

LEXARIA CORP.  
Form 10-Q  
September 14, 2011

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

**Form 10-Q**

(Mark One)

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

For the quarterly period ended July 31, 2011 or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number \_\_\_\_\_

**Lexaria Corporation**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or  
organization)

**20-2000871**

(IRS Employer Identification No.)

**950 - 1130 West Pender Street, Vancouver, BC**

(Address of principal executive offices)

**V6E 4A4**

(Zip Code)

**604-602-1675**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 past 90 days.

YES       NO

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

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Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a 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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Check whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

YES  NO

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

15,631,452 common shares issued and outstanding as of July 31, 2011

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**PART 1 FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

Our unaudited interim financial statements for the nine month period ended July 31, 2011 form part of this quarterly report. They are stated in United States Dollars (US\$) and are prepared in accordance with United States generally accepted accounting principles.

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

	July 31 2011	October 31 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 494,442	\$ 62,989
Accounts receivable	231,606	74,879
Prepaid expenses and deposit	4,274	2,338
<b>Total Current Assets</b>	<b>730,322</b>	140,206
<b>Capital assets, net</b>	-	425
<b>Oil and gas properties (Note 6)</b>		
Proved property	3,115,223	3,118,376
Unproved properties	19,293	19,293
	<b>3,134,516</b>	3,137,669
<b>TOTAL ASSETS</b>	<b>\$ 3,864,838</b>	\$ 3,278,300
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 92,319	\$ 137,437
Loan payable (Note 7,8)	782,653	910,441
Due to a related party (Note 9)	1,769	1,769
<b>Total Current Liabilities</b>	<b>876,741</b>	1,049,647
<b>Loan Payable (Note 7)</b>	<b>599,438</b>	75,000
<b>TOTAL LIABILITIES</b>	<b>1,476,179</b>	1,124,647
<b>STOCKHOLDERS' EQUITY</b>		
<b>Share Capital</b>		
Authorized:		
200,000,000 common voting shares with a par value of \$0.001 per share Issued and outstanding: 15,631,452 common shares at July 31, 2011 (12,926,348 common shares at October 31, 2010)		
	15,631	12,926
<b>Additional paid-in capital</b>	<b>6,836,335</b>	6,065,119
<b>Deficit</b>	<b>(4,463,307)</b>	(3,924,392)
<b>Total Stockholders' Equity</b>	<b>2,388,659</b>	2,153,653
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 3,864,838</b>	3,278,300

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

**LEXARIA CORP.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**For Nine Months Ended July 31, 2011 to October 31, 2009**  
**(Expressed in U.S. Dollars)**

	COMMON STOCK		STOCK TO BE ISSUED	ADDITIONAL PAID-IN CAPITAL	DEFICIT	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	AMOUNT			
Balance, October 31, 2009	10,732,870	10,733	-	5,658,768	(3,371,930)	2,297,571
Stock Options @ \$0.20 Jan 10	-	-	-	139,050	-	139,050
Issuance of common stock per Subscription Agreement at \$0.1143 per share	1,617,752	1,618	-	181,782	-	183,400
Issuance of common stock per Settlement Agreement at \$0.12 per share	499,893	500	-	59,487	-	59,987
Stock Options @ \$0.20 Aug. 16				22,316	-	22,316
Warrant conversion @\$0.05	75,833	76	-	3,716	-	3,792
Comprehensive income (loss): (Loss) for the period	-	-	-	-	(552,462)	(552,462)
Balance, October 31, 2010	12,926,348	12,926	-	6,065,118	(3,924,392)	2,153,653
Warrant conversion @	66,300	66	-	14,520	-	14,586

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\$0.22

Issuance of common stock per Settlement Agreement at \$0.23 per share	40,761	41	-	9,335	-	9,375
Warrants for Convertible Debt	-	-	-	20,562	-	20,562
Issuance of common stock per stock option exercise	106,250	106	-	21,144	-	21,250
Issuance of common stock per warrant exercise @ \$0.20	2,173,043	2,173	-	432,436	-	434,609
Issuance of common stock per stock option exercise @ \$0.20	118,750	119	-	23,631	-	23,750
Issuance of common stock per PP @ \$0.35	200,000	200	-	69,800	-	70,000
Stock Options @ \$0.35	-	-	-	179,789	-	179,789
Comprehensive income (loss): (Loss) for the period	-	-	-	-	(538,915)	(538,915)
Balance, July 31, 2011	15,631,452	15,631	-	6,836,335	(4,463,307)	2,388,659

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

**LEXARIA CORP.**  
**STATEMENTS OF OPERATIONS**  
For nine months ended July 31, 2011  
(Expressed in U.S. Dollars)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	2011	July 31 2010	2011	July 31 2010
<b>Revenue</b>				
Natural gas and oil revenue	359,621	122,462	1,006,068	229,885
<b>Cost of revenue</b>				
Natural gas and oil operating costs	110,012	23,927	420,550	78,389
Depletion	75,253	59,001	284,317	119,024
Write down in carrying value of oil & gas properties	-	-	-	1
	185,265	82,928	704,867	197,414
<b>Gross profit (loss)</b>	<b>174,356</b>	<b>39,534</b>	<b>301,201</b>	<b>32,471</b>
<b>Expenses</b>				
Accounting and audit	4,448	2,912	27,517	21,870
Insurance	2,137	2,338	6,612	4,676
Advertising and promotions	15,416	-	36,372	559
Bank charges and exchange loss	18,276	(25,595)	81,693	26,689
Stock Based Compensation	179,789	-	179,789	139,050
Consulting (note 9)	74,743	37,026	189,471	122,872
Depreciation	(0)	255	425	765
Fees and Dues	13,216	3,621	24,228	18,724
Interest expense from loan payable (note 6,7)	57,554	43,232	172,262	123,827
Investor relation	-	-	29,153	1,943
Legal and professional	38,781	44	46,670	21,868
Office and miscellaneous	2,266	154	4,279	976
Rent	3,604	3,884	10,576	11,467
Telephone	618	706	2,544	2,033
Taxes	592	-	5,977	5,745
Training	-	-	268	-
Travel	15,885	369	22,280	4,157
	427,325	68,946	840,116	507,221
<b>Net (loss) and comprehensive loss for the period</b>	<b>(252,969)</b>	<b>(29,412)</b>	<b>(538,915)</b>	<b>(474,750)</b>
<b>Basic and diluted (loss) per share</b>	<b>(0.02)</b>	<b>(0.00)</b>	<b>(0.04)</b>	<b>(0.04)</b>
<b>Weighted average number of common shares outstanding</b>				

<b>- Basic and diluted</b>	<b>14,276,776</b>	12,682,073	<b>13,451,758</b>	12,148,251
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The accompanying notes are an integral part of these financial statements.

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**LEXARIA CORP.**  
**STATEMENT OF CASH FLOWS**  
**For nine months ended July 31, 2011**  
**(Expressed in U.S. Dollars)**

	Nine Months Ended July 31	
	2011	2010
<b>Cash flows used in operating activities</b>		
Net (loss)	\$ (538,915)	(474,750)
Adjustments to reconcile net loss to net cash used in operating activities:		
Consulting - Debt settlement	9,376	-
Stock based compensation	179,789	139,050
Depreciation	425	765
Depletion	284,317	119,023
Write down in carrying value of oil and gas properties	-	1
Foreign exchange gain / loss	75,410	21,904
Accredited interest on loan payable	10,358	11,596
Change in operating assets and liabilities:		
(Increase)/Decrease in accounts receivable	(156,727)	(15,020)
(Increase)/ Decrease in prepaid expenses and deposit	(1,936)	(4,676)
Increase in accounts payable	(45,118)	44,934
<b>Net cash used in operating activities</b>	<b>(183,021)</b>	<b>(157,173)</b>
<b>Cash flows used in investing activities</b>		
Oil and gas property acquisition and exploration costs	(281,164)	-
<b>Net cash used in investing activities</b>	<b>(281,164)</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Payments of loan payable	331,444	75,000
Proceeds from private placement	70,000	183,400
Proceeds from Stock Options and warrant	494,194	-
<b>Net cash from financing Activities</b>	<b>895,638</b>	<b>258,400</b>
<b>Increase (Decrease) in cash and cash equivalents</b>	<b>431,453</b>	<b>101,227</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>62,989</b>	<b>330,167</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 494,442</b>	<b>431,394</b>

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



**LEXARIA CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**July 31, 2011**  
**(Expressed in U.S. Dollars)**  
**(Unaudited)**

**1. Basis of Presentation**

The unaudited interim financial statements for the quarter ended July 31, 2011 included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited interim financial statements should be read in conjunction with the October 31, 2010 audited annual financial statements and notes thereto.

**2. Organization and Business**

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

These financial statements have been prepared in accordance with United States generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has incurred an operating loss and required additional funds to maintain its operations. Management's plans in this regard are to raise equity and/or debt financing as required.

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

### **3. Business Risk and Liquidity**

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

### **4. Significant Accounting Policies**

#### **a) Principles of Accounting**

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

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**b) Convertible Debentures**

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.

**c) Newly Adopted Accounting Policies**

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.

In February 2010, the FASB issued ASC No. 2010-09, *Amendments to Certain Recognition and Disclosure Requirements*, which eliminates the requirement for SEC filers to disclose the date through which an entity has evaluated subsequent events. The adoption of ASC No. 2010-09 does not have a material impact on the Company's financial statements.

In April 2010, the FASB issued ASU 2010-13, *Compensation Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*, or ASU 2010-13. This ASU provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The adoption does not have significant impact on its financial statements.

