, in return for marketing, branding, and investor relations advisory services, the Company issued 250,000 common shares of the Company valued at \$0.12 per share (Note 16).

On August 10, 2016, the Company closed a private placement by issuing 1,558,525 units at a price of \$0.06 per unit for gross proceeds of \$93,512. Each unit consisted of one common share of the Company and one non-transferable share purchase warrant entitling the holder to purchase one additional common share in the capital of the Company for a period of 24 months at an exercise price of \$0.14 per share.

On August 31, 2016, the Company completed a private placement by issuing 3,266,666 units at a price of \$0.06 per unit for gross proceeds of \$196,000, of which \$93,500 was collected during September and October 2016. Each unit consisted of one common share of the Company and one transferable share purchase warrant. Each full warrant is exercisable into one further share at a price of \$0.14 per share for a period of 24 months. A cash finders fee for \$1,200 was paid and 50,000 broker warrants with an exercise price of \$0.14 for a period of twenty-four months were also issued. The fair value of these broker warrants was determined to be \$5,397.

A continuity schedule for warrants is presented below:

	Number of Warrants	Weighted Average Exercise Price \$
Balance, August 31, 2015	19,840,186	0.23
Expired	(13,978,286)	0.22
Issued	6,274,341	0.15
Balance, August 31, 2016	12,136,241	0.18
Cancelled/Expired	(1,004,150)	0.22
Exercised	(10,322,025)	0.23
Issued	8,034,440	0.36
Balance, August 31, 2017	8,844,506	0.29

The fair value of share purchase warrants granted as broker warrants, compensation units, and compensatory warrants, was estimated as of the date of the grant by using the Black-Scholes option pricing model with the following assumptions:

	August 31 2017	August 31 2016
Expected volatility	102% - 138%	237% - 240%
Risk-free interest rate	0.65% - 1.27%	0.74% - 0.95%
Expected life	0.46 - 2 years	1.5 - 2 years
Dividend yield	0.00%	0.00%
Estimated fair value per option	\$0.09 - \$0.20	\$0.09 - \$0.19



A summary of warrants outstanding as of August 31, 2017 is presented below:

# of Warrants	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price \$
625,000	0.04 years	0.15
290,400	0.28 years	0.27
500,000	0.36 years	0.23
450,000	0.95 years	0.14
2,839,666	1.00 years	0.14
2,052,140	1.59 years	0.60
287,300	1.59 years	0.42
350,000	1.76 years	0.14
750,000	4.11 years	0.14
200,000	1.80 years	0.29
500,000	0.95 years	0.44
8,844,506	1.34 years	0.29

## 12. Stock Options

The Company has established its 2014 Stock Option Plan whereby the board of directors may, from time to time, grant up to 3,850,000 (post forward stock split) stock options to directors, officers, employees, and consultants. Stock options granted must be exercised no later than five years from the date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is equal to or greater than the closing market price of the Company's common shares on the day preceding the date of grant. The vesting terms of each grant are set by the board of directors.

### *Fiscal 2017 Activity*

On October 10, 2016, the Company granted 250,000 stock options to a consultant for business advisory services. The exercise price of the stock options is \$0.14 per share, vesting immediately and expiring on October 10, 2018.

On June 2, 2017, the Company granted 200,000 stock options to an officer of the Company. The exercise price of the stock options is \$0.37 per share, vesting immediately and expiring five years from the date of grant.

On June 21, 2017, the Company granted 300,000 stock options to a consultant, 100,000 vesting annually for 3 years, with an exercise price of \$0.295 and expiring five years from the date of grant. The company also granted 100,000 options to consultants vesting immediately with an exercise price of \$0.295 and expiring five years from the date of grant.

During the year ended August 31, 2017, the Company also recorded \$113,044 of stock based compensation in Consulting on the Income Statement of which \$93,969 pertained to the stock options granted during the period and \$19,075 being the recognition of expense from previous grants amortized from prepaid expenses. In 2016 the Company recorded \$92,270 of stock based compensation in Consulting and \$29,745 in Investor Relations on the Income Statement.



**Fiscal 2016 Activity**

On September 16, 2015, the Company granted 110,000 stock options to a director of the Company. The exercise price of the stock options is \$0.17, vesting immediately and expiring on September 16, 2020.

On April 15, 2016, the Company granted 300,000 to an officer of the Company. The exercise price of the stock options is \$0.11 per share, vesting immediately and expiring on April 15, 2021.

On June 3, 2016, the Company granted 325,000 stock options to a consultant, vesting immediately, with an exercise price of \$0.14 and expiring five years from the date of grant.

