Lexaria Bioscience Corp.
Form 10-K
November 14, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-K

(Mark One)

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

For the fiscal year ended **August 31, 2018**

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

For the transition period from [ ] to [ ]

Commission file number **000-52138**

# LEXARIA BIOSCIENCE CORP.

(Exact name of registrant as specified in its charter)

| **Nevada** | **20-2000871** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **156 Valleyview Rd, Kelowna BC Canada** | **V1X 3M4** |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: **250-765-6424**

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

| Title of Each Class | Name of Each Exchange On Which Registered |
|---|---|
| **N/A** | **N/A** |

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

**Common Stock, Par Value $0.001**
(Title of class)

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the last 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-K (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ | Smaller reporting company | ¨ |
| (Do not check if smaller reporting Company) | | Emerging growth company | ¨ |

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

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

The aggregate market value of Common Stock held by non-affiliates of the Registrant on February 28, 2018 was $75,674,412 based on the average of the high and low bid and asked price of the Registrant’s shares of common stock on the OTC Bulletin Board or $1.345 on February 28, 2018. For purposes of this computation, all executive officers and directors have been deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers and directors are, in fact, affiliates of the Registrant.

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

77,090,621 common shares as of November 7, 2018

DOCUMENTS INCORPORATED BY REFERENCE

None.

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## PART I

### Item 1. Business

***Forward-Looking Statements***

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

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

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

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

As used in this current report and unless otherwise indicated, the terms “we”, “us”, “our” and “our company” mean Lexaria Bioscience Corp., our wholly owned subsidiaries, Lexaria CanPharm Corp., a Canadian corporation, PoViva Tea, LLC (“PoViva”) (2017 51%), an entity incorporated in the state of Nevada, and Lexaria Hemp Corp., Lexaria Nicotine Corp., and Lexaria Pharma Corp., entities incorporated in the state of Delaware with $NIL assets and liabilities, unless otherwise stated.

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

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

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

Our common stock is quoted on the OTCQX under the symbol “LXRP” and on the Canadian Securities Exchange under the symbol “LXX”.

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

The Company entered into a joint venture agreement with Enertopia Corp for a prospective medical marijuana business under the Canadian Marijuana for Medical Purposes Regulations (“MMPR”) for a 49% net ownership interest in the business (Enertopia 51%) utilizing an identified location in Burlington, Ontario.

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On June 26, 2015, the Company entered into a definitive agreement with Enertopia Corp. and Shaxon Enterprises Ltd. to sell its 49% interest in the Burlington Joint Venture and the MMPR application number 10MMPR0610. Pursuant to the agreement, the joint venture received a non-refundable $10,000 deposit and is entitled to receive up to $1,500,000 in milestone payments upon the Burlington facility becoming licensed under the MMPR. All payments made pursuant to the agreement would be divided 51% to Enertopia Corp. and 49% to Lexaria Bioscience. Notwithstanding the foregoing, the Company does not expect the grant of a production license for the Burlington facility.

The Company's food sciences activities include the development of our proprietary nutrient infusion technologies for the production of functional foods, and the production of enhanced food products under our two consumer product brands, ViPova™ and Lexaria Energy™. The Company's patented lipid nutrient infusion technology DehydraTECH™ is believed to improve taste, rapidity and delivery of bioactive compounds that include cannabinoids, vitamins, NSAIDs, nicotine and other molecules compared to what is possible without lipophilic enhancement technology. This can allow for lower overall dosing requirements and/or higher effectiveness in active molecule delivery.

Lexaria has caused to be filed many patent-pending applications with the US Patent Office (USPTO), and also internationally under the Patent Cooperation Treaty (PCT). On October 26, 2016, the USPTO issued U.S. Patent No. 9,474,725 B1 (granted June 15 2017 in Australia No. 2015274698), Cannabinoid Infused Food and Beverage Compositions and Methods of Use Thereof, pertaining to Lexaria's method of improving bioavailability and taste of certain cannabinoid lipophilic active agents in food products. On December 12, 2017, the USPTO granted patent number US 9,839,612 B2 for the use of DehydraTECH™ technology as a delivery platform for a wide variety of Active Pharmaceutical Ingredients ("APIs") encompassing all cannabinoids including THC; fat soluble vitamins; non-steroidal anti-inflammatory pain medications ("NSAIDs"); and nicotine. The title of the granted patent is "Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof". The USPTO granted on May 15, 2018 patent US 9,972,680 B2 and on May 22, 2018 it granted patent US 9,974,739 B2 within the same patent family.