**d) New Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which is effective for annual reporting periods beginning after December 15, 2011. ASU 2011-05 will become effective for the Company on January 1, 2012. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. In addition, items of other comprehensive income that are reclassified to profit or loss are required to be presented separately on the face of the financial statements. This guidance is intended to increase the prominence of other comprehensive income in financial statements by requiring that such amounts be presented either in a single continuous statement of income and comprehensive income or separately in consecutive statements of income and comprehensive income. The adoption of ASU 2011-05 is not expected to have a material impact on the Company's financial position or results of operations.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which is effective for annual reporting periods beginning after December 15, 2011. This guidance amends certain accounting and disclosure requirements related to fair value measurements. Additional disclosure requirements in the update include: (1) for Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs; (2) for an entity's use of a nonfinancial asset that is different from the asset's highest and best use, the reason for the difference; (3) for financial instruments not measured at fair value but for which disclosure of fair value is required, the fair value hierarchy level in which the fair value measurements were determined; and (4) the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. The Company is currently evaluating the impact of the adoption.

Accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's financial statements upon adoption.

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## 5. Capital Stock

### Share Issuances

On December 24, 2009, the Company completed an equity financing and issued 1,617,752 units at the price of CAD\$0.12 per unit and each unit consists of one share purchase warrant which two warrants entitle a holder to purchase one common share at CAD\$0.20 per share for a period of one year, so that effective December 24, 2009, the Company had 12,350,622 shares of common stock issued and outstanding. All shares and warrants issued were restricted under applicable securities rules.

On March 17, 2010, the Company had increased its authorized share capital from 18,750,000 common shares to 200,000,000 common shares.

On May 31, 2010, the Company issued 499,893 units at a price of \$0.12 per unit for a Settlement Agreement valued at \$59,987. Each unit consists of one common share and one share purchase warrants at \$0.12 per share for a period of two years. All shares and warrants issued were restricted under applicable securities rules.

On October 21, 2010, the Company settled a portion of the debt, namely US\$1,625 with CAB Financial Services by converting 65,000 warrants into 32,500 common shares of the Company as per Purchase Agreement dated October 27, 2008 at a price of \$0.05 per share.

On October 21, 2010, the Company settled a portion of the debt, namely US\$2,167 with Christopher Bunka by converting 86,667 warrants into 43,333 common shares of the Company as per Purchase Agreement dated October 27, 2008 at a price of \$0.05 per share.

On November 16, 2010, the Company settled the debt incurred as a result of that consulting agreement, being US\$9,375, to Mr. Tom Ihrke by issuing 40,761 restricted common shares of the Company at a price of \$0.23 per share.

On January 4, 2011, 132,600 warrants were exercised for 66,300 common shares of the Company at a price of CAD\$0.22 for total proceeds of \$14,586. 100,000 warrants of the 132,600 warrants were exercised by a Director of the Company.

On March 6, 2011, the Company accepted and received gross proceeds of US\$21,250 for the exercise of 106,250 stock options by a Director of the Company at an exercise price of US\$0.20 per unit into 106,250 common shares of the Company.

On June 8, 2011, 1,500,000 warrants were exercised for 1,500,000 common shares of the Company at a price of US\$0.20 for total proceeds of US\$300,000. The warrants were exercised by a Director of the Company.

On June 28, 2011, 500,000 warrants were exercised for 500,000 common shares of the Company at a price of US\$0.20 for total proceeds of US\$100,000. The warrants were exercised by a Director/Officer of the Company.

On July 13, 2011, 173,043 warrants were exercised for 173,043 common shares of the Company at a price of US\$0.20 for total proceeds of US\$34,609.

On July 13, 2011, the Company completed an equity financing and issued 200,000 units at the price of US\$0.35 per unit and each unit consists of one share purchase warrant which entitles a holder to purchase one common share at US\$0.50 per share for a period of two years. All shares and warrants issued were restricted under applicable securities rules. The Company accepted and received gross proceeds of US\$70,000. \$3,500 of finder's fee was payable to an officer of the Company.





On July 15, 2011, the Company accepted and received gross proceeds of US\$23,750 for the exercise of 118,750 stock options at an exercise price of US\$0.20 per unit into 118,750 common shares of the Company. 100,000 stock options were exercised by a Director/Officer of the Company.

As at July 31, 2011, Lexaria Corp. has 15,631,452 shares issued and outstanding and 2,471,322 warrants issued and outstanding.

A summary of warrants as at July 31, 2011 is as follows:

<b>Number Outstanding <sup>1</sup></b>	<b>Exercise Price</b>	<b>Expiry Date</b>
499,893	\$ 0.20	May 31, 2012
1,771,429	\$ 0.40	November 30, 2012
200,000	\$ 0.50	July 13, 2013

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

## **6. Oil and Gas Properties**

### **(a) Proved properties**

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

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

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

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

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

On April 3, 2009, the Company entered into an Asset Purchase Agreement to acquire additional interests in its existing core producing Mississippi oil and gas properties. The Company paid \$40,073.39 to acquire additional 2% working interest in the proven Belmont Lake oil and gas and an additional 10% working interest in potential nearby exploration wells. Total working interest for Belmont Lake is 32%; and total working interest in the exploration wells on approximately 140,000 acres surrounding Belmont Lake in all directions is 60%.

The Company had a short-lived opportunity to acquire additional fractional interests in the upcoming Belmont Lake 12-4 well which was expected to be a horizontal well. An unrelated third party did not participate in its right to participate in the 12-4 well, and therefore a share of its interest (a non consent interest) was made available to the other participating parties including Lexaria. On August 28, 2009 and effective on September 1, 2009, to take best advantage of this opportunity, the Company entered into four separate assignment agreements, three of which were with people or companies with related management. The Company received from these four parties proceeds of \$371,608.57 to fund additional interests in this well. As a result, the Company has a 25.84% perpetual gross interest in the well (18.0% net revenue interest); as well as a 5.2% net revenue interest in the non-consent interest. The non-consent interest remains valid until such time as the well produces 500% of all costs and expenses back to the participants in the form of revenue, at which time the non-consent interest ends. Enertopia, a company with related management, has acquired from Lexaria a 6.16% perpetual gross interest in the 12-4 well; David DeMartini, a director of Lexaria, has acquired from Lexaria a 5% gross interest in the non-consent interest in the 12-4 well; and 0743608 BC Ltd. a company owned by the President of the Company, has acquired from Lexaria a 11.60% gross interest in the non-consent interest in the 12-4 well.

On May 31, 2010, the Company signed a Settlement Agreement with Enertopia Corp., whereby the Company issued 499,893 units at \$0.12 per unit and each unit consists of one restricted common share and one share purchase warrant at \$0.20 per share for a period of two years in exchange for the working interest initially assigned on August 28, 2009.

On June 16, 2010, the Company signed a Settlement Agreement with a third party, who had originally participated in the August 28, 2009, opportunity in the non-consent interest for Belmont Lake 12-4. The Company returned back \$144,063.46 to the third party and cancelled its participation.

On July 29, 2010, the Company had agreed with its Operators at Belmont Lake not to proceed to drill a horizontal 12-4 well. Rather, two of the three proposed vertical wells 12-2, 12-4, or 12-5 are proposed to be drilled in August 2010. To take best advantage of this opportunity, the Company cancelled all previous agreements relating to August 28, 2009 with respect to Belmont Lake horizontal well 12-4 and entered into three separate assignment agreements, of which all three were with people or companies with related management. The Company received total proceeds of \$324,677.12 to fund additional interests in these wells. As a result, the Company has a 32% perpetual gross interest in the wells (24.0% net revenue interest); as well as a 8% gross interest (6% net revenue interest) in the non-consent interest. The non-consent interest remains valid until such time as the well produces 500% of all costs and expenses back to the participants in the form of revenue, at which time the non-consent interest ends. Emerald Atlantic LLC, a company owned by a director of Lexaria, has acquired from Lexaria a 8.74% gross interest in the non-consent interest in two of the three vertical wells; and 0743608 BC Ltd. a company owned by the President of the Company, has acquired from Lexaria a 20.79% gross interest in the non-consent interest in the two of the three vertical wells; an advisor to the Company has acquired from Lexaria 2.46% gross interest in the non-consent interest in two of the three vertical wells.

On September 13, 2010, Lexaria Corp. (the Company ) entered into three separate assignment agreements with 0743608 BC Ltd, solely owned by Director/Officer of the Company; Emerald Atlantic LLC, solely owned by a Director of the Company, and the Senior VP Business Development. (the Assignees ), whereby the Assignees have paid a fee of US\$408,116 to earn a 24% share of the Company s gross non-perpetual 32% interest in the three oil wells being drilled in Wilkinson County, Mississippi. This agreement replaces the one signed on August 28, 2009. A balance of \$83,439, which is outstanding, will be received by the Company in the month of September. As a result of the three assignment agreements, Lexaria receives at no cost to the company, a carried interest of 8% in these same rights and benefits. The Company assigns, transfers and sets over to the Assignees, all proportionate rights, interest and benefits in the Assigned Non Perpetual Interest held by or granted to the Assignor in and to the Participation Agreement between the Company and Griffin but limited to a gross 500% revenue payout based on the total amount paid under the Initial Consideration and the Subsequent Consideration after which all rights, interests and benefits cease.

As of July 31, 2011, additional expenditures of \$281,164 were incurred for workovers and there were additional well interest changes or workovers pending of wells PP F-12, PP F12-3, PP F12-4, PP F12-5 and PP F12-29.

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

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

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

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

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

During December 2007, two additional wells, PP F-6A and PP F-83, were drilled and were plugged and abandoned due to non-economic gas shows.

<b>Properties</b>	<b>October 31, 2010</b>	<b>Addition</b>	<b>Depletion</b>	<b>July 31, 2011</b>
<b>U.S.A. Proved property</b>	<b>\$ 3,118,376</b>	<b>\$ 281,164</b>	<b>\$ (284,317)</b>	<b>\$ 3,115,223</b>

**(b) Unproved Properties**

<b>Properties</b>	<b>October 31, 2010</b>	<b>Addition</b>	<b>Write Down</b>	<b>July 31, 2011</b>
<b>U.S.A.-Unproved properties</b>	<b>\$ 19,293</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,293</b>

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

The Company entered into an Agreement to acquire a working interest in multiple zones of potential oil and gas production in Mississippi and Louisiana. This Agreement contemplates up to a 50 well drill program for Wilcox and Frio wells, at the Company's option, within the defined area of mutual interest (AMI). The AMI includes over 200,000 gross acres located non-contiguously between Southwest Mississippi and North East Louisiana.