A continuity schedule for stock options is presented below:

	Number of Options	Weighted Average Exercise Price \$
Balance, August 31, 2015 (vested and outstanding)	4,070,000	0.15
Expired	(385,000)	0.32
Cancelled	(935,000)	0.16
Granted	735,000	0.13
Balance, August 31, 2016 (vested and outstanding)	3,485,000	0.15
Exercised	(1,014,125)	0.17
Granted	850,000	0.14
Balance, August 31, 2017 (outstanding)	3,320,875	0.15
Balance, August 31, 2017 (exercisable)	3,020,875	0.14

The fair value of options granted was estimated as of the date of the grant by using the Black-Scholes option pricing model with the following assumptions:

	August 31 2017	August 31 2016
Expected volatility	98% - 108%	240% - 241%
Risk-free interest rate	0.83% - 1.78%	1.22% - 1.62%
Expected life	2 - 5 years	5 years
Dividend yield	0.00%	0.00%
Estimated fair value per option	\$0.07 - \$0.27	\$0.11 - \$0.19

A summary of the Company's vested and outstanding stock options as at August 31, 2017 is presented below:

Number of Stock Options	Number of Stock Options Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price \$	Aggregate Intrinsic Value \$
247,500	247,500	0.80 years	0.09	64,125
248,375	248,375	1.90 years	0.23	30,482
990,000	990,000	2.31 years	0.10	247,500
275,000	275,000	2.43 years	0.09	71,250
550,000	550,000	2.57 years	0.09	142,500
110,000	110,000	3.05 years	0.17	19,500
300,000	300,000	3.62 years	0.11	72,000
200,000	200,000	4.76 years	0.37	(4,000)
400,000	100,000	4.81 years	0.30	22,000
3,320,875	3,020,875	2.81 years	0.15	665,357



**13. Revenues**

	August 31 2017 \$	August 31 2016 \$
Product sales	16,866	31,743
Licensing revenue (Note 9)	45,809	7,500
Freight revenue	964	1,149
Other revenue	-	326
	63,639	40,718

The Company recognizes licensing revenue on a pro-rated basis over the term of the Licensing Agreement (Note 9) and additional licensing fees as they are earned. As of August 31 2017 the company had received all of the pre-defined Licensing payments to August 31 2017 for cash receipts of \$50,000 of Licensing fees and \$20,392 of additional fees. During the year ended August 31, 2017, \$25,417 of the \$50,000 was included (2016 \$7,500) on a pro-rated basis and \$20,392 (2016 \$NIL) of additional fees as licensing revenue.

**14. Related Party Transactions**

For the year ended August 31, 2017, the Company paid/accrued the following:

	August 31 2017 \$	August 31 2016 \$
Management, consulting and accounting services:		
C.A.B Financial Services ( CAB <sup>(1)</sup> )	136,000	120,000
M&E Services Ltd. ( M&E <sup>(1)</sup> )	54,963	30,794
Docherty Management Limited ( Docherty Management <sup>(1)</sup> )	125,394	117,213
Company controlled by a director consulting	48,000	8,000
BKB Management Ltd. (former CFO)	-	44,767
Senior Vice President Executive management consulting	-	18,000
	364,357	338,431

<sup>(1)</sup> CAB is owned by the CEO of the Company, M&E is owned by the CFO of the Company, appointed June 1<sup>st</sup> 2017, and Docherty Management Limited ( Docherty Management ) is owned by the President of the Company.

	Common shares	Fair value	Cash
Docherty Management (Note 11,16) <sup>(1)</sup>	252,000	\$35,760	\$6,240
Docherty Management (Note 11,16) <sup>(2)</sup>	210,000	\$61,950	\$11,800
CAB (Note 11,16) <sup>(2)</sup>	210,000	\$61,950	\$11,800

<sup>(1)</sup> Issued in lieu of issuance of 300,000 common shares, as mutually agreed to between the parties.

<sup>(2)</sup> Issued in lieu of issuance of 250,000 common shares, as mutually agreed to between the parties.

Other transactions with related parties:

a) On July 25, 2016, the Company entered into a loan agreement with CAB for a principal amount of \$50,000. During the year ended August 31, 2017, the Company repaid the full \$50,000 principal to CAB and also paid \$1,515 in interest.

b) During the year ended August 31, 2017, the Company sold \$5,058 (2016 \$NIL) of products to a director and an officer of the company and paid \$1,341 in rent to an officer of the company.

Due to related parties:

As at August 31, 2017, \$42,690 (August 31, 2016 - \$331,371) was payable to related parties included in due to related parties.

The related party transactions are recorded at the exchange amount established and agreed to between the related parties.

**15. Segment Information**

The Company's operations involve the development and usage, including licensing, of its proprietary nutrient infusion Technology. Lexaria is centrally managed and its chief operating decision makers, being the president and the CEO, use the consolidated and other financial information supplemented by revenue information by category of alternative health consumer products and technology licensing to make operational decisions and to assess the performance of the Company. The company has identified two reportable segments: Intellectual Property Licensing and Consumer Products. Licensing revenues are significantly concentrated on a single licensee.

	<b>IP Licensing</b>	<b>Consumer Products</b>	<b>Corporate</b>	<b>Consolidated Total</b>
External Revenue	45,809	17,830	-	63,639
CoGS	-	29,750	-	29,750
Operating Expenses	360,256	120,935	1,482,162	1,963,354
Segment Loss	(314,447)	(132,856)	(1,482,162)	(1,929,465)
Total Assets	62,827	69,030	2,728,321	2,860,178

**16. Commitments, Significant Contracts and Contingencies*****Management and Service Agreements***

As at August 31, 2017, the Company is party to the following contractual commitments:

<b>Party</b>	<b>Monthly Commitment</b>	<b>Expiry Date</b>
C.A.B Financial Services <sup>(1)</sup> <sup>(2)</sup>	\$12,000	November 30, 2018
Docherty Management Ltd. <sup>(1)</sup> <sup>(2)</sup>	CAD \$15,000	March 1, 2018
M&E Services Ltd. <sup>(1)</sup>	CAD \$8,000	June 1, 2018
Corporate Development <sup>(3)</sup> <sup>(4)</sup>	CAD \$4,000	Month to Month
Advisory Agreement	CAD \$4,000	March 24, 2018
Investor relations and communications Alex Blanchard Capital <sup>(1)</sup>	CAD \$7,500	December 19, 2017

Research & Development

CAD \$3,854

June 19, 2018

63

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**Revenue Incentive Milestones**

(1) 100,000 common shares issuable upon the Company achieving non-refundable revenues of \$200,000 to any single customer in any consecutive 60-day period for the first 12 months of the contract, plus a further 50,000 common shares issuable upon achieving non-refundable revenues of \$200,000 to any single customer in any consecutive 60-day period, during the 13th - 24th months of the contract. If the Company achieves non-refundable revenues of \$500,000 in any fiscal quarter, a further 200,000 common shares may be issuable during the first 12 months of the contract and 100,000 common shares during the 13th - 24th months of the contract.

**Intellectual Property Milestones**

(2) During the term of the agreement, for each provisional patent application substantively devised and successfully created, written, and filed with the U.S. Patent Office for the Company's Technology, 250,000 restricted common shares of the Company will be issuable.

**Corporate Development Milestones**

(3) For new customers sourced by the Consultant until July 10, 2017; for combined Lexaria Energy and ViPova products and including all combined sales efforts and/or technology licensing revenues, achieving non-refundable revenues of \$200,000 to any single customer in any consecutive 60-day period would result in a restricted common share award of 100,000 Company shares (not achieved); and, from July 11, 2017, until July 10, 2018; a restricted common share award of 50,000 Company shares may be achieved; this clause is limited to one payment per customer during the 12-month period, but payable on each customer that meets these sales/licensing thresholds.

(4) For new customers sourced by the Consultant until July 10, 2017; for combined Lexaria Energy and ViPova products and including all combined sales efforts and/or technology licensing revenues, achieving non-refundable revenues of \$500,000 in any fiscal quarter would result in a restricted common share award of 200,000 Company shares (not achieved); and, from July 11, 2017, until July 10, 2018; for combined Lexaria Energy and ViPova products and including all sales efforts, achieving non-refundable revenues of \$500,000 in any fiscal quarter would result in a restricted common share award of 100,000 Company shares; this clause is limited to one payment per fiscal quarter.

**17. Income Tax**

The following table reconciles the income tax benefit at the U.S. Federal statutory rate to income tax benefit at the Company's effective tax rates as at August 31, 2017 and 2016:

	August 31 2017	August 31 2016
	\$	\$
Loss before taxes	(1,933,473)	(1,277,249)
Expected income tax recovery	(676,716)	(447,037)
Non-deductible items	242,716	101,040
Change in estimates	(174,135)	(897,713)
Change in valuation allowance	608,216	1,243,710
Total income taxes	-	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax assets at August 31, 2017 and 2016 are comprised of the following:

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	August 31 2017 \$	August 31 2016 \$
Non-capital losses	4,567,920	3,959,704
Valuation allowance	(4, 567,920)	(3,959,704)
Net deferred tax assets recognized	-	-

The Company has net operating loss carryforwards of approximately \$13,051,000 which may be carried forward to apply against future year income tax for U.S. tax purposes.

Year	Amount
2025	76,000
2026	508,000
2027	1,056,000
2028	720,000
2029	753,000
2030	552,000
2031	538,000
2032	252,000
2033	344,000
2034	3,257,000
2035	2,268,000
2036	989,000
2037	1,738,000
	13,051,000

## 18. Subsequent Events

- a) On September 15th, 2017, the Company issued 625,000 shares of its common stock from the exercise of warrants previously granted for proceeds of \$93,750. All warrants were exercised by third parties who are neither officers nor directors of the Company.
- b) On October 31st, 2017, the Company announced it received a Notice of Allowance from the United States Patent and Trademark Office ( USPTO ) for the use of its technology as a delivery platform for all cannabinoids including THC; fat soluble vitamins; non steroidal anti-inflammatory pain medications ( NSAIDs ); and nicotine. The patent application number is 15/225,799, Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof .
- c) On November 2nd, 2017, the Company announced it acquired 100% ownership interest in its majority owned subsidiary PoViva Tea, LLC. The Company previously owned a 51% interest in PoViva Tea, LLC and acquired the remaining 49% interest. Compensation was US\$70,000, a waiver on certain debts, and a 5%, 20-year royalty on net profits of ViPova Tea™ tea, coffee, and hot chocolate sales. No Lexaria stock or options were issued.
- d) On November 8th, 2017, the Company issued 419,250 shares of its common stock from the exercise of options and warrants previously granted for proceeds of \$69,736. All options and warrants were exercised by third parties who are neither officers nor directors of the Company.
- e) On November 22nd, 2017, the Company issued 427,687 shares of its common stock from the exercise of warrants previously granted for proceeds of \$129,416. All options and warrants were exercised by third parties who are neither officers nor directors of the Company.





