

Lexaria Bioscience Corp.  
Form 10-K  
November 29, 2016

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended **August 31, 2016**

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

For the transition period from [ ] to [ ]

Commission file number **000-52138**

**LEXARIA BIOSCIENCE CORP.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**20-2000871**

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

**156 Valleyview Rd, Kelowna BC Canada V1X3M4**

(Address of principal executive offices)

**V6E 4A4**

(Zip Code)

Registrant's telephone number, including area code:

**250-765-6424**

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

**Title of Each Class**

**N/A**

**Name of Each Exchange On Which Registered**

**N/A**

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

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

(Title of class)

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

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

Yes [ ] No [X]

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

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

Yes  No

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

Yes  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Yes  No

The aggregate market value of Common Stock held by non-affiliates of the Registrant on February 29, 2016, 2016 was \$1,172,028 based on the average of the high and low bid and asked price of the Registrant's shares of common stock on the OTC Bulletin Board or \$0.09 on February 29, 2016. For purposes of this computation, all executive officers and directors have been deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers and directors are, in fact, affiliates of the Registrant.

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

**52,371,013 common shares as of November 24, 2016**

DOCUMENTS INCORPORATED BY REFERENCE

None.

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## PART I

### Item 1. Business

#### *Forward-Looking Statements*

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

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

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

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

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

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

We were incorporated in the State of Nevada on December 9, 2004. We were an exploration and development oil and gas company engaged in the exploration for and development of petroleum and natural gas in North America from the date of incorporation until 2014. We owned various oil and gas interests in Mississippi and Oklahoma, and produced cash flow from them. At various times we issued equity to raise capital to acquire or sustain our interests and operations, and entered various debt agreements for the same reasons. In December 2014, we completed the sale of our last remaining oil and gas assets for total consideration of \$1,400,000 and repaid all outstanding loans and debts associated with our tenure in the oil and gas business.

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

We entered into a joint venture agreement with Enertopia Corp. to source opportunities in the medical marijuana business. We also entered into a separate joint venture agreement with Enertopia Corp. for a prospective medical marijuana business under the Marijuana for Medical Purposes Regulations (*MMPR*). Our company was to pay 55% of all costs to earn a 49% net ownership interest in the business and Enertopia was to pay 45% of all costs to earn a 51% ownership interest in the business. The joint venture identified a production location in Burlington, Ontario and received municipal approval for the site in July, 2014.

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

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

As at August 31, 2016, we only had one reportable segment, being the development and usage, including licensing of our proprietary nutrient infusion technology.

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

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

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

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

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

Our company's business plan is currently focused in the USA, on the introduction of hemp oil-infused food products extracted from Agricultural Hemp and on the development of strategic partnerships with licensees for our patented technology in exchange for up front and/or staged licensing fees over time. Secondarily and more generally, we continue to investigate opportunities in the US legal regulated medical marijuana sector where possible; to investigate expansions and additions to our intellectual property portfolio; and, to search for additional opportunities in alternative health sectors. This includes the acquisition or development of intellectual property if and when we believe it advisable to do so. We announced issuance of our first patent by the U.S. Patent and Trademark Office (USPTO) on October 26, 2016 and we are seeking additional patent protection for what we believe to be a unique process for the nutritional delivery of certain molecules such as THC, CBD, Nicotine, NSAIDs, and Vitamins. To achieve sustainable and profitable growth, our company intends to control the timing and costs of our projects wherever possible.

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

On September 16, 2015, the Company's Board appointed Mr. Ted McKechnie as a Director of the Company. Upon Mr. McKechnie's appointment the Company issued to him, 110,000 common shares of the Company valued at \$19,000. The Company also granted 100,000 stock options to Mr. Ted McKechnie. The exercise price of the stock options is \$0.17 and they expire on September 16, 2020. The number of shares and stock options were updated pursuant to the forward stock split on December 16, 2015, as described below.

On October 6, 2015 we announced that our Lexaria Energy10 Protein Bar would be in stock and available for sale on November 3, 2015. On November 3, 2015, the Company announced the Lexaria Energy10 Protein Bars were in stock and available for sale.

On October 8, 2015, the Company announced product updates for both coffee and hot chocolate. Lexaria had also determined that it would soon make ViPova and Lexaria Energy products available for sale into the United Kingdom, due to a favorable regulatory environment and to increased consumer demand. Initially, sales would be made through the online store, but it also indicated that discussions were also underway to enable local sales delivered from within the United Kingdom.



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On November 17, 2015, the Company announced selling out of the Lexaria Energy Protein Bars unveiled at three investment and business trade show conferences held in Las Vegas.

On November 18, 2015, the Company announced its Board of Directors approved a forward stock split of 1.1 new shares for every existing common share held. Upon effect of the forward stock split our authorized capital increased to 220,000,000 shares of common stock, par value \$0.001 and our issued and outstanding shares increased from 39,952,984 to 43,948,282 shares of common stock, with a par value of \$0.001. The reverse stock split was reviewed by the Financial Industry Regulatory Authority ("FINRA") and the Canadian Securities Exchange ("CSE") and was approved for filing with an effective date of December 16, 2015. The forward split became effective with the OTC Markets at the opening of trading on December 16, 2015 under the symbol LXRPD . The "D" was placed on our ticker symbol for 20 business days and subsequently removed. Our new CUSIP number is 52886N307.

On December 10, 2015, Lexaria closed a private placement by issuing 550,000 units at a price of \$0.18 per unit for gross proceeds of \$90,000. Each unit consisted of one common share of the Company and one-half, transferable share purchase warrant. Each full warrant is exercisable into one further share at a price of \$0.30 per share for a period of 24 months following closing. A cash finders fee for \$2,520 was paid to Leede Financial Markets Ltd.; and 14,000 broker warrants with an exercise price of \$0.30 for a period of 24 months were also issued to Leede Financial Markets Ltd. The number of common shares and share purchase warrants was updated as a result of the forward stock split on December 16, 2015.

On December 14, 2015, Lexaria signed an Investor Relations contract with Radius Consulting Inc. for a 45-day term. Radius received \$2,500 and 50,000 common shares valued at \$9,500. Such common shares were adjusted for the forward stock split closing on December 16, 2015.

On January 13, 2016, the Company announced it has commissioned a study of nitric oxide levels in humans, as a biomarker for absorption of cannabidiol.

On January 15, 2016, the Company announced BUYINS.NET was consulting to Lexaria Corp to Surveil Short Sellers and Market Makers.

On January 20, 2016, the Company announced study data from human subjects demonstrating significant elevation of systemic nitric oxide levels as a surrogate biomarker for cannabidiol (CBD) bioabsorption.

On January 28, 2016, the Company announced it signed a distribution agreement with Telluride Coffee.

On February 19, 2016, the Company announced Lexaria would be proceeding with a name change at its Annual General Meeting expected to be held March 23, 2016; the Company proposed to change its name to Lexaria Bioscience Corp.

On March 8, 2016, the Company announced the resignation of Thomas Ihrke as VP of US Operations of Lexaria Corp.

On March 8, 2016, the Company closed private placement offering of a convertible debenture in the aggregate amount of \$45,000. The convertible debenture matures on August 31, 2020 with an interest rate of 10% per annum (on a simple basis) and is convertible at (i) \$0.12 per share at any time prior to August 31, 2016 (ii) \$0.15 per share at any time prior to August 31, 2017; (iii) \$0.20 per share at any time prior to August 31, 2018 or, at the sole option of the holder, a price equal to a 20% discount to the 10-day average closing price of the shares prior to the date of conversion (the Average Price ) provided that the Average Price is less than \$0.20 and provided further that the conversion price shall not be less than \$0.15; (iv) \$0.25 per share at any time prior to August 31, 2019 or, at the sole option of the holder, the Average Price provided that the Average Price is less than \$0.25 and provided further that the conversion price shall not be less than \$0.15; and (v) \$0.30 per share at any time prior to August 31, 2020 or, at the sole option of

the holder, the Average Price provided that the Average Price is less than \$0.30 and provided further that the conversion price shall not be less than \$0.15.

On April 15, 2016, pursuant to the consulting agreement with Mr. John Docherty, the Company issued 210,000 common shares for services rendered as the President of the Company. We also issued 300,000 stock options, expiring on April 15, 2021, with an exercise price of \$0.11 per share, to Mr. Docherty, and agreed to pay him cash compensation of US\$4,000.

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

Effective April 29, 2016, Ms. Bal Bhullar resigned as CFO and a director of the Company to pursue other opportunities. Mr. Chris Bunka was appointed as interim CFO and Mr. John Docherty, the president of Lexaria, was appointed a director of the Company.

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

On June 6, 2016, the Company issued 25,000 stock options to a consultant of the Company vesting immediately, with an exercise price of \$0.14 per share and expiring on June 3, 2021.

On June 6, 2016, the Company engaged the marketing and investor relations services of Frontier Merchant Capital Group (Frontier) for a period of one year. Lexaria will pay CAD\$6,000 per month and issued 300,000 stock options with an exercise price of \$0.14, vesting immediately, for this 12-month period.

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

Effective July 1, 2016, the Company agreed to pay a monthly stipend of US\$4,000 to Director Ted McKechnie to reflect his commitment to the Company.

On July 12, 2016, the Company announced that it received a Notice of Allowance from the USPTO for one of its patent applications. The Notice of Allowance concluded the substantive examination of US Patent Application Serial No. 14/735,844 by the USPTO and indicated that issuance of a US patent would follow after remaining administrative processes were completed.

On July 21, 2016, the Company announced it entered into two agreements; first with PPMT Strategic Group, Inc, a strategic consulting group, with capabilities that include, Mergers & Acquisitions advisory services, Sales and Marketing, Industry Partnering, Compliance and Executive CFO services, the second with Terra Nova Capital Partners, Inc, a boutique investment and merchant banking firm. PPMT received 250,000 restricted common shares as initial payment under the agreement. PPMT will receive 250,000 warrants to purchase common shares each month until the end of the agreement, with a fixed floor price and otherwise subject to normal regulatory conditions.

On July 25, 2016, the Company announced it entered into a \$50,000 loan agreement for 15 months, with an interest-free holiday for the first 3 months; if the loan is repaid within 3 months no interest will be due. For the final 12 months of the term, Lexaria will pay 8% simple interest. This secured loan is not convertible. The loan is provided by CAB Financial Services Ltd, which is a private holding company wholly-owned by the CEO of the Company.

On August 10, 2016, the Company announced it entered a letter of intent (LOI) to license its proprietary technology to CBDM LLC for the development and sale of a range of marijuana oil infused products in a potentially national-scale roll-out to Indian reservations across America and certain other U.S. territories.

On August 11, 2016, the Company announced it closed a private placement equity financing for 1,558,525 equity units priced at \$0.06; each equity unit consisting of one common share of the Company and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one additional common share of the Company for a period of two years from the date of issuance, at a purchase price of US\$0.14; in order to raise gross proceeds of \$93,512. The Company also announced an enhanced marketing services agreement with Frontier Merchant Capital Group at a cost of US\$35,932

On August 31, 2016, the Company announced it has entered a new letter of intent (LOI) to license its proprietary absorption and palatability enhancing technology for cannabinoids and other bioactive substances. The potential licensee is one of America's most respected and well-known brands in the cannabis infused products market, active in California and other U.S. states. The identity of the potential licensee will remain undisclosed pending further developments.

On August 31, 2016, the Company announced it has closed a private placement equity financing for 3,266,666 equity units priced at \$0.06; each equity unit consisting of one common share of the Company and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one additional common share of the Company for a period of two years from the date of issuance, at a purchase price of \$0.14 per share; in order to raise gross proceeds of \$196,000, of which \$93,500 was collected during September and October 2016. Placement fees of \$1,200 were paid and 50,000 broker warrants issued in connection with this tranche of the private placement.

**We experienced the following significant corporate developments subsequent to August 31, 2016**

On September 8th, 2016, the Company announced signing new definitive technology licensing and private label agreements. Lexaria will earn a pre-defined premium to costs on all raw ingredient sourcing and manufacturing, and will further earn a pre-defined royalty rate on all gross product sales revenues earned by Care Limited. The agreement is for an initial term of 5 years.

On October 11, 2016, the Company granted 250,000 stock options to a consultant with a strike price of \$0.14 per share, and expiry term of two years.

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

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

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

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

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

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

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

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

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

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

### **Food Science and Technology**

Lexaria is a food sciences company focused on the delivery of cannabinoid compounds procured from legal, agricultural hemp, through gourmet foods based upon its proprietary infusion technologies. Lexaria is focusing its capital and management time on its pursuit of intellectual property, technology licensing opportunities, and an expanding portfolio of patent pending applications. The Company introduced an expanding variety of hemp oil-fortified consumer food products throughout 2015. From January 2015 to December 2015, we introduced seven (7) flavors of teas; hot chocolate; coffee, and two (2) flavors of protein energy bars all utilizing our patent pending technology for the more efficient delivery of hemp oil infused within those food products.

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

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

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

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

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

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

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



Cannabidiol is one of the major phytocannabinoid forms of cannabinoids, contributing more than 35% of the extracts from the cannabis plant resin. Cannabidiol occurs naturally in other plant species beyond cannabis. For example, the most widely acknowledged alternative source of phytocannabinoid is in the better understood Echinacea species, in widespread use as a dietary supplement. Most phytocannabinoids are virtually insoluble in water but are soluble in lipids and alcohol.

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

Between 5.3% and 5.8% of the survey group at any one time reported that they had seen a complementary or alternative medicine provider. Based on the US population of ~319,000,000, this suggests between 16.9 million and 18.5 million Americans are seeking an alternative health care professional at any given time.

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

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

#### *Status of operations*

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

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

We began producing cash flows from our products in January 2015; focused on the immediate opportunities in the CBD-sectors derived from hemp oil that is federally legal. Cannabinoids have been found by many researchers to have antioxidant properties and Lexaria plans to use the patented process it has acquired with ViPova teas, to infuse CBDs into a number of popular food and beverages.