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

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

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



On July 26, 2007, the Company acquired 5% from a third party for all rights, title and benefits in the seven wells drilled under the AMI Agreement between August 3, 2006 and June 19, 2007, specifically wells CMR-USA-39-14, Dixon #1, Faust #1 TEC F-1, CMR/BR F-14, RB F-1 Red Bug #2, BR F-33, and Randall #1 F-4, and any offset wells that could be drilled to any of these specified wells.

On April 3, 2009, the Company entered into an Asset Purchase Agreement to acquire additional interests in its existing core producing Mississippi oil and gas properties. The Company paid \$40,073 to acquire an additional 2% working interest in the proven Belmont Lake oil and gas field, and an additional 10% working interest in potential nearby exploration wells. Further, the Company is required to pay \$100 per month for a period of 4 years from the closing. Total working interest for Belmont Lake as of October 31, 2010 is 32%; and total working interest in the exploration wells on approximately 140,000 acres surrounding Belmont Lake in all directions as of October 31, 2010, is 60%.

On December 16, 2010, the Company entered into an assignment agreement with Emerald Atlantic LLC, solely owned by a Director of the Company (the Assignee ), whereby the Assignee has paid a fee of US\$30,076 to earn 18% of a 4.423% share of the Company's net revenue interest after field operating expenses for a well to be drilled in Wilkinson County.

## 7. Loan Payable

- a) On April 1, 2010, the Company entered into a purchase agreement with CAB Financial Services Ltd., a company controlled by Christopher Bunka, our President, Chief Executive Officer and Director, ( Purchaser ) for a non-secured promissory note in the amount of US\$75,000 (the Promissory Note ). The Purchaser agreed to purchase a non-secured 18% interest bearing Promissory Note of our company subject to and upon the terms and conditions of the Purchase Agreement. The Promissory Note is due and payable on April 1, 2012. The Promissory Note may be prepaid in whole or in part at any time prior to April 1, 2012 by payment of 108% of the outstanding principal amount including accrued and unpaid interest.

As long as the Promissory Note is outstanding, the Purchaser may voluntarily convert the Promissory Note including accrued and unpaid interest to common shares of our company at the conversion price of \$0.30 per common share.

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

- b) On November 30, 2010, we closed the first tranche of a private placement offering of convertible debentures in the aggregate amount of US\$450,000. The convertible debentures mature on November 30, 2012, subject to forced conversion as set out in the convertible debenture certificate. The convertible debentures pay an interest rate of 12% per annum (on a simple basis) and are convertible at US\$0.35 per unit. Each unit is comprised of one share of our common stock and one share purchase warrant. Each warrant entitles the holder thereof to purchase one share at a price of US\$0.40 per share up to the earlier of the maturity date of the convertible debenture or one year from conversion of the convertible debenture. We also entered into a general security agreement with the subscribers, whereby the obligations to repay the convertible debenture are secured by certain of our assets.

On December 16, 2010, the Company closed the second tranche of a private placement offering of convertible debentures in the aggregate amount of US\$170,000. The convertible debentures mature on November 30, 2012, subject to forced conversion as set out in the convertible debenture certificate. The convertible debentures pay an interest rate of 12% per annum (on a simple basis) and are convertible at US\$0.35 per unit. Each unit is comprised of one share of our common stock and one share purchase warrant. Each warrant entitles the holder thereof to purchase one share at a price of US\$0.40 per share up

to the earlier of the maturity date of the convertible debenture or one year from conversion of the convertible debenture. We also entered into a general security agreement with the subscribers, whereby the obligations to repay the convertible debenture are secured by certain of our assets.

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The aggregate principal value of the above convertible debentures was US\$620,000 and was allocated to the individual components on a relative fair value basis. In addition, because the effective conversion price of the convertible debentures was below the current trading price of the Company's common shares at the date of issuance, the Company recorded a beneficial conversion feature of approximately \$20,000. The value of the warrants and beneficial conversion feature has been recorded as additional paid in capital.

**8. (a) Secured loan payable**

On October 27, 2008 the Company entered into a Purchase Agreement in the amount of CAD\$900,000 of Notes being purchased by the President (CAD\$400,000), the President's wholly-owned company (CAD\$300,000) and a shareholder (CAD\$200,000) of the Company (Purchasers). The Purchasers agreed to purchase an 18% interest bearing Promissory Note of the Company subject to and upon the terms and conditions of the Purchase Agreement. The Company's obligations to repay the Promissory Note will be secured by certain specified assets of the Company pursuant to a Security Agreement. As long as the Promissory Note is outstanding, the Purchasers may voluntarily convert the Promissory Note to Common Shares at the conversion price of \$0.45 per share of Common Stock. The Promissory Note matures on October 27, 2010 or by mutual agreement by all parties on October 27, 2009.

In connection with the Purchase Agreement, the Company issued a total of 390,000 (1,560,000 pre-consolidation) warrants which two warrants entitle a holder to purchase a common share of the Company of which 195,000 (780,000 pre-consolidation) warrants are eligible at \$0.05 (adjusted price) and 195,000 (780,000 pre-consolidation) warrants are eligible at \$0.05 (adjusted price) per share and expire October 27, 2009 and October 27, 2010, respectively.

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

As at the date of the issuance of the above noted Promissory Note, the Company allocated CAD\$21,321 and CAD\$683,559 to warrants (additional paid-in capital) and Promissory Note based on their relative fair value.

On July 10, 2009 the Purchasers converted \$45,000 of the Promissory Note into equity at \$0.05.

On October 27, 2009, 191,000 warrants were exercised for 95,500 common shares.

On October 21, 2010, the Company settled a portion of the debt, namely US\$1,625 with CAB Financial Services by converting 65,000 warrants into 32,500 common shares of the Company as per Purchase Agreement dated October 27, 2008 at a price of \$0.05 per share.

On October 21, 2010, the Company settled a portion of the debt, namely US\$2,166.65 with Christopher Bunka by converting 86,667 warrants into 43,333 common shares of the Company as per Purchase Agreement dated October 27, 2008 at a price of \$0.05 per share.

On October 21, 2010, the Company entered into an amendment with loan holders to extend the loan to be on a month-to-month basis with the same terms and conditions as pursuant to the amendment.

During the nine months period ended July 31, 2011, the Company has paid down the debt by CAD\$185,000.

**(b) Unsecured Loan Payable**

On September 13, 2010, we entered into a demand loan agreement and promissory note with CAB Financial Services Ltd. (the Lender or CAB), a company controlled by a director and officer of our company. The principal amount of the note is US\$90,000. The loan agreement and promissory note provides that the debt be payable on demand. The note has an interest rate of 12% per annum.

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On January 31, 2011, the Company had paid back the loan for the full amount of US\$90,000 to CAB and accrued interest of \$3,884.

## 9. Related Party Transactions

- (a) For the quarter ended July 31, 2011, the Company paid / accrued \$72,000 to CAB (2010: \$73,200), Tom Ihrke, the VP of business development, \$28,269 (2010: \$Nil), and BKB Management Ltd. ( BKB ) CAD\$47,500 (2010: CAD\$39,554) for management, consulting and accounting services. CAB is owned by the president of the Company and BKB is owned by the CFO of the Company.

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

- (b) On October 27, 2008 the Company made a secured loan agreement in the amount of CAD\$300,000 with CAB. (See Note 8a). On July 10, 2009 \$40,000 of the debt was converted to equity. On October 21, 2010, the Company settled a portion of the debt, namely US\$1,625 with CAB by converting 65,000 warrants into 32,500 common shares of the Company as per Purchase Agreement dated October 27, 2008 at a price of \$0.05 per share. On June 28, 2011, the Company paid down CAD \$100,000 of the debt. For the quarter ended, July 31, 2011, the Company accrued and paid interest expenses of CAD \$33,206 (2010: CAD\$37,958)
- (c) On October 27, 2008 the Company made a secured loan agreement in the amount of CAD\$400,000 with Christopher Bunka. (See Note 8a). On October 21, 2010, the Company settled a portion of the debt, namely US\$2,166.65 with Christopher Bunka by converting 86,667 warrants into 43,333 common shares of the Company as per Purchase Agreement dated October 27, 2008 at a price of \$0.05 per share. For the quarter ended, July 31, 2011, the Company accrued and paid interest expenses of CAD \$53,708 (2010: CAD\$59,892).
- (d) See Note 5, 6, 7 and 8.
- (e) On April 1, 2010, the Company made a non-secured loan agreement in the amount of US\$75,000 with CAB (See Note 7). For the quarter ended July 31, 2011, the Company accrued and paid interest expenses of \$10,125 (2010: \$4,500).
- (f) On September 13, 2010, the Company made a demand loan agreement in the amount of US\$90,000 with CAB (See Note 8b). The interest paid interest of 3,884. On January 31, 2011, the Company paid back the loan in full.
- (g) Included in accounts payable, \$53,200 (October 31, 2010: \$90,027) was payable to a company controlled by the president and a director of the Company.
- (h) For the quarter ended July 31, 2011, the Company has paid/accrued \$83,900 (2010: \$Nil) to 0743608 BC Ltd., \$35,268 (2010:\$Nil) to Emerald Atlantic LLC, and \$9,941 to Tom Ihrkr (2010: \$Nil) for Non-consent Interest in Belmont Lake. 0743608 BC Ltd. is owned by the president of the Company and Emerald Atlantic LLC is owned by a Director of the Company.

## 10. Stock Options

On January 20, 2010, the Company approved a new 2010 Equity Compensation plan and granted 975,000 stock options to directors and consultants of the Company with exercise prices of \$0.20, vested immediately and expiring on January 20, 2015.