**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

There were no disagreements related to accounting principles or practices, financial statement disclosure, internal controls or auditing scope or procedure during the two fiscal years and their respective interim periods. The Company changed its registered public auditing firm for its fiscal year ending August 31, 2016 from MNP LLP (the Former Auditor ) to Davidson and Company, LLP. There were no reservations nor any modified opinions expressed in the Former Auditor s reports for the year ended August 31, 2015 or any of the previous fiscal years. The change in the Company s public auditing firm was approved by the Company s Audit Committee and the Board of Directors. There were no reportable events between the Company and the Former Auditors.

**Item 9A. Controls and Procedures**

***Management s Report on Disclosure Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the *Securities Exchange Act of 1934*, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our president and chief executive officer (also our principal executive officer) and our chief financial officer (also our principal financial and accounting officer) to allow for timely decisions regarding required disclosure.

As of August 31, 2017, the end of our fiscal year covered by this report, we carried out an evaluation, under the supervision and with the participation of our President and chief executive officer and chief financial officer (also our principal executive and financial reporting and accounting officers), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president, chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

***Management s Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management s authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States. Our management assessed the effectiveness of our internal control over financial reporting as of August 31, 2017. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in *Internal Control-Integrated Framework*. Our management has concluded that, as of August 31, 2017, our internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US generally accepted accounting principles. Our management reviewed the results of their assessment with our Board of Directors.

This annual report does not include an attestation report of our company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by our Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit our Company to provide only management s report in this annual report.

***Inherent limitations on effectiveness of controls***

Internal control over financial reporting has inherent limitations which include but is not limited to the use of independent professionals for advice and guidance, interpretation of existing and/or changing rules and principles, segregation of management duties, scale of organization, and personnel factors. Internal control over financial reporting is a process which involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis, however these inherent limitations are known features of the financial reporting process and it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal controls over financial reporting that occurred during the year ended August 31, 2017 that have materially or are reasonably likely to materially affect, our internal controls over financial reporting.

**Item 9B. Other Information**

None

**PART III****Item 10. Directors, Executive Officers and Corporate Governance**

All directors of our company hold office until the next annual meeting of the security holders or until their successors have been elected and qualified. The officers of our company are appointed by our board of directors and hold office until their death, resignation or removal from office. Our directors and executive officers, their ages, positions held, and duration as such, are as follows:

<b>Name</b>	<b>Position Held with our Company</b>	<b>Age</b>	<b>Date First Elected Or Appointed</b>	<b>Date of Resignation</b>
Christopher Bunka	Chairman, Chief Executive Officer, and Director	56	October 26, 2006 February 14, 2007	-
John Docherty	President and Director	47	April 15, 2015 April 29, 2016	-
Allan Spissinger	Interim Chief Financial Officer	48	June 1, 2017	-
Nicholas Baxter	Director	64	July 8, 2011	-
Ted McKenchnie	Director	70	September 16, 2015	-

**Business Experience**

The following is a brief account of the education and business experience of each director and executive officer during the past five years, indicating each person's principal occupation during the period, and the name and principal business of the organization by which he was employed.

**Mr. Christopher Bunka Chairman, Chief Executive Officer and Director**

Mr. Bunka has been Chairman of the Board and CEO since 2006 and was primarily responsible for the corporate pivot from older business activities to bioscience. Mr. Bunka is a serial entrepreneur and has been involved in several private and public companies since the late 1980 s. He was well known for more than a decade as a part-time business commentator in print and radio, as well as an author. He has extensive experience in the capital markets, corporate governance, project acquisition and corporate finance. He is a named inventor on some of Lexaria s pending patents.

Since 1988, Mr. Bunka has been the CEO of CAB Financial Services Ltd., a private holding company located in Kelowna, Canada. He is a venture capitalist and corporate consultant.

Mr. Bunka was formerly Chairman/CEO of Enertopia Corp, (symbol ENRT-OTC) but resigned in 2013. Mr. Bunka was formerly a director of Defiance Capital Corp., (symbol DEF-TSXV) a Canadian resource company, but resigned in 2014.

***Mr. John Docherty President and Director***

Mr. Docherty was appointed President of Lexaria effective April 15, 2015. Prior to Lexaria Mr. Docherty was former President and Chief Operating officer of Helix BioPharma Corp. (TSX: HBP), where he led the company's pharmaceutical development programs for its plant and recombinantly derived therapeutic protein product candidates. Mr. Docherty is a senior operations and management executive with over 20 years experience in the pharmaceutical and biopharmaceutical sectors. He has worked with large multinational companies and emerging, private and publicly held start-ups. At Helix, Mr. Docherty was also instrumental in the areas of investor/stakeholder relations, capital raising, capital markets development, strategic partnering, regulatory authority interactions and media relations, and he also served as a management member of its board of directors. Prior to this, Mr. Docherty was President and a board member of PharmaDerm Laboratories Ltd., a Canadian drug delivery company that developed unique microencapsulation formulation technologies for use with a range of active compounds.

Mr. Docherty has also held positions with companies such as Astra Pharma Inc., Nu-Pharm Inc. and PriceWaterhouseCoopers former global pharmaceutical industry consulting practice. He is a named inventor on issued and pending patents and he has a M.Sc. in pharmacology and a B.Sc. in Toxicology from the University of Toronto.