Lexaria has launched a line of premium products, always relying on our patented hemp oil-infusion process, to bring hemp oil into the mainstream. Because hemp oil does not have psychoactive properties we expect our products to appeal to the widest possible customer base. Initially we will focus our sales efforts across the continental USA. Some studies have found that 3% of the Canadian population regularly consumes hemp food products, while 1% of the American population regularly consumes hemp food products. We believe the consumption of hemp based food products offers exceptional growth possibilities.

According to Nutrition Business Journal, the Organic Food sector was a \$246 billion industry in the USA during 2014, while Dietary Supplements was a \$34.6 billion industry. According to Arcview, Legal Cannabis was a \$4.7 billion US industry in 2015 but is clearly a much smaller industry sector than the more established food sectors.

Lexaria has not yet determined whether our hemp oil-infused products will be accepted into any or all three of these particular sectors.

Lexaria commissioned three new websites in 2015 – one for ViPova -branded food products, another for a new Lexaria corporate website, and a third for Lexaria Energy branded food products - which were completed throughout 2015. All the sites are in operation and the two food products websites allow customers to place orders and interact with normal e-commerce capabilities. The majority of our product sales have taken place through these websites. A contracted national distribution center ensures rapid and accurate fulfillment of all orders. A 1-800 ordering center has also been placed into operation.

Lexaria is in the process of launching the Lexaria Energy brand that is 100% owned by the Company. Under this brand, the Company plans to develop hemp oil-infused food products for people with active lifestyles, such as protein bars, protein shakes and other similar products. A protein bar has gone into production and is available for sale under two different recipes and flavors. The Lexaria Energy brand utilizes the same patented infusion process across its product line.

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

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

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

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

#### *International patent protection*

When Lexaria first began examining the legal medical cannabis market in 2013, and entered the market in 2014, the Company believed it could make an impact in perhaps both the Canadian and U.S. marketplaces. Our pursuit and development of technology has expanded our potential area of impact, both geographically and by sector. Because of the applicability of our technology to markets outside of the legal cannabis sector, we have taken the necessary steps to protect that intellectual property within larger global markets, regardless of whether they lie within the medical cannabis sector or in other unrelated sectors.

#### *Additional molecules*

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

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

**RELEVANCE:** Lexaria postulates that delivery of nicotine to satisfy current demand, utilizing our patent pending lipid-delivery technology in common food groups, could shift demand from smoking cigarettes to alternative

nicotine-based food products. Since most of the adverse health outcomes of nicotine consumption are associated with the delivery method and only to a lesser degree to the actual ingestion of nicotine, there could be a vast positive community health outcome through the reduction in smoking cigarettes. Additional research and regulatory compliant investigations would need to be conducted before otherwise healthy foods such as tea, coffee or energy bar snacks containing nicotine could be introduced. Nicotine is a named molecule in the latest Lexaria patent applications.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On November 3, 2015, Lexaria Energy10 protein bars became available for retail sales with 2 new flavors. The Company sells Cashew Berry Date vegan bar which is optimal for pre-workout or morning use, with 10 grams of protein and a combination of dates, cherries and blueberries for energy from natural sugar sources. The 70-gram bar delivers energy for a workout or for the day to come. The Chocolate Berry Date bar is optimal for post-workout and for afternoon or evening use, or anytime one has the munchies. This 82-gram bar has 21 grams of protein and 13 grams of fiber to provide one's body with comfort and cleansing after strenuous activity.

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

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

In summary, consuming Lexaria and ViPova food products resulted in elevated levels of nitric oxide within the body. The results of the study indicated that all Lexaria and ViPova food products elicited significant increases in salivary nitric oxide, achieving levels from 110  $\mu\text{M}$  to as high as 220  $\mu\text{M}$  in the test subjects. The beverage products generally

had faster initial responses in as little as 15 minutes after product ingestion, whereas the initial responses from the protein-energy bars required 30 minutes. The faster response time with the beverage products was to be expected, given the relative ease of digesting liquids versus solids. All products sustained their maximum levels of nitric oxide detection through to the 60-minute end-points used in the study, indicating a need for additional study to determine the length of time that nitric oxide levels remain elevated following production consumption.

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

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

On January 28, 2016, Lexaria signed a distribution agreement with Telluride Coffee Roasters, LLC.

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

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

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

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. There is significant uncertainty as to whether we can obtain additional financing.

Our business plan does not anticipate that we will hire a large number of employees or that we will require extensive office space. We expect to be able to utilize contracted third parties for most of our production and distribution needs, instead focusing on our capital on higher value added aspects of the business such as research and development, and



scientific testing. We have no current plans to build our own production facility.

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

### *Competition*

The legal marijuana industry is comprised of several sub-sectors, and is legal under different guidelines in many states though it remains illegal under most federal laws. Notwithstanding, the overall sector is generally recognized to be one of the fastest growing in the USA, with state-legal revenue of over \$4 billion in 2015. Independent projections and publicized reports expect revenue of \$20 billion or more in 2020, both as the sector gains in credibility and acceptance, and as more and more states legalize either medical use or adult recreational use; or both. In any fast growing industry, competition is expected to be both strong and also difficult to evaluate as to the most effective competitive threats. While we are an early adopter within the cannabinoid delivery sector, there are already reports of more than 300 public companies that have claimed to be involved in the sector in some fashion; and an unknown number of private companies. Our current strategies may prove to be ineffective as the sector grows and matures, and if so, we will have to adapt quickly to changing sectoral circumstances.

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

### *Compliance with Government Regulation*

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

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

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

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

On June 7, 2013 the Government of Canada implemented then-new legislation, the Marijuana for Medical Purposes Regulations (MMPR), concerning the production and sale of medical marijuana. The MMPR permitted the licensing of commercial growers beginning April 1, 2014, while eliminating existing regulations permitting the production of medical marijuana on a personal-use basis. The revised regulations created conditions for a commercial industry in Canada that is responsible for medical marijuana production and distribution, by eliminating small-scale, personal-use production. Commercial growers are now able to submit applications to Health Canada for the production of medical

marijuana and, if licensed, supply patients who qualify for the product at a price that would be established by market forces and at the discretion of producers. As of November 2016, 36 producers have become licensed under the latest versions of Canadian regulations.

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

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

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

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

Despite these estimates the medical marijuana market is relatively new and largely unproven. The adoption rate of commercial medical marijuana by qualified patients is difficult to determine but a portion (approximately 13%) of the qualified patient population is already conditioned to purchasing government contracted producers under the old system (source: Health Canada). Furthermore, we anticipate that the convenience of a wide selection of medical marijuana strains delivered directly to patients in a discrete and concealed package will be attractive. Healthcare practitioners are key stakeholders as they will be signing and providing the medical documentation needed for patients to register with commercial producers. Regulations under the MMPR are not significantly different for healthcare practitioners already familiar with the process under the former MMAR. Licensed producers are held responsible for quality of the product provided as the MMPR outlines strict rules for quality assessment and control, cleanliness, manufacturing, and pesticide use. Security and diversion to the black market remain a concern but MMPR outlines strict rules for segregation of duties and security clearances, background checks for employees and officers, tracking of product in and out of the premises, and camera surveillance.

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

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

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

*Current Status of our Previous Medical Marijuana Business*

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

*Enertopia Joint Venture*

On May 28, 2014, our company and Enertopia Corp. entered into a definitive agreement to develop a joint business for the production, manufacture, propagation, import/export, testing, research and development of marijuana in the Province of Ontario under the MMPR. Pursuant to the Agreement, ownership, revenues, and liability related to the Joint Venture were to be divided 51% to Enertopia and 49% to Lexaria. Expenses incurred by the joint venture would be allocated 45% to Enertopia and 55% to Lexaria. Enertopia was responsible for management of the joint venture for as long as it maintained majority ownership. Lexaria and Enertopia contributed \$55,000 and \$45,000 to the joint venture, respectively. The joint venture identified a production location in Burlington, Ontario and received municipal approval for the site in July, 2014. We intended to engage an architect to design the production facility upon acceptance of our application. Construction was anticipated to cost approximately \$3,000,000 and Lexaria would have been responsible for \$1,650,000 of this cost. Unable to estimate when a production license might be granted by Health Canada, the joint venture sought assurances from Health Canada prior to commencement of construction. In the event that Health Canada did not grant a production license by May 27, 2015, the joint venture was to terminate. On August 1, 2014, through our wholly owned subsidiary Lexaria Canpharm Corp., we signed an extension to the letter of intent with 1475714 ONTARIO INC. and Thor Pharma Corp. (a subsidiary of Enertopia Corp.) to secure a 5-year lease on the Burlington, Ontario facility for our Burlington joint venture. The proposed Burlington, Ontario facility comprised of 30,000 ft<sup>2</sup>, with Lexaria and Enertopia having acquired a right of first refusal for another 45,000 square feet totaling 75,000 ft<sup>2</sup> to accommodate future growth. Planned production areas have 22 foot ceilings which could allow for the possibility of a 2nd mezzanine level in many areas for further expansion. The production target for the facility based on 30,000 ft<sup>2</sup> (with approximately 50% devoted to production space) was approximately 10,000 kilograms per year.

By November 30, 2014, our Burlington joint venture had announced that its application to Health Canada s for the Burlington facility had advanced from preliminary to enhanced screening. By December 12, 2014, the joint venture was extended to June 12, 2015.

On June 11, 2015, we entered into a Letter of Intent dated June 10, 2015 with Shaxon Enterprises Ltd. to sell our 49% interest in the Burlington joint venture, including our interest in MMPR application number 10QMM0610 for the proposed Burlington, Ontario production facility. Subsequent to the LOI with Shaxon Enterprises Ltd., our joint venture agreement with Enertopia which was entered into on May 28, 2014 was terminated due to the pending sale of the project. As a result of the termination, 500,000 restricted and escrowed common shares of Lexaria issued to Enertopia at a deemed price of \$0.40 were returned to treasury and cancelled. The Enertopia and Lexaria Master Joint Venture Agreement entered into on March 5, 2014 is still effective and governs the relationship between our Company and Enertopia.

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

*Marijuana Production in the United States*

In the United States it is still illegal under federal law to grow, cultivate and sell medical or adult use marijuana. However more than twenty-five states have approved medical marijuana for use and at least eight states have approved adult use regulations. The United States Federal government justice department has released memos that will respect the individual states where strict guidelines are followed and enforced so that the health, safety and security are protected at all times by state authorities. If the individual state framework fails to protect the public the Federal government will act in enforcing the controlled substances act of 1970 and the DEA will enforce the federal law.

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

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

## **Employees**

We primarily use sub-contractors and consultants in the medical marijuana operations and alternative health products.

On November 27, 2008, we entered into a consulting agreement with CAB Financial Services Ltd., a British Columbia company. The consulting services provided by CAB Financial are on a continuing basis for a consideration of CAD\$8,000 per month plus applicable taxes. CAB Financial is a consulting company controlled by our chief executive officer, Christopher Bunka. Effective December 1, 2014, the Company entered into a new consulting agreement for consulting services of \$10,000 a month plus GST.

On May 12, 2009, we entered into a six-month consulting agreement with BKB Management Ltd., a British Columbia company for a consideration of CAD\$4,500 per month plus applicable taxes. Effective January 1, 2011, the consideration was increased to CAD\$5,500 plus applicable taxes. BKB Management is a consulting company controlled by our chief financial officer, Bal Bhullar. Effective December 1, 2014, the Company entered into a new consulting agreement for consulting services of CAD\$7,500 a month plus GST. Ms. Bhullar resigned as the Company's chief financial officer effective April 29, 2016.

On August 5, 2010 we entered into a three-month management agreement with Tom Ihrke for Mr. Ihrke to act as the senior vice-president, business development for our company for consideration of \$3,125 per month. On December 2, 2010, we amended the agreement to be month-to-month. On October 3, 2011 Mr. Ihrke and our company amended the agreement whereby his title changed to manager, business development for a monthly consulting fee of \$3,125. Effective January 15, 2012, the consulting agreement was decreased to \$10 a month. Effective April 1, 2014, the amended consulting agreement was increased to \$5,000 per month. Effective December 23, the Company entered into a new Executive Management consulting agreement for consulting services of \$3,000 a month. Mr. Ihrke tendered his resignation on March 8, 2016.

On September 1, 2014, the Company entered into a contract with M&E Services Ltd., wholly owned company by Allan Spissinger as Controller for CAD\$2,500 plus GST. This contract was amended on December 1, 2014 to CAD\$3,400 a month plus GST.

The Company appointed Mr. John Docherty as President of Lexaria effective April 15, 2015. The Company executed a twenty-four-month consulting contract with Docherty Management Limited, solely owned by Mr. John Docherty with monthly compensation of CAD\$12,500 and shall increase to a total of CAD\$15,000 per month effective at that time when the Company has \$1,000,000 or more in cash in its bank accounts, and continue at CAD\$15,000 per month from that moment until the termination or completion of the contract. The Company may pay Mr. Docherty a bonus from time to time, at its sole discretion. Mr. Docherty will be entitled to receive common stock-based and stock option based bonuses upon achieving certain milestones during the time of his consultancy with the Company. These milestones are:



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- Upon signing: A grant of 500,000 stock options priced one-cent above market prices at the time of award. (granted).
- 90 Days after signing: A grant of 500,000 restricted common shares (Completed - 420,000 restricted common shares issued with cash payment of \$16,000, as mutually agreed to between the parties).