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On August 16, 2010, the Company granted 150,000 stock options to a consultant of the Company with an exercise price of \$0.20, vested 75,000 immediately and 75,000 on August 16, 2011 and expiring on August 16, 2015.

On July 11, 2011, the Company granted 700,000 stock options to directors and officers of the Company with an exercise price of \$0.35, vested immediately and expiring on July 11, 2016.

For the nine months period ended July 31, 2011, the Company recorded a total of \$179,789 (2010: \$139,050) for stock based compensation expenses.

The fair value of each option granted has been estimated as of the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	Period ended July 31, 2011	Year ended October 31, 2010
Expected volatility	131.14%	145.85%
Risk-free interest rate	2.75%	2.46%
Expected life	5 years	5 years
Dividend yield	0.0%	0.00%

A summary of weighted average fair value of stock options granted during the period ended July 31, 2011 is as follows:

	Weighted Average Exercise Price	Weighted Average Fair Value
Period ended July 31, 2011		
Exercise price is greater than market price at grant date:	\$ 0.35	\$ 0.26
	Weighted Average Exercise Price	Weighted Average Fair Value
Year ended October 31, 2010		
Exercise price is greater than market price at grant date:	\$ 0.20	\$ 0.14

A summary of the stock options for the quarter ended July 31, 2011 is presented below:

	Number of Shares	Weighted Average Exercise Price
Options Outstanding		
Balance, October 31, 2010	1,525,000	\$ 0.20
Granted	700,000	0.35
Exercised	(225,000)	0.20
Expired	(275,000)	0.20
Balance, July 31, 2011	1,725,000	\$ 0.26

The Company has the following options outstanding and exercisable:

July 31, 2011	Options outstanding		Options exercisable
	Weighted average	Weighted Average	Weighted Average

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Range of Exercise prices	Number of shares	remaining contractual life	Exercise Price	Number of shares	Exercise Price
\$0.20	150,000	4.05 years	\$ 0.20	75,000	\$ 0.20
\$0.20	875,000	3.48 years	\$ 0.20	875,000	\$ 0.20

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\$0.35	700,000	4.95	\$	0.35	700,000	\$	0.35
		years					
Total	1,725,000	4.12	\$	0.26	1,650,000	\$	0.25
		years					

### 11. Commitments and Significant Contracts

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.

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 a period of six months for a consideration of CAD \$4,500 per month plus GST. This agreement replaces the September 1, 2008, Controller Agreement with CAB Financial Services Ltd. Subsequent to October 31, 2010, effective January 1, 2011, the consideration was increased to CAD\$5,500 per month plus GST/HST.

On August 5, 2010 we entered into a three-month Management agreement with Tom Ihrke, whereby Mr. Ihrke will act as the Senior Vice-President, Business Development for the Company for consideration of US\$3,125 per month. On December 2, 2010, the Company entered into a month to month management agreement with Tom Ihrke, where by Mr. Ihrke will continue to act as the Senior Vice-President Business Development for the Company. The Company will pay a monthly consulting fee of \$3,125.

See also Note 6, 7, and 8.

### 12. Subsequent Events

- a) Lexaria entered into an Asset Purchase Agreement dated August 12, 2011, with Brinx Resources Ltd. to acquire 100% of its 10% gross working interest in the oil and gas interests located in Mississippi, USA. By acquiring the additional 10% working interest in Belmont Lake oil and gas field, Lexaria will then have 42% working interest in Belmont Lake and retains its existing 60% working interest in the exploration wells on approximately 130,000 acres surrounding Belmont Lake in all directions.

Lexaria has agreed to considerations as follows;

1. \$200,000 on the August 12, 2011 (the "Initial Payment") (paid subsequent to July 31, 2011), and
2. \$200,000 on or before November 12, 2011; or interim payments, as agreed, in the amount of \$10,000 per month for up to 3 months following November 12, 2011 with the remaining balance to \$200,000 then due and payable (the "Final Payment"), and, should the Lexaria not make the final payment on November 12, 2011 a penalty of \$500 per day (the Penalty Payments ) beginning one day after November 12, 2011 and accruing until the balance of the \$200,000 Final Payment is made to the Vendor. Both the Vendor and the Purchaser agree that, should any Penalty Payments be due, such Penalty Payments are not deductible from the balance of the \$200,000 Final Payment.
3. 800,000 shares of restricted common stock issued from Lexaria treasury were issued on August 12, 2011.

### 13. Segmented Information

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



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### *Forward-Looking Statements*

This quarterly report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our 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 unaudited interim financial statements are stated in United States Dollars (US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles. The following discussion should be read in conjunction with our financial statements and the related notes that appear elsewhere in this quarterly 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 quarterly report, particularly in the section entitled "Risk Factors" of this quarterly report.

In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars. All references to "CDN\$" refer to Canadian dollars and all references to "common shares" refer to the common shares in our capital stock.

As used in this quarterly report, the terms "we", "us", "our" and "Company" mean Company and/or our subsidiaries, unless otherwise indicated.

### **Overview**

We were incorporated in the State of Nevada on December 9, 2004. We are an exploration and development oil and gas company currently engaged in the exploration for and development of petroleum and natural gas in North America. We maintain our 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 Suite 950, 1130 West Pender Street, Vancouver, British Columbia V6E 4A4. Our telephone number is (604) 602-1675. We have another office located in Kelowna. Our current locations provide adequate office space for our purposes at this stage of our development.

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

Lexaria is an oil and gas company engaged in the exploration for oil and natural gas in Canada and the United States. The Company is currently generating revenues from its business operations in Mississippi. The Company's business plan is to focus on development of the Belmont Lake oil field, in which it has working interests, in order to maximize cash flow and use excess cash flow to pay debt and conduct additional development well drilling.





Eventually, if cash flows are strong enough, the Company will once again be able to explore for additional oil and gas by way of its existing 60% interest option to drill 38 exploratory wells (see Oil & Gas Properties - Mississippi and Louisiana: Frio-Wilcox Project ). To accomplish this, the Company intends to focus on development drilling first. Eventually the Company will seek a balance between exploration, development and exploitation drilling. To achieve sustainable and profitable growth, the Company intends to control the timing and costs of its projects wherever possible. The Company is not currently the operator of any of its properties and will consider becoming the operator only when its financial conditions have improved sufficiently.

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

### **Our Current Business**

The Company is an oil and gas company engaged in the exploration for oil and natural gas in Canada and the United States. The Company is currently generating revenues from its business operations in Mississippi.

We have acquired working interests in various oil and gas properties in Mississippi USA. All of our current oil and gas assets are located in Wilkinson and Amite counties, Mississippi, where we have between 32% gross working interest and 60% gross working interests in producing oil and/or gas wells and in exploration wells yet to be drilled. Our Belmont Lake oil field discovered in December 2006 is located within the Palmetto Point area of Wilkinson county, Mississippi. We previously had an interest in oil and gas wells located in Oklahoma but those assets were sold in August 2008. We had a nominal interest in a non-commercial well located in Strachan Alberta, but during this quarter, that lease expired and has now been written down.

The Company's business plan is to focus on development of the Belmont Lake oil field, in which it has working interests, in order to maximize cash flow and use excess cash flow to pay debt and conduct additional development well drilling. Eventually, if cash flows are strong enough, the Company expects to explore for additional oil and gas by way of its existing 60% interest option to drill 38 exploratory wells (see Oil & Gas Properties - Mississippi and Louisiana: Frio-Wilcox Project ). To accomplish this, the Company intends to focus on development drilling first. Eventually the Company will seek a balance between exploration, development and exploitation drilling. To achieve sustainable and profitable growth, the Company intends to control the timing and costs of its projects wherever possible. The Company is not currently the operator of any of its properties and will consider becoming the operator only when its financial conditions have improved sufficiently.

During the nine months period ended July 31, 2011, we experienced the following significant corporate developments:

1. On November 16, 2010, the Company settled the debt incurred as a result of a consulting agreement, being US\$9,375, to Mr. Tom Ihrke by issuing 40,761 restricted common shares of the Company at a price of \$0.23 per share.
2. On November 30, 2010, we closed the first tranche of a private placement offering of convertible debentures in the aggregate amount of US\$450,000. The convertible debentures mature on November 30, 2012, subject to forced conversion as set out in the convertible debenture certificate. The convertible debentures pay an interest rate of 12% per annum (on a simple basis) and are convertible at US\$0.35 per unit. Each unit is comprised of one share of our common stock and one share purchase warrant. Each warrant entitles the holder thereof to purchase one share at a price of US\$0.40 per share from the earlier of the maturity date of the convertible debenture or one year from conversion of the convertible debenture. We also entered into a general security agreement with the subscribers, whereby the obligations to repay the convertible debenture are secured by certain of our assets.