He has served as a director of Lexaria since April 29, 2016.

***Mr. Allan Spissinger Interim Chief Financial Officer***

Prior to concentrating on finance and accounting, Mr. Spissinger worked within the Informational Technologies (IT) sector for over a decade; specializing in corporate IT infrastructure and software development projects. Mr. Spissinger joined the audit and assurance department at PricewaterhouseCoopers (PwC) where he obtained his Chartered Professional Accountant (CPA) designation focusing on financial reporting and Sarbanes-Oxley (SOX) compliance in the following sectors: resources, manufacturing and technologies. Mr. Spissinger joined Lexaria in September 2014 as a corporate controller. His positive mentorship, excellent communication and extensive leadership skills have enabled him to successfully manage a variety of private businesses for over 20 years.

***Mr. Nicholas Baxter - Director***

Mr. Baxter was appointed as a member on the board of directors of Lexaria Corp. in 2009. Mr. Baxter received a Bachelor of Science (Honours) from the University of Liverpool in 1975, and has worked on oil & gas projects in many areas of the world. Since the 1980's, he has worked with companies in the public markets both in the U.K. and in Canada. Mr. Baxter brings extensive real-world experience as a board member.

***Mr. Ted McKechnie Director***

Mr. McKechnie is a well-recognized thought leader in the Canadian food industry. In the past, Mr. McKechnie was president of Maple Leaf Foods, an owner and senior executive at Humpty Dumpty and a senior leader at Pepsi Co. After a distinguished career as an executive and marketer specializing in food manufacturing, he now focuses on moving the Canadian food sector into the future. Besides being the chairman of Food Starters board, Mr. McKechnie is also the Chairman/CEO of The Davies Group and William Davies Consulting Inc. Mr. McKechnie is also a chairman of the board for Advanced Technology For Food Manufacturing, and the Director of Lexaria Bioscience

Corporation.

Mr. McKechnie is often called upon by think tanks, the government and industry leaders to offer insights on how to grow the food sector and add more value to the Canadian economy.

### **Family Relationships**

There are no family relationships among any of our directors or officers.

### **Involvement in Certain Legal Proceedings**

None of our directors, executive officers, promoters or control persons has been involved in any of the following events during the past five years:

1. A petition under the Federal bankruptcy laws or any state insolvency law was filed by or against, or a receiver, fiscal agent or similar officer was appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;
2. Such person was convicted in a criminal proceeding or is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. Such person was the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from, or otherwise limiting, the following activities:
  - i. Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity
  - ii. Engaging in any type of business practice; or
  - iii. Engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of Federal or State securities laws or Federal commodities laws;
4. Such person was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any Federal or State authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity described in paragraph (f)(3)(i) of this section, or to be associated with persons engaged in any such activity;
5. Such person was found by a court of competent jurisdiction in a civil action or by the Commission to have violated any Federal or State securities law, and the judgment in such civil action or finding by the Commission has not been subsequently reversed, suspended, or vacated;
6. Such person was found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any Federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated;
7. Such person was the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of:

- i. Any Federal or State securities or commodities law or regulation; or



- ii. Any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or
  - iii. Any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
8. Such person was the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

### **Compliance with Section 16(a) of the Securities Exchange Act of 1934**

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors and persons who own more than 10% of our common stock to file with the Securities and Exchange Commission initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our common stock and other equity securities, on Forms 3, 4 and 5 respectively. Executive officers, directors and greater than 10% shareholders are required by the SEC regulations to furnish us with copies of all Section 16(a) reports that they file.

Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during fiscal year ended August 31, 2017, all filing requirements applicable to our officers, directors and greater than 10% percent beneficial owners were complied with.

### **Code of Ethics**

We adopted a Code of Ethics applicable to our senior financial officers and certain other finance executives, which is a "code of ethics" as defined by applicable rules of the SEC. Our Code of Ethics is attached as an exhibit to our Form SB-2 filed on September 20, 2007. If we make any amendments to our Code of Ethics other than technical, administrative, or other non-substantive amendments, or grant any waivers, including implicit waivers, from a provision of our Code of Ethics to our chief executive officer, chief financial officer, or certain other finance executives, we will disclose the nature of the amendment or waiver, its effective date and to whom it applies in a Current Report on Form 8-K filed with the SEC.

### **Board and Committee Meetings**

Our board of directors held one formal meeting and several informal meetings during the year ended August 31, 2017. All proceedings of the board of directors were conducted by resolutions consented to in writing by all the directors and filed with the minutes of the proceedings of the directors. Such resolutions consented to in writing by the directors entitled to vote on that resolution at a meeting of the directors are, according to the Nevada General Corporate Law and our Bylaws, as valid and effective as if they had been passed at a meeting of the directors duly called and held.

### **Nomination Process**

As of August 31, 2017, we did not effect any material changes to the procedures by which our shareholders may recommend nominees to our board of directors. Our board of directors does not have a policy with regards to the consideration of any director candidates recommended by our shareholders. Our board of directors has determined that it is in the best position to evaluate our company's requirements as well as the qualifications of each candidate when the board considers a nominee for a position on our board of directors. If shareholders wish to recommend candidates directly to our board, they may do so by sending communications to the president of our Company at the address on the cover of this annual report.