- Twelve months after signing: A grant of 300,000 stock options priced one-cent above market prices at the time of award (granted).
- 18 months after signing: A grant of 300,000 restricted common shares (252,000 restricted common shares issued in October 2016 with cash payment of \$6,240, as mutually agreed to between the parties).
- During the first 12 months after signing; for combined Lexaria Energy and ViPova products and including all combined sales efforts, achieving non-refundable sales of \$200,000 to any single customer in any consecutive 60-day period would result in a restricted common share award of 100,000 Company shares (expired); and, after the first 12 months after signing and expiring 24 months after signing; for combined Lexaria Energy and ViPova products and including all sales efforts, achieving non-refundable sales of \$200,000 to any single customer in any consecutive 60-day period would result in a restricted common share award of 50,000 Company shares; this clause is limited to one payment per customer during the 24-month period, but payable on each customer that meets these sales thresholds;
- During the first 12 months after signing; for combined Lexaria Energy and ViPova products and including all combined sales efforts, achieving non-refundable sales of \$500,000 in any fiscal quarter would result in a restricted common share award of 200,000 Company shares (expired); and, after the first 12 months after signing and expiring 24 months after signing; for combined Lexaria Energy and ViPova products and including all sales efforts, achieving non-refundable sales of \$500,000 in any fiscal quarter would result in a restricted common share award of 100,000 Company shares; this clause is limited to one payment per fiscal quarter;
- During the time this Agreement remains in effect, for each new provisional patent application substantially devised by Mr. Docherty and successfully created, written and filed with the US Patent Office for Company-owned intellectual property, a restricted common share award of 250,000 Company shares. This clause is not limited to the frequency of payment but each patent application is to be approved by the Board of Directors of the Company, in advance. During the year ended August 31, 2016, the Company issued to Mr. Docherty, 210,000 restricted common shares and further accrued \$4,000 combined in lieu of issuance of 250,000 restricted common shares, as mutually agreed to between the parties.

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

## Research and Development

We have incurred \$9,024 in research and development expenditures over the last fiscal year. Subject to successful financing efforts, we expect to conduct additional research and development, and conduct additional scientific testing, in the upcoming fiscal year. Exact programs remain undefined at this time and will be tightly related to our financial ability to undertake such steps.

However our plans include *in vitro* absorption tests of our patented technology of molecules such as Vitamin E; Ibuprofen; Nicotine; and, THC. We also hope to conduct our first ever *in vivo* absorption tests on CBD and on THC, all during the upcoming fiscal year if budgets allow. Depending on how many of these tests we undertake, we could require budgets of as much as \$500,000, or as little as \$35,000, to do so.

## Subsidiaries

We have one wholly owned subsidiary, Lexaria CanPharm Corp., a Canadian corporation. We also have a 51%-owned subsidiary Poviva Tea, LLC which was incorporated on December 12, 2014, under the laws of the State of Nevada.

**Item 1A. Risk Factors**

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

## Risks Associated with Our Business

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

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

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

Our revenues now are generated from being a food sciences and products company. We should be considered to be a start-up: the revenue recognized for the year ended August 31, 2016 was \$40,718.

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

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

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

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

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

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

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



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

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

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

Enforcing a claim that a third party infringes on, has illegally obtained or is using an intellectual property right, is expensive and time-consuming and the outcome is unpredictable. In addition, enforcing such a claim could divert management's attention from our business. If any intellectual property rights were to be infringed, disclosed to, or independently developed by a competitor, our competitive position could be harmed. Any adverse outcome of such litigation or settlement of such dispute could subject us to significant liabilities and could put one or more of our patent pending applications at risk of being invalidated.

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

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

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

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

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



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

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

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

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

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

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

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

We have experienced significant losses since inception. Failure to arrange adequate financing on acceptable terms and to achieve profitability would have an adverse effect on our financial position, results of operations, cash flows and prospects. Accordingly, there is substantial doubt that we will be able to continue as a going concern.

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

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

We do not currently, nor at any time in our corporate history have we ever cultivated, grown, processed, manufactured or sold marijuana in any location. Although we believe this fact to provide protection against prosecution related to marijuana legislation, we cannot provide any assurance to that effect. We do not hold a license in any jurisdiction



enabling us to grow or sell marijuana or cannabis related edibles, but because of our business model we do not feel that is a barrier to entry for us. Instead, we plan to license our technology related to bio-absorption of THC, to those entities that do have valid licenses in various North American jurisdictions to sell cannabis related edibles. If we are unable to license our technology to any valid license holders, then we may be shut out of this market.

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

operations.

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

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

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

The future growth and profitability of our food products business will be dependent in part on the effectiveness and efficiency of our advertising and promotional expenditures, including our ability to (i) create greater awareness of our services, (ii) determine the appropriate creative message and media mix for future advertising expenditures, and (iii) effectively manage advertising and promotional costs in order to maintain acceptable operating margins. There can be no assurance that we will experience benefits from advertising and promotional expenditures in the future. In addition, no assurance can be given that our planned advertising and promotional expenditures will result in increased revenues, will generate levels of service and name awareness or that we will be able to manage such advertising and promotional expenditures on a cost-effective basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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





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

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

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

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

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

## **Other Risks**

*Protection against environmental risks.*

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

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

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

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

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

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

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



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

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

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

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

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

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

*Trends, risks and uncertainties.*

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

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

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

## **Item 2. Properties**

### *Executive Offices*

The address of our principal executive office is 156 Valleyvie Road, Kelowna BC Canada V1X3M4, where we share ~1,200 square feet of office space, which includes several office for a monthly rental of CAD\$826. Our telephone number is (250) 765 6424. We have an additional administrative office space in Langley British Columbia and Phoenix Arizona at nominal costs. Our current locations provide adequate office space for our purposes at this stage of our development.

### *Resource Properties*

On November 26 2014 our company sold all of our working interests in Belmont Lake, Mississippi and at that moment no longer owned any natural resource assets.

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

On November 26, 2014, our company sold all its working interests in Belmont Lake.

The Purchase and Sale Agreement was executed on November 26, 2014, by and between our company and Cloudstream, Belmont Lake LP for the purchase and sale of oil and gas working interests, net revenue interests and other interests in Belmont Lake, Mississippi for total consideration of \$1,400,000. The closing date of the Purchase and Sale Agreement was December 5, 2014.

On November 12, 2014, the Company has signed an agreement with PoViva and acquired 51% of PoViva with an initial consideration of \$50,000. Lexaria serves as the Manager of Business Operations of PoViva's Teas. As Manager, Lexaria oversees most aspects of the business including, but not limited to, Accounting, Marketing, Capital Investment, Capital Raising, Sales, Branding, Advertising and Fulfillment. The Founders served until 2015 as Production Manager and were responsible for all aspects of production, product quality, licensing, testing, and product legality. It is also expected that both parties to this Agreement will assist the other to fulfill their obligations as needed and the cost of business will be borne by revenues earned by the company and general corporate funds

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

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

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

### **Item 4. Mine Safety Disclosures**

None.

## **PART II**

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

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

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

<b>OTC Bulletin Board<sup>(1)</sup></b>		
<b>Quarter Ended</b>	<b>High</b>	<b>Low</b>
October 31, 2013	\$0.10	\$0.0413
January 31, 2014	\$0.074	\$0.0325
April 30, 2014	\$0.785	\$0.042
July 31, 2014	\$0.434	\$0.14
August 31, 2014	\$0.14	\$0.102
November 30, 2014	\$0.12	\$0.04
Feb 28, 2015	\$0.12	\$0.07
May 31, 2015	\$0.225	\$0.076
August 31, 2015	\$0.27	\$0.13
November 30, 2015	\$0.235	\$0.111
Feb 28, 2016	\$0.28	\$0.08
May 31, 2016	\$0.169	\$0.08
August 31, 2016	\$0.154	\$0.08

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

As of November 24, 2016, there were 58 holders of record of our common stock. As of such date, 52,371,013 shares of common stock were issued and outstanding.

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

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

#### *Dividend Policy*

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

#### *Recent Sales of Unregistered Securities*

Other than set out below, we did not sell any equity securities which were not registered under the Securities Act during the year ended August 31, 2016 that were not otherwise disclosed on our quarterly reports on Form 10-Q or our current reports on Form 8-K filed during the year ended August 31, 2016.

## Edgar Filing: Lexaria Bioscience Corp. - Form 10-K

On September 16, 2015, the Company's Board appointed Mr. Ted McKechnie as a Director of the Company. Upon Mr. McKechnie's appointment the Company issued to him, 100,000 common shares of the Company valued at \$19,000. The Company also granted 100,000 stock options to Mr. Ted McKechnie. The exercise price of the stock options is \$0.19 and they expire on September 16, 2020. The number of common shares and stock options were updated pursuant to forward stock split on December 16, 2015, described below.

On November 18, 2015, the Company announced its Board of Directors approved a forward stock split of 1.1 new shares for every existing common share held. Upon effect of the forward stock split our authorized capital increased to 220,000,000 shares of common stock, par value \$0.001 and our issued and outstanding shares increased from 39,952,984 to 43,948,282 shares of common stock, with a par value of \$0.001. The reverse stock split was reviewed by the Financial Industry Regulatory Authority ("FINRA") and the Canadian Securities Exchange and was approved for filing with an effective date of December 16, 2015. The forward split became effective with the OTC Markets at the opening of trading on December 16, 2015 under the symbol LXRPD. The "D" was placed on our ticker symbol for 20 business days and subsequently removed. Our new CUSIP number is 52886N307.



## Edgar Filing: Lexaria Bioscience Corp. - Form 10-K

On December 10, 2015, Lexaria closed a private placement by issuing 500,000 units at a price of \$0.18 per unit for gross proceeds of \$90,000. Each unit consisted of one common share of the Company and one-half, transferable share purchase warrant. Each full warrant is exercisable into one further share at a price of \$0.30 per share for a period of 24 months following closing. A cash finders fee for \$2,520 was paid to Leede Financial Markets Ltd.; and 14,000 broker warrants with an exercise price of \$0.30 for a period of 24 months were also issued to Leede Financial Markets Ltd. The number of common shares and share purchase warrants was updated as a result of the forward stock split on December 16, 2015.

On December 14, 2015, Lexaria signed an Investor Relations contract with Radius Consulting Inc. for a 45-day term. Radius received \$2,500 and 50,000 common shares valued at \$9,500. Such common shares were adjusted for the forward stock split closing on December 16, 2015.

On March 8, 2016, the Company closed a private placement offering of a convertible debenture in the aggregate amount of \$45,000. The convertible debenture matures on August 31, 2020 with an interest rate of 10% per annum (on a simple basis) and is convertible at (i) \$0.12 per share at any time prior to August 31, 2016 (ii) \$0.15 per share at any time prior to August 31, 2017; (iii) \$0.20 per share at any time prior to August 31, 2018 or, at the sole option of the holder, a price equal to a 20% discount to the 10-day average closing price of the shares prior to the date of conversion (the Average Price ) provided that the Average Price is less than \$0.20 and provided further that the conversion price shall not be less than \$0.15; (iv) \$0.25 per share at any time prior to August 31, 2019 or, at the sole option of the holder, the Average Price provided that the Average Price is less than \$0.25 and provided further that the conversion price shall not be less than \$0.15; and (v) \$0.30 per share at any time prior to August 31, 2020 or, at the sole option of the holder, the Average Price provided that the Average Price is less than \$0.30 and provided further that the conversion price shall not be less than \$0.15.

On April 15, 2016, pursuant to the consulting agreement with Mr. John Docherty, the Company issued 210,000 common shares for services rendered as the President of the Company. We also issued 300,000 stock options, expiring on April 15, 2021, with an exercise price of \$0.11 per share, to Mr. Docherty, and agreed to pay him cash compensation of US\$4,000.

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

On June 6, 2016, the Company issued 25,000 stock options to a consultant of the Company vesting immediately, with an exercise price of \$0.14 per share and expiring on June 3, 2021.

On June 6, 2016, the Company engaged the marketing and investor relations services of Frontier Merchant Capital Group ( Frontier ) for a period of one year. Lexaria issued 300,000 stock options with an exercise price of \$0.14, vesting immediately, for this 12-month period.

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

On July 21, 2016, the Company announced it entered into two agreements; first with PPMT Strategic Group, Inc, a strategic consulting group, with capabilities that include, Mergers & Acquisitions advisory services, Sales and Marketing, Industry Partnering, Compliance and Executive CFO services, the second with Terra Nova Capital

Partners, Inc, a boutique investment and merchant banking firm. The Company issued to PPMT 250,000 restricted common shares as initial payment under the agreement. PPMT will receive 250,000 warrants to purchase common shares each month until the end of the agreement, with a fixed floor price and otherwise subject to normal regulatory conditions.

On July 25, 2016, the Company announced it entered into a \$50,000 loan agreement for 15 months, with an interest-free holiday for the first 3 months; if the loan is repaid within 3 months no interest will be due. For the final 12 months of the term, Lexaria will pay 8% simple interest. This secured loan is not convertible. The loan is provided by CAB Financial Services Ltd, which is a private holding company wholly-owned by the CEO of the Company.

On August 11, 2016, the Company announced it closed a private placement equity financing for 1,558,525 equity units priced at \$0.06; each equity unit consisting of one common share of the Company and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one additional common share of the Company for a period of two years from the date of issuance, at a purchase price of \$0.14; in order to raise gross proceeds of \$93,512.

On August 31, 2016, the Company announced it has closed a private placement equity financing for 3,266,666 equity units priced at \$0.06; each equity unit consisting of one common share of the Company and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one additional common share of the Company for a period of two years from the date of issuance, at a purchase price of \$0.14; in order to raise gross proceeds of \$196,000, of which \$93,500 was collected during September and October 2016. Placement fees of \$1,200 were paid and 50,000 broker warrants issued in connection with this tranche of the private placement.

### **Equity Compensation Plan Information**

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

#### **2007 Equity Plan**

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

The 2007 Plan permits our company to issue up to 500,000 shares of our common stock to eligible employees and directors of our company upon the exercise of stop options granted under the 2010 Plan.

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

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

The 2010 Plan permits our Company to issue up to 1,800,000 shares of our common stock to directors, officers, employees and eligible consultants of our Company upon exercise of stock options granted under the 2010 plan.

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

On June 11, 2014, our shareholders approved and adopted our company's 2014 Stock Option Plan which permits our company to grant up to an aggregate of 3,500,000 options to acquire shares of our common stock, to directors, officers, employees and consultants of our company.