3. On December 16, 2010, we closed the second tranche of a private placement offering of convertible debentures in the aggregate amount of US\$170,000. The convertible debentures mature on November 30, 2012, subject to forced conversion as set out in the convertible debenture certificate. The convertible debentures pay an interest rate of 12% per annum (on a simple basis) and are convertible at US\$0.35 per unit. Each unit is comprised of one share of our common stock and one share purchase warrant. Each warrant entitles the holder thereof to purchase one share at a price of US\$0.40 per share from the earlier of the maturity date of the convertible debenture or one year from conversion of the convertible debenture. We also entered into a general security agreement with the subscribers, whereby the obligations to repay the convertible debenture are secured by certain of our assets.
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4. On December 16, 2010, the Company entered into an assignment agreement with Emerald Atlantic LLC, solely owned by a Director of the Company (the Assignee ), whereby the Assignee has paid a fee of US\$30,075.95 to earn 18% of a 4.423% share of the Company's net revenue interest after field operating expenses for a well to be drilled in Wilkinson County.
  5. On January 4, 2011, 132,600 warrants were exercised for 66,300 common shares of the Company at a price of CAD\$0.22 for total proceeds of \$14,586. 100,000 warrants of the 132,600 warrants were exercised by a Director of the Company.
  6. On March 6, 2011, the Company accepted and received gross proceeds of US\$21,250 for the exercise of 106,250 stock options by a Director of the Company at an exercise price of US\$0.20 per unit into 106,250 common shares of the Company.
  7. On June 8, 2011, 1,500,000 warrants were exercised for 1,500,000 common shares of the Company at a price of US\$0.20 for total proceeds of US\$300,000. The warrants were exercised by a Director of the Company.
  8. On June 28, 2011, 500,000 warrants were exercised for 500,000 common shares of the Company at a price of US\$0.20 for total proceeds of US\$100,000. The warrants were exercised by a Director/Officer of the Company.
  9. On October 27, 2008 the Company made a secured loan agreement in the amount of CAD\$300,000 with CAB. On July 10, 2009, \$40,000 of the debt was converted to equity. On October 21, 2010, the Company settled a portion of the debt, namely \$1,625 with CAB by converting 65,000 warrants into 32,500 common shares of the Company as per Purchase Agreement dated October 27, 2008 at a price of \$0.05 per share. On June 28, 2011, the Company paid down \$100,000 of the debt.
  10. On July 11, 2011, the Company granted 700,000 stock options to directors and officers of the Company with an exercise price of \$0.35, vested immediately and expiring on July 11, 2016.
  11. On July 13, 2011, 173,043 warrants were exercised for 173,043 common shares of the Company at a price of US\$0.20 for total proceeds of US\$34,609.
  12. On July 13, 2011, the Company completed an equity financing and issued 200,000 units at the price of \$0.35 per unit and each unit consists of one share purchase warrant which entitles a holder to purchase one common share at US\$0.50 per share for a period of two years. All shares and warrants issued were restricted under applicable securities rules. The Company accepted and received gross proceeds of US\$70,000.
  13. On July 15, 2011, the Company accepted and received gross proceeds of US\$23,750 for the exercise of 118,750 stock options at an exercise price of US\$0.20 per option into 118,750 common shares of the Company. All of the stock options were exercised by Directors/Officers of the Company.
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14. Lexaria entered into a Asset Purchase Agreement dated August 12, 2011, with Brinx Resources Ltd. to acquire 100% of its 10% gross working interest in the oil and gas interests located in Mississippi, USA. By acquiring the additional 10% working interest in Belmont Lake oil and gas field, Lexaria will then have 42% working interest in Belmont Lake and retains its existing 60% working interest in the exploration wells on approximately 130,000 acres surrounding Belmont Lake in all directions. Lexaria has agreed to pay a total of US \$400,000 and issue 800,000 common shares of the Company at \$0.30 per share.

The Company plans to continue its current business of acquiring interests in potentially high-impact oil and gas property interests that offer a high probability of being able to drill without significant time delays. The Company also tries to choose North American properties where, if drilling is successful, the wells could be quickly connected to infrastructure and thus, with success, brought into production and able to generate cash flow as quickly as possible.

The Company's business plan does not anticipate that it will hire a large number of employees or that it will require extensive office space. The Company has to date, and plans to continue to acquire most of the industry and geological expertise it requires, through third party contractual relationships with consulting experts and with operating companies which will act as operators of the Company's various interests. Although this exposes the Company to certain risks on behalf of those operators, it also allows the Company to participate in the often unique experience and knowledge that local persons have related to certain properties. This strategy allows the Company to participate in a wider variety of oil and gas opportunities than if all of its geological expertise were in-house and confined to a single geographical area. From a business operations perspective, this strategy also enables the Company to minimize its ongoing fixed in-house costs for geological or geophysical analytical expenses while still allowing it to contract for that expertise when and as needed. This business strategy has been successful during a time of declining oil and gas prices, when many companies with high internal overheads and cost structures due to large numbers of highly expensive in-house professionals cannot be sustained due to declining revenues. The Company will hire third-party consulting geophysicists and geologists on an as-needed basis to evaluate oil and gas properties that may be of interest, and to reinforce and double-check the technical work and abilities of its third-party operators. This provides the Company with the required expertise it needs, when it is needed, whilst avoiding high fixed long-term costs.

The Company relies on the business experience of its 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.

### **Mississippi**

On December 21, 2005, the Company agreed to purchase a 20% gross working and revenue interest in a 10 well drilling program in Palmetto Point, Mississippi owned by Griffin & Griffin Exploration ( Griffin ) for cash payments of \$700,000, comprised of \$220,000 paid upon entering the Agreement and the remaining balance of \$480,000 paid on January 17, 2006. The Company applied the full cost method to account for its oil and gas properties and as of July 31, 2010, seven wells were found to be proved wells, and three wells were found impaired. One of the wells was impaired due to uneconomic life, and the other two wells were abandoned due to no apparent gas or oil shows present. The costs of impaired properties were added to the capitalized cost in determination of the depletion expense. Palmetto Point is approximately 150 miles southwest of Jackson, Mississippi and approximately 50 miles north/northwest of Baton Rouge, Louisiana. It is 30 miles west of Woodville, Mississippi off of State Highway 33 and is entirely within Wilkinson County.

There were no further costs to the Company in earning its interest in the 10 well drilling program, including well development costs or pipeline connections. Griffin has agreed that the leases held by it covering any mineral estate underlying the applicable well site acreage shall not provide for more than twenty-five (25%) percent royalty and overriding royalty interest. The Company's net interest in any oil and gas produced is calculated by subtracting the applicable royalties from its 20% gross interest. Consequently, its original net working interest in the drilling program was a minimum fifteen (15%) percent net working interest. Griffin conducted the Drilling Program in its capacity as Operator and receives a 15% carried interest.



One of these original 10 wells was the PP F-12-1 well, which was the discovery well of a field now known as the Belmont Lake field. All of these original 10 wells were targeting the Frio geological formation of the Cenozoic era and Oligocene series, which is characterized in this region as a generally shallow, sandstone-rich layer. In this area of Mississippi, the Frio geologic formation is generally found between 2,000 and 4,500 foot depth from surface.

On September 22, 2006, the Company elected to participate in an additional two-well program in Palmetto Point, Mississippi owned by Griffin by paying an additional \$140,000 (paid). The Company earned the same 20% gross interest in the two (2) additional wells (12 wells total and all drilled) and subsequently increased its gross interest to 32% in these 12 wells, or a net revenue interest of 20.802815% .

On June 23, 2007, the Company acquired an assignment of a 10% gross working interest in the Palmetto Point wells described above from a third party for \$520,000 which was payable by a secured loan. The \$520,000 loan was valued at a Net Present Value of \$501,922, which is the capitalized amount. The Company calculated the net present value of the secured loan payable by applying 8% interest rate, which was based on a T-bill rate of 4.28% plus a risk premium.

On October 4, 2007, the Company elected to participate in the drilling of the PP F-12-3 well in Palmetto Point, Mississippi which was conducted by Griffin. This well was the second well drilled in the Belmont Lake oil field. The Company had a 30% gross working interest and paid \$266,348. On July 31, 2008, the Company accrued and paid an additional cost of \$127,707 for the workovers of wells PP F-12 and PP F-12-3. PP F-12 has had intermittent production from October 2007, and PP F-12-3 has had intermittent production from November 2007.

On April 3, 2009, the Company entered into an Asset Purchase Agreement with Delta Oil & Gas, Inc., and The Stallion Group to acquire additional interests in its existing core producing Mississippi oil and gas properties. The Company paid \$40,073.39 to acquire an additional two percent (2%) working interest in the proven Belmont Lake oil and gas field and an additional 10% working interest in potential nearby exploration wells. Total working interest for Belmont Lake as of July 31, 2009 is 32%; and total working interest in the exploration wells on approximately 140,000 acres surrounding Belmont Lake in all directions as of July 31, 2010, is 60%.

The Company had a short-lived opportunity to acquire additional fractional interests in the upcoming Belmont Lake 12-4 well which was expected to be a horizontal well. An unrelated third party did not participate in its right to participate in the 12-4 well, and therefore a share of its interest (a non consent interest) was made available to the other participating parties including Lexaria. On August 28, 2009 and effective on September 1, 2009, to take best advantage of this opportunity, the Company entered into four separate assignment agreements, three of which were with people or companies with related management. The Company received from these four parties proceeds of \$371,608.57 to fund additional interests in this well. As a result, the Company has a 25.84% perpetual gross interest in the well (18.0% net revenue interest); as well as a 5.2% net revenue interest in the non-consent interest. The non-consent interest remains valid until such time as the well produces 500% of all costs and expenses back to the participants in the form of revenue, at which time the non-consent interest ends. Enertopia, a company with related management, had acquired from Lexaria a 6.16% perpetual gross interest in the 12-4 well; David DeMartini, a director of Lexaria, had acquired from Lexaria a 5% gross interest in the non-consent interest in the 12-4 well; and 0743608 BC Ltd. a company owned by the President of the Company, had acquired from Lexaria a 11.60% gross interest in the non-consent interest in the 12-4 well.

On May 31, 2010, the Company signed a Settlement Agreement with Enertopia Corp., whereby the Company issued 499,893 units at \$0.12 per unit and each unit consists of one restricted common share and one share purchase warrant at \$0.20 per share for a period of two years in exchange for the working interest initially assigned on August 28, 2009.

On June 16, 2010, the Company signed a Settlement Agreement with a third party, who had originally participated in the August 28, 2009, opportunity in the non-consent interest for Belmont Lake 12-4. The Company returned back \$144,063.46 to the third party and cancelled its participation.