### **Audit Committee and Audit Committee Financial Expert**

Currently our audit committee consists of our entire board of directors. We currently do not have nominating, compensation committees or committees performing similar functions. There has not been any defined policy or procedure requirements for shareholders to submit recommendations or nomination for directors.

Our board of directors has determined that it does not have a member of its board of directors (audit committee) that qualifies as an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K, and is "independent" as the term is used in Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934, as amended.

We believe that the members of our board of directors are collectively capable of analyzing and evaluating our consolidated financial statements and understanding internal controls and procedures for financial reporting. We believe that retaining an independent director who would qualify as an "audit committee financial expert" would be overly costly and burdensome and is not warranted in our circumstances given the early stages of our development and the fact that we have not generated any material revenues to date. In addition, we currently do not have nominating, compensation or audit committees or committees performing similar functions nor do we have a written nominating, compensation or audit committee charter. Our board of directors does not believe that it is necessary to have such committees because it believes the functions of such committees can be adequately performed by our board of directors.

### **Item 11. Executive Compensation**

The particulars of the compensation paid to the following persons:

- (a) our principal executive officer;
- (b) each of our two most highly compensated executive officers who were serving as executive officers at the end of the years ended August 31, 2017 and August 31, 2016; and
- (c) up to two additional individuals for whom disclosure would have been provided under (b) but for the fact that the individual was not serving as our executive officer at the end of the years ended August 31, 2017 and August 31, 2016,

who we will collectively refer to as the named executive officers of our Company, are set out in the following summary compensation table, except that no disclosure is provided for any named executive officer, other than our principal executive officers, whose total compensation did not exceed \$100,000 for the respective fiscal year:

SUMMARY COMPENSATION TABLE									
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Christopher Bunka <sup>(1)</sup> , Chairman, Chief Executive Officer & Director	2017	-	-	61,950 <sup>(7)</sup>	-	-	-	147,800	209,750
	2016	-	-	-	-	-	-	120,000	120,000
Bal Bhullar <sup>(2)</sup> , Chief Financial Officer & Director	2017	-	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	44,767	44,767
Tom Irkhe <sup>(4)</sup> Vice President	2017	-	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	18,000	18,000
John Docherty <sup>(5)</sup> President	2017	-	-	97,710 <sup>(6)</sup>	-	-	-	143,434	241,144
	2016	-	-	21,000	32,768 <sup>(3)</sup>	-	-	117,213	170,981
Allan Spissinger <sup>(8)</sup> Interim Chief Financial Officer	2017	-	-	-	54,204 <sup>(9)</sup>	-	-	57,104	111,308

- (1) Mr. Bunka was appointed as chairman, president, chief executive officer, and director on October 26, 2006, and was chief financial officer of our company from April 29, 2016 to May 31 2017. He resigned as president on April 15, 2015. We pay Mr. Bunka a consulting fee through CAB Financial Services Ltd., where he is also the Chief Executive Officer.
- (2) Ms. Bhullar was appointed Chief Financial Officer on May 12, 2009 and resigned April 29, 2016. We paid Ms. Bhullar consulting fees through her wholly owned company BKB Management Ltd.
- (3) The fair value of the stock options awarded was estimated using the Black-Scholes option pricing model with the following assumptions: expected volatility of 240%; risk-free interest rate of 1.22%; expected life of 5 years; and dividend yield of 0.00%.
- (4) Mr. Ihrke became Vice President on December 23, 2015 and resigned on March 8, 2016.

- (5) Mr. Docherty became President on April 15, 2015 and a director on April 29, 2016. We pay Mr. Docherty a consulting fee through his wholly owned company Docherty Management Ltd.
- (6) Pursuant to the agreement with Docherty Management Ltd. Mr. Docherty received 462,000 (2016 - 210,000) common shares with a value of 97,710 (2016 - \$21,000).
- (7) Pursuant to the agreement with CAB Financial Services Ltd. Mr. Bunka received 210,000 (2016 - NIL) common shares with a value of \$61,950 (2016 - \$NIL).
- (8) Mr. Spissinger became Interim Chief Financial Officer on June 1, 2017. We pay Mr. Spissinger a consulting fee through his wholly owned company M&E Services Ltd.
- (9) The fair value of the stock options awarded was estimated using the Black-Scholes option pricing model with the following assumptions: expected volatility of 102%; risk-free interest rate of 1.71%; expected life of 5 years; and dividend yield of 0%.

Our company is currently paying consulting fees to our chief executive officer \$12,000 per month, our president CAD\$15,000 per month and our Interim Chief Financial Officer CAD\$8,000 per month in consulting fees.

#### *Consulting Agreements*

On December 1, 2016, the Company amended its agreement with CAB Financial Services Ltd. As Chief Executive Officer for a revised consulting fee of \$12,000 per month plus applicable taxes, superseding the previous agreement for \$10,000 per month plus applicable taxes.

On May 12, 2009 the Company entered into a consulting agreement with BKB Management Ltd. to act as the Chief Financial Officer and a Director. December 1, 2014, the Company entered into an updated consulting agreement for CAD\$7,500 per month plus GST. Effective April 29, 2016, BKB Management Ltd. resigned its position and the contract was terminated.

