

LEXARIA CORP.  
Form 10-K  
January 27, 2009

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

**FORM 10-KSB**

(Mark One)

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

For the fiscal year ended **October 31, 2008**

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 CORP.**

(Name of small business issuer in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**20-2000871**

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

**#604-700 West Pender Street, Vancouver, British**

**Columbia, Canada**

(Address of principal executive offices)

**V6C 1G8**

(Zip Code)

Issuer's telephone number **(604) 602-1675**

Securities registered pursuant to Section 12(b) of the Act: **None**

Title of each class

**Nil**

Name of each exchange on which registered

**Nil**

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

**Shares of Common Stock, \$0.001 par value**

(Title of class)

Title of each class

**Nil**

Name of each exchange on which registered

**Nil**

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 past 90 days.

Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
(Check one): Yes  No

State issuer's revenues for its most recent fiscal year. **\$900,789**

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.)

**12,388,250 @ \$0.0655(1)= \$811,430**  
**(1) Average of bid and ask closing prices on December 23, 2008.**

State the number of shares outstanding of each of the issuer's classes of equity stock, as of the latest practicable date.

**24,369,500 common shares issued and outstanding as of December 23, 2008**

**DOCUMENTS INCORPORATED BY REFERENCE**

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990).

Transitional Small Business Disclosure Format (Check one): Yes  No .



## PART I

### Item 1. Description of Business.

#### **Forward-Looking Statements**

This annual report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. 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, believe, estimates, predicts, potential or continue or the negative of these terms 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 company's 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.

Our 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 common shares in our capital stock.

As used in this annual report, the terms we, us, our, our company and Lexaria mean Lexaria Corp., unless otherwise indicated.

#### **Corporate History**

We were incorporated in the State of Nevada on December 9, 2004. We are an exploration and development oil and gas company currently engaged in the exploration for and development of petroleum and natural gas in North America.

We maintain our statutory registered agent's office and our business office at Business First Formations, Inc. 3702 South Virginia Street, Suite G12-401, Reno, Nevada 89509-6030. Our telephone number is (755) 825-5338.

We maintain our principal executive offices at Suite 604, 700 West Pender Street, Vancouver, British Columbia V6C 1G8. Our telephone number is (604) 602-1675. Our executive offices are comprised of one office and we share reception and boardroom facilities. We have another office in Kelowna. Management does not believe that our office space will need to be expanded during 2009.

Our common stock is quoted on the OTC Bulletin Board under the symbol "LXRA".

Due to the implementation of British Columbia Instrument 51-509 on September 30, 2008 by the British Columbia Securities Commission, we have been deemed to be a British Columbia based reporting issuer. As such, we are required to file certain information and documents at [www.sedar.com](http://www.sedar.com).

#### **Our Current Business**

We are an exploration and development stage oil and gas company engaged in the exploration for oil and natural gas in Canada and the United States. We are currently generating revenues from our business operations in Mississippi.

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We have acquired the right to explore the Strachan Hills oil and gas property in Alberta, Canada and assumed a working interest in the Owl Creek Prospect, Oklahoma and the Palmetto Point oil and gas property in Mississippi USA. We sold our working interest in the Owl Creek Prospect, Oklahoma in August of 2008. We plan to continue our current business of acquiring interests in potentially high-impact oil and gas property interests that offer a high probability of being able to drill without significant time delays. In our North American interests, we also try to choose properties where, if drilling is successful, the wells could be quickly connected to infrastructure and thus, with success, brought into production and able to generate cash flow as quickly as possible.

On June 21, 2007, we acquired an assignment of a 10% gross working interest in an Area of Mutual Interest (AMI) formerly held by Brinx Resources Ltd, a non-related company, in up to 50 oil & gas wells to be drilled, and any future development prospects thereof associated, located in Mississippi, USA. Interests in seven wells previously drilled under the conditions of the AMI remain the property of Brinx Resources Ltd. and we are not a party to Brinx's interest in these wells, while the right to assume the 10% gross working interest in the remaining 43 wells and any future development prospects thereof, now belongs to our company. Because we already had a 40% gross working interest in this AMI, as a result of this transaction, we will from this date forward have a 50% gross working interest in the AMI.

On June 23, 2007, we acquired an assignment of a 10% gross working interest in 12 previously drilled oil & gas wells and any future development prospects thereof, formerly held by 0743868 BC Ltd, a non-related company. Since we had a 20% gross working interest in these same 12 oil and gas wells and development prospects, as a result of this transaction we will from this date forward have a 30% gross working interest in the 12 oil & gas wells and development prospects. We were obligated to make cash payments of US\$520,000 over approximately a one-year period to complete this transaction (\$200,000 paid as of October 31, 2007). The Company had made total of \$350,000 repayment and accrued \$18,016 interest expense since June 23, 2007 with ending balance of \$169,938 as at April 30, 2008.

On May 13, 2008 the Company entered into an Assignment of Debt between 0743868 BC Ltd. (the Assignor) and the President and shareholder of the Company (collectively the Assignees).

The Assignor has agreed to accept US\$46,000 from the Company in satisfaction of the outstanding amount and has agreed to assign the Assignees all of the Assignor's right, title and interest in and to the US\$124,000 balance of the outstanding amount. As a result, the Assignor no longer has any claim against the Company.

On May 14, 2008 the Company entered into an unsecured Loan Agreement with each of the President and a shareholder of the Company for \$62,000. The purpose of this Loan Agreement is to set out terms of the arrangement by which the Company agrees to make a Loan of US\$124,000 at an interest rate of 16.8% and no set principal payments for one year available to the Company. The purpose of the Loan Agreement is to provide the Company with capital funds for oil and gas exploration and/or general corporate purposes. On October 27, 2008, the loan from the President in the amount of US\$62,000 was terminated in favour of an updated debt agreement.

On August 29, 2008, the Company sold all of its working interests in its Owl Creek Project, located in Garvin County, Oklahoma, to an unrelated third party for net proceeds of \$206,021. The property sold included the Company's 7.5% working interest in Isbill #2.

On October 27, 2008, the Company entered into a Purchase Agreement with CAB Financial Services Ltd., Chris Bunka, and another shareholders of the Company (Purchasers) for an aggregate amount of NINE HUNDRED THOUSAND (CDN) DOLLARS (CDN \$900,000). The Purchasers agree to purchase an 18% interest bearing Promissory Note of the Company subject to and upon the terms and conditions of the Purchase Agreement.

The Company's obligations to repay the Promissory Note will be secured by certain specified assets of the Company pursuant to a Security Agreement. Also, as long as the Promissory Note is outstanding, the Purchasers may voluntarily convert the Promissory Note to Common Shares at the conversion price of \$0.45 per share of Common





Stock. Additionally, in consideration for the Purchasers agreeing to purchase the Promissory Notes, the Company agrees to issue Warrants to the Purchasers.

The share purchase Warrants entitles the Purchaser to acquire Shares of the Company's common stock, and the number of Series A and B Warrants issuable shall be determined by the Purchase Amount divided by \$0.45, which Warrants shall have the following terms:

1.

each Series A Warrant entitling the holder to purchase one-half of one Warrant Share for a term of one year from issuance and an exercise price of US \$0.45 per whole Warrant Share;

2.

each Series B Warrant entitling the holder to purchase one-half of one Warrant Share for a term of two years from issuance and exercise price of US \$0.90 per whole Warrant Share; and

3.

Mandatory conversion of the Warrants at the option of the Company upon the Company's Common Stock closing at 200% of the applicable exercise price for twenty consecutive Trading Days.

4.

Two whole Warrants and the exercise price are required to purchase one share of the Company.

The issuance of the Promissory Notes and Warrants were issued to 3 non-US persons pursuant to the exemption from registration provided by Regulation S promulgated under the United States Securities Act of 1933, as amended.

The Company and Purchases hereby agree that all previous Loan Agreements are terminated and any amounts due and owing there under are replaced and superseded by the Promissory Notes issued by the Company pursuant to the Purchase Agreement.

### **Competitive Factors**

The petroleum industry is competitive in all its phases. We compete with numerous other participants in the search for and the acquisition of oil and natural gas properties, and in the marketing of oil and natural gas. Our competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than ours. Our ability to obtain or increase reserves in the future will depend not only on our ability to explore and develop our present properties, but also on our ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery.

### **Governmental Regulations**

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. (See "Industry Conditions".) Our operations may require licenses from various governmental authorities. There can be no assurance that we will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development on our projects.

The Federal Energy Regulatory Commission ("FERC") regulates interstate natural gas transportation rates and service conditions, which affect the marketing of natural gas produced by us, as well as the revenues received by us for sales of such production. Since the mid-1980's FERC has issued a series of orders that have significantly altered the marketing and transportation of natural gas. These orders mandate a fundamental restructuring of interstate pipeline sales and transportation service, including the unbundling by interstate pipelines of the sale, transportation, storage and other components of the city gate sales services such pipelines previously performed. One of FERC's purposes in issuing the orders was to increase competition within all phases of the natural gas industry. Certain aspects of these orders may be modified as a result of various appeals and related proceedings and it is difficult to predict the ultimate impact of the orders on us. Generally, the orders eliminate or substantially reduce the interstate

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pipelines' traditional role as wholesalers of natural gas in favor of providing only storage and transportation service, and have substantially increased competition and volatility in natural gas markets.

The price that we might receive for the sale of oil and natural gas liquids would be affected by the cost of transporting products to markets. FERC has implemented regulations establishing an indexing system for transportation rates for oil pipelines, which would generally index such rates to inflation, subject to certain conditions and limitations. We are not able to predict with certainty the effect, if any, of these regulations on any future operations. However, the regulations may increase transportation costs or reduce wellhead prices for oil and natural gas liquids.

In the United States we are subject to federal, state and local governmental regulation that affects businesses generally, and the specific regulations that pertain to companies with a class of securities registered under the United States Securities and Exchange Act of 1934, as amended.

Our oil and gas operations in Canada are subject to various federal and local governmental regulations. Matters subject to regulation include discharge permits for drilling operations, drilling and abandonment bonds, reports concerning operations, the spacing of wells, and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas. The production, handling, storage, transportation and disposal of oil and gas, by-products thereof, and other substances and materials produced or used in connection with oil and gas operations are also subject to regulation under federal and local laws and regulations relating primarily to the protection of human health and the environment. To date, expenditures related to complying with these laws, and for remediation of existing environmental contamination, have not been incurred in relation to the results of operations of our company, although we anticipate incurring such expenses as our drilling operations proceed. The requirements imposed by such laws and regulations are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations.

### **Mississippi Taxation**

According to the Mississippi State Tax Commission, we are subject to state severance and maintenance oil and gas taxes, as follows:

6% of gross receipts per well (severance tax); and

1/2% per MCF of production (maintenance tax).

### **Kyoto Protocol**

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". Our exploration and production facilities and other operations and activities may emit a small amount of greenhouse gases, which may subject our company to legislation regulating emissions of greenhouse gases. The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse gases emission reduction requirements for various industrial activities, including oil and gas exploration and production. Future federal legislation, together with provincial emission reduction requirements such as those proposed in Alberta's Bill 37: Climate Change and Emissions Management, may require the reduction of emissions or emissions intensity produced by a corporation's operations and facilities. The direct or indirect costs of these regulations may adversely affect the business of our company.

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**Environmental Law**

All phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants in the air, soil or water may give rise to liabilities to governments and third parties and may require our company to incur costs to remedy such discharge. Although we will strive to maintain material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect our financial condition, results of operations or prospects. (See "Industry Conditions".)

### **Environmental Regulation**

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage and the imposition of material fines and penalties.

Environmental legislation in Alberta has been consolidated into the Alberta Environmental Protection and Enhancement Act (the "EPEA"), which came into force on September 1, 1993. The EPEA imposes stricter environmental standards, requires more stringent compliance, reporting and monitoring obligations and significantly increases penalties. We anticipate making increased expenditures of both a capital and an expense nature as a result of the increasingly stringent laws relating to the protection of the environment and will be taking such steps as required to ensure compliance with the EPEA and similar legislation in other jurisdictions in which we operate. We believe that we are in material compliance with applicable environmental laws and regulations. We also believe that the trend towards stricter standards in environmental legislation and regulation will continue.

The Mississippi State Oil and Gas Board (the "MSOGB") has primary regulatory authority over the drilling and operation of all oil, gas and injection wells drilled below the base of the underground source of drinking water. The responsibility of the MSOGB includes the issuance of permits to drill, work-over or change operator. The MSOGB monitors compliance with all reporting requirements including monthly production/injection reports and required NORM surveys. The MSOGB issues grants of authority to transport product. It also oversees financial responsibility requirements and the routine inspection of wells for compliance to all Board Rules and Regulations. The MSOGB also monitors spill reports and H2S contingency plans. We intend to comply with all required regulations within the State of Mississippi.

### **Industry Conditions**

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas, by agreements among the governments of Canada and Alberta, which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect our operations in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public

record and we are unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

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## **Pricing and Marketing - Oil and Natural Gas**

The price of oil is determined by negotiation between buyers and sellers. Such price depends in part on oil quality, prices of competing oils, distance to market, the value of refined products and the supply/ demand balance. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export license from the NEB and the issuance of such license requires the approval of the Governor in Council.

The price of natural gas is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than 2 years or for a term of 2 to 20 years (in quantities of not more than 30,000 m<sup>3</sup>/day) must be made pursuant to a NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export license from the NEB and the issuance of such license requires the approval of the Governor in Council.

The government of Alberta also regulates the volume of natural gas that may be removed for consumption elsewhere based on such factors as reserve ability, transportation arrangements and market considerations.

## **The North American Free Trade Agreement**

The North American Free Trade Agreement ("NAFTA") among the governments of Canada, United States of America and Mexico became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada-United States Free Trade Agreement. Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period); (ii) impose an export price higher than the domestic price; or (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The agreement also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

## **Provincial Royalties and Incentives**

In addition to federal regulation, each province has legislation and regulations that govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur and natural gas production. Royalties payable on production from lands other than Alberta government lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Alberta government royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date and the type or quality of the petroleum product produced.

From time to time the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays and tax credits, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and

development activity by improving earnings and cash flow within the industry.

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Regulations made pursuant to the Mines and Minerals Act (Alberta) provide various incentives for exploring and developing oil reserves in Alberta. Oil produced from horizontal extensions commenced at least 5 years after the well was originally spudded may also qualify for a royalty reduction. A 24-month, 8,000 m<sup>3</sup> exemption is available to production from a well that has not produced for a 12 month period, if resuming production after February 1, 1993. As well, oil production from eligible new field and new pool wildcat wells and deeper pool test wells spudded or deepened after September 30, 1992 is entitled to a 12 month royalty exemption (to a maximum of \$1 million). Oil produced from low productivity wells, enhanced recovery schemes (such as injection wells) and experimental projects is also subject to royalty reductions.

The Alberta government has also introduced a Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 30, 1992. The new oil royalty reserved to the Alberta government has a base rate of 10% and a rate cap of 30%. The old oil royalty reserved to the Alberta government has a base rate of 10% and a rate cap of 35%.

In Alberta, the royalty reserved to the Alberta government in respect of natural gas production, subject to various incentives, is between 15% and 30%, in the case of new gas, and between 15% and 35%, in the case of old gas, depending upon a prescribed reference or corporate average price. Natural gas produced from qualifying exploratory gas wells spudded or deepened after July 31, 1985 and before June 1, 1988 is eligible for a royalty exemption for a period of 12 months, up to a prescribed maximum amount. Natural gas produced from qualifying intervals in eligible gas wells spudded or deepened to a depth below 2,500 meters is also subject to a royalty exemption, the amount of which depends on the depth of the well.

In Alberta, a producer of oil or natural gas is entitled to a credit against the royalties payable to the Alberta government by virtue of the ARTC program. The ARTC rate is based on a price sensitive formula and the ARTC rate varies between 75% at prices at and below \$100 per m<sup>3</sup> and 25% at prices at and above \$210 per m<sup>3</sup>. The ARTC rate is applied to a maximum of \$2,000,000 of Alberta government royalties payable for each producer or associated group of producers. Government royalties on production from producing properties acquired from a corporation claiming maximum entitlement to ARTC will generally not be eligible for ARTC. The rate will be established quarterly based on the average "par price", as determined by the Alberta Department of Energy for the previous quarterly period.

On December 22, 1997, the Alberta government announced that it was conducting a review of the ARTC program with the objective of setting out better targeted objectives for a smaller program and to deal with administrative difficulties. On August 30, 1999, the Alberta government announced that it would not be reducing the size of the program but that it would introduce new rules to reduce the number of persons who qualify for the program. The new rules preclude companies that pay less than \$10,000 in royalties per year and non-corporate entities from qualifying for the program. Such rules do not presently preclude us from being eligible for the ARTC program.

In November 2003, the Tax Act was amended to provide the following initiatives applicable to the oil and gas industry to be phased in over a five year period: (i) a reduction of the federal statutory corporate income tax rate on income earned from resource activities from 28 to 21%, beginning with a one percentage point reduction effective January 1, 2003, and (ii) a deduction for federal income tax purposes of actual provincial and other government royalties and mining taxes paid and the elimination of the 25% resource allowance. In addition, the percentage of ARTC that we will be required to include in federal taxable income will be 17.5% in 2005; 32.5% in 2006; 50% in 2007; 60% in 2008; 70% in 2009; 80% in 2010; 90% in 2011, and 100% in 2012 and beyond.