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On July 29, 2010, the Company had agreed with its Operators at Belmont Lake not to proceed to drill a horizontal 12-4 well. Rather, two of the three proposed vertical wells 12-2, 12-4, or 12-5 were proposed to be drilled in August 2010. To take best advantage of this opportunity, the Company cancelled all previous agreements relating to August 28, 2009 with respect to Belmont Lake horizontal well 12-4 and entered into three separate assignment agreements, of which all three were with people or companies with related management. The Company received total proceeds of \$324,677.12 to fund additional interests in these wells. As a result, the Company has a 32% perpetual gross interest in the wells (24.0% net revenue interest); as well as a 8% gross interest (6% net revenue interest) in the non-consent interest. The non-consent interest remains valid until such time as the well produces 500% of all costs and expenses back to the participants in the form of revenue, at which time the non-consent interest ends. Emerald Atlantic LLC, a company owned by a director of Lexaria, has acquired from Lexaria a 8.74% gross interest in the non-consent interest in two of the three vertical wells; and 0743608 BC Ltd. a company owned by the President of the Company, has acquired from Lexaria a 20.79% gross interest in the non-consent interest in two of the three vertical wells; an advisor to the Company has acquired from Lexaria 2.46% gross interest in the non-consent interest in two of the three vertical wells.

On September 13, 2010, Lexaria Corp. (the Company) entered into three separate assignment agreements with 0743608 BC Limited, solely owned by Director/Officer of the Company; Emerald Atlantic LLC, solely owned by a Director of the Company, and the Senior VP Business Development. (the Assignees), whereby the Assignees have paid a fee of US\$408,116.48 to earn a 24% share of the Company's gross non-perpetual 32% interest in the three oil wells being drilled in Wilkinson County, Mississippi. This agreement replaces the one signed on August 28, 2009. As a result of the three assignment agreements, Lexaria receives at no cost to the company, a carried interest of 8% in these same rights and benefits. The Company assigns, transfers and sets over to the Assignees, all proportionate rights, interest and benefits in the Assigned Non Perpetual Interest held by or granted to the Assignor in and to the Participation Agreement between the Company and Griffin but limited to a gross 500% revenue payout based on the total amount paid under the Initial Consideration and the Subsequent Consideration after which all rights, interests and benefits cease.

Total working interest for Belmont Lake as of October 31, 2010 is 32%, with the exception of a 40% interest in wells PP F-12-4 and PP F-12-5; and total working interest in the exploration wells on approximately 130,000 acres surrounding Belmont Lake in all directions as of October 31, 2010, is 60%.

As of July 31, 2011, there were additional well interest changes or workovers pending of wells PP F-12, PP F12-3, PP F12-4, PP F12-5 and PP F-29 in the amount of \$241,876.

As of July 31, 2011, the status of the Palmetto Point, Mississippi wells is as follows:

Well Name	Spud/Start	Complete	Results	Depth	Status
PP F-40	May 11/06	May 16/06	Frio Gas; 12 ft.	3850	Shut-in
PP F-118	May 18/06	May 22/06	Frio Gas; 14 ft.	3808	Shut-in
PP F-121	May 24/06	May 29/06	Dry	3850	Plug & abandon
PP F-7	May 31/06	June 4/06	Dry	3800	Plug & abandon
PP F-39	June 10/06	June 16/06	Frio Gas/Oil; 123900 ft.		Shut-in
PP F-42	June 18/06	June 21/06	Frio Gas/Oil; 103170 ft.		Shut-in
PP F-36-2	June 23/06	July 2/06	Frio Gas; 8 ft.	3450	Shut-in
PP F-4	Oct 31/06	Nov. 5/06	Frio Gas; 8 ft.	4200	Plug & abandon
PP F- 29	Nov 11/06	Nov. 14/06	Frio Gas; 37 ft.	4100	Producing
PP F-12-1	Dec 18/06	Dec. 24/06	Frio Gas; 3 ft.	4016	Producing
PP F-6B		July 27/06	Frio Oil, 26 ft. Frio Gas		Shut-in



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PP F-52A		July 27/06	Frio Gas		Shut-in
PP F-12-3	Oct/07	Oct/07	Frio Oil	3150	Producing
PP F-12-4	Aug/10	Oct/10	Frio Oil	3150	Producing
PP F-12-5	Sep 12/10	Nov 23/10	Frio Oil	3150	Producing

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Mississippi and Louisiana: Frio-Wilcox Project

After participating in the Palmetto Point project, the Company entered into a separate agreement that expanded both its percentage interest in future wells, and also expanded the geographical area on which those wells could be drilled.

On August 3, 2006, the Company entered into a Phase II agreement with Griffin, to acquire a working interest in multiple zones of potential oil and gas production in Mississippi and Louisiana. This agreement contemplates up to a 50 well drill program, which are exclusive to the participants, for Wilcox and Frio wells, at the Company's option, within the defined area of mutual interest (AMI). From these 50 prospects, Griffin and the participants will select all drill locations with the expectation that the wells will be drilled to depths sufficient to test prospectively for producible hydrocarbons from the top of the Frio Formation to the bottom of the Wilcox Formation.

These 50 wells are in addition to all wells drilled under the original 10-well agreement and also in addition to any development wells to be drilled at the Belmont Lake oil field discovery. The AMI includes over 200,000 gross acres located non-contiguously between Southwest Mississippi and North East Louisiana which include the approximately 32,000 acres of the Palmetto Point area but also include other areas.

The Company had contracted to assume a 40% gross interest in this AMI, meaning it was obligated to pay 40% of costs related to licensing, permitting, drilling, completion and all other related costs. Upon payment of 40% of the costs, the Company earned a net 32% of all production from all producible zones to the base of the Frio formation (Frio Targets); and, 30% of all production to the base of the Wilcox formation (Wilcox Targets). All working interests are to be registered in the name of the Company. This 50-well AMI is intended to be drilled in several stages.

The Company's pro rate share of the first stage had a total cost \$1.6 million. As of October 31 2007, the Company had placed \$1,600,000 in trust to completely fund this initial commitment. During the drill program, an unrelated third party participant elected not to continue their participation in the program, and we assumed our pro-rata portion of their 10% gross working interest as our own, at no additional cost, bringing our total gross working interest in the seven (7) wells and their leases (Initial AMI Drilling Program), to 45%.

On June 21, 2007, the Company acquired an additional 10% from a third party for all rights, title and benefits *excluding* the seven wells drilled under the AMI Agreement between August 3, 2006 and June 19, 2007, specifically wells CMR-USA-39-14, Dixon #1, Faust #1 TEC F-1, CMR/BR F-14, RB F-1 Red Bug #2, BR F-33, and Randall #1 F-4, and any offset wells that could be drilled to any of these specified wells (Subsequent AMI Drilling Program). This brought our interest in the remaining 43 wells to 50% and we drilled 5 wells under this arrangement.

On April 3, 2009, the Company acquired an additional 10% working interest in the 38 exploration wells remaining to be drilled, bringing its total gross working interest to 60% in the 38 wells that remain to be drilled of this original 50-well option in over 140,000 acres surrounding Belmont Lake in all directions.

On December 16, 2010, the Company entered into an assignment agreement with Emerald Atlantic LLC, solely owned by a Director of the Company (the Assignee), whereby the Assignee has paid a fee of US\$30,075.95 to earn 18% of a 4.423% share of the Company's net revenue interest after field operating expenses for a well to be drilled in Wilkinson County.

*Initial AMI Drilling Program*

The Company's pro rata share of the first stage had a total cost \$1.6 million. As of October 31 2007, the Company had placed \$1,600,000 in trust to completely fund this initial commitment. During the drill program, an unrelated third party participant elected not to continue their participation in the program, and we assumed our pro-rata portion of their 10% gross working interest as our own, at no additional cost, bringing our total gross working interest in these seven (7) drilled wells and their leases, to 45%.

The Company successfully drilled and completed seven (7) wells under this drilling program. Certain wells were placed into production.

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Details of the drill program are outlined below:

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

As at January 31, 2007, the Company abandoned Dixon #1 due to no economic hydrocarbons being present and \$162,420 of drilling costs was added to the capitalized costs. The Dixon #1 was the only Wilcox well the Company has drilled to date. Every other well it has participated in located in Mississippi and Louisiana is a Frio well. Slightly deeper than the Frio targets, but also of the Cenozoic era, the Wilcox geologic formation is of the Eocene series, generally found at depths of less than 8,000 feet.

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

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

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

The results of the initial drill program are as follows:

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

*Subsequent AMI Drilling Program*

Five additional wells were drilled under the 50-well AMI. Each of these wells encountered non commercial quantities of hydrocarbons and were plugged and abandoned.

#### *Significant Acquisitions and Dispositions*

None applicable.

#### *Purchase of Significant Equipment*

We do not intend to purchase any significant equipment (excluding oil and gas activities) over the twelve months other than office computers, furnishings, and communication equipment as required.



### *Corporate Offices*

The address of our principal executive office is Suite 950, 1130 West Pender Street, Vancouver, British Columbia, V6E 4A4, for which we share 250 square feet of office space, which includes one executive office for a monthly rental of CAD\$1,337. Our telephone number is (604) 602-1675. We have another office located in Kelowna, for which we share 1,500 square feet of office space, which includes two executive offices. Our current locations provide adequate office space for our purposes at this stage of our development.

### *Employees*

We primarily used the services of sub-contractors and consultants for manual labour exploration work and drilling on our properties. Our Director, Mr. David DeMartini is our technical advisor.

The Company has a consulting agreement with BKB Management Ltd., a corporation organized under the laws of the Province in British Columbia. BKB Management Ltd. is a consulting company controlled by the chief financial officer and director for a consideration of CAD \$5,500 per month plus HST.

The Company has a consulting agreement with CAB Financial Services Ltd., a corporation organized under the laws of the Province of British Columbia. CAB Financial Services is a consulting company controlled by the chairman of the board and the chief executive officer of the Company. The consulting services provided by CAB Financial Services are on a continuing basis for a consideration of \$8,000 per month plus HST. CAB Financial Services Ltd. may terminate the agreement at any time by giving 30 days written notice.

On September 9, 2009, the Company appointed Mr. David DeMartini to the Board of Directors.