On December 23, 2014, the Company entered into a revised Executive Management consulting agreement with Tom Ihrke for \$3,000 per month. Effective March 8, 2016 Mr. Ihrke resigned and the contract was terminated.

On March 1, 2017, the Company executed a revised twenty four month consulting contract with Docherty Management Limited, solely owned by Mr. John Docherty to act as President with monthly compensation of CAD\$15,000 plus applicable taxes, superseding the previous agreement with monthly compensation of CAD\$12,500 plus applicable taxes.

On June 1, 2017, the Company executed a twelve month contract with M&E Services Ltd., a wholly owned company by Mr. Allan Spissinger, as interim Chief Financial Officer with monthly compensation of CAD\$8,000 plus applicable taxes.

Other than as set out in this annual report on Form 10-K we have not entered into any employment or consulting agreements with any of our current officers, directors or employees.

#### **Grants of Plan-Based Awards Table**

We did not grant any awards to our named executive officers in the during our fiscal year ended August 31, 2017.

#### **Outstanding Equity Awards at Fiscal Year End**

The particulars of unexercised options, stock that has not vested and equity incentive plan awards for our named executive officers are set out in the following table:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END									
	OPTION AWARDS					STOCK AWARDS			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)
Christopher Bunka	550,000 247,500	- -	- -	\$0.11 \$0.10	2019/12/22 2018/06/18	- -	- -	- -	- -
John Docherty	550,000 300,000	- -	- -	\$0.10 \$0.11	2020/03/26 2021/04/15	- -	- -	- -	- -
Tom Ihrke	330,000	-	-	\$0.11	2019/12/22	-	-	-	-
Allan Spissinger	200,000	-	-	\$0.37	2022/06/01	-	-	-	-

### Option Exercises

During our fiscal year ended August 31, 2017, on January 9 2017, Allan Spissinger exercised 27,500 options previously granted at \$0.10 prior to his being appointed interim CFO June 1 2017.

### Compensation of Directors

We do not have any agreements for compensating our directors for their services in their capacity as directors, although such directors are expected in the future to receive stock options to purchase shares of our common stock as awarded by our board of directors. We have an agreement with a director for marketing services that is not in their capacity as a director for \$4,000 per month plus applicable taxes.

### Pension, Retirement or Similar Benefit Plans

There are no arrangements or plans in which we provide pension, retirement or similar benefits for directors or executive officers. We have no material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to our directors or executive officers, except that stock options may be granted at the discretion of the board of directors or a committee thereof.

### Indebtedness of Directors, Senior Officers, Executive Officers and Other Management

None of our directors or executive officers or any associate or affiliate of our company during the last two fiscal years is or has been indebted to our company by way of guarantee, support agreement, letter of credit or other similar

agreement or understanding currently outstanding.



**Compensation Committee Interlocks and Insider Participation**

During 2017, we did not have a compensation committee or another committee of the board of directors performing equivalent functions. Instead the entire board of directors performed the function of compensation committee. Our board of directors approved the executive compensation, however, there were no deliberations relating to executive officer compensation during 2017.

**Compensation Committee Report**

None.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth, as of November 22, 2017, certain information with respect to the beneficial ownership of our common shares by each shareholder known by us to be the beneficial owner of more than 5% of our common shares, as well as by each of our current directors and executive officers as a group. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated.

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Class</b>
Christopher Bunka; Kelowna BC Canada	14,114,923 <sup>(1)</sup>	19.97%
Nicholas Baxter; Aberdeenshire, UK	330,000 <sup>(2)</sup>	0.47%
John Docherty; Toronto, Ontario	2,127,000 <sup>(3)</sup>	3.03%
Ted McKechnie; Toronto, Ontario	431,104 <sup>(4)</sup>	0.62%
Allan Spissinger; Langley, BC	227,500 <sup>(5)</sup>	0.33%
<b>Directors and Executive Officers as a Group (5 persons)</b>	<b>17,230,527</b>	<b>24.42%</b>
David DeMartini, Texas, Houston	3,609,375	5.2%
<b>Total as a Group (6 persons) <sup>(6)</sup></b>	<b>20,839,902</b>	<b>29.61%</b>

\* Less than 1%.

- (1) Includes 5,631,844 shares held in the name of C.A.B. Financial Services and 7,235,579 shares held directly by Chris Bunka, chairman, chief executive officer and a director of our company. Includes 450,000 warrants held directly by Chris Bunka with an exercise price of \$0.14. Includes 247,000 options which are exercisable at \$0.09 and 550,000 options exercisable at \$0.10.
- (2) Includes 110,000 options which are exercisable at \$0.10. Nicholas Baxter is a director of our company.
- (3) Includes 550,000 options which are exercisable at \$0.10 and 300,000 options which are exercisable at \$0.11. John Docherty is the President and a Director of our Company
- (4) Includes 110,000 options exercisable at \$0.17. Ted McKechnie is a Director of our Company.
- (5) Includes 200,000 options exercisable at \$0.37. Allan Spissinger is interim chief financial officer of our company.
- (6) Under Rule 13d-3, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of shares; and (ii) investment power, which includes the power to dispose or direct the disposition of shares. Certain shares may be deemed to be beneficially owned by more than

one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding on November 22, 2017. As of November 22, 2017, there were 69,435,198 shares of our common stock issued and outstanding.