## **Employees**

We do not have any employees, other than our directors and executive officers. We do not expect any material changes in the number of employees over the next 12 month period. We may enter into employment or consulting agreements with our directors and executive officers. We rely on our project operators for their technical expertise and project management experience, and will, from time to time as necessary, employ independent consultants to assist us

with project evaluation.

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## **Purchase of Equipment**

At this time we do not expect to purchase or sell any plant or significant equipment, other than that we are considering a 40% pro-rata purchase of a pipeline gathering system that could be beneficial in our Mississippi operations. No agreement of any kind towards such purchase currently exists. We constantly evaluate the possibility of acquiring or disposing of certain oil and gas projects, as market conditions and opportunities allow.

## **Research and Development**

Our business plan is focused on a strategy of the acquisition, exploration, and development of oil and natural gas properties.

## **RISK FACTORS**

Much of the information included in this annual 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. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other "forward-looking statements" involve various risks and uncertainties as outlined below. We caution readers of this annual report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward-looking statements". In evaluating us, our business and any investment in our business, readers should carefully consider the following factors.

Our common shares are considered speculative. Prospective investors should consider carefully the risk factors set out below.

### **Risks Associated with Business**

*We have a limited operating history with losses and we expect the losses to continue, which raises concerns about our ability to continue as a going concern.*

We have generated minimal revenues since our inception and will, in all likelihood, continue to incur operating expenses with minimal revenues until we are able to successfully commercialize our exploration interests. Our business plan may require us to incur further exploration expenses on our projects. We may not be able to successfully commercialize our exploration interests or ever become profitable. These circumstances raise concerns about our ability to continue as a going concern.

We have a limited operating history and must be considered in the exploration stage. Our company's operations will be subject to all the risks inherent in the establishment of an exploration stage enterprise and the uncertainties arising from the absence of a significant operating history. Potential investors should be aware of the difficulties normally encountered by resource exploration companies and the high rate of failure of such enterprises. The likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the exploration of the properties that we plan to undertake. These potential problems include, but are not limited to, unanticipated problems relating to exploration, and additional costs and expenses that may exceed current estimates. The expenditures to be made by us in the exploration of our properties may not result in the discovery of reserves. Problems such as unusual or unexpected formations of rock or land and other conditions are

involved in resource exploration and often result in unsuccessful exploration efforts. If the results of our exploration do not reveal viable commercial reserves, we may decide to abandon our claims and acquire new claims for new

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exploration or cease operations. The acquisition of additional claims will be dependent upon us possessing capital resources at the time in order to purchase such claims. If no funding is available, we may be forced to abandon our operations. There can be no assurance that we will be able to operate on a profitable basis.

*We will require additional financing to develop existing exploration interests or acquire additional resource assets.*

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 acquire, explore and develop oil and gas interests. We do not currently have sufficient financial resources to completely fund the development and production of our exploration interests. We currently do not have sufficient financial resources to fund the acquisition of additional exploration or development interests. 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. Obtaining additional financing would be subject to a number of factors, including investor acceptance of our oil and gas interests and development plans. 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 successful in our exploration for oil and gas.*

We currently have only modest oil or gas reserves that are deemed proved, probable or possible pursuant to American standards of disclosure for oil and gas activities. We have participated in the drilling of one well in Alberta, Canada, and also have participated in the drilling of wells in Mississippi, USA.

There can be no assurance that our current or future drilling activities will be successful, and we cannot be sure that our overall drilling success rate or our production operations within a particular area 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 the wells or the underlying leaseholds. Unsuccessful drilling activities would have a material adverse effect upon our results of operations and financial condition. The cost of drilling, completing and operating wells is often uncertain, and a number of factors can delay or prevent drilling operations, including: (i) unexpected drilling conditions; (ii) pressure or irregularities in geological formation; (iii) equipment failures or accidents; (iv) adverse weather conditions; and (v) shortages or delays in the availability of drilling rigs and the delivery of equipment.

In addition, our exploration and 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 oil and changes in the estimates of costs to complete the projects. We will continue to gather information about our exploration projects, and it is possible that additional information may cause our company to alter our schedule or determine that a project should not be pursued at all. You should understand that our plans regarding our projects are subject to change.

*We may not be able to obtain all of the licenses necessary to operate our business.*

Our operations require licenses and permits from various governmental authorities to drill wells and transport hydrocarbon fluids or gases. We believe that we hold, or will hold, 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 that may be required to maintain continued operations that economically justify the cost.

*Even if we acquire an oil and natural gas exploration property and establish that it contains oil or natural gas in commercially exploitable quantities, the potential profitability of oil and natural gas ventures depends upon factors beyond the control of our company.*

The potential profitability of oil and natural gas properties is dependent upon many factors beyond our control. For instance, world prices and markets for oil and natural gas are unpredictable, highly volatile, potentially subject to

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governmental fixing, pegging, controls or any combination of these and other factors, and respond to changes in domestic, international, political, social and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. In addition, adverse weather conditions can hinder drilling operations. 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 productive well may become uneconomic in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or natural gas from the well. Production from any well may be unmarketable if it is impregnated with water or other deleterious substances. Also, the marketability of oil and natural gas which may be acquired or discovered will be affected by numerous related factors, including the proximity and capacity of oil and natural gas pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production and environmental protection, all of which could result in greater expenses than revenue generated by the well.

*The exploration business is competitive.*

We operate in the highly competitive area of oil and natural gas exploration and production. Many of our competitors have much greater financial and other resources than we possess. Such competitors have a greater ability to bear the economic risks inherent in all phases of the industry. In the exploration and production business, the availability of alternate fuel sources, the costs of our drilling program, the development of transportation systems to bring future production to the market and transportation costs of oil are factors that affect our ability to compete in the marketplace.

*Estimates of oil and gas reserves are inherently forward-looking statements, subject to error, which could force us to curtail or cease our business operations.*

We have minimal oil and gas reserves. Potential future estimates of oil and gas reserves are inherently forward-looking statements subject to error. Although estimates of reserves are made based on a high degree of assurance in the estimates at the time the estimates are made, unforeseen events and uncontrollable factors can have significant adverse impacts on the estimates. Actual conditions will inherently differ from estimates. The unforeseen adverse events and uncontrollable factors include but are not limited to: geologic uncertainties including unforeseen fracturing or faulting; oil and gas price fluctuations; fuel price increases; variations in exploration, production, and processing parameters; and adverse changes in environmental or resource laws and regulations. The timing and effects of variances from estimated values cannot be predicted.

*The volatility of oil prices could adversely affect our results of operations.*

The prices we will receive for any products we may produce and sell are likely to be subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and a variety of additional factors beyond our control. These factors include but are not limited to the condition of the worldwide economy, the actions of the Organization of Petroleum Exporting Countries, governmental regulations, political stability in the Middle East and elsewhere and the availability of alternate fuel sources. The prices for oil will affect:

1. our revenues, cash flows and earnings;
2. our ability to attract capital to finance our operations, and the cost of such capital;
3. the profit or loss incurred in refining petroleum products; and

4. the profit or loss incurred in our oil and gas exploration activities.

*Operating hazards may adversely impact our oil and gas exploration activities.*

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Our exploration operations are subject to risks inherent in the exploration business, such as blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, and other environmental risks. These risks could result in substantial losses due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage and suspension of operations. Our operations could be subject to a variety of additional operating risks such as earthquakes, mudslides, tsunamis and other effects associated with extensive rainfall or other adverse weather conditions.

Our operations could result in liabilities for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs or other environmental damages. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could have a material adverse effect on our financial condition and results of operations.

*Fuel price variability.*

The cost of fuel can be a major variable in the cost of oil and gas exploration, one which is not necessarily included in the contract exploration prices obtained from contractors, but is passed on to the overall cost of operation. Although high fuel prices by historical standards have been used in making the reserve estimates included herein, future fuel prices and their impact are difficult to predict, but could force us to curtail or cease our business operations.

*Changes in environmental regulations.*

We believe that we currently comply with existing environmental laws and regulations affecting our operations. While there are no currently known proposed changes in these laws or regulations, significant changes have affected the industry in the past and additional changes may occur in the future.

Our operations are subject to environmental laws, regulations and rules promulgated from time to time by government. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain oil and gas industry operations, such as uncontrolled flaring, which could result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner that means stricter standards and enforcement. Fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies, directors, officers and employees. The cost of compliance with changes in governmental regulations has potential to reduce the profitability of operations. We intend to comply with all environmental regulations in the United States and Canada.

*The exploration, development and operation of oil and gas projects involve numerous uncertainties.*

Oil and gas exploration and development projects typically require a number of years and significant expenditures during the development phase before production is possible. Exploration offers no guarantee, and no realistic ability to project a probability, of ever successfully discovering economically feasible ore resources or reserves.

Development projects are subject to the completion of successful production or development studies, issuance of necessary governmental permits and receipt of adequate financing. The economic feasibility of development projects is based on many factors such as:

1. estimation of reserves;
2. future oil and gas prices; and

3. anticipated capital and operating costs of such projects.
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Oil and gas development projects may have limited or no relevant operating history upon which to base estimates of future operating costs and capital requirements. Estimates of reserves and operating costs are based on geologic and engineering analyses.

Any of the following events, among others, could affect the profitability or economic feasibility of a project:

1. unanticipated adverse geotechnical conditions;
2. incorrect data on which engineering assumptions are made;
3. costs of constructing and operating a field in a specific environment;
4. availability and cost of transportation, processing and refining facilities;
5. availability of economic sources of power;
6. adequacy of water supply;
7. adequate access to the site;
8. unanticipated transportation costs;
9. unexpected pollution or hazard costs;
10. government regulations (including regulations relating to prices, royalties, duties, taxes, restrictions on production, quotas on exportation, as well as the costs of protection of the environment and agricultural lands);
11. fluctuations in commodities prices; and
12. accidents, labor actions and force majeure events.

Any of the above referenced events may necessitate significant capital outlays or delays, may materially and adversely affect the economics of a given property, or may cause material changes or delays in our intended exploration, development and production activities. Any of these results could force us to curtail or cease our business operations.

*Oil and gas exploration is highly speculative, involves substantial expenditures, and is frequently non-productive.*

Oil and gas exploration involves a high degree of risk and exploration projects are frequently unsuccessful. Few prospects that are explored are ultimately developed into economically producing wells or fields. To the extent that we continue to be involved in oil and gas exploration, the long-term success of our operations will be related to the cost and success of our exploration programs. We cannot assure you that our oil and gas exploration efforts will be successful. The risks associated with oil and gas exploration include:

1. the identification of potential hydrocarbon zones based on superficial analysis;

2. the quality of our management, consultants and partners, and their geological and technical expertise;  
and
3. the capital available for exploration and development.

Substantial expenditures are required to determine if a project has economically extractable oil and gas. Because of these uncertainties, our current and future exploration programs may not result in the discovery of reserves, the expansion of our existing reserves or the further development of our mines.

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*Oil and gas risks and insurance could have an adverse effect on our business.*

Our operations are subject to all of the operating hazards and risks normally incident to exploring for and developing oil and gas properties, such as unusual or unexpected geological formations, environmental pollution, personal injuries, flooding, cave-ins, changes in technology or production techniques, periodic interruptions because of inclement weather and industrial accidents. Although insurance may ameliorate some of these risks, such insurance may not always be available at economically feasible rates or in the future be adequate to cover the risks and potential liabilities associated with exploring, owning and operating our properties. Either of these events could cause us to curtail or cease our business operations.

*If we are unable to recruit or retain qualified personnel, it could have a material adverse effect on our operating results and stock price.*

Our success depends in large part on the continued services of our executive officers and third party relationships. We currently do not have key person insurance on these individuals. The loss of these people, especially without advance notice, could have a material adverse impact on our results of operations and our stock price. It is also very important that we be able to attract and retain highly skilled personnel, including technical personnel, to accommodate our exploration plans and to replace personnel who leave. Competition for qualified personnel can be intense, and there are a limited number of people with the requisite knowledge and experience. Under these conditions, we could be unable to recruit, train, and retain employees. If we cannot attract and retain qualified personnel, it could have a material adverse impact on our operating results and stock price.

*We are not the "operator" of any of our oil and gas exploration interests, and so we are exposed to the risks of our third-party operators.*

We rely on the expertise of our contracted third-party oil and gas exploration and development operators for their judgment, experience and advice. We can give no assurance that these third party operators will always act in our best interests, and we are exposed as a third party to their operations and actions in those properties and activities in which we are contractually bound.

### **Risks Associated with the Shares of Our Company**

*Trading on the OTC Bulletin Board 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 OTC Bulletin Board service of the Financial Industry Regulatory Authority. Trading in stock quoted on the OTC Bulletin Board 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 OTC Bulletin Board is not a stock exchange, and trading of securities on the OTC Bulletin Board 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.

*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. 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 75,000,000 shares. The board of directors of our company have 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**

*Because all of our officers and directors are located in non-U.S. jurisdictions, you may have no effective recourse against our management for misconduct and may not be able to enforce judgment and civil liabilities against our officers, directors, experts and agents.*

All 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 officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

*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 15g-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.

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## **Item 2. Description of Property.**

### **Executive Offices**

We maintain our principal executive offices at Suite 604, 700 West Pender Street, Vancouver British Columbia V6C 1G8. Our telephone number is (604) 602-1675. We rent our principal executive offices on a month to month basis from Hurricane Corporate Services at \$1,000 per month, commencing the 1st day of April 18, 2006. Our executive offices are comprised of one office and we share reception and boardroom facilities. We have another office in Kelowna, BC. Management does not believe that our office space will need to be expanded during 2009.

### **Our Oil & Gas Projects**

#### **Strachan Project - Alberta, Canada**

On September 23, 2005, we entered into an agreement (the "Strachan Participation and Farmout Agreement") with Odin Capital Inc. ("Odin") to participate in a 4% share of the costs of drilling a test well into the Leduc formation located 80 miles northwest of Calgary, Alberta, Canada. We earlier paid \$218,739 for the 4% interest in the test well (before payout), which reduces to a 2% interest (after payout).

Odin of Calgary, Alberta, with whom we entered into this Agreement, is a Canadian exploration finance company that arranges all aspects of identifying, financing, exploring and drilling properties. The operator of the earning well is Rosetta Exploration Inc. of Calgary, Alberta.

#### *Background*

The Strachan project is an agreement to participate in the drilling of a potential natural gas well in a prospective property discovered in the Deep Basin along the edge of the Alberta foothills belt, approximately 80 miles northwest of Calgary, Alberta.

The Strachan gas pool was discovered 35 years ago. However, there were no new discoveries in the region until, in November 2004, Shell Oil announced a new Leduc Pool discovery at Ricinus with a potential of one trillion cubic feet of natural gas reserves.

The Strachan prospect is 12 miles northeast of the Shell Oil discovery in the same part of the Deep Basin. The potential for this prospect is based on newly developed, highly technical three-dimensional seismic programs that shed new light on identifying deeply buried full height and partial height pinnacle reefs.

#### *History*

The original Strachan Leduc discovery well was drilled in October 1967 by a junior oil company called Stampede Oil. Six gas wells were drilled in this major gas pool with significant production rates that filled the maximum capacity of the nearby Strachan gas plant at 250mmcf per day. However, over the ensuing decades, production has now dwindled to where currently only minimal residual gas production is pipelined to what is now an underutilized Strachan gas plant.

After 20 years, key wells had cumulative production of between 150 to 225 billion cubic feet of natural gas each. To date, 962 billion cubic feet of natural gas reserves have been recovered and currently only minimal residual gas production is pipelined to what is now an underutilized Strachan gas plant.

The principal terms of the Odin Farmout Agreement are as follows:

Odin will drill to the contract depth, which is a depth sufficient to penetrate thirty (30) metres into the Leduc formation, or a depth of 13,331 feet, whichever shall be the lesser, which describes the earning well

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and which, upon completion, in accordance with the Odin Farmout Agreement, results in our company earning our interest in the Farmout Lands set out below.

*Farmout Lands*

<b>Title Documents</b>	<b>Lands</b>	<b>Farmee's Earned WI and Owned WI</b>	<b>Encumbrances</b>
Crown P&NG Licence No. 5596020176	Twp. 38 Rge. 9 W5M Sec 9  Natural Gas in the Leduc	4.000%BPO   2.000%APO	1) Crown S/S   2) 3.5% NCGORR to Calgary International Energy 3) 5.0% NCGORR to Northrock and TKE (APO only)  4) 12% ORR to Rosetta convertible at payout
Crown P&NG Lease No. 0604120298	Twp. 38 Rge. 9 W5M Sec 9 P&NG below the base of the Mannville excluding natural gas in the Leduc	2.000%	1) Crown S/S 2) 3.5% NCGORR to Calgary International Energy 3) 5.0% NCGORR to Northrock and TKE (APO only)
Crown P&NG Licence No. 5596020176	Twp. 38 Rge. 9 W5M Sec 10  P&NG below base Shunda	1.600%	1) Crown S/S 2) 3.5% NCGORR to Calgary International Energy 3) 5.0% NCGORR to Northrock and TKE (APO only)
Crown P&NG Licence No. 5596020176	Twp. 38 Rge. 9 W5M Sec 15 & 16	1.289%	1) Crown S/S 2) 3.5% NCGORR to

P&NG below base  
Shunda

Calgary International  
Energy

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3) 5.0% NCGORR to  
Northrock and TKE (APO  
only)

*Project Structure*

In participating in the Strachan prospect, we received the benefit of the operator's expenditures to date in this area, including land costs, 3-dimensional seismic costs, pipeline costs to the Strachan gas plant and the intangible value of their exploration team.