On August 6, 2010 the Company entered into a three month consulting agreement with Tom Ihrke to act as the Company's Senior Vice President, Business Development for consideration of US\$3,125 per month and 150,000 stock options granted at \$0.20. On December 2, 2010, the Company entered into a month to month management agreement with Tom Ihrke, where by Mr. Ihrke will continue to act as the Senior Vice-President Business Development for the Company. The Company will pay a monthly consulting fee of \$3,125.

We do not expect any material changes in the number of employees over the next 12 month period. We do and will continue to outsource contract employment as needed. However, with project advancement and if we are successful in our initial and any subsequent drilling programs we may retain additional employees.

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

We have no significant 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**

Our financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles used in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our financial statements is critical to an understanding of our financials.

### **Oil and Gas Properties**

We utilize the full cost method to account for our investment in oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves, including such costs as leasehold acquisition costs, capitalized interest costs relating to unproved properties, geological expenditures, and tangible and intangible development costs including direct internal costs are capitalized to the full cost pool. As of July 31, 2011, we have properties with proven reserves and production and sales from these reserves has commenced. Capitalized costs, including estimated future costs to develop the reserves and estimated abandonment costs, net of salvage, are being depleted on the units-of-production method using estimates of the proved reserves. Investments in unproved properties and major development projects including capitalized interest, if any, are not depleted until proved reserves associated with the projects can be determined. If the future exploration of unproved properties are determined uneconomical the amount of such properties are added to the capitalized cost to be depleted. At July 31, 2011, management believes none of our unproved oil and gas properties were considered impaired other than as previously reported.

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

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

### **Long-Lived Assets**

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. We recognize impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

### **Revenue Recognition**

Oil and natural gas revenues are recorded using the sales method whereby our Company recognizes oil and natural gas revenue based on the amount of oil and gas sold to purchasers when title passes, the amount is determinable and collection is reasonably assured. Actual sales of gas are based on sales, net of the associated volume charges for processing fees and for costs associated with delivery, transportation, marketing, and royalties in accordance with industry standards. Operating costs and taxes are recognized in the same period of which revenue is earned.

### **Going Concern**

We have suffered recurring losses from operations. The continuation of our Company as a going concern is dependent upon our Company attaining and maintaining profitable operations and/or raising additional capital. The financial statements do not include any adjustment relating to the recovery and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should our Company discontinue operations.

The continuation of our business is dependent upon us raising additional financial support and/or attaining and maintaining profitable levels of internally generated revenue. 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.

### **Recently Issued Accounting Standards**

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income", which is effective for annual reporting periods beginning after December 15, 2011. ASU 2011-05 will become effective for the Company on January 1, 2012. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. In addition, items of other comprehensive income that are reclassified to profit or loss are required to be presented separately on the face of the financial statements. This guidance is intended to increase the prominence of other comprehensive income in financial statements by requiring that such amounts be presented either in a single continuous statement of income and comprehensive income or separately in consecutive statements of income and comprehensive income. The adoption of ASU 2011-05 is not expected to have a material impact on the Company's financial position or results of operations.

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In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which is effective for annual reporting periods beginning after December 15, 2011. This guidance amends certain accounting and disclosure requirements related to fair value measurements. Additional disclosure requirements in the update include: (1) for Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs; (2) for an entity's use of a nonfinancial asset that is different from the asset's highest and best use, the reason for the difference; (3) for financial instruments not measured at fair value but for which disclosure of fair value is required, the fair value hierarchy level in which the fair value measurements were determined; and (4) the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. The Company is currently evaluating the impact of the adoption.

Accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's financial statements upon adoption.

### Results of Operations Three Months Ended July 31, 2011 and 2010

The following summary of our results of operations should be read in conjunction with our financial statements for the quarter ended July 31, 2011, which are included herein.

Our operating results for the three months ended July 31, 2011, for the three months ended July 31, 2010 and the changes between those periods for the respective items are summarized as follows:

	<b>Three Months Ended  July 31, 2011</b>	<b>Three Months Ended  July 31, 2010</b>	<b>Change Between Three Month Period Ended  July 31, 2011 and July 31, 2010</b>
Revenue	\$ 359,621	\$ 122,462	\$ 237,159
Other income/expenses	Nil	Nil	Nil
General and administrative	427,325	68,946	358,379
Interest expense	57,554	43,232	14,322
Impairment loss on oil and gas properties	Nil	Nil	Nil
Consulting fees	74,743	37,026	37,717
Oil and gas operating expenses	110,012	23,927	86,085
Professional Fees (legal and audit fees)	43,229	2,956	40,273
Net loss	(252,969)	(29,412)	(223,557)

Our accumulated losses increased to \$4,463,307 as of July 31, 2011. Our financial statements report a net loss of \$252,969 for the three month period ended July 31, 2011 compared to a net loss of \$29,412 for the three month period ended July 31, 2010. Our revenues have increased primarily as a result of the new producing oil wells at Belmont Lake, PPF-12-4 and PPF-12-5, along with the increased percentage working interest in those wells. Our losses have increased primarily because of the general and administrative expenses. For the three month period ended July 31, 2011, there has been an increase in our interest expense due to the new convertible debt of \$620,000; an increase in foreign exchange loss; and, an increase in consulting fees due to a new consulting contracts with the Senior VP-Business Development and an assistant: all in comparison to the three month period ended July 31, 2010. The Company also recognized an increase in depletion of its capitalized oil and gas expenditures of \$75,253 during the three months ended July 31, 2011, compared to \$59,001 for the three months ended July 31, 2010. The Company had oil and gas operating expenses of \$110,012 in the three months ending July 31, 2011 compared to \$23,927 for the three months ended July 31, 2010. The increase in the costs are due to the increased production of oil, the addition of the new oil wells PPF-12-4 and PPF-12-5 at Belmont Lake, and our increased percentage in working interests in both the PPF-12-4 and PPF-12-5 wells.

### Results of Operations Nine Months Ended July 31, 2011 and 2010

The following summary of our results of operations should be read in conjunction with our financial statements for the nine months ended July 31, 2011, which are included herein.

Our operating results for the nine months ended July 31, 2011, for the nine months ended July 31, 2010 and the changes between those periods for the respective items are summarized as follows:

	Nine Months Ended	Nine Months Ended	Change Between Nine Month Period Ended
	July 31, 2011	July 31, 2010	July 31, 2011 and July 31, 2010
Revenue	\$ 1,006,068	\$ 229,885	\$ 776,183
Other income/expenses	Nil	Nil	Nil
General and administrative	840,115	507,221	332,894
Interest expense	172,262	123,827	48,435
Write down in carrying value of oil and gas properties	Nil	1	(1)
Consulting fees	189,471	122,872	66,599
Oil and gas operating expenses	420,550	78,389	342,161
Professional Fees	74,187	43,738	30,449
Net loss	(538,915)	(474,750)	(64,165)

As at July 31, 2011, we had \$876,741 in current liabilities. Our net cash used in operating activities for the nine months ended July 31, 2011 was \$183,021 compared to \$157,173 used in the nine months ended July 31, 2010. Our accumulated losses increased to \$4,463,307 as of July 31, 2011. Our financial statements report a net loss of \$538,915 for the nine month period ended July 31, 2011 compared to a net loss of \$474,750 for the nine month period ended July 31, 2010. Our losses have increased primarily because of the stock options that were issued in July 2011; there

has been an increase in our interest expense due to the new convertible debt of \$620,000; an increase in foreign exchange loss; and, an increase in consulting fees due to a new consulting contracts with the Senior VP-Business Development and an assistant; an increase in stock based compensation for the options granted to the directors and officers: all in comparison to the nine month period ended July 31, 2010. The Company also recognized cost of revenue in oil and gas properties of \$704,868 during the nine months ended July 31, 2011, compared to \$197,414 for the nine months ended July 31, 2010.

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Our total liabilities as of July 31, 2011 were \$1,476,179 as compared to total liabilities of \$1,124,646 as of October 31, 2010. The increase is due to the Convertible Debt financing of \$620,000 that was completed in December 2010.

### Liquidity and Financial Condition

#### Working Capital

	July 31, 2011	October 31, 2010
Current assets	\$ 730,322	\$ 140,207
Current liabilities	876,741	1,049,647
Working capital (Deficit)	\$ (146,419)	\$ (909,440)

#### Cash Flows

	Nine Months Ended	
	July 31, 2011	July 31, 2010
Cash flows (used in) operating activities	\$ (183,022)	\$ (157,173)
Cash flows (used in) investing activities	(281,164)	(-)
Cash flows provided by (used in) financing activities	895,638	258,400
Increase (decrease) in cash and cash equivalents	431,453	101,227

#### Operating Activities

Net cash used in operating activities was \$183,022 for the nine months ended July 31, 2011 compared with net cash used in operating activities of \$157,173 in the same period in 2010.

#### Investing Activities

Net cash used in investing activities was \$281,164 in the nine months ended July 31, 2011 compared to net cash used in investing activities was \$nil in the same period in 2010. The use of cash in investing activities is mainly attributable to the new oil wells at Belmont Lake, being PPF-12-4 and PPF-12-5.

#### Financing Activities

Net cash provided in financing activities was \$895,638 in the nine months ended July 31, 2011 compared to net cash provided by financing activities of \$258,400 in the same period in 2010. This is attributable to the convertible debt financing completed on December 16, 2010, proceeds from exercising of warrants and options, and from a private placement in the 3<sup>rd</sup> quarter.

#### ***Oil and gas sales volume comparisons for the nine months ended July 31, 2011 compared to the nine months ended July 31, 2010***

For the nine month period ended July 31, 2011, the Company had \$1,006,068 in revenues compared to \$229,885 in revenues for the same nine month period in the prior year. The increase in revenues is a result from the new producing oil wells PPF-12-4 and PPF-12-5 at Belmont Lake and the increased percentage working interest on those wells, which has led to increased production volumes and revenues.

#### **Item 4. 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 July 31, 2011, the end of our quarter covered by this report, we carried out an evaluation, under the supervision and with the participation of our president and chief executive officer (also our principal executive officer) and our chief financial officer (also our principal financial and accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president and chief executive officer (also our principal executive officer) and our chief financial officer (also our principal financial and accounting officer) concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of July 31, 2011.