*Changes in Control*

We are unaware of any contract or other arrangement the operation of which may at a subsequent date result in a change in control of our company.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Except as disclosed herein, no director, executive officer, shareholder holding at least 5% of shares of our common stock, or any family member thereof, had any material interest, direct or indirect, in any transaction, or proposed transaction since the year ended August 31, 2017, in which the amount involved in the transaction exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at the yearend for the last three completed fiscal years.

*Director Independence*

We currently act with four directors, consisting of Christopher Bunka, John Docherty, Nicholas Baxter and Ted McKechnie. We have determined that Nicholas Baxter is an independent director as defined in NASDAQ Marketplace Rule 4200(a)(15).

Currently our audit committee consists of our entire board of directors. We currently do not have nominating, compensation committees or committees performing similar functions. There has not been any defined policy or procedure requirements for shareholders to submit recommendations or nomination for directors.

Our board of directors has determined that it does not have a member of its audit committee who qualifies as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K.

From inception to present date, we believe that the members of our audit committee and the board of directors have been and are collectively capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting.

We do not have a standing compensation or nominating committee, but our entire board of directors act in such capacity. We believe that our directors are capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting. Our directors do not believe that it is necessary to have an audit committee because we believe that the functions of an audit committee can be adequately performed by the board of directors. In addition, we believe that retaining additional independent directors who would qualify as an audit committee financial expert would be overly costly and burdensome and is not warranted in our circumstances given the early stages of our development.

**Item 14. Principal Accounting Fees and Services**

The aggregate fees billed for the most recently completed fiscal year ended August 31, 2017 and for fiscal year ended August 31, 2016 for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows:

	Year Ended	
	August 31, 2017	August 31, 2016
Audit Fees	35,392	38,186
Audit Related Fees	-	-
Tax Fees	15,982	-
All Other Fees	-	-
Total	51,374	38,186

*Audit Fees:* Audit fees consist of fees billed for professional services rendered for the audits of our financial statements, reviews of our interim financial statements included in quarterly reports, services performed in connection with filings with the Securities and Exchange Commission and related comfort letters and other services that are provided by the Company's principal accountants for the fiscal years ended August 31, 2017 and August 31, 2016 in connection with statutory and regulatory filings or engagements.

*Audit related Fees:* Audit related fees consist of fees billed for assurance and related services by the Company's principal accountant that are reasonably related to the performance of the audit or review of the Company's financial statements, which are not included in the Audit Fees described above.

*Tax Fees.* Tax fees consist of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and local tax compliance and consultation in connection with various transactions and acquisitions.

We do not use our principal accountants for services other than the ones related to the our annual audit and the review of our interim financial statements. We therefore do not involve our principal accountants for matters related to tax compliance and financial information system design and implementation. These services, which include corporate tax preparation and designing or implementing a system that aggregates source data underlying the financial statements or generates information that is significant to our financial statements, are provided internally or by other service providers.

Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before our independent auditors are engaged by us to render any auditing or permitted non-audit related service, the engagement be:

- approved by our audit committee (which consists of our entire board of directors); or
- entered into pursuant to pre-approval policies and procedures established by the board of directors, provided the policies and procedures are detailed as to the particular service, the board of directors is informed of each service, and such policies and procedures do not include delegation of the board of directors' responsibilities to management.

Our board of directors pre-approves all services provided by our independent auditors. All of the above services and fees were reviewed and approved by the board of directors either before or after the respective services were rendered.

Our board of directors has considered the nature and amount of fees billed by our independent auditors and believes that the provision of services for activities unrelated to the audit is compatible with maintaining our independent

auditors independence.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

(a) Financial Statements

- (1) Financial statements for our Company are listed in the index under Item 8 of this document
- (2) All financial statement schedules are omitted because they are not applicable, not material or the required information is shown in the financial statements or notes thereto.

**Exhibit Document Description**

**No.**

**(31) Rule 13a-14(a)/15d-14(a)**

31.1\* Section 302 Certifications under Sarbanes-Oxley Act of 2002 of Principal Executive Officer

31.2\* Section 302 Certifications under Sarbanes-Oxley Act of 2002 of Principal Financial Officer and Principal Accounting Officer

**(32) Section 1350 Certifications**

32.1\* Section 906 Certification under Sarbanes Oxley Act of 2002 of Principal Executive Officer

32.2\* Section 906 Certification under Sarbanes Oxley Act of 2002 of Principal Financial Officer and Principal Accounting Officer

**(101)\*\* Interactive Data Files**

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\* Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of any registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**LEXARIA CORP.**

By: /s/ Christopher Bunka

Christopher Bunka  
Chief Executive Officer, Chairman and Director  
(Principal Executive Officer)

Date: November 21, 2017

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Christopher Bunka

Christopher Bunka  
Chief Executive Officer, Chairman and Director  
(Principal Executive Officer)

Date: November 21, 2017

By: /s/ John Docherty

John Docherty  
President and Director

Date: November 21, 2017

By: /s/ Allan Spissinger

Allan Spissinger CPA, CA  
Chief Financial Officer  
(Principal Accounting Officer)

Date: November 21, 2017

By: /s/Ted McKechnie

Ted McKechnie  
Director

Date: November 21, 2017