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

<b>Equity Compensation Plan Information</b>			
<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans not approved by shareholders	Nil	Nil	Nil
Equity compensation plans approved by shareholders:			
2007 Equity compensation plan	Nil	Nil	550,000
2010 Equity compensation plan	247,500	\$0.10	1,732,500
2014 Stock Option Plan approved by security holders	3,237,500	\$0.14	612,500
<b>Total</b>	<b>3,485,000</b>	<b>\$0.14</b>	<b>2,895,000</b>

#### **Convertible Securities**

As of August 31, 2016, we had outstanding options to purchase 3,485,000 shares of our common stock exercisable between prices of \$0.10 and \$0.25. In December 2015 we experienced a 1.1 for 1.0 forward stock split that adjusted quantities and strike prices of all previously granted options. Those adjustments are reflected herein.

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

On April 15, 2016, the Company granted 300,000 stock options to a Officer of the Company. The exercise price is \$0.11, vested immediately, and expiring on April 15, 2021.

On June 3, 2016, the Company granted 300,000 stock options to a consultant to the Company. The exercise price is \$0.14, vested immediately, and expiring on June 3, 2021.

On June 3, 2016, the Company granted 25,000 stock options to a consultant to the Company. The exercise price is \$0.14, vested immediately, and expiring on June 3, 2021.

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

We did not purchase any of our shares of common stock or other securities during our fiscal year ended August 31, 2016.

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

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



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

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

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

**Plan of Operation**

During the next twelve month period (beginning September 1, 2016), we intend to:

- continue sales and marketing efforts for ViPova, Lexaria and new product lines
- identify and secure sources of equity and/or debt financing for patent applications;
- identify and secure sources of equity and/or debt financing for additional line of products for health and wellness;
- identify and secure sources of equity and/or debt financing for research and development

Our plans are dependent upon our ability to obtain sufficient capital to execute and during the previous year we did not raise sufficient capital to fulfill all our plans. Without sufficient capital, our plans will change, and could change materially. We anticipate that we will incur the following operating expenses during this period:

**Estimated Funding Required During the 12 Months beginning September 1, 2016**

Expense	Amount (\$)	Estimated Completion/Due Date
Research and Development of additional products	70,000	12 months
Patent applications and trademark	150,000	30 months
Marketing and Sales	200,000	12 months
Consulting Fees (~50% is officers and directors)	900,000	12 months
Professional fees	160,000	12 months
Rent	20,000	12 months
Other general administrative expenses (including travel, insurance, conferences, and fees)	240,000	12 months
Interest Expense	10,000	12 months
<b>Total</b>	<b>1,750,000</b>	

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

As at August 31, 2016, we had a working capital surplus of \$76,285 and cash on hand of \$93,409. We therefore estimate that we will be required to raise approximately \$1,600,000 in cash to finance our planned expenditures for the 12 months beginning September 1, 2016. In the uncertain event that we are unable to raise sufficient funds to execute our current business plan, or in the uncertain event that all of our debt obligations become due, we will be required to scale back our operations to prioritize immediate and necessary expenses. These necessary expenses include professional fees and general and administrative expenses necessary to satisfy our public reporting requirements.

Our business strategy involves several elements. We intend to prioritize our revenue generating efforts in 2016/17 on technology licensing, with a secondary focus on our consumer food products enriched with full spectrum hemp oil.

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

We first began selling trial amounts of ViPova branded black tea fortified with hemp oil and utilizing our technology, in January 2015. In August 2015 we added six new flavors of tea to expand the brand's reach.

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

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

ViPova branded products are owned by our 51%-owned Poviva Tea LLC subsidiary.

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

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

A manufacturing facility was contracted to produce the bar in 2015. The Lexaria Energy Bar was manufactured with two slightly different recipes, each of which relies exclusively or almost exclusively on sugars derived from natural fruits and berries; each of which is gluten free and contains no artificial sweeteners, flavors, colors, or preservatives. One recipe delivered more protein and fiber per serving while the other recipe delivers proportionately more carbohydrates as an energy enhancement. Recipes have evolved and at the time of this report the Company had no inventories of protein bars to be offered for sales, and was negotiating for a suitable 2016/17 manufacturing facility and prices.

Our strategy was to encourage online sales via a dedicated website, and also to encourage fitness enthusiasts to become aware of the Lexaria Energy Bars at fitness clubs and gyms, which they are likely to frequent. We did pursue traditional grocery store, convenience store, and roadside store distribution channels in 2016 with some success but limited due to our lack of an established distribution system.

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



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

Meanwhile our business strategy contains a second element that involves the further development and licensing of our intellectual property of molecule delivery that enhances bioactivity or absorption.

At this time we are not planning to offer for sale any products containing THC in quantities higher than 0.3%. However we envision licensing our technology to companies legally licensed to offer THC products in the states or jurisdictions where they do business. (We also plan to license our technology to other companies for the delivery of molecules other than THC or cannabinoids.) We will attempt to communicate the benefits of our technology to potential licensing partners, i.e. with higher absorption levels a manufacturer could infuse smaller amounts of active molecules into a product, thus reducing their manufacturing input costs. We believe this to a meaningful competitive advantage that may lead to the potential to generate licensing revenue, and will pursue these opportunities within the THC market both within the USA and also internationally, in those locations where it is legal and regulated by government.

We would not ourselves be selling any THC products we would only be licensing technology to already-licensed participants in valid jurisdictions. We expect a low number of licensees initially and currently have agreements with two such licensees and additional letter of intents.

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

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

We will continue to pursue our remaining patents pending as vigorously as we are able, since the successful granting of more of those applications could lead to material increases in shareholder value.

#### ***Results of Operations for our Year Ended August 31, 2016 and August 31, 2015***

Our net loss and comprehensive loss for the year ended August 31, 2016, for the year ended August 31, 2015 and the changes between those periods for the respective items are summarized as follows:

	<b>Year Ended August 31, 2016</b>	<b>Year Ended August 31, 2015</b>	<b>Change</b>
	\$	\$	\$
Revenue	40,718	14,702	26,016
General and administrative	1,272,352	1,968,089	(705,532)
Interest expense	2,250	31,544	(29,294)
Consulting fees	565,543	835,655	(270,112)
Professional Fees	133,860	98,751	35,109
Net loss	(1,277,249)	(1,934,352)	666,898
<b><i>Revenue</i></b>			

Consumer product sales represent the majority of the \$40,718 in revenues during the year ended August 31, 2016. Although revenues are higher than the previous year they did not meet our expectations. Consumer product sales revenues were lower than expected primarily due to challenges in securing expansive distribution opportunities, in a brand new emerging market sector: hemp oil fortified foods. Also included in reported revenues are the Company's first technology licensing revenues. Such revenues were recognized ratably over the term of the licensing agreement as the Company is required to provide additional support services during the term and is in a very early stage of this revenue cycle to identify a vendor-specific objective evidence of fair value of such services. The Company actually received license fees of \$20,000 during fiscal 2016 of which only \$7,500 was recognized in revenue in the year ending August 31, 2016.

As fiscal 2016 came to a close, hemp oil fortified foods, and hemp seed products, were gaining consumer acceptance and provide a reason to believe that sales could increase. Those trends should support higher potential consumer product sales. However, at the time of this report the Company had extinguished its supplies of certain products like protein bars and the lack of inventory is a negative impact on consumer product sales potential.

For 2017 the Company expects to derive ever larger proportions of its revenues from technology licensing to third parties. At August 31, 2015 the Company had zero technology licensing agreements entered. At the time of this report the Company had entered two (2) definitive license agreements, and had entered letters of intent for two additional license agreements. The Company also has several sets of negotiations ongoing for additional technology licensing agreements and has also entered into an Memorandum of Understanding to form a joint venture to develop, produce, and sell a line of healthy edible cannabinoid products using our patented technology. It is the Company's view that the October 2016 award of its first patent will be a positive step in enabling the generation of more significant revenues during 2017.

### ***General and Administrative***

Our general and administrative expenses decreased by \$695,737 during the year ended August 31, 2016. The decrease in our general and administrative expenses was largely due to cost saving measures implemented wherever possible. Examples are many and include fewer consulting employees; consolidation of offices; reduced new product development and more. Not all the cost saving measures are expected to be permanent for example the Company will require additional administrative support if it successfully develops new distribution channels for its consumer products; or many additional technology licensing agreements that will require certain management inputs.

We also did not spend significant funds on research and development activities during fiscal 2016 but expect those costs to rise in the upcoming years upon availability of additional financing.

Our non-cash stock-based compensation also decreased in fiscal 2016 due to fewer stock options granted.

### ***Interest Expense***

Interest expense for the year ended August 31, 2016 was only \$2,250, compared to \$31,544 in the previous year, and \$134,236 during the year ended August 31, 2014. The large decrease in interest expenses are the result of eliminating of most corporate debt as we transitioned away from being an oil and gas producer. During the year ended August 31, 2016 we increased our corporate debt levels and thus expect our interest expense in the 2017 fiscal year to be slightly higher but not approaching 2015 levels.

### ***Consulting fees***

Our consulting fees were lower during the year ended August 31, 2016 due to the involvement of fewer consultants, including the resignation of our former CFO. Our executives are typically hired and compensated as consultants and costs associated with those agreements comprise the largest majority of our consulting fees expense.

### ***Professional Fees***

Our professional fees increased by \$35,109 during fiscal 2016 primarily due to additional financial reporting preparation and audit fees from our third party service providers.

**Liquidity and Financial Condition**

	August 31 2016	August 31 2015
<i>Working Capital</i>	\$	\$
Current assets	510,166	674,733
Current liabilities	433,881	55,125
Working capital balance	76,285	619,608

The Company's working capital balance decreased during the year ended August 31, 2016 as a result of its cash spent during the year and also due to the significant accrued management consulting fees.

	Year Ended	
	August 31 2016	August 31 2015
<i>Cash flows</i>	\$	\$
Cash flows (used in) provided by operating activities	(660,856)	(1,501,027)
Cash flows (used in) provided by investing activities	(20,102)	684,817
Cash flows (used in) provided by financing activities	514,292	373,255
Increase (decrease) in cash	(166,666)	(442,955)

**Operating Activities**

Net cash used in operating activities was \$660,856 for the year ended August 31, 2016 compared with cash used in operating activities of \$1,501,027 during the same period in 2015. This difference was largely due to the reduced costs pertaining to consulting, advertising and promotion, research and development, and travel.

**Investing Activities**

Net cash used in investing activities was \$20,102 for the year ended August 31, 2016 primarily due to the Company's cost incurred related to its patent applications. During the year ended August 31, 2015, the Company received \$684,817 from investing activities primarily due to the sale of Belmont Lake oil field in Mississippi.

**Financing Activities**

Net cash provided from financing activities was \$514,292 during the year ended August 31, 2016 compared to net cash provided of \$373,255 during the same period in 2015. During fiscal 2015, the Company repaid its loans whereas during fiscal 2016, we entered into additional convertible debenture agreement as well as a loan agreement with our Chief Executive Officer. We raised \$419,292 from equity private placements in fiscal 2016 compared to \$471,997 in fiscal 2015.

**Contractual Obligations**

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

**Going Concern**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. Our company has a net loss attributable to its shareholders of \$1,214,773 for the year ended August 31, 2016 (August 31, 2015: \$1,770,500) and at August 31, 2016 had a deficit of \$11,300,662 (August 31, 2015: \$10,085,889). Our company has working capital balance of \$76,285 as at August 31, 2016 (August 31, 2015 surplus: \$619,608). Our company requires additional funds to

maintain our existing operations and to acquire new business assets. These conditions raise substantial doubt about our company's ability to continue as a going concern. Management's plans in this regard are to raise equity and debt financing as required, but there is no certainty that such financing will be available or that we will be available at acceptable terms. The outcome of these matters cannot be predicted at this time.

At this time, we cannot provide investors with any assurance that we will be able to raise sufficient funding from the sale of our common stock or through a loan from our directors to meet our obligations over the next twelve months. We do not have any arrangements in place for any future debt or equity financing.

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

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

### **Critical Accounting Policies**

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

### **Recent Accounting Pronouncements**

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

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

In August 2014, the FASB issued new guidance on determining when and how to disclose going concern uncertainties in the financial statements. The new guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about its ability to continue as a going concern. The guidance is effective for annual periods ending after December 15, 2016 and interim periods thereafter. Early adoption is permitted. Upon adoption, the Company does not believe this guidance will have a material impact on its consolidated results of operations or financial position.

In January 2015, the FASB issued ASU 2015-01, Income Statement-Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which eliminates the concept of extraordinary items. Under this new guidance, entities will no longer be required to separately classify, present and disclose extraordinary events and transactions. The amendments in this update are effective for annual and interim periods beginning after December 15, 2015. The Company is evaluating the impact of ASU 2015-01 but does not believe that it will have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 makes several modifications to the consolidation guidance for variable interest entities ("VIEs") and general partners' investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. It is effective for annual and interim periods beginning after December 15, 2015. The Company is currently evaluating the impact of this standard but does not believe that it will have a material impact on its consolidated financial statements.



In April 2015, FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ( ASU 2015-03 ). In August 2015, FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements ( ASU 2015-15 ). ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a deduction from the carrying amount of the debt. ASU 2015-15 allows an entity to present debt issuance costs associated with a revolving line of credit arrangement as an asset, regardless of whether a balance is outstanding. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03 or ASU 2015-15. These ASU s are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The new standard will not affect the Company s financial statements.

In April 2015, FASB issued ASU 2015-04, Practical Expedient for the Measurement Date of an Employer s Defined Benefit Obligation and Plan Assets ( ASU 2015-04 ). ASU 2015-04 allows employers with a fiscal year end that does not coincide with a calendar month end to make an accounting policy election to measure defined benefit plan assets and obligations as of the end of the month closest to their fiscal year end. ASU 2015-04 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Prospective application is required. The Company does not anticipate that the new guidance will have any impact on its consolidated financial statements.