##### ***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 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 July 31, 2011. 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 July 31, 2011, 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.

##### ***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.

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***Changes in Internal Control over Financial Reporting***

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended July 31, 2011 that have materially or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings**

We know of no material, existing or pending legal proceedings against our company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no 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 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.

Such estimates, projections or other "forward looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward looking statements".

Prospective investors should consider carefully the risk factors set out below.

*We have had negative cash flows from operations.*

To date we have had negative cash flows from operations and we have been dependent on sales of our equity securities and debt financing to meet our cash requirements and have incurred losses totaling approximately \$538,915 for the nine month period ending July 31, 2011, and cumulative losses of \$4,463,307 to July 31, 2011. As of July 31, 2011 we had deficit in working capital of \$146,419 as a result of past financing activities. We do expect positive cash flow from operations at some point; however there is no assurance that actual cash requirements will not exceed our estimates, or that our sales projections will be realized as estimated. In particular, additional capital may be required in the event that:

- drilling and completion costs for further wells increase beyond our expectations; or
- commodity prices for our production decline beyond our expectations; or
- production levels do not meet our expectations; or
- we incur higher well plug and abandonment costs than currently expected; or
- we encounter greater costs associated with general and administrative expenses or offering costs.

The occurrence of any of the aforementioned events could adversely affect our ability to meet our business plans.

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We will depend almost exclusively on outside capital to pay for the continued exploration and development of our properties. Such outside capital may include the sale of additional stock and/or commercial borrowing. Capital may not continue to be available if necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to us. The issuance of additional equity securities by us would 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.

If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, we may be unable to continue our business and as a result may be required to scale back or cease operations for our business, the result of which would be that our stockholders would lose some or all of their investment.

*A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.*

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been primarily financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If our stock price declines, we may not be able to raise additional capital or generate funds from operations sufficient to meet our obligations.

*We have a history of losses and fluctuating operating results.*

From inception through to July 31, 2011, we have incurred aggregate losses of approximately \$4,463,307. Our loss from operations for the nine month period ended July 31, 2011 was \$538,915. There is no assurance that we will operate profitably or will generate positive cash flow in the future. In addition, our operating results in the future may be subject to significant fluctuations due to many factors not within our control, such as the unpredictability of world prices and market for oil and gas, the demand for our production, and the level of competition and general economic conditions. If we cannot generate positive cash flows in the future, or raise sufficient financing to continue our normal operations, then we may be forced to scale down or even close our operations. Until such time as we generate significant revenues, we expect an increase in development costs and operating costs. Consequently, we expect to continue to incur operating losses and negative cash flow until we receive significant commercial production from our properties.

*We have a limited operating history and if we are not successful in continuing to grow our business, then we may have to scale back or even cease our ongoing business operations.*

We have limited history of revenues from operations and have limited significant tangible assets. We have yet to generate positive earnings and there can be no assurance that we will ever operate profitably. The success of our company is significantly dependent on a successful acquisition, drilling, completion and production program. Our company's operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. We may be unable to locate recoverable reserves, extract the reserves economically, and/or operate on a profitable basis.

*Trading of our stock may be restricted by the SEC's "Penny Stock" regulations, which may limit a stockholder's ability to buy and sell our stock.*

The U.S. Securities and Exchange Commission has adopted regulations which generally define "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 SEC, 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.

*Trading in our common shares on the OTC Bulletin Board is limited and sporadic making it difficult for our shareholders to sell their shares or liquidate their investments.*

Our common shares are currently listed for public trading on the OTC Bulletin Board. The trading price of our common shares has been subject to wide fluctuations. Trading prices of our common shares may fluctuate in response to a number of factors, many of which will be beyond our control. The stock market has generally experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies with no current business operation. There can be no assurance that trading prices and price earnings ratios previously experienced by our common shares will be matched or maintained. These broad market and industry factors may adversely affect the market price of our common shares, regardless of our operating performance.

In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted. Such litigation, if instituted, could result in substantial costs for us and a diversion of management's attention and resources.

*Because of the early stage of development and the nature of our business, our securities are considered highly speculative.*



Our securities must be considered highly speculative, generally because of the nature of our business and the early stage of its development. We have largely been engaged in the business of exploring and until only recently attempting to develop commercial reserves of oil and gas. Only our Mississippi properties have commenced production. Accordingly, we have generated revenues but we have not realized a profit from our operations to date and there is little likelihood that we will generate significant revenues or realize any profits in the short term. Any profitability in the future from our business will be dependent upon attaining adequate levels of internally generated revenues through locating and developing economic reserves of oil and gas, which itself is subject to numerous risk factors as set forth herein. Since we have not generated significant revenues, we will have to raise additional monies through either securing industry reserve based debt financing, or the sale of our equity securities or debt, or combinations of the above in order to continue our business operations.

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*As our properties are in the exploration and early development stage there can be no assurance that we will establish commercial discoveries and/or profitable production programs on these properties.*

Exploration for economic reserves of oil and gas is subject to a number of risk factors. Few properties that are explored are ultimately developed into producing oil and/or gas wells. Our Mississippi properties are in the production and development stages only.

*The potential profitability of oil and gas ventures depends upon factors beyond the control of our company.*

The potential profitability of oil and gas properties is dependent upon many factors beyond our control. For instance, world prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. These changes and events may materially affect our financial performance.

Adverse weather conditions can also hinder drilling operations. A productive well may become uneconomic in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. The marketability of oil and gas, which may be acquired or discovered, will be affected by numerous factors beyond our control. These factors include the proximity and capacity of oil and gas pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production and environmental protection. 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.

*Competition in the oil and gas industry is highly competitive and there is no assurance that we will be successful in acquiring the leases.*

The oil and gas industry is intensely competitive. We compete with numerous individuals and companies, including many major oil and gas companies, which have substantially greater technical, financial and operational resources and staff. Accordingly, there is a high degree of competition for desirable oil and gas leases, suitable properties for drilling operations and necessary drilling equipment, as well as for access to funds. We cannot predict if the necessary funds can be raised or that any projected work will be completed. Our budget does not anticipate the potential acquisition of additional acreage in Mississippi although this may change at any time without notice. This acreage may not become available or if it is available for leasing, that we may not be successful in acquiring the leases. There are other competitors that have operations in these areas and the presence of these competitors could adversely affect our ability to acquire additional leases.

*The marketability of natural resources 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 natural resources, which may be acquired or discovered by us, will be affected by numerous factors beyond our control. These factors include market fluctuations in oil and gas pricing and demand, the proximity and capacity of natural resource markets and processing equipment, governmental regulations, land tenure, land use, regulation concerning the importing and exporting of oil and gas and environmental protection regulations. 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.

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*Oil and gas operations 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.*

Oil and gas operations are subject to federal, state, and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Oil and gas operations are also subject to federal, state, and local laws and regulations, which seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. Various permits from government bodies are required for drilling operations to be conducted; no assurance can be given that such permits will be received. Environmental standards imposed by federal, provincial, or local authorities may be changed and any such changes may have material adverse effects on our activities. 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 pollution or other environmental damages, which it may elect not to insure against due to prohibitive premium costs and other reasons. 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 future and this may affect our ability to expand or maintain our operations.

*Exploration and production activities are subject to certain environmental regulations, which may prevent or delay the commencement or continuance of our operations.*

In general, our exploration and production activities are subject to certain federal, state and local laws and regulations relating to environmental quality and pollution control. Such laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuance of a given operation. Compliance with these laws and regulations has not had a material effect on our operations or financial condition to date. Specifically, we are subject to legislation regarding emissions into the environment, water discharges and storage and disposition of hazardous wastes. In addition, legislation has been enacted which requires well and facility sites to be abandoned and reclaimed to the satisfaction of state authorities. However, such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. Generally, environmental requirements do not appear to affect us any differently or to any greater or lesser extent than other companies in the industry.

*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.

*Exploratory and development drilling involves many risks and we may become liable for pollution or other liabilities, which may have an adverse effect on our financial position.*

Drilling operations generally involve a high degree of risk. Hazards such as unusual or unexpected geological formations, power outages, labor disruptions, blow-outs, sour gas leakage, fire, inability to obtain suitable or adequate machinery, equipment or labour, and other risks are involved. We may become subject to liability for pollution or hazards against which it cannot adequately insure or which it may elect not to insure. Incurring any such liability may have a material adverse effect on our financial position and operations.

*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 profitably.

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*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 200,000,000 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.

## **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

## **Item 3. Defaults Upon Senior Securities**

None.

## **Item 4. Submission of Matters to a Vote of Securities Holders**

None.

## **Item 5. Other Information**

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

**Item 6. Exhibits**

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**Exhibit Description  
Number**

**(i) Articles of Incorporation; and (ii) Bylaws**

3.1*	Articles of Incorporation
3.2*	Bylaws
4.1*	Specimen ordinary share certificate
<u>31.1</u>	<u>Rule 13(a) - 14 (a)/15(d) - 14(a) Certifications</u>
<u>31.2</u>	<u>Rule 13(a) - 14 (a)/15(d) - 14(a) Certifications</u>
<u>32.1</u>	<u>Section 1350 Certifications</u>
<u>32.2</u>	<u>Section 1350 Certifications</u>

\*Incorporated by reference to same exhibit filed with the Company's Registration Statement on Form SB-2 dated January 10, 2006.

\* Filed herewith.

\*\*Certain parts of this document have not been disclosed and have been filed separately with the Secretary, Securities and Exchange Commission, and is subject to a confidential treatment request pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**LEXARIA CORP.**

By: /s/ "Chris Bunka "

Chris Bunka,  
President, Chief Executive Officer, Chairman and Director  
(Principal Executive Officer)  
10/09/2011

By: /s/ "Bal Bhullar"

Bal Bhullar  
Chief Financial Officer and Director  
10/09/2011

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