We have acquired a 4% interest in the property for accumulated payments of \$405,407. For this 4% interest, we have earned the following:

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A 2.0% interest in the petroleum and natural gas below the base of the Mannville excluding natural gas in the Leduc formation.

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A 4.0% interest in the natural gas in the Leduc formation before payout subject to payment of the Overriding Royalty which is convertible upon payout at royalty owners option to 50% of Farmee's Interest.

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A 1.6% interest in the rights below the base of the Shunda formation in Section 10, Township 38, Range 9W5M.

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A 1.289% interest in the rights below the base of the Shunda formation in Sections 15 and 16, Township 38, Range 9W5M down to the base of the deepest formation penetrated.

*Current Status of the Strachan Project*

The Strachan Well has been drilled to a total depth of 13,650 feet. Preliminary results indicated the presence of a potential Devonian gas well.

The operator had informed us that it decided to complete the potential gas well by inserting a casing into the total depth of the well. The casing was completed and a production test program for this well was run. Test results were inconclusive.

During the drilling process, the operator of this potential gas well encountered extremely high pressures of up to 10,000 pounds per square inch in several zones. The decision to case the well prior to testing was based on the factors associated with running logging tools in a well with such extremely high pressures.

It had been determined by the technical team that a testing program was needed which involved specialized high-penetration, low-diameter guns from the USA to determine the potential of any reserves. The operator, Rosetta Exploration, was purchased by a third party in 2006 which delayed certain decisions. Further results have been inconclusive, but appear to indicate non-commercial quantities of hydrocarbons. Lexaria may decide to abandon its interest in this project.

During the year ended October 31, 2008, the Company wrote down the cost of the property to a nominal value of \$1 as the future realization of the property is uncertain.

**Phase I Palmetto Point Drilling Project - Mississippi**

We entered into a drilling program agreement with Griffin and Griffin Exploration, L.L.C. ("Griffin") dated December 21, 2005, whereby we acquired a 20% gross working interest in a 10-well drilling program (the "Drilling Program"), that was carried out at Palmetto Point, Mississippi.

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The total operational and overhead costs for the 100% interest in the 10-well Drilling Program were US\$3,500,000. We have paid US\$700,000 to Griffin, which represents the full cost of our 20% gross working and revenue interest in the Drilling Program. Griffin has agreed that the leases held by it covering any mineral estate underlying the applicable well site acreage shall not provide for more than twenty-five (25%) percent of eight-eighths (8/8) royalty and overriding royalty interest.

Percentage Interest after Completion per Operating Agreement:

After the payment of all operating expenses as required by the Operating Agreement that we have entered into with Griffin, dated January 5, 2006 (completed):

- (i) Griffin's working interest will be 15%; and
- (ii) Lexaria's working interest will be 17%.

The Griffin Agreement provides that Griffin will:

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hold defensible title to the oil, gas and mineral leasehold estate covering the prospect;

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obtain and deliver to us a drill site title opinion, which shall be addressed to Griffin covering the applicable well site acreage and indicating that the title to interests to be acquired by us hereunder is of a nature that is customarily relied upon by a reasonable person engaged in activities similar to those contemplated by the Drilling Program; and

.

obtain from the applicable government authority all necessary licenses and permits.

Griffin conducts the Drilling Program in its capacity as Operator. This will consist of the drilling, logging, testing, completing and equipping for production (or if applicable, the plugging and abandonment) of ten wells. Griffin will drill to a subsurface depth equal to such depth as is necessary to penetrate the sands of the Frio Geological Formation ("Frio") identified as prospectively productive of oil and/or gas. Griffin has drilled, owned or operated more than 100 Frio wells in the region.

The Griffin operating management team consists of William K. Griffin III, President and CEO, with over 30 years of extensive experience in the development of oil and gas in south-western Mississippi; John Andrew Griffin, Vice President, who oversees all day-to-day operations related to land, geology and geophysics; and S. Pittman Calhoun, Chief Geophysicist, with over 30 years of experience as a seismic interpreter, including 3-D interpretation, who has been responsible for over 35 field discoveries.

In its exploration of the Frio at Palmetto Point, Mississippi, Griffin has utilized seismic "bright spot" technology, a technology providing a tool to identify gas reservoirs and to delineate the reservoir geometry and limits. Utilizing this technology has improved reserve estimates and the geologic success ratio that has made the Frio an economical and predictable reservoir.

The Frio in the area of Southwest Mississippi and North-Central Louisiana is a very complex series of sands representing marine transgressions and regression and therefore the presence of varying depositional environments.

Structurally, the Frio gas accumulations are a function of local structure and/or structural nose formed as a result of differential compaction features. However, stratigraphic termination also plays a role in most Frio accumulations. The stratigraphy is so complex that seismic Hydrocarbon Indicator evaluations are the only viable exploratory tool for the Frio play.

The economic benefits of Frio wells are that they typically enjoy low exploration costs, few Frio wells fail to find gas or oil, and gas occurs at shallower depths. Frio wells have minimal completion costs.

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Subsequent to the initial 10-well drill program, we have also purchased a 20% gross interest in two additional wells previously drilled by Griffin and Griffin in Mississippi for \$140,000 under the same terms as described above for the Phase I drilling program. We also drilled a 13<sup>th</sup> well, a oil development well, under the terms of this agreement, in October 2007.

### **Phase II Area of Mutual Interest Mississippi**

We entered an agreement to participate as to a 40% gross interest in up to an additional 50 wells, which have been defined as an Area of Mutual Interest (AMI). Under the terms of this agreement, Griffin and Griffin's interest is 20%. Seven wells were drilled under Phase II, with specific results as shown later in this document. Subsequent to entering the agreement, we increased our interest in these seven wells to a 45% gross interest. We do not expect any additional wells to be drilled under Phase II. After the drilling of these 7 wells, there were 43 wells left to drill under the terms of the AMI.

### **Phase III Area of Mutual Interest - Mississippi**

We currently have a 50% gross interest in the remaining 43 wells of the AMI. We have no financial obligation to drill these wells, and no penalties will be incurred if we do not drill these wells, though we may waive certain funds paid towards development of well prospects. As of October 31, 2008, 5 of these wells were drilled and all encountered non-commercial quantities of hydrocarbons. There are 38 undrilled wells remaining to be drilled under the terms of the AMI and we expect to drill an as yet unknown number of these wells in 2009.

### **Project Oklahoma**

We had a 7.5% working interest in the Owl Creek Prospect, Oklahoma. The operator is Ranken Energy Ltd. We paid \$100,000 for a 7.5% interest and to participate in the Isbill #1-36 well. The Isbill #1-36 well was drilled and abandoned.

A second well was drilled at Owl Creek, the Isbill #2-36 well, in which we also have a 7.5% interest. The Isbill#2-36 well was successful and is in production of both oil and natural gas and is contributing to our revenue generation. Additional drill locations exist on this property and it is possible that we may participate in the drilling of such wells, but no decision has been made at this time as to whether or not we will participate in future wells at Owl Creek.

On August 16, 2008, the Company signed an Assignment of Working Interest and Bill of Sale for its interest in Owl Creek Prospect and Isbill #2-36. On September 9, 2008 the Company received formal documentation and the Company's portion for the sale of Isbill #2-36 in the amount of \$206,021.

### **Land Tenure**

Crude oil and natural gas located in the western provinces of Canada is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying terms from two years and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

### **Item 3. Legal Proceedings.**

We know of no material, active or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceedings or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered beneficial shareholder are an adverse party or has a material interest adverse to us.

**Item 4. Submissions of Matters to a Vote of Security Holders.**

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There were no matters submitted to a vote of our security holders either through solicitation of proxies or otherwise in the fourth quarter of the fiscal year ended October 31, 2008.

## PART II

### Item 5. Market for Common Equity and Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

The closing price of our common stock, as reported by the FINRA OTCBB on December 11, 2008, was \$0.04.

Our common shares are quoted for trading on the OTCBB under the symbol "LXRA". The following quotations obtained from stockwatch.com reflect the highs and low bids for our common stock 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:

#### National Association of Securities Dealers OTC Bulletin Board<sup>(1)</sup>

Quarter Ended	High	Low
January 31, 2006 <sup>(2)</sup>	N/A	N/A
April 30, 2006 <sup>(2)</sup>	N/A	N/A
July 31, 2006 <sup>(2)</sup>	N/A	N/A
October 31, 2006	\$0.10	\$0.10
January 31, 2007	\$0.98	\$0.35
April 30, 2007	\$0.99	\$0.75
July 31, 2007	\$1.25	\$0.54
October 31, 2007	\$1.65	\$0.77
January 31, 2008	\$1.23	\$0.70
April 30, 2008	\$0.98	\$0.32
July 31, 2008	\$0.75	\$0.20
October 31, 2008	\$0.40	\$0.10

<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.

<sup>(2)</sup> No high or low bid prices for our common stock were recorded for the period indicated.

#### Holders of our Common Stock

Our common shares are issued in registered form. Our transfer agent and registrar for our common stock is the Nevada Agency and Trust Company. Their address is 880-50 West Liberty Street, Reno, Nevada, 89501. Their telephone number is (775) 322-0626. Their facsimile number is (775) 322-5623. On January 2, 2008, the shareholders' list of our common shares showed 38 registered shareholders and 24,369,500 common shares issued and outstanding.

#### Dividend Policy



During the years ended October 31, 2008 and 2007, we did not pay any cash dividends to any holders of our equity securities 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.

### Securities Authorized for Issuance Under Equity Compensation Plans

Our current stock option plan, entitled the 2007 Equity Incentive Stock Option Plan was approved by our shareholders on April 25, 2007. The following table provides a summary of the number of options granted under our stock option plan, the weighted average exercise price and the number of options remaining available for issuance all as at October 31, 2008.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options</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<sup>(1)</sup></b>
Equity compensation plans approved by security holders	1,300,000	\$0.81	700,000
Equity compensation plans not approved by security holders	N/A	N/A	N/A
<b>Total</b>	<b>1,300,000</b>	<b>\$0.81</b>	<b>700,000</b>

<sup>(1)</sup> The maximum number of options issuable under our 2007 Equity Incentive Stock Option Plan is 2,000,000.

### 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 October 31, 2008.

### Item 6. Management's Discussion and Analysis or Plan of Operation.

The following discussion should be read in conjunction with our audited financial statements and the related notes that appear elsewhere in this registration statement. 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 registration statement, particularly in the section entitled "Risk Factors" beginning on page 9 of this registration statement.

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

#### Overview

We are a Nevada corporation incorporated on December 9, 2004. We are an exploration and development stage oil and gas company engaged in the exploration for oil and natural gas in Canada and the United States. We are currently

generating revenues from our business operations in Mississippi. We have acquired the right to explore the Strachan Hills oil and gas property in Alberta Canada and assumed a working interest in the Owl Creek Prospect,

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Oklahoma and the Palmetto Point and other oil and gas properties in Mississippi USA. We sold our working interest in Oklahoma in August 2008. Our detailed business plan is discussed herein.

Our business plan does not anticipate that we will hire a large number of employees or that we will require extensive office space. We have to date, and plan to continue to acquire most of the industry and geological expertise we require through third party contractual relationships with other companies, which will act as operators of our various interests. Although this exposes us to certain risks on behalf of those operators, it also allows us to participate in the often unique experience and knowledge that local persons have related to certain properties. We plan to continue our current business of acquiring interests in potentially high-impact oil and gas property interests that offer a high probability of being able to drill without significant time delays. In our North American interests, we also try to choose properties where, if drilling is successful, the wells could be quickly connected to infrastructure and thus, with success, brought into production and able to generate cash flow as quickly as possible.

### **Alberta**

We have acquired an interest in a property located 80 miles northwest of Calgary, Alberta, Canada. On September 23, 2005, we signed an agreement to participate in a 13,330 foot drill program. As of October 31, 2008, our company has paid \$405,407 for a 4% gross interest to participate in any oil and gas produced (before recovery of the costs of the drill program), reducing to a 2% interest after recovery of the drilling costs. We expect to pay further costs equal to its 4% interest in completing and equipping an earning well to a pipeline tie in if warranted. The property is reached by traveling 100 miles north from the city of Calgary on Highway #22, and is approximately a one-half hour drive past the town of Rocky Mountain House.

Drilling of this well has been completed and some evaluation has been completed. The well appears to be noncommercial and it is possible that we could abandon our interest in this well. Odin Capital Inc. of Calgary, Alberta, with whom we entered into this agreement, is a Canadian exploration finance company that arranges all aspects of identifying, financing, exploring and drilling properties. The operator of the earning well is Rosetta Exploration Inc. of Calgary, Alberta.

During the year ended October 31, 2008, the Company wrote down the cost of the property to a nominal value of \$1 as the future realization of the property is uncertain.

### **Mississippi**

As of October 31, 2008, we currently own a 30% gross working interest in 12 wells; a 45% gross working interest in 7 wells; and a 50% gross working interest in 43 wells (of which 38 remain to be drilled); all located in Mississippi under various agreements with Griffin and Griffin Exploration, L.L.C. Additional details of these interests are noted below.

We entered into a 10-hole drilling program agreement (the Griffin Drilling Program Agreement) with Griffin and Griffin Exploration, L.L.C. (Griffin) dated December 21, 2005, whereby we acquired a 20% gross interest in any oil and gas produced, in a 10-well drilling program (the Drilling Program), to be carried out at Palmetto Point, Southwest Mississippi. Palmetto Point is approximately 150 miles southwest of Jackson, Mississippi and approximately 50 miles north/northwest of Baton Rouge, Louisiana. It is 30 miles west of Woodville, Mississippi off of State Highway 33.

By January 17, 2006, we paid \$700,000 to Griffin, which represented the full cost of our company's 20% working interest in the Drilling Program. There were no further costs to our company in earning its interest, including well development costs or pipeline connections. Griffin has agreed that the leases held by it covering any mineral estate underlying the applicable well site acreage shall not provide for more than twenty-five (25%) percent royalty and overriding royalty interest. Our net interest in any oil and gas produced is calculated by subtracting the applicable royalties from our 20% gross interest. Consequently, our original net working interest in the drilling program was a

minimum fifteen (15%) percent net working interest. Griffin conducted the Drilling Program in its capacity as Operator. We subsequently increased our participation under this program by spending \$140,000 to earn the same

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20% interest in 2 additional wells 12 wells total and all drilled - and we subsequently increased our gross interest to 30% in these 12 wells, or a net working interest of 22.5% . The status of these wells are as follows as of end of December, 2008:

**Phase I Palmetto Point 30% gross interest**

<b>Well Name</b>	<b>Spud/Start</b>	<b>Complete</b>	<b>Results</b>	<b>Depth</b>	<b>Status</b>
PP F-40	May 11/06	May 16/06	Frio Gas; 12 ft.	3850	Temporary shut-in
PP F-118	May 18/06	May 22/06	Frio Gas; 14 ft.	3808	Temporary shut-in
PP F-121	May 24/06	May 29/06	Dry	3850	Plug & abandon
PP F-7	May 31/06	June 4/06	Dry	3800	Plug & abandon
PP F-39	June 10/06	June 16/06	Frio Gas/Oil; 12 ft.	3900	Producing
PP F-42	June 18/06	June 21/06	Frio Gas/Oil; 10 ft.	3170	Temporary shut-in
PP F-36-2	June 23/06	July 2/06	Frio Gas; 8 ft.	3450	Shut-in
PP F-4	Oct 31/06	Nov. 5/06	Frio Gas; 8 ft.	4200	Temporary shut-in
PP F- 29	Nov 11/06	Nov. 14/06	Frio Gas; 37 ft.	4100	Temporary shut-in
PP F-12-1	Dec 18/06	Dec. 24/06	Frio Gas; 3 ft. Frio Oil, 26 ft.	4016	Producing
PP F-6B		July 27/06	Frio Gas		Producing
PP F-52A		July 27/06	Frio Gas		Temporary shut-in
PP F-12-3	Oct/07	Oct/07	Frio Oil	3150	Producing

On August 3, 2006, we entered into our Phase II agreement with Griffin and Griffin Exploration LLC, which covers an Area of Mutual Interest (AMI) exclusive to the participants, which includes 50 prospects for drilling of wells to depths sufficient to test prospectively producible hydrocarbons from the top of the Frio Formation to the bottom of the Wilcox Formation. From these 50 prospects, Griffin and Griffin and the participants will select all drill locations. We had contracted to assume a 40% gross interest in this AMI, meaning we were obligated to pay 40% of costs related to licensing, permitting, drilling, completion and all other related costs. This 50-well AMI is intended to be drilled in several stages. Lexaria's pro rate share of the first stage had a total cost \$1.6 million. As of October 31 2007, our company had placed \$1,600,000 in trust to completely fund this initial commitment. During the drill program, an unrelated third party participant elected not to continue their participation in the program, and we assumed our pro-rata portion of their 10% gross working interest as our own, at no additional cost, bringing our total gross working interest in these seven wells and their leases, to 45%.