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

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

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

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

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. Under ASU 2016-09, companies will no longer record excess tax

benefits and certain tax deficiencies in additional paid in capital ( APIC ). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement and the APIC pools will be eliminated. In addition, ASU 2016-09 eliminates the requirement that excess tax benefits be realized before companies can recognize them. ASU 2016-09 also requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. Furthermore, ASU 2016-09 will increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer's statutory income tax withholding obligation. An employer with a statutory income tax withholding obligation will now be allowed to withhold shares with the fair value up to the amount of taxes owed using the maximum statutory rate in the employee's applicable jurisdiction(s). ASU 2016-09 requires a company to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on the statement of cash flows. Under current U.S. GAAP, it is not specified how these cash flows should be classified. In addition, companies will now have to elect whether to account for forfeitures on share-based payments by (1) recognizing forfeiture awards as they occur or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is currently required. The amendments of this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted but all of the guidance must be adopted in the same period. The Company is currently assessing the impact the standard will have on its consolidated financial statements.

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

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

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

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Directors of

Lexaria Bioscience Corp.

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

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

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

The accompanying consolidated financial statements have been prepared assuming that Lexaria Bioscience Corp. will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Lexaria Bioscience Corp. has suffered recurring losses from operations. This matter, along with the other matters set forth in Note 1, indicate the existence of material uncertainties that raises 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**DAVIDSON & COMPANY LLP**

Vancouver, Canada

Chartered Professional Accountants

November 24, 2016

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**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 August 31, 2015 and October 31, 2014 and the related statements of stockholders' equity and comprehensive income, operations and cash flows for the years then ended August 31, 2015 and the ten-month period ended August 31, 2014. 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits 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 August 31, 2015 and August 31, 2014 and the result of its operations and its cash flows for the year then ended August 31, 2015 and the ten-month period ended August 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements refer to above have been prepared assuming 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  
November 24, 2015

Chartered Accountants

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

	<b>August 31</b>	<b>August 31</b>
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 93,409	\$ 260,075
Accounts and other receivable (Note 6)	131,083	31,382
Inventory (Note 7)	134,724	167,986
Prepaid expenses and deposit	150,950	215,290
	<b>510,166</b>	<b>674,733</b>
Patent (Note 8)	53,997	36,989
Equipment	2,475	-
	<b>56,472</b>	<b>36,989</b>
<b>TOTAL ASSETS</b>	<b>\$ 566,638</b>	<b>\$ 711,722</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 90,010	\$ 33,073
Unearned revenue (Note 9)	12,500	-
Due to related parties (Note 15)	331,371	22,052
<b>Total Current Liabilities</b>	<b>433,881</b>	<b>55,125</b>
<b>Convertible debenture (Note 10)</b>	<b>45,000</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>478,881</b>	<b>55,125</b>
<b>STOCKHOLDERS' EQUITY</b>		
<b>Share Capital</b>		
Authorized:		
220,000,000 common voting shares with a par value of \$0.001 per share		
Issued and outstanding: 51,288,473 common shares at August 31, 2016		
and 43,838,282 common shares at August 31, 2015	<b>51,288</b>	43,838
<b>Additional paid-in capital</b>	<b>11,515,419</b>	10,814,460
<b>Deficit</b>	<b>(11,300,662)</b>	(10,085,889)
<b>Equity attributable to shareholders of the Company</b>	<b>266,045</b>	772,409
<b>Non-Controlling Interest</b>	<b>(178,288)</b>	(115,812)
<b>Total Stockholders' Equity</b>	<b>87,757</b>	656,597
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 566,638</b>	<b>\$ 711,722</b>

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

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

	YEAR ENDED	
	August 31 2016	August 31 2015
<b>Revenue</b>		
Sales (Note 13)	\$ 40,718	\$ 14,702
<b>Cost of Goods Sold</b>		
Cost of goods sold	45,615	29,883
<b>Gross loss</b>	<b>(4,897)</b>	<b>(15,181)</b>
<b>Expenses</b>		
Accounting and audit	95,921	52,823
Depreciation	619	-
Insurance	17,237	10,095
Advertising and promotions	185,459	276,560
Bank charges and exchange loss	15,382	850
Stock based compensation (Note 12)	122,015	256,051
Consulting (Note 15)	565,543	835,655
Fees and dues	51,227	54,104
Interest expense from loan payable (Note 15)	2,250	31,544
Investor relation	31,829	18,000
Legal and professional	37,939	45,928
Office and miscellaneous	11,858	18,833
Research and development	9,024	146,466
Rent	28,211	85,650
Telephone	5,781	8,105
Taxes	3,983	3,578
Travel	44,034	101,183
MMJ expense	-	22,664
Inventory write-off (Note 7)	44,040	-
	<b>1,272,352</b>	<b>1,968,089</b>
<b>Loss for the year before other income</b>	<b>(1,277,249)</b>	<b>(1,983,270)</b>
Income from discontinued operations (Note 14)	-	48,918
<b>Net loss and comprehensive loss for the year</b>	<b>\$ (1,277,249)</b>	<b>\$ (1,934,352)</b>
<b>Net loss and comprehensive loss attributable to:</b>		
Common shareholders	\$ (1,214,773)	\$ (1,770,500)
Non-controlling interest	\$ (62,476)	\$ (163,852)
<b>Basic and diluted loss per share from continuing operations</b>	<b>\$ (0.03)</b>	<b>\$ (0.04)</b>
<b>Basic and diluted earnings per share from discontinued operations</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Weighted average number of common shares outstanding - Basic and diluted</b>	<b>43,840,378</b>	<b>39,700,841</b>

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





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

	YEAR ENDED	
	August 31 2016	August 31 2015
<b>Cash flows used in operating activities</b>		
Net loss for the year	\$ (1,277,249)	\$ (1,983,270)
Income loss from discontinued operations	-	48,918
Net loss from operations	(1,277,249)	(1,934,352)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation	122,015	256,051
Depreciation	619	-
Inventory write-off	44,040	-
Research and development	-	73,040
MMJ Joint Venture	-	22,662
Common shares issued for services	79,500	127,300
Warrants to be issued for services	32,252	-
Change in working capital:		
Accounts and other receivable	(6,201)	65,620
Inventory	(10,778)	(167,985)
Prepaid expenses and deposit	26,190	96,834
Accounts payable and accrued liabilities	56,937	(60,480)
Due to related parties	259,319	20,283
Unearned revenue	12,500	-
<b>Net cash used in operating activities</b>	<b>(660,856)</b>	<b>(1,501,027)</b>
<b>Cash flows used in investing activities</b>		
Proceeds from sale of oil and gas property	-	721,806
Patent	(17,008)	(36,989)
Acquisition of equipment	(3,094)	-
<b>Net cash provided by (used in) investing activities</b>	<b>(20,102)</b>	<b>684,817</b>
<b>Cash flows from financing activities</b>		
Proceeds from (Payments of) loans/convertible debentures	95,000	(98,742)
Proceeds from issuance of equity	419,292	471,997
<b>Net cash from financing Activities</b>	<b>514,292</b>	<b>373,255</b>
<b>Decrease in cash</b>	<b>(166,666)</b>	<b>(442,955)</b>
<b>Cash, beginning of year</b>	<b>260,075</b>	<b>703,030</b>
<b>Cash, end of year</b>	<b>\$ 93,409</b>	<b>\$ 260,075</b>
<b>Supplemental information of cash flows:</b>		
Interest paid in cash	\$ 2,250	\$ 98,742
Income taxes paid in cash	\$ -	\$ -
Subscription funds receivable	\$ 93,500	\$ -
Stock based compensation recognized from prepaid expense	\$ 38,150	\$ 55,317

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



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

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	SHARES TO BE ret/issued	DEFICIT	NCI	TOTAL EQUITY
	SHARES	AMOUNT \$					
Balance, August 31, 2014	37,674,659	37,674	10,030,013	(35,200)	(8,315,389)	-	1,717,098
Shares Cancelled	(671,000)	(671)	(79,529)	35,200	-	-	(45,000)
Shares issued for private placement	5,835,720	5,836	507,044	-	-	-	512,880
Non-controlling Interest	-	-	-	-	-	(115,812)	(115,812)
Shares issued for services	998,903	999	155,033	-	-	-	156,032
Stock based compensation	-	-	197,000	-	-	-	197,000
Return of commission from previous private placement	-	-	4,899	-	-	-	4,899
Net loss	-	-	-	-	(1,770,500)	-	(1,770,500)
<b>Balance, August 31, 2015</b>	<b>43,838,282</b>	<b>43,838</b>	<b>10,814,460</b>	<b>-</b>	<b>(10,085,889)</b>	<b>(115,812)</b>	<b>656,597</b>
Shares issued for services	625,000	625	78,875	-	-	-	79,500
Non-controlling Interest	-	-	-	-	-	(62,476)	(62,476)
Stock based compensation	-	-	83,865	-	-	-	83,865
Private placement of shares, net of issuance cost	5,266,858	5,267	414,025	-	-	-	419,292
Private placement subscription receivable	1,558,333	1,558	91,942	-	-	-	93,500
Warrants to be issued for services	-	-	32,252	-	-	-	32,252
Net loss	-	-	-	-	(1,214,773)	-	(1,214,773)

**Balance,  
August 31,  
2016**

<b>51,288,473</b>	<b>51,288</b>	<b>11,515,419</b>	<b>-</b>	<b>(11,300,662)</b>	<b>(178,288)</b>	<b>87,757</b>
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The accompanying notes are an integral part of these consolidated financial statements

**LEXARIA BIOSCIENCE CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2016**  
**(Expressed in U.S. Dollars)**

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

Lexaria Biosciences Corp. ( Lexaria , or the Company ) Company was formed on December 9, 2004 under the laws of the State of Nevada as an independent oil and gas company engaged in the exploration, development and acquisition of oil and gas properties in the United States and Canada. In March of 2014, the Company began its entry into the medicinal marijuana and alternative health and wellness business and discontinued its involvement in the oil and gas business in November 2014. In May 2016, the Company also commenced out-licensing its patented technology for the purpose of entering into the U.S. regulated medical and adult use cannabis edibles marketplace. The Company has offices in Vancouver and Kelowna, BC, Canada.

On November 24, 2015, our board of directors approved a forward stock split of our authorized and issued and outstanding shares of common stock on a basis of 1 old share of common stock for 1.1 new shares of common stock. Upon effect of the forward stock split our authorized capital increased to 220,000,000 shares of common stock, par value \$0.001 and our issued and outstanding shares increased from 39,952,984 to 43,948,282 shares of common stock, with a par value of \$0.001. The forward stock split has been reviewed by the Financial Industry Regulatory Authority ("FINRA") and the Canadian Securities Exchange ("CSE") and was approved for filing with an effective date of December 16, 2015. The forward split became effective with the OTC Markets at the opening of trading on December 16, 2015. Our new CUSIP number is 52886N307.

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has a net loss attributable to its common shareholders of \$1,214,773 for the year ended August 31, 2016 (2015: \$1,770,500) and at August 31, 2016 had a deficit accumulated since its inception of \$11,300,662 (2015: \$10,085,889). The Company has a working capital balance of \$76,285 as at August 31, 2016 (2015: \$619,608). The Company requires additional funds to maintain its operations and developments. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in this regard are to raise equity and debt financing as required, but there is no certainty that such financing will be available or that it will be available at acceptable terms. The outcome of these matters cannot be predicted at this time and the financing environment continues to be difficult.

These consolidated financial statements do not include any adjustments to reflect the future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

**2. Business Risk and Liquidity**

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

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

### 3. Significant Accounting Policies

#### a) Accounting Principles

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

#### b) Basis of Presentation

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

#### c) Basis of Consolidation

These consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiary, Lexaria CanPharm Corp. which was incorporated on April 4, 2014 under the laws of Canada, and 51%-owned subsidiary PoViva Tea, LLC which was incorporated on December 12, 2014, under the laws of the State of Nevada. All significant inter-company balances and transactions have been eliminated.

#### d) Revenue Recognition

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

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

**e) Inventory and Cost of Sales**

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

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

**f) Cash and Cash Equivalents**

Cash equivalents comprise certain highly liquid instruments with a maturity of three months or less when purchased. As of August 31, 2016, and August 31, 2015, cash and cash equivalents consist of cash only.

**g) Equipment**

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

**h) Patents**

Capitalized patent costs represent legal costs incurred to establish patents. When patents reach a mature stage, any associated legal costs are comprised mostly of maintenance fees and are expensed as incurred. Capitalized patent costs are amortized on a straight-line basis over the remaining life of the patent. The Company was granted its first patent subsequent to the year ended August 31, 2016, with legal life of 20 years.

**i) Stock-Based Compensation**

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

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

**j) Loss Per Share**

The Company applies the guidance in ASC 220 Earnings Per Share. Loss per share is computed using the weighted average number of shares outstanding during the period. Diluted loss per share is equivalent to basic loss per share because the potential exercise of the equity-based financial instruments was



anti-dilutive.

**k) Foreign Currency Translation**

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

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

**l) Financial Instruments**

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

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

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

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

The Company's financial instruments consist primarily of cash, accounts and other receivable, accounts payable and accrued liabilities, due to related parties, and convertible debenture. The carrying amounts of cash, accounts and other receivable, accounts payable and accrued liabilities, and due to related parties approximate their fair values due to their short maturities. The carrying value of the Company's convertible debenture approximates its fair values (using Level 3 inputs) based upon a comparison of the interest rate and terms of such debt to the rates and terms of debt currently available to the Company.

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

**m) Income Taxes**

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



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

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

**o) Comprehensive Income**

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

**p) Credit Risk and Receivable Concentration**

The Company places its cash with high credit quality financial institution. As of August 31, 2016, the Company had approximately \$93,000 in the bank (August 31, 2015: \$260,000).

As at August 31, 2016, the Company also has \$93,500 in private placement subscriptions receivable from five share subscriptions from arm's length parties (which were all received in September 2016), and a further \$27,583 (2015 - \$31,382) in sales tax receivable. An additional \$10,000 was receivable as at August 31, 2016 in relation to the Company's licensing agreement (Note 9), which was also received subsequent to the year-end. The Company considers its credit risk to be low for such receivable.

**q) Convertible Debenture**

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

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

**r) Commitments and Contingencies**

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

**s) Research and Development**

Research and development costs are expensed as incurred.

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**t) Advertising**

The Company expenses advertising costs as they are incurred. The advertising expenses were \$185,459 and \$276,560 for the years ended August 31, 2016 and 2015, respectively.

**u) Discontinued Operations**

The results of discontinued operations are presented separately, net of tax, from the results of ongoing operations for all periods presented. The expenses included in the results of discontinued operations are the direct operating expenses incurred by the disposed components that may be reasonably segregated from the costs of the ongoing operations of the Company. Lexaria disposed of its oil and gas interests during the year ended August 31, 2015 (Note 14)

**4. Estimates and Judgments**

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

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

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

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

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

**b) Convertible Debenture**

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

**c) Revenue Recognition of Licenses**

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

**d) Value of Stock Options**

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

**5. New Accounting Pronouncements**

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

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

In August 2014, the FASB issued new guidance on determining when and how to disclose going concern uncertainties in the financial statements. The new guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about its ability to continue as a going concern. The guidance is effective for annual periods ending after December 15, 2016 and interim periods thereafter. Early adoption is permitted. Upon adoption, the Company does not believe this guidance will have a material impact on its consolidated results of operations or financial position.

In January 2015, the FASB issued ASU 2015-01, Income Statement-Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which eliminates the concept of extraordinary items. Under this new guidance, entities will no longer be required to separately classify, present and disclose extraordinary events and transactions. The amendments in this update are effective for annual and interim periods beginning after December 15, 2015. The Company is evaluating the impact of ASU 2015-01 but does not believe that it will have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 makes several modifications to the consolidation guidance for variable interest entities ("VIEs") and general partners' investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. It is effective for annual and interim periods beginning after December 15, 2015. The Company is currently



evaluating the impact of this standard but does not believe that it will have a material impact on its consolidated financial statements.

In April 2015, FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ( ASU 2015-03 ). In August 2015, FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements ( ASU 2015-15 ). ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a deduction from the carrying amount of the debt. ASU 2015-15 allows an entity to present debt issuance costs associated with a revolving line of credit arrangement as an asset, regardless of whether a balance is outstanding. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03 or ASU 2015-15. These ASU s are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The new standard will not affect the Company s financial statements.

In April 2015, FASB issued ASU 2015-04, Practical Expedient for the Measurement Date of an Employer s Defined Benefit Obligation and Plan Assets ( ASU 2015-04 ). ASU 2015-04 allows employers with a fiscal year end that does not coincide with a calendar month end to make an accounting policy election to measure defined benefit plan assets and obligations as of the end of the month closest to their fiscal year end. ASU 2015-04 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Prospective application is required. The Company does not anticipate that the new guidance will have any impact on its consolidated financial statements.

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

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes ( ASU 2015-17 ). ASU 2015-17 requires companies to classify all deferred tax assets or liabilities as noncurrent on the balance sheet rather than separately disclosing deferred taxes as current and noncurrent. This standard is effective for the Company beginning on September 1, 2017 and can be applied either prospectively or retrospectively to all periods presented upon adoption. The standard is not expected to have any impact on the Company s financial statements.

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

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



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

## 6. Accounts and Other Receivable

	August 31 2016 \$	August 31 2015 \$
Territory License Fee receivable (Note 9)	10,000	-
Sales tax receivable	27,583	31,382
Private Placement receivable (Note 11)	93,500	-
	131,083	31,382

## 7. Inventory

	August 31 2016 \$	August 31 2015 \$
Raw materials	27,358	-
Finished goods	94,349	119,944
Work in progress	13,017	48,042
	134,724	167,986

During the year ended August 31, 2016, Company wrote down \$44,040 (2015 - \$nil) of inventory to reflect its net realisable value.

## 8. Alternative Health Products

On November 12, 2014, the Company signed an agreement with Poppy s Teas LLC. ( PoViva ) to acquire 51% of ViPova by satisfying the following requirements:

- Pay an initial consideration of \$50,000 (paid);
- Spend \$75,000 over one year for product marketing and operations (spent);
- Extend to the founders of ViPova ( Founders ) \$25,000 worth of Lexaria common shares (issued);
- Pay one of the Founders \$2,000 a month for production consulting for a period of 12 months (paid);
- Pay one of the Founders \$2,000 a month for marketing consulting for a period of 12 months (paid);
- Provide to the Founders a cash bonus in the amount of \$50,000 should the company generate \$300,000 in sales within 8 months of the execution of this agreement (N/A); and
- Agree for the Founders to be automatically granted a lifetime license to personally produce products covered by various patents.

The Company also spent the required minimum additional \$100,000 on sales and marketing ViPova by Lexaria brand to enable qualification to purchase additional interest in PoViva. The Company has the option to acquire an additional 24% interest in PoViva (for a total interest of 75%) by paying PoViva or its Founders 2.5 times trailing 12 months PoViva revenue (pro-rata) calculated from the date that this option is exercised. PoViva can receive up to 50% of this payment in the Company s common stock at PoViva s discretion.

PoViva has a right of first refusal to produce under white-label , additional cannabinoid based products on behalf of the Company but the Company reserves the right to engage other producers should it believe PoViva to be uncompetitive to supply the products requested by Lexaria.

The acquisition of PoViva was treated as an acquisition of assets rather than a business combination because PoViva did not constitute a business. \$48,039 acquired In-Process Research and Development was expensed at the acquisition date in accordance with ASC 730-10-25-1.

In June 2015, the Company simultaneously filed a U.S. utility patent application and an International patent application under the Patent Cooperation Treaty ( PCT ) procedure, both at the U.S. Patent and Trademark Office. These applications follow the Company s 2014 and 2015 family of provisional patent application filings in the U.S. and serve two additional broad purposes. Firstly, these filings served to expand potential intellectual property protection outside of the USA. Filing under the PCT allows the Company to elect to pursue patent protection in up to 148 nations around the world. The second purpose was to broaden the number of molecules for which intellectual property protection is sought. Under the original patents pending application, only the THC and CBD molecules, infused within a unique lipid-formulation technology, were pursued. Under the newer patent applications, the list of molecules for a unique delivery system was broadened to include THC, CBC, Nicotine, Non-Steroidal Anti-Inflammatories, and certain Vitamins.

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

As at August 31, 2016, the Company had capitalized \$53,997 for patent application. The Company was granted its first patent subsequent to the year-end. The granted patent has a priority date of June 10, 2014, a publish date of October 27, 2016, and protects the Company s technology for twenty years.



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

## 9. Unearned Revenue

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

The Company determined that the provision of the support services is a separate deliverable under the Licensing Agreement. As the support services will not be sold on a stand-alone basis, the Company is unable to establish a vendor-specific objective evidence of fair value of such services to be able to objectively allocate the Territory License fee receipts between the license and the support services. Accordingly, the Company recognizes revenue ratably over the term of the Licensing Agreement. As of August 31, 2016, the Company received \$10,000 as first installment of the Territory License Fee and recorded as receivable of a further \$10,000 for its second installment, which was received subsequent to the year-end. During the year ended August 31, 2016, \$7,500 was recognized as revenue with the remaining \$12,500 deferred for recognition in future periods.

## 10. Convertible Debenture

On March 8, 2016, the Company closed a private placement offering of a convertible debenture in the aggregate amount of \$45,000. The convertible debenture matures on August 31, 2020 with an interest rate of 10% per annum (on a simple basis) and is convertible at (i) \$0.12 per share at any time prior to August 31, 2016 (ii) \$0.15 per share at any time prior to August 31, 2017; (iii) \$0.20 per share at any time prior to August 31, 2018 or, at the sole option of the holder, a price equal to a 20% discount to the 10-day average closing price of the shares prior to the date of conversion (the "Average Price") provided that the Average Price is less than \$0.20 and provided further that the conversion price shall not be less than \$0.15; (iv) \$0.25 per share at any time prior to August 31, 2019 or, at the sole option of the holder, the Average Price provided that the Average Price is less than \$0.25 and provided further that the conversion price shall not be less than \$0.15; and (v) \$0.30 per share at any time prior to August 31, 2020 or, at the sole option of the holder, the Average Price provided that the Average Price is less than \$0.30 and provided further that the conversion price shall not be less than \$0.15.

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

During the year ended August 31, 2016, the Company paid interest of \$2,250 in connection with the convertible debenture.

## 11. Common Shares and Warrants

### *Fiscal 2015 Activity*

On July 14, 2014, the Company accepted Mr, Chris Hornung s resignation with respect to his contract dated, April 24, 2014, whereby the Company had entered into a one year consulting contract with 2342878 Ontario Inc., a wholly owned company by Chris Hornung as Assistant Manager. Upon signing of the contract of acceptance the Company had issued 121,000 common shares valued at \$35,200. The Company s 121,000 restricted common shares that were issued were cancelled and returned back to treasury.



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On September 26, 2014, the Company raised gross proceeds of \$45,780 for private placement of 335,720 common shares of the Company and 335,720 warrants with exercise price of \$0.23 and expiry date of March 26, 2016.

On December 12, 2014, the Company issued 261,903 common shares of the Company at a value of \$25,000 in connection with the terms of the ViPova agreement (Note 8).

On May 14, 2015, the Company closed a private placement by issuing 5,500,000 units for gross proceeds of \$500,000. Each unit consisted of one common share of the Company and one share purchase warrant, exercisable into one further common share at a price of \$0.23 per share and expiring on May 14, 2017. A cash finders fee for \$32,900 was paid to GMP Securities, Mackie Research and Peter Przygoda.; and 361,900 broker warrants with an exercise price of \$0.23 for a period of twenty-four months were issued to GMP, Mackie Research and Peter Przygoda. Cash finders fee in the amount of \$4,899 from Peter Przygoda was returned in August, 2015.

On June 8, 2015, the Company issued 275,000 common shares valued at \$47,500 to Ron Keleher and Scott Urquart with respect to agreements signed on April 2, 2015 and May 27, 2015.

On June 11, 2015, 550,000 restricted shares of the Company issued previously in connection with the Company's joint venture agreement were cancelled as joint venture agreement was terminated.

On August 17, 2015, the Company issued 462,000 common shares of the Company valued at \$83,532 to Docherty Management Limited as per the terms of the consulting agreement (Note 17).

As at August 31, 2015, the Company had 43,838,282 shares issued and outstanding and 19,840,186 warrants issued and outstanding.

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

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

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

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

On April 15, 2016, pursuant to the agreement with Mr. John Docherty (Note 17), the Company issued 210,000 common shares valued at \$21,000, for services rendered as the President of the Company.

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

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

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On July 28, 2016, pursuant to an agreement, in return for marketing, branding, and investor relations advisory services, the Company issued 250,000 common shares of the Company valued at \$0.12 per share (Note 17).

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

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

As at August 31, 2016, Lexaria had 51,288,473 common shares issued and outstanding and 12,136,241 warrants issued and outstanding.

A continuity schedule for warrants is presented below:

	Number of Warrants	Weighted Average Exercise Price \$
Balance, August 31, 2014	14,250,184	0.23
Expired	(607,618)	0.36
Issued	6,197,620	0.23
Balance, August 31, 2015	19,840,186	0.23
Expired	(13,978,286)	0.22
Issued	6,274,341	0.15
Balance, August 31, 2016	12,136,241	0.18

The fair value of share purchase warrants granted to the brokers was estimated as of the date of the grant by using the Black-Scholes option pricing model with the following assumptions:

	August 31 2016	August 31 2015
Expected volatility	237% - 240%	N/A
Risk-free interest rate	0.74% - 0.95%	N/A
Expected life	1.5 - 2 years	N/A
Dividend yield	0.00%	N/A
Estimated fair value per option	\$0.09 - \$0.19	N/A

A summary of warrants outstanding as of August 31, 2016 is presented below:

# of Warrants	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price \$
5,500,000	0.70 years	0.23
361,900	0.70 years	0.18
758,750	1.04 years	0.15
290,400	1.28 years	0.27
1,558,525	1.95 years	0.14
3,316,666	2.00 years	0.14
350,000	2.76 years	0.14
12,136,241	1.31 years	0.18

As at August 31, 2016, the Company was obligated to issue, for the month of August 2016, 250,000 warrants pursuant to marketing, branding and investor relations advisory agreement (Note 17). Such warrants were issued subsequent to the year-end (Note 19). The fair value of such warrants was estimated using the Black-Scholes option pricing model and determined to be \$32,252. Assumptions used as inputs to the model were consistent as the ones used for the calculation of stock options granted during the year (Note 12).

## 12. Stock Options

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

### *Fiscal 2015 Activity*

On December 22, 2014, the Company granted 1,567,500 stock options to certain directors, officers and consultants, with 1,347,500 vesting immediately, 110,000 vesting in six months, and 110,000 vesting in 12 months. The options have an exercise price of \$0.10 per share and expire on December 22, 2019.

On February 4, 2015, the Company granted 275,000 stock options to consultants with an exercise price of \$0.09, vesting immediately, expiring February 3, 2020.

On March 26, 2015, the Company granted 550,000 stock options to an officer of the Company. The exercise price of the stock options is \$0.09, vesting immediately and expiring on March 26, 2020.

### *Fiscal 2016 Activity*

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

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

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

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During the year ended August 31, 2016, the Company recorded a total \$122,015 (2015 - \$256,051) as stock based compensation expense of which \$83,865 (2015 - \$200,734) pertained to the stock options granted during the year with the remaining being the recognition of expense from previous grants.