The first of these 7 wells was successfully drilled and completed and entered into production. The second well in this Phase II program targeted the Wilcox formation, did not encounter commercially viable quantities of hydrocarbons, and was plugged and abandoned, with total costs associated with this well of \$162,420. All 7 of these wells have now been drilled, with results as follows:

**Phase II 45% gross interest**



Well Name	Spud/Start	Complete	Results	Depth	Status
CMR-USA-39- 14 RB F-3	Sept. 8/06	Sept. 12/06	Frio Gas 14 ft.	3,200	Producing
Dixon #1	Jan. 03/07	Jan. 20/07	Wilcox Target; Dry	8,650	Plug & abandon
Faust #1, TEC F-1	Feb. 05/07	Feb. 11/07	Frio Gas 9 ft	5,350	Connection pending
CMR/BR F-24 RB F-1	Feb. 20/07	Feb. 24/07	Frio Gas	3,250	Status unknown
Red Bug #2	May 08/07	May 13/07	Frio Gas 10 ft	3,180	Connection pending
BR F-33	May 20/07	May 24/07	Frio Gas 12 ft	3,837	Producing
Randall #1 Closure F-4	May 27/07	June 03/07	Frio Target: Dry	5,100	Plug & abandon

### Phase III 50% gross interest

As of October 31, 2008, five additional wells were drilled under the 50-well AMI. Each of these wells encountered non commercial quantities of hydrocarbons and were plugged and abandoned. There are 38 wells remaining to be drilled under the terms of the 50-well AMI as of October 31, 2008.

After a well has been drilled and completed and enters into production, we are responsible for paying our share of production and operations costs. As a matter of course, we will have to pay pipeline transmission costs if and when each well starts transporting natural gas or oil.

### Oklahoma

On August 3, 2006, we entered an agreement to acquire a 7.5% working interest in the Owl Creek Prospect, Oklahoma. The operator is Ranken Energy Ltd. We paid \$100,000 for a 7.5% interest and to participate in the Isbill #1-36 well. The Isbill #1-36 well was drilled and on September 11, 2006, our company elected to abandon the well but reserved the right under the agreement to participate in future additional wells in the AMI in the Owl Creek Prospect.

During the second quarter ended April 30, 2007, our second participatory well was drilled at Owl Creek, the Isbill #2-36 well, in which we also have a 7.5% interest. The Isbill#2-36 well was successful and is in production of both oil and natural gas and is contributing to our revenue generation.

Because of increased operational activity, our overhead, exploration and property costs rose for the period ending October 31, 2008.

On August 16, 2008, the Company signed an Assignment of Working Interest and Bill of Sale for its interest in Owl Creek Prospect and Isbill #2-36. On September 9, 2008 the Company received formal documentation and the Company's portion for the sale of Isbill #2-36 in the amount of \$206,021.

### Purchase or Sale of Equipment

At this time we do not expect to purchase or sell any significant equipment. As a participating partner in our Mississippi development program, we have an interest in certain oilfield production equipment purchased and maintained by our Operating partner.

**Going Concern**

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Due to the uncertainty of our ability to meet our current operating expenses and the capital expenses noted above, in their report on the annual financial statements for the year ended October 31, 2008, our independent auditors included an explanatory paragraph regarding concerns about our ability to continue as a going concern. Our financial statements contain additional note disclosures describing the circumstances that lead to this disclosure by our independent auditors.

There are no assurances that we will be able to obtain further funds required for our continued operations. As noted herein, we are pursuing various financing alternatives to meet our immediate and long-term financial requirements. 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 obligations as they become due. In such event, we will be forced to scale down or perhaps even cease our operations.

### **Results of Operations: Alberta Property**

Our company was formed on December 9, 2004. We acquired our oil and gas interest located in the Strachan Hills area of Alberta, Canada and commenced exploration on this property during 2005. By December 8, 2005 we had raised funds in the amount of \$1,270,060 through private placements. During 2005 we commenced drilling operations on the Strachan property, which produced sufficiently encouraging results to justify the installation of well casing and testing. During 2006 we continued our exploration and development of our Strachan property, although we are a minority partner and are subject to the majority partner's intentions with regards to additional exploration, drilling or production at this property.

The well was originally planned to reach total drilling depth by early December 2005, but encountered an overstressed Wabamun formation before reaching total depth. Technical challenges in penetrating this zone were eventually successful, but also delayed the well completion and led to higher than originally budgeted costs.

Sustained high gas pressures of up to 10,000 per square inch have been encountered in the drill hole thus the hole has been cased and was undergoing testing. It was determined by the technical team that a testing program was needed which involves specialized high-penetration, low-diameter guns from the USA to determine the potential of any reserves. The operator, Rosetta Exploration, was purchased by a third party in 2006. Odin Capital, Inc., the Farm Out partner for Lexaria, has advised us that the well is not likely to be successfully brought into production and we could abandon our interest in this well.

### **Results of Operations: Mississippi Property**

We had no operations at our Mississippi property in 2005. In January 2006 we completed our Phase I interest acquisition. Griffin and Griffin Exploration L.L.C., our drilling program partner and operator, undertook the 2006 drilling program of ten (10) wells on the Palmetto Point property in Mississippi. Drilling of all ten wells took place between March and December, 2006. In total, \$3,500,000 was raised by the Palmetto Point participants, including the \$700,000 contribution for our 20% gross interest. A 20% gross interest was subsequently purchased and paid for by us in two additional wells in this Phase, expending it to a total of 12 wells. The Palmetto Point Phase I, twelve-well drilling program has been completed and our 20% interest fully paid for; and our additional interest of 10% has been partially paid for.

Because we successfully discovered oil at the Belmont Lake oil field as a result of the 12-well program, we subsequently drilled one additional development oil well in October 2007, of which we also have a 30% gross interest. The revenue received from these initial wells for the year ended October 31, 2008 was \$537,670 (October 31, 2007 \$174,059)

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The Phase II seven-well program has been completed and we have paid in full for our 45% interest. As of January 24, 2008, two of these wells were producing and two were awaiting tie-in. The Phase III five-well program has been completed as of January 24, 2008 and our 50% interest has been paid for. None of these five wells are expected to go into production. The specific results of these programs are reported in the tables above.

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Operational overhead for all of 2008 was \$348,367. If we successfully find and produce oil and gas, our overhead in Mississippi will be substantially higher, but it is not possible to determine to what extent it could be higher, until such time as our exploration drilling program is complete. If we are successful in our oil and gas exploration program, and if we discover and begin producing commercial quantities of oil or gas, then the cash flow generated from the sale of such oil or gas may or may not be sufficient to pay the undetermined higher overhead costs. We currently have sufficient funds to conduct our currently scheduled stage one 2009 exploration program, the majority of which is already prepaid, make scheduled property payments, and operate our company for the next 12 months.

### Results of Operations for the Year Ended October 31, 2008 and 2007

The following summary of our results of operations should be read in conjunction with our audited financial statements for the year ended October 31, 2008 and 2007.

We had cash and cash equivalents of \$669,633 as of October 31, 2008 compared to cash and cash equivalents of \$78,061 as of October 31, 2007. We had a working capital of \$414,350 as of October 31, 2008 compared to working capital deficit of \$266,988 as of October 31, 2007.

Our operating results for the year ended October 31, 2008 and 2007 and the changes between those periods for the respective items are summarized as follows:

	<b>Year Ended October 31, 2008</b>	<b>Year Ended October 31, 2007</b>	<b>Change Between Year Ended October 31, 2008 and October 31, 2007</b>
Oil and Gas Revenue	\$ 900,789	\$ 253,148	\$ 647,641
Cost of Revenue	\$ 912,745	\$ 273,414	\$ 639,331
Gross Profit (Loss)	\$ (11,956)	\$ (20,266)	\$ 8,310
Operating Expenses	\$ 970,627	\$ 1,054,514	\$ (83,887)
Other Income	\$ 4,093	\$ 18,892	\$ (14,799)
Net loss	\$ (978,490)	\$ (1,055,888)	\$ 77,398

For the year ended October 31, 2008, we had natural gas and oil revenue of \$900,789, compared to \$253,148 in the prior year. Cost of revenue including operating costs, depletion and write-down in carrying value of oil and gas properties, was \$912,745 for the year ending October 31, 2008, compared to \$273,414 in the year ending October 31, 2007.

Our entire loss for the year ended October 31, 2008 was \$978,490. For the period ending October 31, 2008, most of our overhead expenses relate to operating expenses as our company makes the transition to an operating entity. We

have begun to experience revenue growth during 2008. We are pleased with our financial results, including our ability to raise private capital that has allowed us to fund the 2008 drilling program, part of the 2009 drilling program, and remain in good standing on all our properties.

### **Liquidity and Capital Resources**

We had no operational revenue in 2005. Beginning in August, 2006, modest revenue of \$20,307 was realized from the sale of natural gas from our Mississippi wells, 2007 operational revenue amounted to \$253,148 and as at October 31, 2008 operational revenue amounted to \$900,789. At October 31, 2007, we had \$78,061 in cash and cash equivalents. At October 31, 2008, we had \$669,633 in cash and cash equivalents. We anticipate that our total operating expenses will be less than \$500,000 for the next twelve months. In the opinion of our management, available funds together with funds generated from operations should satisfy our current minimum working capital requirements up to October 31, 2009. As of October 31, 2007 our total assets were \$3,795,887 and our total liabilities were \$400,979. As of October 31, 2008, our total assets were \$3,763,039 and our total liabilities were \$1,000,832. On March 20, 2007, our company's chairman, director and chief executive officer forwarded \$50,000 as a demand loan and on June 23, 2007, we received a secured loan on the purchase of an additional interest in the Mississippi Phase 1 prospect of \$520,000.

The Company calculated the net present value of the secured loan payable by applying 8% interest rate, which was based on a T-bill rate of 4.28% plus a risk premium. The net present value of the secured loan payable on June 23, 2007 was \$501,922. The Company had made total of \$350,000 repayment and accrued \$18,016 interest expense since June 23, 2007 with ending balance of \$169,938 as at April 30, 2008.

On May 13, 2008 the Company entered into an Assignment of Debt between 0743868 BC Ltd. (the Assignor) and the President and shareholder of the Company (collectively the Assignees).

The Assignor has agreed to accept US\$46,000 from the Company in satisfaction of the outstanding amount and has agreed to assign the Assignees all of the Assignor's right, title and interest in and to the US\$124,000 balance of the outstanding amount. As a result, the Assignor no longer has any claim against the Company.

On May 14, 2008 the Company entered into an unsecured Loan Agreement with each of the President and a shareholder of the Company for \$62,000. The purpose of this Loan Agreement is to set out terms of the arrangement by which the Company agrees to make a Loan of US\$124,000 at an interest rate of 16.8% and no set principal payments for one year available to the Company. The purpose of the Loan Agreement is to provide the Company with capital funds for oil and gas exploration and/or general corporate purposes. On October 27, 2008, the loan to the President in the amount of US\$62,000 was terminated in favor of a new loan agreement.

On November 13, 2007, the Company made an unsecured loan agreement in the amount of \$250,000 with C.A.B. Financial Services Ltd. (CAB). CAB is owned by the president of the Company. The Maturity Date of the loan repayment will be the first annual anniversary of the date of the Loan Agreement. Interest is 16.8% simple interest per annum and will be calculated and payable monthly in arrears. This interest payment is \$3,500 per month. This loan was terminated on October 27, 2008.

On November 14, 2007, the Company made an unsecured loan agreement in the amount of CAD\$250,000 with G K Braun Limited. The Maturity Date of the loan repayment will be the first annual anniversary of the date of the Loan Agreement. Interest is 16.8% simple interest per annum and will be calculated and payable monthly in arrears. This interest payment is CAD\$3,500 per month. This loan was paid in full on November 14, 2008.

On October 27, 2008 the Company entered into a Purchase Agreement in the amount of CDN\$900,000 of Notes being purchased by the President, the President's wholly-owned private holding company, and a shareholder of the Company (Purchasers). The Purchasers agreed to purchase an 18% interest bearing Promissory Note of the Company subject to and upon the terms and conditions of the Purchase Agreement. The Company's obligations to repay the promissory Note will be secured by certain specified assets of the Company pursuant to a Security Agreement. As long as the



Promissory Note is outstanding, the Purchasers may voluntarily convert the Promissory Note to Common Shares at the conversion price of \$.45 per share of Common Stock.

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During the past twelve months we have examined a number of oil and gas exploration and development opportunities. We have not acquired any interests other than those already disclosed in Alberta, Oklahoma and Mississippi, but we are continually and actively searching for additional projects. We evaluated a number of North American based opportunities in which we declined to participate. We evaluated and agreed to participate in the properties we now identify as our Mississippi and Alberta properties and we raised sufficient funds from investors to allow us to fully fund our obligations.

Our accounting and auditing fees in 2007 were \$49,905, while in 2008 they were \$54,862, legal fees in 2007 were \$71,462, while in 2008 they were \$35,298, the decrease was caused by legal fees in 2007 relating to the filing of an option plan and filing of a prospectus in 2007. We expect to incur not more than a total of \$150,000 for legal, accounting and auditing fees in 2009. Operational overhead in 2007 was \$1,054,514 and in 2008 was \$970,627. The decrease was caused by a stock based compensation charge of \$682,312 in 2007; decrease in legal fees due to filing of the option plan and the preparation and filing of a prospectus in 2007; increases in investor relations costs of \$118,916 (October 31, 2007: \$69,722); increase in interest expense on loan payable due to deemed interest on the loan payable of \$103,856 (October 31, 2007 \$15,434); decrease in advertising and promotions amounting to \$4,110 (October 31, 2007: \$20,071); decrease in travel costs of \$28,317 (October 31, 2007: \$32,306); and increase in impairment of oil and gas acquisitions for the Strachan Property of \$405,406 (October 31, 2007: \$0).

Based on current operations we do not anticipate requiring additional funds within the next 12 months. If, however, we participate in additional programs whether on our existing properties or on as yet undefined potential future properties, we will require additional funds. We have already paid all of our pro rata costs for all the wells in which we have interests on all our properties. We have no overdue or pending property payments and no overdue exploration payments pending, and we do not anticipate any material cost overruns.

In 2009, we expect to generate increasing revenue streams as a result of the successful drilling programs we have participated in within Mississippi. As of October 31, 2008, we are not confident that any of our Mississippi wells are producing at their highest potential, and for this reason we are not yet able to accurately determine the volumes of hydrocarbons that we might be able to sell. However in general terms, our company feels that sufficient cash flow will be generated from oil and gas sales during 2009 to, at a minimum, more than cover all of the administrative and general operating costs of our company. As more production information is created over time, our company will be better able to determine whether sufficient cash flow could be generated to cover the costs of additional drilling programs, without the need to raise additional money.

Specifically, our company notes that the Belmont Lake oil field has the potential to materially impact our financial performance in 2009. Further development of this field is planned and the results of that development could have a material impact upon our company.

Many factors can and will impact our ability to generate revenue, which have been listed as risk factors in our SEC filings from time to time. In the main, these include inclement weather which can affect our ability to drill or service wells; international prices for oil and gas, which we have no ability to influence; availability of crews to drill and to service or operate our exploration and production wells; natural decline rates of oil and gas wells, which could at any time degrade or eliminate the flow of natural gas or oil; lack of working capital which can prevent us from participating in additional drilling programs or prevent us from servicing existing wells; good working relationships with our third party operators and partners that allow us to continue participating in projects we deem to have merit; any of which can thus negatively affect our ability to generate revenue.

With regard to keeping our interest options in good standing, we are not obligated to make any cash payments on our Mississippi, Oklahoma, or Alberta properties.

We cannot know if any of the current projects we are participating in will be successful, or to what degree they might be successful. The degree of success or failure in these projects will partly determine our need for capital in the future.

If these projects are very successful and discover and produce commercially profitable quantities of oil or gas, then they may generate cash flow to help pay for future exploration activities. If the projects are successful, with our majority partners we may decide to conduct even larger future drilling programs, which would require significant additional cash contributions. If these projects are failures, then the funds we have spent to date will have

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produced no commercial benefit, and we will require additional funds to proceed with the advancement of our company on other as yet undefined projects.

If we do not drill additional wells other than as already herein noted, we have sufficient cash to operate throughout 2009. If we wish to increase shareholder value through accelerated business activity, then we will likely have to raise additional cash through the sale of equity or the acquisition of debt. By October 31, 2006, we had raised \$3,270,060 and we raised an additional \$1,050,000 during October 31, 2007. Subsequent to October 31, 2007, we entered into a debt arrangement of \$500,000 wherein we are obligated to pay interest only every month, and to repay the principle after a total of 12 months. \$250,000 of this debt is with the president of our company. The balance of the \$250,000 was paid in full on November 14, 2008. As at October 31, 2008 we raised additional equity of \$245,000.

On May 13, 2008 the Company entered into an Assignment of Debt between 0743868 BC Ltd. (the Assignor ) and the President and shareholder of the Company (collectively the Assignees ).

The Assignor has agreed to accept US\$46,000 from the Company in satisfaction of the outstanding amount and has agreed to assign the Assignees all of the Assignor's right, title and interest in and to the US\$124,000 balance of the outstanding amount. As a result, the Assignor no longer has any claim against the Company.

On May 14, 2008 the Company entered into an unsecured Loan Agreement with each of the President and a shareholder of the Company for \$62,000. The purpose of this Loan Agreement is to set out terms of the arrangement by which the Company agrees to make a Loan of US\$124,000 at an interest rate of 16.8% and no set principal payments for one year available to the Company. The purpose of the Loan Agreement is to provide the Company with capital funds for oil and gas exploration and/or general corporate purposes. On October 27, 2008, the loan to the President in the amount of US\$62,000 was terminated.

On October 27, 2008 the Company entered into a Purchase Agreement in the amount of CDN\$900,000 of Notes being purchased by the President, the President's wholly-owned private holding company and a shareholder of the Company ( Purchasers ). The Purchasers agreed to purchase an 18% interest bearing Promissory Note of the Company subject to and upon the terms and conditions of the Purchase Agreement. The Company's obligations to repay the promissory Note will be secured by certain specified assets of the Company pursuant to a Security Agreement. As long as the Promissory Note is outstanding, the Purchasers may voluntarily convert the Promissory Note to Common Shares at the conversion price of \$.45 per share of Common Stock.

We plan and endeavor to raise additional capital in 2009 as required.

### **Recently Issued Accounting Standards**

In May 2008, FASB issued FASB Staff Position ( FSP ) APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ( FSP APB 14-1 ). FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants. Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We will adopt FSP APB 14-1 beginning in the first quarter of 2009, and this standard must be applied on a retrospective basis. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In April 2008, the FASB issued FSP No. 142-3, Determination of the Useful Life of Intangible Assets ( FSP 142-3 ). FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in

determining the useful life of recognized intangible assets under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial

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statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In March 2008, the FASB issued FASB Statement No. 161 ("SFAS 161"), "Disclosures about Derivative Instruments and Hedging Activities". SFAS 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities" and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this statement is not expected to have a material effect on the Company's future financial position or results of operations.

On December 4, 2007 the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51. SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest.

SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We do not expect the adoption of SFAS 160 will have an effect on our financial statements.

On December 4, 2007 the FASB issued FASB Statement No. 141 (Revised 2007) (FAS

141(R)), Business Combinations. FAS 141(R) will significantly change the accounting for business combinations. Under Statement 141(R) an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. FAS 141(R) will change the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Non-controlling interests (formerly known as "minority interests") will be valued at fair value at the acquisition date;
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount determined under existing guidance for non-acquired contingencies;



- In process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;
- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and
- Charges in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

FAS 141(R) also includes a substantial number of new disclosure requirements. The statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. We do not expect the adoption of FAS141(R) to have an effect on our financial statements.

### **Application of Critical Accounting Policies**

Our audited financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles used in the United States. Preparing 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 following aspects of our consolidated financial statements is critical to an understanding of our financials.

### **Oil and Gas Properties**

We follow the full cost method of accounting for its oil and gas operations. Under this method, all cost incurred in the acquisition, exploration and development of oil and gas properties are capitalized in one cost center, including certain internal costs directly associated with such activities. Proceeds from sales of oil and gas properties are credited to the cost center with no gain or loss recognized unless such adjustments would significantly alter the relationship between capitalized costs and proved oil and gas reverses.

If capitalized costs, less related accumulated amortization and deferred income taxes, exceed the full cost ceiling, the excess is expensed in the period such excess occurs. The full cost ceiling includes an estimated discounted value of future net revenues attributable to proved reserves using current product prices and operating cost, and an estimate of the value of unproved properties within the cost center.

Costs of oil and gas properties are amortized using the unit-of-production method.

### **Revenue Recognition**

We use the sales method of accounting for natural gas and oil revenues. Under this method, revenues are recognized upon the passage of title, net of royalties. Revenues from natural gas production are recorded using the sales method. When sales volumes exceed our company's entitled share, an overproduced imbalance occurs. To the extent the overproduced imbalance exceeds our company's share of the remaining estimated proved natural gas reserves for a given property, our company records a liability. At October 31, 2008, we had no overproduced imbalances.

### **Long-lived Assets Impairment**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with the Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets. An impairment loss would be recognized



when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is

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calculated by the excess of the asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis.

#### **Off-balance sheet arrangements**

Our company has no outstanding derivative financial instruments, off-balance sheet guarantees, interest rate swap transactions or foreign currency contracts. Our company does not engage in trading activities involving non-exchange traded contracts.

#### **Going Concern**

Our annual financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. The financial statements have been prepared assuming we will continue as a going concern. However, certain conditions exist which raise doubt about our ability to continue as a going concern. We have suffered recurring losses from operations and have accumulated losses of \$2,618,357 since inception through October 31, 2008.

#### **Organization within last five years**

Other than as disclosed under the section titled "Certain Relationships and Related Transactions", no director, executive officer, principal shareholder holding at least 5% of our common shares, or any family member thereof, had any material interest, direct or indirect, in any transaction, or proposed transaction, during the year ended October 31, 2008, 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 year end for the last three completed fiscal years.

#### **Item 7. Financial Statements.**

Our financial statements are stated in United States dollars, are prepared in accordance with United States generally accepted accounting principles.

It is the opinion of management that the audited financial statements for the fiscal year ended October 31, 2008 include all adjustments necessary in order to ensure that the audited financial statements are not misleading.

The following financial statements are filed as part of this annual report:

Report of Independent Registered Public Accounting Firm;

Balance Sheets at October 31, 2008 and 2007;

Statements of Stockholders Equity for the years ended October 31, 2008 and 2007;

Statements of Operations for the years ended October 31, 2008 and 2007;

Statements of Cash Flows for the years ended October 31, 2008 and 2007; and

Notes to the Financial Statements



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*Chartered Accountants*

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*E-mail: info@changlellp.com*

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Stockholders of**

**LEXARIA CORP.**

We have audited the balance sheets of **Lexaria Corp.** ( the Company ) as at October 31, 2008 and 2007 and the related statements of stockholders' equity, operations and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at October 31, 2008 and 2007 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

The accompanying financial statements refer to above have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company had recurring losses and requires additional funds to maintain its planned operations. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vancouver, Canada

January 11, 2009

Chartered Accountants

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**LEXARIA CORP.**  
**BALANCE SHEET**  
(Expressed in U.S. Dollars)

	October 31 2008	OCTOBER 31 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 669,633	\$ 78,061
Accounts receivable	15,506	38,313
Prepaid expenses and deposit	6,186	17,617
<b>Total Current Assets</b>	<b>691,325</b>	<b>133,991</b>
<b>Capital assets, net</b>	<b>2,699</b>	<b>913</b>
<b>Oil and gas properties (Note 5)</b>		
Proved property	3,034,750	3,076,877
Unproved properties	34,265	584,106
	<b>3,069,015</b>	<b>3,660,983</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,763,039</b>	<b>\$ 3,795,887</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable	\$ 2,695	\$ 19,395
Accrued liabilities	-	10,896
Loan payable (Note 6)	272,511	50,000
Secured loan payable (Note 7)	-	313,402
Due to a related party	1,769	7,286
<b>Total Current Liabilities</b>	<b>276,975</b>	<b>400,979</b>
<b>Loan Payable</b>	<b>723,857</b>	
<b>TOTAL LIABILITIES</b>	<b>1,000,832</b>	<b>400,979</b>

**STOCKHOLDERS' EQUITY****Share Capital**

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Authorized:

75,000,000 common voting shares with  
a par value of \$0.001 per share

Issued and outstanding: 24,369,500  
common shares at October 31,

2008 (23,757,000 common shares at  
October 31, 2007)

	<b>24,370</b>	23,757
<b>Additional paid-in capital</b>	<b>5,356,194</b>	5,011,018
<b>Deficit accumulated during the exploration stage</b>	<b>(2,618,357)</b>	(1,639,867)
<b>Total Stockholders' Equity</b>	<b>2,762,207</b>	3,394,908
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 3,763,039</b>	<b>3,795,887</b>

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



**LEXARIA CORP.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**For the years ended October 31, 2008 and 2007**  
**(Expressed in U.S. Dollars)**

	COMMON STOCK				DEFICIT ACCUMULATED DURING EXPLORATION STAGE	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	STOCK TO BE ISSUED AMOUNT	ADDITIONAL PAID-IN CAPITAL		
Balance, October 31, 2006	17,582,000	17,582	\$ -	1,270,952	(583,979)	704,555
Issuance of common stock for debt settlement at \$0.5 per share						
Issued November 9, 2006	4,000,000	4,000	-	1,996,000	-	2,000,000
Amortization of premium on loan payable - related party	-	-	-	3,147	-	3,147
Issuance of common stock for cash at \$0.50 per share on July 18, 2007	2,100,000	2,100	-	1,047,900	-	1,050,000
Stock-based compensation on	-	-	-	682,312	-	682,312

1,300,000  
options  
granted

Issuance of  
common  
stock per IR  
Marketing  
Agreement  
at \$1.15 per  
share

75,000

75

-

10,707

-

10,782

Comprehensive  
income  
(loss):

(Loss) for  
the year

-

-

-

-

(1,055,888)

(1,055,888)

Balance,  
October 31,  
2007

23,757,000

23,757

-

5,011,018

(1,639,867)

3,394,908

Compensation  
earned for  
the period  
per IR  
Marketing  
Agreement

-

-

-

75,468

-

75,468

Issuance of  
common  
stock per  
Subscription





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Agreement at \$.40 per share	612,500	613		244,387		245,000
Imputed interest for non-interest bearing Loan to related party				4,000		4,000
Warrants issued in connection with loan payable				21,321		21,321
Comprehensive income (loss):						
(Loss) for the year	-	-	-	-	(978,490)	(978,490)
Balance, October 31, 2008	24,369,500 \$	24,370 \$	- \$	5,356,194 \$	(2,618,357) \$	2,762,207

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

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**LEXARIA CORP.**  
**STATEMENTS OF OPERATIONS**  
**For the years ended October 31, 2008 and 2007**  
**(Expressed in U.S. Dollars)**

	<b>Year Ended</b>	
	<b>October 31</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenue</b>		
Natural gas and oil revenue	\$ 900,789	253,148
<b>Cost of revenue</b>		
Natural gas and oil operating costs	352,831	124,907
Depletion	451,843	148,507
Write down in carrying value of oil and gas properties	108,071	-
	<b>912,745</b>	<b>273,414</b>
<b>Gross profit (loss)</b>	<b>(11,956)</b>	<b>(20,266)</b>
<b>Expenses</b>		
Accounting and audit	54,862	49,905
Insurance	10,140	
Advertising and promotions	4,110	20,071
Bank charges and exchange loss	(26,497)	7,359
Consulting	187,461	750,516
Depreciation	1,275	680
Fees and Dues	13,903	9,963
Interest expense from loan payable	103,856	15,434
Investor relation	118,916	69,722
Legal and professional	35,298	71,462
Office and miscellaneous	7,640	13,769
Rent	11,960	9,794
Telephone	4,010	2,490
Taxes	7,138	1,043
		-
Training	2,832	
Travel	28,317	32,306
Write down of oil and gas property	405,406	

			-
		<b>970,627</b>	1,054,514
<b>(Loss) for the year before other income</b>		<b>(982,583)</b>	(1,074,780)
<b>Other Income</b>			
Interest income		<b>4,093</b>	18,085
Amortization of premium on loan payable		-	807
<b>Net (loss) for the year</b>	<b>\$</b>	<b>(978,490)</b>	<b>\$</b> (1,055,888)
<b>Basic and diluted (loss) per share</b>	<b>\$</b>	<b>(0.04)</b>	<b>\$</b> (0.01)
<b>Weighted average number of common shares outstanding</b>			
<b>- Basic and diluted</b>		<b>23,921,452</b>	22,101,315

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



**LEXARIA CORP.**  
**STATEMENT OF CASH FLOWS**  
**For the years ended October 31, 2008 and 2007**  
**(Expressed in U.S. Dollars)**

	<b>Year Ended</b>	
	<b>October 31,</b>	<b>October 31,</b>
	<b>2008</b>	<b>2007</b>
<b>Cash flows from (used in) operating activities</b>		
Net (loss)	\$ (978,490)	\$ (1,055,888)
Adjustments to reconcile net loss to net cash used in operating activities:		
Consulting - Stock based compensation	-	682,312
Imputed interest for non-interest bearing	4,000	-
Depreciation	1,275	680
Depletion	451,843	148,507
Write down in carrying value of oil and gas properties	108,071	-
Impairment of oil and gas acquisition cost	405,406	-
Foreign exchange gain / loss	(33,128)	
Accredited interest on loan payable	(6,536)	15,434
Amortization of premium on loan payable	-	(807)
Stock based compensation per IR Marketing Agreement	75,469	10,782
Change in operating assets and liabilities:		
(Increase)/Decrease in accounts receivable	22,807	(26,580)
Decrease in other receivable	-	1,726
(Increase)/ Decrease in prepaid expenses and deposit	11,431	(17,617)
Increase in accounts payable	(16,700)	17,707
Increase /(Decrease) in accrued	(10,896)	(2,104)

liabilities		
Increase /(Decrease) in due to related party	(5,517)	7,286
<b>Net cash from (used in) operating activities</b>	<b>29,035</b>	(218,562)
<b>Cash flows from (used in) investing activities</b>		
Oil and gas property acquisition and exploration costs	(579,373)	(2,088,675)
Proceeds from sales of oil and gas property	206,021	-
Purchase of computer equipment	(3,061)	-
<b>Net cash from (used in) investing activities</b>	<b>(376,413)</b>	(2,088,675)
<b>Cash flows from (used in) financing activities</b>		
Proceeds from issuance of common stock	245,000	1,050,000
Payments of secured loan payable	(196,000)	-
Proceeds from loan payable	889,950	50,000
<b>Net cash from (used in) financing Activities</b>	<b>938,950</b>	1,100,000
<b>Increase (Decrease) in cash and cash equivalents</b>	<b>591,572</b>	(1,207,237)
Cash and cash equivalents, beginning of year	78,061	1,285,298
<b>Cash and cash equivalents, end of year</b>	<b>\$ 669,633</b>	<b>\$ 78,061</b>

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

**LEXARIA CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**October 31, 2008**  
**(Expressed in U.S. Dollars)**

**1.**

**Organization and Business**

The Company was formed on December 9, 2004 under the laws of the State of Nevada and commenced operations on December 9, 2004. The Company is an independent natural gas and oil company engaged in the exploration, development and acquisition of oil and gas properties in the United States and Canada. The Company's entry into the oil and gas business began on February 3, 2005.

The Company has offices in Vancouver, BC, Canada and in Kelowna, BC, Canada.

These financial statements have been prepared in accordance with generally accepted accounting principles 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 incurred an operating loss and required additional funds to maintain its operations. Management's plans in this regard are to raise equity and/or debt financing as required.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustment that might result from this uncertainty.

**2.**

**Business Risk and Liquidity**

The Company is subject to several categories of risk associated with its operating activities. Natural gas and oil exploration and production is a speculative business and involves a high degree of risk. Among the factors that have a direct bearing on the Company's prospects are uncertainties inherent in estimating natural gas and oil reserves, future hydrocarbon production and cash flows, particularly with respect to wells that have not been fully tested and with wells having limited production histories: access and cost of services and equipment; and the presence of competitors with greater financial resources and capacity.

**3.**

**Significant Accounting Policies**

(a)

Principles of Accounting

These financial statements are stated in U.S. dollars and have been prepared in accordance with U.S. generally accepted accounting principles.

(b)

Revenue Recognition

The Company uses the sales method of accounting for natural gas and oil revenues. Under this method, revenues are recognized upon the passage of title, net of royalties. When sales volumes exceed the Company's entitled share, an overproduced imbalance occurs. To the extent the overproduced imbalance exceeds the Company's share of the remaining estimated proved natural gas reserves for a given property, the Company records a liability. At October 31, 2008, the Company had no overproduced imbalances.

(c)

Cash and Cash Equivalents

Cash equivalents comprise certain highly liquid instruments with a maturity of three months or less when purchased. As at October 31, 2008, the Company has no cash equivalents.

(d)

#### Concentration of Credit Risk

We place our cash and cash equivalents with high credit quality financial institutions. As of October 31, 2008, the Company had \$504,041 (2007: \$nil) in a bank beyond insured limits.

(e)

#### Oil and Gas Properties

The Company utilizes the full cost method to account for its investment in oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves including such costs as leasehold acquisition costs, capitalized interest costs relating to unproved properties, geological expenditures, tangible and intangible development costs including direct internal costs are capitalized to the full cost pool. When the Company obtains proven oil and gas reserves, capitalized costs, including estimated future costs to develop the reserves and estimated abandonment costs, net of salvage, will be depleted on the units-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects including capitalized interest, if any, are not amortized until proved reserves associated with the projects can be determined. If the future exploration of unproved properties are determined uneconomical the amount of such properties are added to the capitalized cost to be amortized.

The capitalized costs included full cost pool are subject to a ceiling test, which limits such costs to the aggregate of the estimated present value, using a ten percent discount rate of the future net revenues from proved reserves, based on current economic and operating conditions.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in the statement of operations.

Exploration activities conducted jointly with others are reflected at the Company's proportionate interest in such activities.