A continuity schedule for stock options is presented below:

	Number of Options	Weighted Average Exercise Price \$
Balance, August 31, 2014 (vested and outstanding)	2,887,500	0.22
Expired	(1,210,000)	0.21
Granted	2,392,500	0.10
Balance, August 31, 2015 (vested and outstanding)	4,070,000	0.15
Expired	(385,000)	0.32
Cancelled	(935,000)	0.16
Granted	735,000	0.13
Balance, August 31, 2016 (vested and outstanding)	3,485,000	0.13

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

	August 31 2016	August 31 2015
Expected volatility	240% - 241%	243% - 249%
Risk-free interest rate	1.22% - 1.62%	1.47% - 1.66%
Expected life	5.00 years	5.00 years
Dividend yield	0.00%	0.00%
Estimated fair value per option	\$0.11 - \$0.19	\$0.08 - \$0.10

A summary of the Company's vested and outstanding stock options as at August 31, 2016 is presented below:

# of Stock Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price \$	Aggregate Intrinsic Value \$
247,500	1.80 years	0.09	4,950
660,000	2.90 years	0.23	(85,800)
1,017,500	3.31 years	0.10	10,175
275,000	3.43 years	0.09	5,500
550,000	3.57 years	0.09	11,000
110,000	4.05 years	0.17	(7,700)
300,000	4.62 years	0.11	3,000
325,000	4.76 years	0.14	(6,500)
3,485,000	3.45 years	0.13	(65,375)

**13. Revenues**

	August 31 2016 \$	August 31 2015 \$
Product sales	31,743	14,702
Licensing revenue (Note 9)	7,500	-
Freight revenue	1,149	-
Other revenue	326	-
	40,718	14,702

**14. Discontinued Operations**

On November 26, 2014, a Purchase and Sale Agreement was executed between Lexaria and Cloudstream Belmont Lake, LP for the purchase and sale of oil and gas working interests, net revenue interests and other interests in Belmont Lake, Mississippi for total consideration of \$1,400,000. A total net amount of \$721,806 was paid to the Company after all short-term debts were paid out from the sale.

Accordingly, the results of the Company's former oil and gas business were reported as discontinued operations during fiscal 2015.

Income from discontinued operations were comprised of:

	August 31 2016 \$	August 31 2015 \$
Revenue	-	59,715
Cost	-	(10,797)
	-	48,918

**15. Related Party Transactions**

For the year ended August 31, 2016, the Company paid/accrued \$120,000 to C.A.B Financial Services ( CAB ) (2015 - \$119,700); to BKB Management Ltd. ( BKB ) \$44,767 (2015 - \$69,543) for management, consulting and accounting services; to a senior vice president \$18,000 (2015 - \$42,000) for executive management consulting; and to Docherty Management Limited \$117,213 (2015 - \$60,965). All fees incurred were included as consulting on the Company's statement of operations. CAB is owned by the CEO of the Company, BKB is owned by the former CFO of the Company and Docherty Management Limited ( Docherty Management ) is owned by the President of the Company. The CFO of the Company resigned effective April 29, 2016.

During the year ended August 31, 2016, the Company also granted 210,000 (2015 462,000) restricted common shares with a value of \$21,000 (2015 \$83,532) per share to Mr. Docherty for his services.

The Company granted a total of 410,000 (2015 1,870,000) incentive stock options to the directors and officers of the Company with a fair value of \$51,642 (2015 - \$159,082) (Note 11).

On July 25, 2016, the Company entered into a loan agreement with CAB for a principal amount of \$50,000. The term of the loan agreement is 15 months, with an interest free period for the first three months. For the final 12

months, Lexaria will pay simple interest at the rate of 8% per annum.

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During fiscal 2015, outstanding loans to Company's related parties were repaid from the total consideration from the sale of Lexaria's oil and gas working interest (Note 14). Total interest expense incurred on such loans during the year ended August 31, 2015 amounted to CAD\$24,720 and \$10,333.

During July 2016, the Company entered into a marketing agreement with a Company controlled by a director for compensation of \$4,000 per month. During the year ended August 31, 2016, the Company paid \$8,000 in such fees.

As at August 31, 2016, \$331,371, inclusive of loan noted above, was payable to the related parties (August 31, 2015 - \$22,052).

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

## 16. Segment Information

The Company's operations involve the development and usage, including licensing, of its proprietary nutrient infusion Technology. Lexaria is centrally managed and its chief operating decision makers, being the president and the CEO, use the consolidated and other financial information supplemented by revenue information by category of alternative health products as well as licensing, as a whole, to make operational decisions and to assess the performance of the Company. Accordingly, the Company operates in a single segment.

During the year ended August 31, 2015, the Company's operating segments were the oil and gas exploration and the alternative health products, which were managed separately based on fundamental differences in the nature of such operations.

Summarized financial information concerning Lexaria's reportable segment as at and during the year ended August 31, 2015 was as follows:

	Oil and Gas	Alternative Health Products	Corporate	Total
	\$	\$	\$	\$
Revenue	48,918	14,702	-	63,620
Operation expenses	-	349,093	1,618,996	1,968,089
Total assets	-	214,632	497,090	711,722

## 17. Commitments, Significant Contracts and Contingencies

### *Management Agreements*

As at August 31, 2016, the Company is party to the following contractual commitments with management.

Party	Monthly Commitment
C.A.B Financial Services	\$10,000
Docherty Management Ltd.	CAD\$12,500

The Company appointed Mr. John Docherty as President of Lexaria effective April 15, 2015. The Company executed a twenty-four month consulting contract with Docherty Management Limited, solely owned by Mr. John Docherty with monthly compensation of CAD\$12,500 and shall increase to a total of CAD\$15,000 per month effective at that time when the Company has \$1,000,000 or more in cash in its bank accounts, and continue at CAD\$15,000 per month from that moment until the termination or completion of the contract. The Company may also pay Mr. Docherty a bonus from time to time, at its sole discretion. Mr. Docherty will be entitled to receive common stock based and stock option based bonuses upon achieving certain milestones during the time of his consultancy with the Company. These milestones are:

Upon signing: A grant of 550,000 stock options priced one-cent above market prices at the time of award. (granted)

90 Days after signing: A grant of 500,000 restricted common shares (Completed - 462,000 restricted common shares issued with cash payment of \$16,000, as mutually agreed to between the parties).

Twelve months after signing: A grant of 300,000 stock options priced one-cent above market prices at the time of award (granted).

18 months after signing: A grant of 300,000 restricted common shares (252,000 restricted common shares issued subsequent to the year end (Note 19), with cash payment of \$6,240, as mutually agreed to between the parties).

During the first twelve (12) months after signing; for combined Lexaria Energy and ViPova products and including all combined sales efforts, achieving non-refundable sales of \$200,000 to any single customer in any consecutive 60-day period would result in a restricted common share award of 100,000 Company shares (expired); and, after the first 12 months after signing and expiring 24 months after signing; for combined Lexaria Energy and ViPova products and including all sales efforts, achieving non-refundable sales of \$200,000 to any single customer in any consecutive 60-day period would result in a restricted common share award of 50,000 Company shares; this clause is limited to one payment per customer during the 24-month period, but payable on each customer that meets these sales thresholds;

During the first 12 months after signing; for combined Lexaria Energy and ViPova products and including all combined sales efforts, achieving non-refundable sales of \$500,000 in any fiscal quarter would result in a restricted common share award of 200,000 Company shares (expired); and, after the first 12 months after signing and expiring 24 months after signing; for combined Lexaria Energy and ViPova products and including all sales efforts, achieving non-refundable sales of \$500,000 in any fiscal quarter would result in a restricted common share award of 100,000 Company shares; this clause is limited to one payment per fiscal quarter;

During the time this Agreement remains in effect, for each new provisional patent application substantially devised by Mr. Docherty and successfully created, written and filed with the US Patent Office for Company-owned intellectual property, a restricted common share award of 250,000 Company shares. This clause is not limited to frequency of payment but each patent application is to be approved by the Board of Directors of the Company, in advance. During the year ended August 31, 2016, the Company issued to Mr. Docherty 210,000 restricted common shares and further accrued \$4,000 combined in lieu of issuance of 250,000 restricted common shares, as mutually agreed to between the parties.

### ***Lease***

The Company has a lease commitments for its office space for CAD\$826 per month. The lease require a 90-day termination notice.

### ***Convertible Debenture***

The Company has issued a convertible debenture for \$45,000, maturing on August 31, 2020. The convertible debenture accrues interest at 10% per annum, payable in quarterly installments (Note 10).

### ***Marketing, Branding, and Investor Relations Advisory***

On July 18, 2016, the Company entered into a service agreement with an arm's length service provider for marketing, branding, and investor relations advisory services (the "Advisory Agreement"). The Advisory Agreement has a term of one year with automatic renewal but can be terminated by either party with 30 days' notice. In exchange for services, the Company issued 250,000 common shares upon signing of the agreement (Note 11) and is obligated to issue share purchase warrants for purchase of 250,000 common shares, on a monthly basis, with exercise price that is the average of the daily closing prices of the preceding month with a minimum of \$0.08 per share. The warrants will have a term of five years from the date of issuance.

Lexaria retains the right but has no obligation to make any future month's payment in cash using the same formula to establish and per-share valuation price, multiplied by 250,000, in lieu of issuing the monthly warrants. The Advisory Service Provider is entitled to 3% commissions on revenue received by Lexaria originating from the parties introduced by the Advisory Service Provider.

## 18. Income Tax

The following table reconciles the income tax benefit at the U.S. Federal statutory rate to income tax benefit at the Company's effective tax rates as at August 31, 2016 and 2015:

	August 31 2016	August 31 2015
	\$	\$
Loss before taxes	(1,277,249)	(1,934,352)
Income tax rate	35.00%	35.00%
Expected income tax recovery	(447,037)	(677,023)
Non-deductible items	101,040	98,765
Change in estimates	(897,713)	646,711
Change in valuation allowance	1,243,710	(68,453)
Total income taxes	-	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax assets at August 31, 2016 and 2015 are comprised of the following:

	August 31 2016	August 31 2015
	\$	\$
Non-capital losses	3,959,704	2,715,994
Valuation allowance	(3,959,704)	(2,715,994)
Net deferred tax assets recognized	-	-

The Company has net operating loss carryforwards of approximately \$11,313,000 which may be carried forward to apply against future year income tax for U.S. tax purposes.

Year	Amount
2025	76,000
2026	508,000
2027	1,056,000
2028	720,000
2029	753,000
2030	552,000
2031	538,000
2032	252,000
2033	344,000
2034	3,257,000
2035	2,268,000
2036	989,000
	11,313,000

## 19. Subsequent Events

- a) The Company granted 250,000 stock options to a consultant with a strike price of \$0.14 per share, and expiry term of two years.
- b) Pursuant to its agreement with Docherty Management Ltd. (Note 17), the Company issued 252,000 restricted common shares and cash compensation of \$6,240.
- c) Pursuant to the Advisory Agreement (Note 17), the Company issued 750,000 warrants with an exercise price of \$0.14 per share and valid for five years, in return for consulting services provided in August, September, and October. The Company recognized the related fair value of 250,000 of such warrants for services received during the month of August 2016, in these consolidated financial statements.
- d) The Company reached an agreement with a director to settle the outstanding amount pursuant to a marketing agreement (Note 15), through issuance of common shares of the Company. To settle the outstanding amount of \$16,000 for four months to October 31, 2016, the Company issued 114,286 shares of its common stock at a value of \$0.14 per share.
- e) The Company issued 56,250 shares of its common stock in settlement of \$9,000, recognized within accounts payable and accrued liabilities as at August 31, 2016.
- f) A total of 55,000 incentive stock options were exercised for proceeds of \$12,500.
- g) A total of 605,000 share purchase warrants were exercised for proceeds of \$137,508.

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

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

**Item 9A. Controls and Procedures**

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

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

As of August 31, 2016, the end of our fiscal year covered by this report, we carried out an evaluation, under the supervision and with the participation of our President and chief executive officer and chief financial officer (also our principal executive and financial reporting and accounting officers), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president, chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management s authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States. Our management assessed the effectiveness of our internal control over financial reporting as of August 31, 2016. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in *Internal Control-Integrated Framework*. Our management has concluded that, as of August 31, 2016, our internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US generally accepted accounting principles. Our management reviewed the results of their assessment with our Board of Directors.

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

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

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

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal controls over financial reporting that occurred during the year ended August 31, 2016 that have materially or are reasonably likely to materially affect, our internal controls over financial reporting.

**Item 9B. Other Information**

None

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

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

<b>Name</b>	<b>Position Held with our Company</b>	<b>Age</b>	<b>Date First Elected Or Appointed</b>	<b>Date of Resignation</b>
Christopher Bunka	Chairman, Chief Executive Officer, interim Chief Financial Officer, and Director,	55	October 26, 2006 February 14, 2007 April 29, 2016	-
John Docherty	President and Director	46	April 15, 2015 April 29, 2016	-
Bal Bhullar	Former Chief Financial Officer and Director	47	May 12, 2009	April 29, 2016
Nicholas Baxter	Director	63	July 8, 2011	-
Ted McKenchnie	Director	69	September 16, 2015	-

**Business Experience**

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

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

Mr. Bunka has served as our director, chairman, president and chief executive officer since October 26, 2006. From February 14, 2007 until May 12, 2009 he was the chief financial officer of our company. Since October 26, 2006 Mr. Bunka has successfully completed both equity and debt financings for our company, completed the acquisition of additional oil & gas assets, disposed of other oil & gas assets, and restructured our company. He has refocused our company from one of natural gas exploration to that of development of existing oil reserves, and has engaged additional geophysical expertise in an attempt to better understand its exploration and development opportunities. Mr. Bunka has privately evaluated numerous oil and gas properties and investment opportunities for his private investments during the past 10 years.