Costs related to site restoration programs are accrued over the life of the project.

(f)

#### Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(g)

#### Advertising Expenses

The Company expenses advertising costs as incurred. There were \$4,110 advertising expenses incurred by the Company for the year ended October 31, 2008 (2007: \$20,071).

(h)

#### Capital Assets

The Capital asset represents computer equipment which is carried at cost and is amortized over its estimated useful life of 3 years straight-line. Computer equipment is written down to its net realizable value if it is determined that its carrying value exceeds estimated future benefits to the Company.



(i)

#### Earnings (Loss) Per Share

Earnings (loss) per share is computed using the weighted average number of shares outstanding during the period. The Company has adopted SFAS No.128 *Earnings Per Share* . Diluted loss per share is equivalent to basic loss per share because of the potential exercise of the equity-based financial instruments was anti-dilutive.

(j)

#### Foreign Currency Translation

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

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

(k)

#### Fair Value of Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair value. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, loan payable, secured loan payable and due to a related party. Fair values were assumed to approximate carry values for these financial instruments, except where noted, since they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand. Management is of the opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The Company may operate outside the United States of America and thus may have significant exposure to foreign currency risk in the future due to the fluctuation of the currency in which the Company operates and the U.S. dollars.

(l)

#### Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109. *Accounting for Income Taxes* . Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and



liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

(m)

#### Long-Lived Assets Impairment

Long-term assets of the Company are reviewed for impairment when circumstances indicate the carrying value may not be recoverable in accordance with the guidance established in Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the impairment or Disposal of Long-Lived Assets*. For assets that are to be held and used, an impairment loss is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value. Fair values are determined based on discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

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(n)

#### Asset Retirement Obligations

The Company accounts for asset retirement obligations in accordance with the provisions of SFAS 143 *Accounting for Asset Retirement Obligations*. SFAS 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company had no asset retirement obligation as of October 31, 2008.

(o)

#### Comprehensive Income

The Company has adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), Reporting Comprehensive Income, which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. The Company is disclosing this information on its Statements of Stockholders Equity. Comprehensive income comprises equity except those resulting from investments by owners and distributions to owners.

The Company has no elements of other comprehensive income for the year ended October 31, 2008.

(p)

#### Stock-based Compensation

The Company adopted SFAS No. 123(revised), "*Share-Based Payment*", to account for its stock options and similar equity instruments issued. Accordingly, compensation costs attributable to stock options or similar equity instruments granted are measured at the fair value at the grant date, and expensed over the expected vesting period. SFAS No. 123(revised) requires excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid.

(q)

#### New Accounting Pronouncements

In May 2008, FASB issued FASB Staff Position ( FSP ) APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ( FSP APB 14-1 ). FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants*. Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is

effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We will adopt FSP APB 14-1 beginning in the first quarter of 2009, and this standard must be applied on a retrospective basis. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, *Goodwill and Other Intangible Assets* . This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* . SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are

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presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411,

The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In March 2008, the FASB issued FASB Statement No. 161 ("SFAS 161"), "Disclosures about Derivative Instruments and Hedging Activities". SFAS 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities" and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this statement is not expected to have a material effect on the Company's future financial position or results of operations.

In December 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - An amendment of ARB No. 51. SFAS 160 requires companies with noncontrolling interests to disclose such interests clearly as a portion of equity but separate from the parent's equity.

The noncontrolling interest's portion of net income must also be clearly presented on the Income Statement. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this statement is not expected to have a material effect on the Company's future financial position or results of operations.

In December 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 141,(revised 2007), Business Combinations. SFAS 141 (R) applies the acquisition method of accounting for business combinations established in SFAS 141 to all acquisitions where the acquirer gains a controlling interest, regardless of whether consideration was exchanged. Consistent with SFAS 141, SFAS 141 (R) requires the acquirer to fair value the assets and liabilities of the acquiree and record goodwill on bargain purchases, with main difference the application to all acquisitions where control is achieved. SFAS 141 (R) is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this statement is not expected to have a material effect on the Company's future financial position or results of operations

#### 4.

### Capital Stock

#### Share Issuances

On November 9, 2006, the Company has settled loan payable of \$2 million with its equity. Four million shares, priced at \$0.50 per common share; and 4 million warrants, each warrant entitling the holder to purchase one common share at a price of \$0.60 valid until November 9, 2009, have been issued to the former debt-holders.

On July 18, 2007, the Company closed its private placement which comprised of the sale of 2,100,000 units at the price of \$0.50 per unit for total proceeds of \$1,050,000. Each unit is comprised of one restricted common share and one warrant to purchase one additional share of common stock at a price of \$0.60, exercisable for a period of two years from the closing of this offering.

On September 15, 2007, the Company issued 75,000 common shares at \$1.15 per share to Agoracom Investor according to IR Marketing Agreement. The Company recorded \$53,832 (net of unearned compensation of \$32,418) in the statements of stockholders' equity.

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On July 18, 2008, the Company issued common shares for a private placement which comprised of the sale of 612,500 units at the price of \$0.40 per unit for total proceeds of \$245,000. Each unit is comprised of one restricted share and one warrant to purchase one additional share of common stock at a price of \$.60, exercisable until June 30, 2011.

All shares and warrants issued were restricted under applicable securities rules. As at October 31, 2008, Lexaria Corp. has 24,369,500 shares issued and outstanding and 8,272,500 warrants issued and outstanding.

A summary of warrants as at October 31, 2008 is as follows:

<b>2008 Type</b>	<b>Number Outstanding</b>		<b>Exercise Price</b>	<b>Expiry Date</b>
Warrants	4,000,000	1	\$0.60	November 9, 2009
	2,100,000	1	\$0.60	July 17, 2009
	612,500	1	\$0.60	June 30, 2009
	780,000	2	\$0.45	October 27, 2009
	780,000	2	\$0.90	October 27, 2010

1. Each warrant entitles a holder to purchase one common share.

2. Two warrants entitle a holder to purchase one common share.

5.

## **Oil and Gas Properties**

(a)

### **Proved properties**

#### **(1) Palmetto Point Project**

On December 21, 2005, the Company agreed to purchase a 20% working and revenue interest in a 10 well drilling program in Mississippi owned by Griffin & Griffin Exploration for \$700,000. Concurrent with signing the Company paid \$220,000 and January 17, 2006 the Company paid the remaining \$480,000. The Company applied the full cost method to account for its oil and gas properties and as of October 31, 2008, seven wells were found to be proved wells, and three wells were found impaired. One of the wells was impaired due to uneconomic life, and the other two wells were abandoned due to no apparent gas or oil shows present. The costs of impaired properties were added to the capitalized cost in determination of the depletion expense.

On September 22, 2006, the Company elected to participate in additional two-well program in Mississippi owned by Griffin & Griffin Exploration and paid \$140,000. As of October 31, 2008, the two wells were found to be proved wells.

On June 23, 2007, the Company acquired an assignment of 10% gross working interest from a third party for \$520,000 secured loan payable (See Note 7). The Company recognized \$501,922 in the oil and gas property.



On October 4, 2007, the Company elected to participate in the drilling of PP F-12-3 in Mississippi by Griffin & Griffin Exploration. The Company has 30% gross working interest and paid \$266,348. On July 31, 2008, the Company accrued and paid an additional cost of \$127,707 for the workovers of wells PP F-12 and PP F-12-3. PP F-12 has started limited production from October 2007, and PP F-12-3 has started limited production from November 2007.

## **(2) Mississippi and Louisiana, Frio-Wilcox Project**

In December 2006, the first well CMR-US 39-14 was found to have sufficient hydrocarbons to become economic. USA 1-37 and BR F-33 have started production from November 2007. The Company applied the full cost method to account for its oil and gas properties.

As at January 31, 2007, the Company abandoned Dixon #1 due to no economic hydrocarbons being present and \$162,420 of drilling costs was added to the capitalized costs. The Dixon #1 was the only Wilcox well the Company has drilled to date. Every other well it has participated in located in Mississippi and Louisiana is a Frio well.

On June 2, 2007, the Company abandoned Randall #1 and \$107,672 drilling costs was added to the capitalized costs in determination of depletion expense.

During August to October 2007, three additional wells, PP F-90, PP F-100, and PP F-111 were drilled in the area. These Frio wells were abandoned due to modest gas shows and a total of \$306,562 drilling costs was added to the capitalized costs in determination of depletion expense.

During December 2007, two additional wells, PP F-6A and PP F-83, were drilled and were plugged and abandoned due to non-economic gas shows. A total of \$247,086 drilling costs was added to the capitalized costs in determination of depletion expense.

## **(3) Owl Creek Prospect, Oklahoma, USA**

The Company elected to participate in Isbill #1-36 on August 3, 2006. Isbill #1-36 was abandoned on September 11, 2006, and costs amounted to \$35,174 was added to capitalized cost in determination of depletion expenses.

On January 25, 2007, the Company elected to participate in Isbill #2-36. For the fiscal year ended October 31, 2008, the Company had made accumulated expenditures of \$75,651. Isbill #2-36 has started production from April 2007.





On October 10, 2007, the Company elected to participate in the drilling of Powell #3-25 and paid \$31,211. On November 9, 2007, Powell #3-25 was plugged and abandoned. Drilling costs were added to the capitalized costs in determination of depletion expense.

On August 16, 2008, the Company signed an Assignment of Working Interest and Bill of Sale for its interest of Owl Creek Prospects and Isbill #2-36. On September 9, 2008, the Company received formal documentation and the Company's portion for the above noted sale in the amount of \$206,021.

<b>Properties</b>	<b>October 31, 2007</b>	<b>Addition</b>	<b>Depletion for the period</b>	<b>Write down in Carrying Value</b>	<b>October 31, 2008</b>
<b>U.S.A. Proved property</b>	\$ 3,076,877	\$ 517,786	\$ (451,843)	\$ (108,071)	\$ 3,034,750

(b)

**Unproved Properties**

<b>Properties</b>	<b>October 31, 2007</b>	<b>Addition</b>	<b>Cost added to capitalized cost/write down</b>	<b>October 31, 2008</b>
<b>U.S.A.-Unproved properties</b>	\$ 178,699	\$ 615,724	\$ (723,807)	\$ 32,264
<b>Canada-Unproved properties</b>	405,407	-	(405,406)	1
	\$ 584,106	\$ 615,724	\$ (1,129,213)	\$ 32,265

**(1) Strachan Leduc Reef, Alberta, Canada**

On September 23, 2005, the Company entered into an agreement to participate in the Strachan Leduc Reef Farm-In in Alberta, Canada. The Company issued a payment of \$218,739. (CDN \$253,977) for a 4% participation in the costs of Strachan Leduc Reef Farm-In. In addition, the Company incurred \$186,668 for required supplemental funds due to well hole problems. The Company will earn on completion, capped or abandoned with respect to the well to be drilled at 14 of 9-38-9-W5M the following:

(i)

In the Spacing Unit for the Earning Well:

a.

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A 2.000% interest in the petroleum and natural gas below the base of the Mannville excluding natural gas in the formation; and

b.

A 4.000% interest in the natural gas in the Leduc formation before payout subject to payment of the Overriding Royalty which is convertible upon payout at royalty owners option to 50% of the Farmee s Interest;

(ii)

A 1.600% interest in the rights below the base of the Shunda formation in Section 10, Township 38, Range 9W5M; and

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(iii)

A 1.289% interest in the rights below the base of the Shunda formation in Sections 15 and 16, Township 38, Range 9W5M down to the base as shown in the schedule attached to the agreement dated September 23, 2005.

During the year ended October 31, 2008, the Company wrote down the cost of the property to a nominal value of \$1 as the future realization of the property is uncertain.

(2)

### **Owl Creek Prospect, Oklahoma, USA**

On August 3, 2006, the Company agreed to purchase a 7.5% working interest in the Owl Creek Prospect for the purchase price of \$100,000. This agreement include the right to participate at a 7.5% working interest in all future wells drilled on a total of 1,080 acres surrounding the Powell #1 and #2, but does not include dry hole or completion costs of the future wells. In addition, the Company has the right to participate in any Areas of Mutual Interest that may be acquired by the Owl Creek Prospect participants.

During the fiscal year ended October 31, 2008, the Company disposed its interest in Owl Creek Prospects along with its interest in Isbill #2-36 for a total of \$206,021.

(3) **Mississippi and Louisiana, USA**

The Company entered into an Agreement to acquire a working interest in multiple zones of potential oil and gas production in Mississippi and Louisiana. This Agreement contemplates up to a 50 well drill program for Wilcox and Frio wells, at the Company's option, within the defined area of mutual interest (AMI). The AMI includes over 300,000 gross acres located contiguously between Southwest Mississippi and North East Louisiana.

The Company originally agreed to pay 40% of all prospect fees, mineral leases, surface leases, and drilling and completion costs to earn a net 32% of all production from all producible zones to the base of the Frio formation (Frio Targets); and, 30% of all production to the base of the Wilcox formation (Wilcox Targets). All working interests will be registered in the name of Lexaria Corp.

The Joint Participation Agreement and Joint Lands Agreements are between Lexaria Corp. and Griffin & Griffin Exploration LLC (G&G) of Jackson, Mississippi.

On June 21, 2007, the Company acquired an additional 10% from a third party for all rights, title and benefits excluding the seven wells drilled under the AMI Agreement between August 3, 2006 and June 19, 2007, specifically wells CMR-USA-39-14, Dixon #1, Faust #1 TEC F-1, CMR/BR F-14, RB F-1 Red Bug #2, BR F-33, and Randall #1 F-4, and any offset wells that could be drilled to any of these specified wells.

On July 26, 2007, the Company acquired 5% from a third party for all rights, title and benefits in the seven wells drilled under the AMI Agreement between August 3, 2006 and June 19, 2007, specifically

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wells CMR-USA-39-14, Dixon #1, Faust #1 TEC F-1, CMR/BR F-14, RB F-1 Red Bug #2, BR F-33, and Randall #1 F-4, and any offset wells that could be drilled to any of these specified wells.

(C)

### **Option Agreement**

On April 17, 2008, the Company entered into an option purchase agreement with John and Gwen Deakle for a non-refundable of \$25,000 (paid). Pursuant to the option agreement, the Company has the exclusive right and option to purchase on the terms and conditions set forth in the agreement all of the right, title and interest of every kind and nature set forth and established in that certain operating agreement dated January 5, 2006 between G&G, Chris Bunka, John Deakle, Bud Enterprises Ltd, Stuart Gray and Lexaria Corp., covering the joint development as defined in Section I of said agreement, being a 50% working interest in those certain oil and gas fields commonly known as Palmetto Point and Belmont Lake. The purchase will include the total current 13 existing wells and lease associated with those 13 wells and all potential future wells drilled on any of these leases are included in this Option Agreement and defined as: F-40, F-118, F-121, F-7, F-39, F-42, F-36-2, F-4, F-29, F-12-1, F-6B, F-52A and F-12-3. The option is irrevocable for a period of 60 days from the date hereof and the purchase price is US\$4,500,000 at the time the option is exercised.

On June 2, 2008, the option agreement was amended to provide until June 30, 2008 to close the proposed transaction; for the Company to pay an additional \$25,000 non-refundable deposit (paid); and to adjust the total purchase price to US \$4,689,000 at the time the option is exercised.

The amended option agreement has since expired. As the completion of the above noted transaction is not certain, the Company had added \$50,000 to the capitalized cost in determination of depletion expense.

**6.**

### **Loan Payable**

#### **(a) Unsecured loan agreement**

On November 13, 2007, the Company made an unsecured loan agreement in the amount of \$250,000 with C.A.B. Financial Services Ltd. ( CAB ). CAB is owned by the president of the Company. The Maturity Date of the loan repayment will be the first annual anniversary of the date of the Loan Agreement. Interest will be 16.8% simple interest per annum and will be calculated and payable monthly in arrears. This interest payment is \$3,500 per month. This loan was terminated on October 27, 2008 and repaid with a cash of \$19,737 and issuance of promissory note CDN\$300,000.

On November 14, 2007, the Company made an unsecured loan agreement in the amount of CAD\$250,000 with G K Braun Limited. The Maturity Date of the loan repayment will be the first annual anniversary of the date of the Loan Agreement. Interest will be 16.8% simple interest per annum and will be calculated and payable monthly in arrears. This interest payment is CAD\$3,500 per month.

#### **(b) Demand loan agreement**

On March 20, 2007, the Company made a demand loan agreement in the amount of \$50,000 with C.A.B. Financial Services Ltd. ( CAB ). CAB is owned by the president of the Company. The loan is unsecured and nil interest bearing and repayable on demand.

On October 27, 2008 this demand loan was repaid in full.

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**(c)Unsecured loan agreement**

On May 14, 2008, the Company made an unsecured loan agreement in the amount of US\$62,000 with Christopher Bunka with no set principal payments for one year. Interest will be 16.8% simple interest per annum and will be calculated and payable monthly in arrears. The interest payment is US\$868 per month. On October 27, 2008, this loan was terminated and repaid with a cash of \$14,367 with the remaining balance (CDN\$62,000) settled for part of promissory note issued (CDN\$400,000). (Note 7)

On May 14, 2008, the Company made an unsecured loan agreement in the amount of US\$62,000 with a Lender with no set principal payments for one year. Interest will be 16.8% simple interest per annum and will be calculated and payable monthly in arrears. The interest payment is US\$868 per month.