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

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

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

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

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

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

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

Mr. Baxter has been in the oil & gas business for 30 years. Mr. Baxter received a Bachelor of Science (Honors) from the University of Liverpool in 1975. Mr. Baxter has worked on geophysical survey and exploration projects in the U.K., Europe, Africa and the Middle East. From 1981 to 1985, Mr. Baxter worked for Resource Technology plc, a geophysical equipment sales/services company that went public on the USM in London in 1983 and graduated to the London Stock Exchange in 1984. Mr. Baxter established his own company in 1985 as a co-founder of Addison & Baxter Limited, a private geophysical/geological sales and services company which was acquired by A&B Geoscience Corporation in 1992. Mr. Baxter was Chief Operating Officer and a director of A&B Geoscience Corporation from 1992 to 2002. Mr. Baxter worked as an independent upstream oil and gas consultant from 2002 to 2004. He joined Eurasia Energy Ltd in 2005, where he is currently President and Chief Executive Officer.

***Mr. Ted McKechnie Director***

An entrepreneurial executive with extensive Board and Senior Management Experience in the consumer goods industry with a proven track record for achieving corporate financial and growth objectives. He is the former President and COO of Maple Leaf Foods, which in 2014 had revenue of over CDN \$3.1 billion dollars. Mr. McKechnie also has held executive positions with Kraft, Frito Lay, General Foods, PepsiCo, and Philip Morris Companies. He is the Founder, Chairman and CEO of Canada's Technology For Food. Mr. McKechnie is an energetic leader experienced in building teams in marketing, sales and supply chain management. Ted is the recipient of the Philip Morris Chairman's Award for recognition of extraordinary contributions having a significant and lasting impact on the Corporation.

## Family Relationships

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

## Involvement in Certain Legal Proceedings

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

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

Any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or

- iii. Any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
8. Such person was the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

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

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

Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during fiscal year ended August 31, 2016, all filing requirements applicable to our officers, directors and greater than 10% percent beneficial owners were complied with.

#### **Code of Ethics**

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

#### **Board and Committee Meetings**

Our board of directors held one formal meeting and several informal meetings during the year ended August 31, 2016. All proceedings of the board of directors were conducted by resolutions consented to in writing by all the directors and filed with the minutes of the proceedings of the directors. Such resolutions consented to in writing by the directors entitled to vote on that resolution at a meeting of the directors are, according to the Nevada General Corporate Law and our Bylaws, as valid and effective as if they had been passed at a meeting of the directors duly called and held.

#### **Nomination Process**

As of August 31, 2016, we did not effect any material changes to the procedures by which our shareholders may recommend nominees to our board of directors. Our board of directors does not have a policy with regards to the consideration of any director candidates recommended by our shareholders. Our board of directors has determined that it is in the best position to evaluate our company's requirements as well as the qualifications of each candidate when the board considers a nominee for a position on our board of directors. If shareholders wish to recommend candidates directly to our board, they may do so by sending communications to the president of our Company at the address on the cover of this annual report.

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

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

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

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

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

The particulars of the compensation paid to the following persons:

- (a) our principal executive officer;
- (b) each of our two most highly compensated executive officers who were serving as executive officers at the end of the years ended August 31, 2016 and August 31, 2015; and
- (c) up to two additional individuals for whom disclosure would have been provided under (b) but for the fact that the individual was not serving as our executive officer at the end of the years ended August 31, 2016 and August 31, 2015,

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

SUMMARY COMPENSATION TABLE									
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>(6)</sup>	Option Awards (\$) <sup>(3)</sup>	Non-Equity Incentive Plan Compensation (\$)	Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Christopher Bunka <sup>(1)</sup> , Chairman, Chief Executive Officer, Interim Chief Financial Officer & Director	2016	-	-	-	-	-	-	120,000	120,000
	2015	-	-	-	49,750	-	-	119,700	163,750
Bal Bhullar <sup>(2)</sup> , Chief Financial Officer & Director	2016	-	-	-	-	-	-	44,767	44,767
	2015	-	-	-	49,750	-	-	69,543	119,293
Tom Irkhe <sup>(4)</sup> Vice President	2016	-	-	-	-	-	-	18,000	18,000
	2015	-	-	-	9,947	-	-	42,000	51,947
John Docherty <sup>(5)</sup> President	2016	-	-	21,000	32,768	-	-	117,213	170,981
	2015	-	-	83,532	39,722	-	-	44,965	168,219

- (1) Mr. Bunka was appointed as chairman, president, chief executive officer, and director on October 26, 2006, and was chief financial officer of our company from February 14, 2007 until May 12, 2009, and again from April 29, 2016 to present. He resigned as president on April 15, 2015. We pay Mr. Bunka a consulting fee through CAB Financial Services Ltd., where he is also the Chief Executive Officer.
- (2) Ms. Bhullar was appointed Chief Financial Officer on May 12, 2009 and resigned April 29, 2016. We paid Ms. Bhullar consulting fees through her wholly owned company BKB Management Ltd.
- (3) The fair value of the stock options awarded was estimated using the Black-Scholes option pricing model with the following assumptions: expected volatility of 240.00% (2015 248%); risk-free interest rate of 1.22% (2015 1.60%); expected life of 5 years (2015 5 years); and dividend yield of 0.00% (2015 0.00%).
- (4) Mr. Ihrke became Vice President on December 23, 2015 and resigned on March 8, 2016.
- (5)

Mr. Docherty became President on April 15, 2015 and a director on April 29, 2016. We pay Mr. Docherty a consulting fee through his wholly owned company Docherty Management Ltd.

- (6) Pursuant to the agreement with Docherty Management Ltd. Mr. Docherty received 210,000 (2015 462,000) restricted common shares with a value of \$21,000 (2015 - \$83,532).

Our company is currently paying consulting fees to our chief executive officer and chief financial officer \$10,000 per month, and paying our president CAD\$12,500 per month in consulting fees.

*Employment/Consulting Agreements*

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 plus GST. Effective December 1, 2014, the Company entered into a new consulting agreement with the consulting services at \$10,000 per month plus GST.

On May 12, 2009 the Company entered into a consulting agreement with BKB Management Ltd. to act as the Chief Financial Officer and a Director for an initial period of six months for consideration of CAD \$4,500 per month plus GST. Effective December 1, 2014, the Company entered into a new consulting agreement for CAD\$7,500 per month plus GST. Effective March 29, 2016, BKB Management Ltd. resigned its position and the contract was terminated.



On August 5, 2010 we entered into a three-month Management agreement with Tom Ihrke to act as the Senior Vice-President, Business Development for the Company for consideration of \$3,125 per month. On December 2, 2010, the Company entered into a month to month management agreement with Tom Ihrke. On October 3, 2011 Mr. Ihrke and the Company amended the agreement whereby his title changed to Manager, Business Development. The Company agreed to pay a monthly consulting fee of \$3,125. Effective January 15, 2012, the consulting agreement was decreased to \$10 a month. Effective April 1, 2014, the amended consulting agreement was increased to \$5,000 per month. Effective December 23, 2014, the Company entered into a new Executive Management consulting agreement for \$3,000 per month. Effective March 8, 2016 Mr. Ihrke resigned and the contract was terminated.

On March 26, 2015, the Company announced the appointment John Docherty as President of Lexaria effective April 15, 2015. The Company executed a twenty four month consulting contract with Docherty Management Limited, solely owned by Mr. John Docherty with a monthly compensation of CAD\$12,500 and shall increase to a total of CAD\$15,000 per month effective at that time when the Company has \$1,000,000 or more in cash in its bank accounts, and continue at \$15,000 per month from that moment until the termination or completion of the contract.

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

**Grants of Plan-Based Awards Table**

We did not grant any awards to our named executive officers in the during our fiscal year ended August 31, 2016.

**Outstanding Equity Awards at Fiscal Year End**

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

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END									
Name	OPTION 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 Unearned Shares, Units or Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)
Christopher Bunka	550,000	-	-	\$0.11	2019/12/22	-	-	-	-
	247,500	-	-	\$0.10	2018/06/18	-	-	-	-

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Tom Ihrke	330,000	-	-	\$0.11	2019/12/22	-	-	-	-
John Docherty	550,000 300,000	- -	- -	\$0.10 \$0.11	2020/03/26 2021/04/15	- -	- -	- -	- -

**Option Exercises**

During our fiscal year ended August 31, 2016, no options were exercised by our named officers.

## Compensation of Directors

We do not have any agreements for compensating our directors for their services in their capacity as directors, although such directors are expected in the future to receive stock options to purchase shares of our common stock as awarded by our board of directors.

## Pension, Retirement or Similar Benefit Plans

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

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

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

## Compensation Committee Interlocks and Insider Participation

During 2016, we did not have a compensation committee or another committee of the board of directors performing equivalent functions. Instead the entire board of directors performed the function of compensation committee. Our board of directors approved the executive compensation, however, there were no deliberations relating to executive officer compensation during 2016.

## Compensation Committee Report

None.

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

The following table sets forth, as of November 24, 2016, certain information with respect to the beneficial ownership of our common shares by each shareholder known by us to be the beneficial owner of more than 5% of our common shares, as well as by each of our current directors and executive officers as a group. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
Christopher Bunka; Kelowna BC Canada	14,064,323 <sup>(1)</sup>	26.35%
Nicholas Baxter; Aberdeenshire, UK	330,000 <sup>(2)</sup>	0.63%
John Docherty; Toronto, Ontario	2,060,000 <sup>(3)</sup>	3.89%
Ted McKechnie; Toronto, Ontario	334,286 <sup>(4)</sup>	0.6%
<b>Directors and Executive Officers as a Group (4 persons)</b>	<b>16,788,609</b>	<b>31.47%</b>
David DeMartini, Texas, Houston	3,609,375	5.3%
<b>Total as a Group ( persons) <sup>(5)</sup></b>	<b>20,397,984</b>	<b>36.77%</b>

\* Less than 1%.

- (1) Includes 5,421,844 shares held in the name of C.A.B. Financial Services and 7,207,979 shares held directly by Chris Bunka, chairman, chief executive officer and a director of our company. Includes 187,000 warrants held in the name of C.A.B. Financial Services with an exercise price of \$0.227 and 450,000 warrants held directly by Chris Bunka with an exercise price of \$0.14. Includes 247,000 options which are exercisable at \$0.1091 and 550,000 options exercisable at \$0.10; .

- (2) Includes 110,000 options which are exercisable at \$0.10. Nicholas Baxter is a director of our company.
- (3) Includes 143,000 warrants with an exercise price of \$0.227. Includes 550,000 options which are exercisable at \$0.10 and 300,000 options which are exercisable at \$0.11. John Docherty is the President and a Director of our Company
- (4) Includes 110,000 options exercisable at \$0.171. Ted McKechnie is a Director of our Company.
- (5) Under Rule 13d-3, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of shares; and (ii) investment power, which includes the power to dispose or direct the disposition of shares. Certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding on November 9, 2016. As of November 9, 2016, there were 51,931,013 shares of our common stock issued and outstanding.

*Changes in Control*

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

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

Except as disclosed herein, no director, executive officer, shareholder holding at least 5% of shares of our common stock, or any family member thereof, had any material interest, direct or indirect, in any transaction, or proposed transaction since the year ended August 31, 2016, 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.

*Director Independence*

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

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

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

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



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

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

The aggregate fees billed for the most recently completed fiscal year ended August 31, 2016 and for fiscal year ended August 31, 2015 for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows:

	Year Ended	
	August 31, 2016	August 31, 2015
Audit Fees	38,186	47,407
Audit Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total	38,186	47,407

*Audit Fees:* Audit fees consist of fees billed for professional services rendered for the audits of our financial statements, reviews of our interim financial statements included in quarterly reports, services performed in connection with filings with the Securities and Exchange Commission and related comfort letters and other services that are provided by the Company's principal accountants for the fiscal years ended August 31, 2016 and August 31, 2015 in connection with statutory and regulatory filings or engagements.

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

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

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

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

- approved by our audit committee (which consists of our entire board of directors); or
- entered into pursuant to pre-approval policies and procedures established by the board of directors, provided the policies and procedures are detailed as to the particular service, the board of directors is informed of each

service, and such policies and procedures do not include delegation of the board of directors' responsibilities to management.



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

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

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements

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

Exhibit No.	Document Description
<b>(31)</b>	<b>Rule 13a-14(a)/15d-14(a)</b>
31.1*	<u>Section 302 Certifications under Sarbanes-Oxley Act of 2002 of Principal Executive Officer</u>
31.2*	<u>Section 302 Certifications under Sarbanes-Oxley Act of 2002 of Principal Financial Officer and Principal Accounting Officer</u>
<b>(32)</b>	<b>Section 1350 Certifications</b>
32.1*	<u>Section 906 Certification under Sarbanes Oxley Act of 2002 of Principal Executive Officer</u>
32.2*	<u>Section 906 Certification under Sarbanes Oxley Act of 2002 of Principal Financial Officer and Principal Accounting Officer</u>
<b>(101)**</b>	<b>Interactive Data Files</b>
<u>101.INS</u>	<u>XBRL Instance Document</u>
<u>101.SCH</u>	<u>XBRL Taxonomy Extension Schema Document</u>
<u>101.CAL</u>	<u>XBRL Taxonomy Extension Calculation Linkbase Document</u>
<u>101.DEF</u>	<u>XBRL Taxonomy Extension Definition Linkbase Document</u>
<u>101.LAB</u>	<u>XBRL Taxonomy Extension Label Linkbase Document</u>
<u>101.PRE</u>	<u>XBRL Taxonomy Extension Presentation Linkbase Document</u>

\* Filed herewith.

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

**SIGNATURES**

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

**LEXARIA BIOSCIENCE CORP.**

By: /s/ Christopher Bunka  
Christopher Bunka  
Chief Executive Officer, Chairman and Director  
(Principal Executive Officer)

Date: November 24, 2016

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

By: /s/ Christopher Bunka  
Christopher Bunka  
Chief Executive Officer, Chairman and Director, Chief Financial Officer  
(Principal Executive Officer)

Date: November 24, 2016

By: /s/ John Docherty  
John Docherty  
President and Director

Date: November 24, 2016

By: /s/Ted McKechnie  
Ted McKechnie  
Director

Date: November 24, 2016