**(d)Unsecured loan agreement**

On June 3, 2008, the Company made an unsecured loan agreement in the amount of CAD\$50,000 with a Lender. The Maturity Date of the loan repayment will be the first annual anniversary of the date of the Loan Agreement. Interest will be 16.8% simple interest per annum and will be calculated and payable monthly in arrears. The interest payment is CAD\$700 per month.

On October 27, 2008 this loan was terminated and rolled into and form part of promissory note issued (CDN\$200,000).

7.

**Secured loan payable**

On June 23, 2007, the Company acquired an assignment of 10% gross working interest of a Drilling Program from 0743868 B.C. Ltd ( 0743868 ) for \$520,000. The payment schedule is as follows: On or before July 15, 2007, the Company shall pay to 0743868 the sum of \$50,000; and, on or before the 15<sup>th</sup> day of each subsequent month, the Company shall pay to 0743868 the sum of \$50,000 for ten consecutive months; and then a final payment of \$20,000 on the eleventh payment date until such time as the entire \$520,000 has been paid. If any payment less than the total amount is made and if the Company has not within 30 days of such partial payment being made completed the payments then due, then the pro-rata portion of the contemplated rights and interests will be deemed to have been properly purchased, but the pro-rata unpaid balance of the contemplated rights and interests shall revert back to 0743868.



The Company calculated the net present value of the secured loan payable by applying 8% interest rate, which was based on a T-bill rate of 4.28% plus a risk premium. The net present value of the secured loan

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payable on June 23, 2007 was \$501,922. The Company had made total of \$350,000 repayment and accrued \$18,016 interest expense since June 23, 2007 with ending balance of \$169,938 as at April 30, 2008.

On May 13, 2008 the Company entered into an Assignment of Debt between 0743868 BC Ltd. (the Assignor ) and the President and shareholder of the Company (collectively the Assignees ). The Assignor has agreed to accept US\$46,000 from the Company in satisfaction of the outstanding amount and has agreed to assign the Assignees all of the Assignor's right, title and interest in and to the US\$124,000 balance of the outstanding amount. As a result, the Assignor no longer has any claim against the Company.

On May 14, 2008 the Company entered into an unsecured Loan Agreement with each of the President and a shareholder of the Company for \$62,000. The purpose of this Loan Agreement is to set out terms of the arrangement by which the Company agrees to make a Loan of US\$124,000 at an interest rate of 16.8% and no set principal payments for one year available to the Company. The purpose of the Loan Agreement is to provide the Company with capital funds for oil and gas exploration and/or general corporate purposes. On October 27, 2008, the loan to the President in the amount of US\$62,000 was terminated.

On October 27, 2008 the Company entered into a Purchase Agreement in the amount of CDN\$900,000 of Notes being purchased by the President (CND\$400,000), the President's wholly-owned company (CDN\$300,000) and a shareholder (CDN\$200,000) of the Company ( Purchasers ). The Purchasers agreed to purchase an 18% interest bearing Promissory Note of the Company subject to and upon the terms and conditions of the Purchase Agreement. The Company's obligations to repay the Promissory Note will be secured by certain specified assets of the Company pursuant to a Security Agreement. As long as the Promissory Note is outstanding, the Purchasers may voluntarily convert the Promissory Note to Common Shares at the conversion price of \$.45 per share of Common Stock. The Promissory Note is matured on October 27, 2010 or mutually agreement by parties on October 27, 2009.

In connection with the Purchase Agreement, the Company issued 780,000 and 780,000 warrants which two warrants entitle a holder to purchase a common share of the Company at \$0.45 and \$0.90 per share and expire October 27, 2009 and October 27, 2010, respectively.

The Company did not incur beneficiary conversion charge as the conversion price is greater than the fair value of the Company's equity.

As at the date of the issuance of the above noted Promissory Note, the Company allocated \$21,321 and \$683,559 to warrants (additional paid-in capital) and Promissory Note based on their relatively fair value. On October 31, 2008, the allocated Promissory Note was revalued as \$723,857 based the effective interest rate of 20% per annum and related foreign exchange rate.

**8.**

## Related Party Transactions

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(a)

During the period ended October 31, 2008, the Company paid CAB Financial Services ( CAB ) \$66,163 (2007: \$30,000) and RMA Resource Management Associates ( RMA ) \$30,000 (2007: \$30,000) for management, accounting, and consulting services. CAB is owned by the president of the Company and RMA is owned by the vice president of the Company.

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

(b)

On March 20, 2007, the Company made a demand loan agreement in the amount of \$50,000 with CAB. This loan agreement was terminated on October 27, 2008 (See Note 6(b)).

(c)

On November 13, 2007, the Company made an unsecured loan agreement in the amount of \$250,000 with CAB. (See Note 6(a)). For the year ended October 31, 2008, the Company accrued and paid interest expenses of \$40,081. This note was terminated on October 27, 2008.

(d)

On May 14, 2008 the Company made an unsecured loan agreement in the amount of US\$62,000 with Christopher Bunka. For the year ended October 31, 2008, the Company accrued and paid interest expenses of \$4,816. This note was terminated on October 27, 2008 (See Note 6(c)).

(e)

On October 27, 2008 the Company made a secured loan agreement in the amount of CDN\$300,000 with CAB Financial Services Ltd. (See Note 7)

(f)

On October 27, 2008 the Company made a secured loan agreement in the amount of CDN\$400,000 with Christopher Bunka. (See Note 7)

9.

**Stock Options**

A summary of the stock options for the year ended October 31, 2008 is presented below:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balance, October 31, 2007	1,300,000	\$ 0.81
Granted	-	-
Balance, October 31, 2008	1,300,000	\$ 0.81

The Company has the following options outstanding and exercisable.

October 31, 2008		Options outstanding and exercisable	
Range of Exercise prices	Number of shares	Weighted average remaining contractual life	Weighted Average Exercise Price
\$0.80	700,000	2.17 years	0.80
\$0.80	400,000	1.10 years	0.80
\$0.85	200,000	2.72 years	0.85
Total	1,300,000		0.81

**10.****Commitments and Significant Contracts**

On September 1, 2008, the Company entered into a Controller Agreement with CAB Financial Services Ltd. for accounting and controller services of CAB on a continuing basis for a consideration of CAD\$4,500 per month.

See Note 6 and Note 8.

**11.****Reclassification**

Certain comparative figures have been reclassified to conform with the financial statements presentation for October 31, 2008.

**12.****Segmented Information**

The Company's business is considered as operating in one segment (United States) based upon the Company's organizational structure, the way in which the operation is managed and evaluated, the availability of separate financial results and materiality considerations.

**13.****Income Taxes**

The Company's provision for income taxes comprise of the following:

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	<u>2008</u>	<u>2007</u>
Current Tax Provision	\$ Nil	\$ Nil
Deferred Tax Provision	\$ Nil	\$ Nil
Tax Expense	\$ Nil	\$ Nil

**Rate Reconciliation**

Income taxes vary from the amount that would be computed by applying the statutory federal income tax rate of 35% for the following reasons:

	<u>2008</u>	<u>2007</u>
U.S. Federal Statutory Rate	\$ (322,687)	\$ (126,978)
Tax Benefit Not Recognized	\$ 322,687	\$ 126,978
Tax Expenses	\$ Nil	\$ Nil

The tax effects of temporary differences that give rise to the Company's deferred tax asset (liability) are as follows:

		<u>2008</u>		<u>2007</u>
<b>Deferred Tax Assets:</b>				
Net Operating Loss Carry forward	\$	450,190	\$	148,194
Oil and Gas Depletion	\$	223,628	\$	193,134
Valuation Allowance	\$	(673,818 )	\$	(341,328 )
Net Deferred Tax Assets	\$	Nil	\$	Nil

Changes in the valuation allowance relate primarily to net operating losses, resources expenditures and others which are not currently recognized. The Company has reviewed its net deferred tax assets and has not recognized potential tax benefits arising there from because at this time management believes it is more likely than not that the benefits will not be realized in future year.

For tax purpose, as of October 31, 2008, the Company has operating loss carry forwards of approximately \$1,286,000 which expire in 2025 through 2028.

14.

#### **Subsequent Events**

On November 27, 2008, the Company entered into a Consulting Agreement with CAB Financial Services Ltd. for consulting services of CAB on a continuing basis for a consideration of US\$8,000 per month.

15.

#### **Supplemental Information On Natural Gas and Oil Exploration, Development and Production Activities (Unaudited):**

*Standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities:*

The following summarizes the policies we used in the preparation of the accompanying natural gas and oil reserve disclosures, standardized measures of discounted future net cash flows from proved natural gas and oil reserves and the reconciliations of standardized measures from year to year. The information disclosed, as prescribed by the Statement of Financial Accounting Standards No. 69, is an attempt to present the information in a manner comparable with industry peers.

The information is based on estimates of proved reserves attributable to our interest in natural gas and oil properties as of October 31, 2008. These estimates were prepared by independent petroleum consultants. Proved reserves are estimated quantities of natural gas and crude oil which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

The standardized measure of discounted future net cash flows from production of proved reserves was developed as follows:

1. Estimates are made of quantities of proved reserves and future periods during which they are expected to be produced based on year-end economic conditions.
2. The estimated future cash flows are compiled by applying year-end prices of natural gas and oil relating to our proved reserves to the year-end quantities of those reserves.



3. The future cash flows are reduced by estimated production costs, costs to develop and produce the proved reserves and abandonment costs, all based on year-end economic conditions.
-

4. Future net cash flows are discounted to present value by applying a discount rate of 10%.

The standardized measure of discounted future net cash flows does not purport, nor should it be interpreted, to present the fair value of our natural gas and oil reserves. An estimate of fair value would also take into account, among other things, the recovery of reserves not presently classified as proved, anticipated future changes in prices and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimates.

The standardized measure of discounted future net cash flows relating to proved natural gas and oil reserves is as follows:

	USD\$
Future cash inflows	6,013,599
Future production costs	(1,561,506)
Future development costs	(557,726)
Future net cash flows	3,894,367
10% annual discount for estimated timing of cash flows	(859,617)
Standardized measure of discounted future net cash flows	3,034,750

Year-end price per Mcf of natural gas used in making standardized measure determinations as of October 31, 2008 was \$6.17. Year-end price per Bbl of oil used in making these same calculations was \$64.00.

*Estimated Net quantities of Natural Gas and Oil Reserves:*

The following table sets forth our proved reserves, including changes, and proved developed reserves at the end of October 31, 2008.

	<b>Crude Oil</b> (MBbls)	<b>Natural Gas</b> (MMcf)	<b>Crude Oil</b> <b>Equivalents</b> (MBbls)
<b>Proved reserves:</b>			
Beginning of the year reserve	78.70	402.35	145.76
Adjustments of reserves in place	3.48	(164.14 )	(23.88 )
Productions	(5.52 )	(58.79 )	(15.32 )
End of year reserves	76.66	179.42	106.56

**Proved developed reserves:**

Beginning of the year reserve	40.16	188.40	71.56
End of year reserves	35.74	179.42	65.64

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**Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**Item 8A. Controls and Procedures.**

Our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of October 31, 2008. Based on that evaluation, our principal executive officer and principal financial officer have concluded that as of October 31, 2008, we have maintained effective disclosure controls and procedures in all material respects, including those necessary to ensure that information required to be disclosed in reports filed or submitted with the SEC (i) is recorded, processed, and reported within the time periods specified by the SEC, and (ii) is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow for timely decision regarding required disclosure.

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply their judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of October 31, 2008, the end of the year covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our president, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

There have been no significant changes in our internal controls over financial reporting that occurred during the fiscal year ended October 31, 2008, that have materially or are reasonably likely to materially affect, our internal controls over financial reporting.

**Item 8B. Other Information.**

Effective October 31, 2008 we initiated one third party reserve reports on our oil and gas holdings in Mississippi, which were completed by Veazey & Associates, LLC.

Effective July 17, 2007, we initiated a third party reserve report on its oil and gas holdings which was completed by Haas Petroleum Engineering Services Inc.

**PART III**

**Item 9. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act.**

All directors of our company hold office until the next annual meeting of the stockholders 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. As of October 31, 2008, our directors and executive officers, their ages, positions held, and duration as such, were as follows:

<b>Name</b>	<b>Position Held with our Company</b>	<b>Age</b>	<b>Date First Elected or Appointed</b>
Christopher Bunka	Director, Chairman of the Board President, Chief Executive Officer and Chief Financial Officer	47	October 26, 2006 February 14, 2007
Leonard MacMillan	Director, Vice President of Corporate Development	58	December 10, 2004 October 26, 2006

### **Business Experience**

The following is a brief account of the education and business experience during at least the past five years of each director, executive officer and key employee of our company, indicating the person's principal occupation during that period, and the name and principal business of the organization in which such occupation and employment were carried out.

#### **Christopher Bunka**

Mr. Bunka has served as our director, chairman, president and chief executive officer since October 26, 2006. On February 14, 2007, he was appointed as chief financial officer of our company.

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. He is also a business commentator and has provided business updates to Vancouver radio station, CKWX, from 1998 to present. He has also written business and investment articles published in various North American publications.

From 1999 to 2002, Mr. Bunka was the President and CEO of Secure Enterprise Solutions (symbol SETP-OTC) (formerly Newsgurus.com, symbol NGUR-OTC). The company subsequently changed its name to Edgetech Services and trades on the OTC with the symbol EDGH. Newsgurus.com was a web-based media company. Secure Enterprise Solutions moved into Internet-based computer security products and services and was subsequently purchased by Edgetech Services. Mr. Bunka is also Chairman/CEO/CFO of Golden Aria Corp, (symbol GARA-OTC) an oil & gas exploration and production company. Mr. Bunka is a director of Defiance Capital Corp., a Canadian company.

#### **Leonard MacMillan**

Mr. MacMillan has been a director of our company since December 10, 2004. From December 10, 2004 to October 26, 2006, he also served as president of our company. He is currently vice-president of corporate development and has served in this position since October 26, 2006.

Mr. MacMillan was educated in Vancouver, Switzerland and Belgium. His primary education is in the field of marketing, corporate finance and communications.

Mr. MacMillan is an experienced businessman with over 20 years of experience in providing solutions to complex financial marketing and communications to early stage private and public companies. Mr. MacMillan has worked in a variety of business sectors, assisting in the raising of growth capital through a network of high net-worth individuals, investment bankers and brokerage firms throughout Canada, USA, Europe and Asia.



Mr. MacMillan works closely with management and directors to achieve the financial access necessary for our company to realize the success of our business model. Mr. MacMillan has operated as principal, director and or managing director of Leonard MacMillan & Associates, Lentec Capital Corporation and Resources Management Associates.

Since April 2004 he has been the chief financial officer/secretary and director of Trend Technology Corporation, a mineral exploration corporation that began trading on the OTCBB July 25, 2006, symbol TRET . On February 12, 2007 Mr. MacMillan became the sole director, president and chief executive officer of Trend Technology Corporation.

### **Family Relationships**

There are no family relationships between any of our directors, executive officers and proposed directors or executive officers.

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

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

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offences);
3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or
4. being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

### **Significant Employees**

There is no employee of our company who is not an executive officer but who is expected by our company to make a significant contribution to the business.

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

Section 16(a) of the Securities Exchange Act requires our executive officers and directors, and persons who own more than 10% of our common stock, to file reports regarding ownership of, and transactions in, our securities with the Securities and Exchange Commission and to provide us with copies of those filings. 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 October 31, 2008, all filing requirements applicable to our officers, directors and greater than 10% percent beneficial owners were complied with, with the exception of the following:





<b>Name</b>	<b>Number of Late Reports</b>	<b>Number of Transactions Not Reported on a Timely Basis</b>	<b>Failure to File Requested Forms</b>
Christopher Bunka	Nil	Nil	Nil
Leonard MacMillan	Nil	Nil	Nil

### **Committees of the Board**

All proceedings of our board of directors are 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 corporate laws of the State of Nevada and the bylaws of our company, as valid and effective as if they had been passed at a meeting of the directors duly called and held.

Our company currently does not have nominating, compensation or audit committees or committees performing similar functions nor does our company 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 that the functions of such committees can be adequately performed by the board of directors.

Our company does not have any defined policy or procedure requirements for stockholders to submit recommendations or nominations for directors. The board of directors believes that, given the early stage of our development, a specific nominating policy would be premature and of little assistance until our business operations develop to a more advanced level. Our company does not currently have any specific or minimum criteria for the election of nominees to the board of directors and we do not have any specific process or procedure for evaluating such nominees. The board of directors assesses all candidates, whether submitted by management or stockholders, and makes recommendations for election or appointment.

A stockholder who wishes to communicate with our board of directors may do so by directing a written request addressed to our Chief Executive Officer, at the address appearing on the first page of this prospectus.

### **Nomination Process**

As of January 10, 2009, 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 Financial Expert**

Our board of directors has determined that we do not have a board member that qualifies as an "audit committee financial expert" as defined in Item 407(e) of Regulation S-B, nor do we have a board member that qualifies as "independent" as the term is used in Item 7(d)(3)(iv)(B) of Schedule 14A under the Exchange Act and as defined by Rule 4200(a)(14) of the NASD Rules.

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We believe that our board of directors is capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting. The board of directors of our company does not believe that it is necessary to have an audit committee because our company believes that the functions of an audit committees can be adequately performed by our board of directors. In addition, 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.

### **Code of Ethics**

Our company's board of directors adopted a Code of Business Conduct and Ethics that applies to, among other persons, our company's president (being our principal executive officer) and our company's secretary (being our principal financial and accounting officer and controller), as well as persons performing similar functions. As adopted, our Code of Business Conduct and Ethics sets forth written standards that are designed to deter wrongdoing and to promote:

- (1) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (2) full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications made by us;
- (3) compliance with applicable governmental laws, rules and regulations;
- (4) the prompt internal reporting of violations of the Code of Business Conduct and Ethics to an appropriate person or persons identified in the Code of Business Conduct and Ethics; and
- (5) accountability for adherence to the Code of Business Conduct and Ethics.

Our Code of Business Conduct and Ethics requires, among other things, that all of our company's personnel shall be accorded full access to our president and secretary with respect to any matter which may arise relating to the Code of Business Conduct and Ethics. Further, all of our company's personnel are to be accorded full access to our company's board of directors if any such matter involves an alleged breach of the Code of Business Conduct and Ethics by our president or secretary.

In addition, our Code of Business Conduct and Ethics emphasizes that all employees, and particularly managers and/or supervisors, have a responsibility for maintaining financial integrity within our company, consistent with generally accepted accounting principles, and federal, provincial and state securities laws. Any employee who becomes aware of any incidents involving financial or accounting manipulation or other irregularities, whether by witnessing the incident or being told of it, must report it to his or her immediate supervisor or to our company's president or secretary. If the incident involves an alleged breach of the Code of Business Conduct and Ethics by the president or secretary, the incident must be reported to any member of our board of directors. Any failure to report such inappropriate or irregular conduct of others is to be treated as a severe disciplinary matter. It is against our company policy to retaliate against any individual who reports in good faith the violation or potential violation of our company's Code of Business Conduct and Ethics by another.

Our Code of Business Conduct and Ethics is referred to as Exhibit 14.1 to the annual report on Form 10-KSB and incorporated herein by reference. We will provide a copy of the Code of Business Conduct and Ethics to any person without charge, upon request. Requests can be sent to: Lexaria Corp., Suite 604, 700 West Pender Street, Vancouver,

British Columbia V6C 1G8.

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**Item 10. Executive Compensation.**

The particulars of 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 year ended October 31, 2008; 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 year ended October 31, 2008,

who we will collectively refer to as our named executive officers, of our company for the years ended October 31, 2008, 2007 and 2006, 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 officer, whose total compensation does not exceed \$100,000 for the respective fiscal year:

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (#)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and	All Other Compensa- tion (\$)	Total (\$)
							Nonqualified Deferred Compensation Earnings (\$)		
Christopher Bunka <sup>(1)</sup> , President, Chief Executive Officer, & Chief Financial Officer (Principal Executive Officer)	2008	\$66,163	Nil	Nil	Nil	Nil	Nil	Nil	\$66,163
	2007	\$30,000	Nil	Nil	400,000	Nil	Nil	Nil	\$30,000
	2006	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Leonard MacMillan <sup>(2)</sup> Director, Vice- President Corporate Development	2008	\$30,000	Nil	Nil	Nil	Nil	Nil	Nil	\$30,000
	2007	\$30,000	Nil	Nil	200,000	Nil	Nil	Nil	\$30,000
	2006	\$13,500	Nil	Nil	Nil	Nil	Nil	Nil	\$13,500



Diane Rees <sup>(3)</sup>	2008	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
(Former Director, Chief Financial Officer, Secretary and Treasurer)	2007	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2006	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

- (1) Mr. Bunka was appointed president and chief executive officer on October 26, 2006, and chief financial officer of our company on February 14, 2007.
- (2) Mr. MacMillan was appointed vice president of corporate development on October 26, 2006.
- (3) Effective February 14, 2007, Ms. Rees resigned as our Chief Financial Officer, Secretary, Treasurer and director.

### Management/Consulting Agreements

We entered into a management service agreement with Leonard MacMillan on February 1, 2006, wherein he is reimbursed at the rate of \$1,500 per month (\$2,500 per month effective October 26, 2006). Under this agreement, Mr. MacMillan will provide management services to our company, such duties and responsibilities to include the provision of management and consulting services, strategic corporate and financial planning, management of the overall business operations of our company, and the supervision of office staff and exploration consultants. We may terminate this agreement with no prior notice based on a number of conditions. Mr. MacMillan may terminate the agreement at any time by giving 30 days written notice of their intention to do so.

We have entered into a consulting agreement and a controller agreement with CAB Financial Services Ltd., a company controlled by our president, chief executive officer, and chief financial officer, Christopher Bunka on October 26, 2006, wherein he is reimbursed at the rate of \$2,500 per month for the consulting agreement. Effective November 27, 2008 the rate has been changed to \$8,000 per month. Under this agreement, Mr. Bunka provides the services of chief executive officer, chairman of the board, and president to our Company, such duties and responsibilities to include the provision of management and consulting services, strategic corporate and financial planning, management of the overall business operations of our company, and the supervision of office staff and exploration consultants. The controller agreement was entered into on March 1, 2008 wherein he is reimbursed at the rate of \$4,500 per month for accounting and management services. We may terminate these agreements with no prior notice based on a number of conditions. Mr. Bunka may terminate the agreement at any time by giving 30 days written notice of his intention to do so.

### Outstanding Equity Awards at Fiscal Year End

#### Number of Securities Underlying



Name	Options/SARs Granted (#)	Exercise of Base Price	Expiration Date
Christopher Bunka Director and President, Chief Executive Officer and Chief Financial Officer	400,000	\$0.80	April 26, 2011

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Leonard MacMillan Director and Vice President of Corporate Development	200,000	\$0.80	April 26, 2011
Peter Philipchuk Consultant <sup>(1)</sup>	100,000	\$0.80	February 19, 2009
Thomas Ihrke Consultant	100,000	\$0.80	June 19, 2011
Todd McMahon Consultant <sup>(2)</sup>	300,000	\$0.80	June 4, 2009
Ken Brooks Consultant	200,000	\$0.85	July 20, 2011

(1)

On April 26, 2007, Mr. Philipchuk was granted options to purchase 100,000 shares of our common stock exercisable until April 26, 2011 at an exercise price of \$0.80 per share. On February 19, 2008, Mr. Philipchuk was terminated as a consultant and pursuant to the terms of the option agreement, such options shall terminate on February 19, 2009.

(2)

On June 19, 2007, Mr. McMahon was granted options to purchase 300,000 shares of our common stock exercisable until April 26, 2011 at an exercise price of \$0.80 per share. On June 4, 2008, Mr. McMahon was terminated as a consultant and pursuant to the terms of the option agreement, such options shall terminate on June 4, 2009.

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:

Name	Options Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	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 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 <i>Director, Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer</i>	400,000	Nil	Nil	0.80	April 26, 2011	N/A	N/A	N/A	N/A
Leonard MacMillan <i>Director and Vice President of Corporate Development</i>	200,000	Nil	Nil	0.80	April 26, 2011	N/A	N/A	N/A	N/A

#### Compensation of Directors

We reimburse our directors for expenses incurred in connection with attending board meetings but did not pay director's fees or other cash compensation for services rendered as a director during our fiscal year ended October 31, 2008.

We have no present formal plan for compensating our directors for their service in their capacity as directors. Directors are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection

with attendance at meetings of our board of directors. The board of directors may award special remuneration to any director undertaking any special services on behalf of our company other than services ordinarily required of a director. Members of special or standing committees may be allowed like reimbursement and compensation for attending committee meetings.

**Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

We have set forth in the following table certain information regarding our common stock beneficially owned on December 11, 2008 for (i) each shareholder we know to be the beneficial owner of 5% or more of our outstanding common stock, (ii) each of our executive officers and directors, and (iii) all executive officers and directors as a group. In general, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of such security, or the power to dispose or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which the person has the right to acquire beneficial ownership within 60 days. As of January 10, 2009 we had approximately 24,369,500 shares of common stock issues and outstanding.

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<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership<sup>(1)</sup></b>	<b>Percentage of Class<sup>(1)</sup></b>
Christopher Bunka <sup>(3)</sup> 5774 Deadpine Drive, Kelowna BC Canada	3,764,850 <sup>(4)</sup>	15.44%
Stewart Gray 980 Skeena Drive, Kelowna BC Canada	1,800,000 <sup>(5)</sup>	7.39%
Ben Jenks 198 Strickland Street, Nanaimo BC Canada	2,333,600 <sup>(6)</sup>	9.58%
Lanesborough Balfour Trust 501-280 Nelson St Vancouver BC Canada	2,000,000 <sup>(7)</sup>	8.21%
Leonard MacMillan <sup>(8)</sup> 1220 Rosecrans Street, #139, San Diego CA 92106	450,000 <sup>(9)</sup>	1.85%
Venture Capital Asset Management Ltd. Im Alten Riet 22, 9494 Schaan, Liechtenstein	1,632,800 <sup>(10)</sup>	6.70%
Directors and Executive Officers as a Group (2 persons)	4,214,850 <sup>(11)</sup>	17.30%

(1) Based on 24,369,500 shares of common stock issued and outstanding as of December 11, 2008. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of computing the percentage ownership of the person holding such option or warrants, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.

(3) Mr. Bunka has been a director, chairman of the board, president, chief executive officer of our corporation since October 26, 2006. On February 14, 2007, he was appointed as chief financial officer of our company.

(4) This figure includes 2,198,050 common shares; 1,166,800 share purchase warrants; and 400,000 incentive stock options.

(5) This figure includes 1,300,000 common shares and 500,000 share purchase warrants.

(6) This figure includes 1,166,800 common shares and 1,166,800 share purchase warrants

(7) This figure includes 1,000,000 common shares and 1,000,000 share purchase warrants.

(8) Mr. MacMillan has been a director of our company since December 10, 2004. From December 10, 2004 to October 26, 2006, he also served as president of our company. He is currently vice president of corporate development since October 26, 2006.

(9) This figure includes 250,000 common shares and 200,000 incentive stock options.

(10) This figure includes 816,400 common shares and 816,400 share purchase warrants

(11) This figure includes 1,166,800 share purchase warrants. and 600,000 incentive stock options.

#### **Changes in Control**

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

**Item 12. Certain Relationships and Related Transactions, and Director Independence.**

Except as described below, no director, executive officer, principal shareholder holding at least 5% of our common shares, or any family member thereof, had any material interest, direct or indirect, in any transaction, or proposed transaction, during the year ended October 31, 2008, 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 year end for the last three completed fiscal years.

We entered into a management service agreement with Leonard MacMillan on February 1, 2006, wherein he is reimbursed at the rate of \$1,500 per month (\$2,500 per month effective October 26, 2006 until further notice).

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Under this agreement, Mr. MacMillan will provide management services to our company, such duties and responsibilities to include the provision of management and consulting services, strategic corporate and financial planning, management of the overall business operations of our company, and the supervision of office staff and exploration consultants. We may terminate this agreement with no prior notice based on a number of conditions. Mr. MacMillan may terminate the agreement at any time by giving 30 days written notice of their intention to do so.

We have entered into a consulting agreement and a controller agreement with CAB Financial Services Ltd., a company controlled by our president, chief executive officer, and chief financial officer, Christopher Bunka on October 26, 2006, wherein he is reimbursed at the rate of \$2,500 per month for the consulting agreement. Effective November 27, 2008 the rate has been changed to \$8,000 per month. Under this agreement, Mr. Bunka provides the services of chief executive officer, chairman of the board, and president to our Company, such duties and responsibilities to include the provision of management and consulting services, strategic corporate and financial planning, management of the overall business operations of our company, and the supervision of office staff and exploration consultants. The controller agreement was entered into on March 1, 2008 wherein he is reimbursed at the rate of \$4,500 per month for accounting and management services. We may terminate these agreements with no prior notice based on a number of conditions. Mr. Bunka may terminate the agreement at any time by giving 30 days written notice of his intention to do so.

### **Board of Directors Independence**

We currently act with two directors who are our executive officers.

We do not have a standing audit, compensation or nominating committee, but our entire board of directors acts in such capacities. We believe that our board of directors is capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting. Our board of directors does not believe that it is necessary to have a standing audit, compensation or nominating committee because we believe that the functions of such committees can be adequately performed by our board of directors consisting of Christopher Bunka and Leonard MacMillan. In addition, we believe that retaining one or more directors who would qualify as independent in accordance with Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act would be overly costly and burdensome and is not warranted in our circumstances given the early stages of our development and the fact the we have not generated any revenues from operations to date.

### **Item 13. Exhibits.**

<b>Exhibit No.</b>	<b>Document Description</b>
<b>(3)</b>	<b>Articles of Incorporation and By-laws</b>
3.1 <sup>(1)</sup>	Articles of Association
3.2 <sup>(1)</sup>	Bylaws
<b>(4)</b>	<b>Instruments defining the rights of security holders, including indentures</b>
4.1 <sup>(1)</sup>	Specimen Stock Certificate
<b>(10)</b>	<b>Material Contracts</b>

- 10.1<sup>(1)</sup> Strachan Participation & Farmout Agreement
  - 10.2<sup>(1)</sup> Griffin Model Form Operating Agreement
  - 10.3<sup>(1)</sup> Griffin Drilling Program Agreement
  - 10.4<sup>(2)</sup> Management Services Agreement with Leonard MacMillan
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- 10.5<sup>(3)</sup> Consulting Agreement with CAB Financial Services Ltd.
- 10.6<sup>(4)</sup> Agreement with Brink Resources
- 10.7<sup>(4)</sup> Agreement with 0743868 BC Ltd.
- (14) Code of Ethics**
- 14.1<sup>(5)</sup> Code of Business Conduct and Ethics
- (23) Consents of experts and Counsel**
- 23.1 Consent of Vellmer & Chang, Chartered Accountants
- (31) Rule 13a-14(a)/15d-14(a)**
- 31.1\* Section 302 Certifications under Sarbanes-Oxley Act of 2002 of Christopher Bunka
- (32) Section 1350 Certifications**
- 32.1\* Section 906 Certification under Sarbanes Oxley Act of 2002
- (99) Exhibit No.**
- 99.1<sup>(6)</sup> Haas Reserve Reports
- 99.2<sup>(7)</sup> Veazey Reserve Report

\* Filed herewith.

- (1) Incorporated by reference from Form SB-2 Registration Statement filed on March 1, 2006.
- (2) Incorporated by reference from Form SB-2 Registration Statement filed on May 5, 2006.
- (3) Incorporated by reference from our current report on Form 8-K filed.
- (4) Incorporated by reference from our current report on Form 8-K filed on June 21, 2007.
- (5) Incorporated by reference from Form SB-2 Registration Statement filed on September 20, 2007.
- (6) Incorporated by reference from our current report on Form 8-K filed on July 17, 2007.
- (7) Incorporated by reference from our current report on Form 8-K filed on October 31, 2007.

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

**Audit Fees**

Our board of directors appointed Chang Lee LLP as independent auditors to audit our financial statements for the current fiscal year. The aggregate fees billed by Chang Lee LLP for professional services rendered for the audit of our annual financial statements included in this annual report on Form 10-KSB for the fiscal year ended October 31, 2008 and 2007 were estimated at \$16,000 and \$21,000, respectively.

**Audit Related Fees**

For the fiscal year ended October 31, 2008 and 2007, the aggregate fees billed for assurance and related services by Chang Lee LLP relating to our quarterly financial statements which are not reported under the caption "Audit Fees" above, were \$16,000 and \$14,546, respectively.

**Tax Fees**

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For the fiscal year ended October 31, 2008 and 2007, the aggregate fees billed for tax compliance, by Chang Lee LLP were \$Nil and \$Nil, respectively.

**All Other Fees**

For the fiscal year ended October 31, 2008 and 2007, the aggregate fees billed by Chang Lee LLP for other non-audit professional services, other than those services listed above, totaled \$Nil and \$Nil, respectively.

Our board of directors, who acts as our audit committee, has adopted a policy governing the pre-approval by the board of directors of all services, audit and non-audit, to be provided to our company by our independent auditors. Under the policy, the board or directors has pre-approved the provision by our independent auditors of specific audit, audit related, tax and other non-audit services as being consistent with auditor independence. Requests or applications to provide services that require the specific pre-approval of the board of directors must be submitted to the board of directors by the independent auditors, and the independent auditors must advise the board of directors as to whether, in the independent auditor's view, the request or application is consistent with the Securities and Exchange Commission's rules on auditor independence.

The board of directors has considered the nature and amount of the fees billed by Chang Lee LLP and believes that the provision of the services for activities unrelated to the audit is compatible with maintaining the independence of Chang Lee LLP.

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**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  
President, Chief Executive Officer, Chairman and Director  
(Principal Executive Officer, Principal Financial Officer and  
Principal Accounting Officer)

Date: January 23, 2009

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  
President, Chief Executive Officer, Chairman and Director  
(Principal Executive Officer, Principal Financial Officer and  
Principal Accounting Officer)

Date: January 23, 2009

By: /s/ Leonard MacMillan  
Leonard MacMillan  
Director and Vice President of Corporate Development

Date: January 23, 2009