Lexaria hopes to reduce other common but less healthy administration methods, such as smoking, as it embraces the benefits of its technology for public health. The Company is aggressively pursuing patent protection in national jurisdictions around the world. The Company currently has more than 50 patent applications pending worldwide and, due to the complexity of pursuing patent protection, the quantity of patent applications will vary continuously as each application advances or stalls. Lexaria is also filing new patent applications for novel new discoveries that arise from the Company's R&D programs and, due to the inherent unpredictability of scientific discovery, it is not possible to predict if or how often such new applications might be filed.

On January 5, 2018 the Company filed a Form S-4 Registration Statement and the company held on June 13, 2018, an annual and special meeting of stockholders at the office of our law firm, Macdonald Tuskey located in North Vancouver, British Columbia, Canada, that included as part of the proceedings the approval of the plan of conversion whereby our corporate jurisdiction could be changed from the State of Nevada to the Province of British Columbia, Canada by means of a process called a "conversion" and a "continuation". Important details for stockholders related to the

conversion and the associated risks for the company and stockholders are included in the S-4 Registration Statement. There are risks associated with proceeding or not proceeding with the conversion regarding the increasing complexity of compliance with the regulatory framework and the associated increasing costs, the restrictions on the promotion and sale of our stocks to US investors that limit the potential liquidity of our stock, and an increasingly complex environment that can negatively impact Lexaria even as an ancillary involved company via technology licensing to entities in the state legal cannabidiol and cannabis markets. Amendments to the S-4 as S-4/A and S-4/A No 2 were filed February 7, 2018 and March 1, 2018.

Subsequent to the June 2018 annual and special meeting of stockholders, the Company received expert tax advice that suggests a particular class of shareholder may be exposed to punitive taxes immediately upon conversion of the Company from Nevada to Canada. As a result of this punitive tax treatment the Company has placed on indefinite hold the redomiciling of the Company from the USA to Canada, until such time as a remedy can be discovered. At the Annual General Meeting held June 13, 2018, shareholder approval was obtained to effect the corporate conversion and thus, if and when the inequitable tax treatment problem can be solved, the conversion process can potentially then occur without additional delay.

As at August 31, 2018, we had two reportable segments: Intellectual Property Licensing and Consumer Products.

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

The address of our principal executive office is 156 Valleyview Rd, Kelowna BC Canada V1X3M4. We have administrative functions located in Vancouver, British Columbia and Phoenix, Arizona. Subsequent to August 31, 2018, our offices will be moving to Unit 100 – 740 McCurdy Road, Kelowna BC V1X2P7 with the anticipated opening date for the new offices during first quarter of calendar 2019.

***Our Current Business***

Our company's business plan is currently focused on the development of strategic partnerships with licensees for our patented technology in exchange for up front and/or staged licensing fees over time. Secondarily and more generally, we continue to investigate national and international opportunities for development and distribution of the Company's enhanced functional food and supplement product offerings; to investigate expansions and additions to our intellectual property portfolio; and, to search for additional opportunities in alternative health sectors. This includes the acquisition or development of intellectual property if and when we believe it advisable to do so. We announced issuance of our first patent by the U.S. Patent and Trademark Office (USPTO) on October 26, 2016 and have received a Notice of Acceptance from the Australian Patent Office with related patent issuance date June 15 2017 No. 2015274698. On December 12, 2017 patent number US 9,839,612 B2 was issued for the delivery of additional molecules such as psychoactive cannabinoids, vitamins, non-steroidal anti-inflammatories, and nicotine all utilizing our DehydraTECH™ delivery technology. On March 22, 2018, we received a Notice of Allowance from the USPTO for the delivery of both psychoactive and non-psychoactive cannabinoids as lipophilic active agents formulated together with the edible fatty acids that enable the bioavailability and taste enhancing properties of the DehydraTECH™ technology. On May 22, 2018 patent US 9,974,739 B2, "Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof" was granted. On April 11, 2018 the Company announced it received a new Notice of Allowance from the USPTO providing claims that protect processes for making specific compositions of matter for enhanced cannabinoid delivery utilizing its DehydraTECH technology. On May 15, 2018 patent US 9,972,680 B2, "Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof" was granted.

We are seeking additional patent protection for what we believe to be a unique process for the nutritional delivery of certain molecules such as cannabinoids, Nicotine, Non-Steroidal Anti-Inflammatory Drugs (NSAIDs), and Vitamins. To achieve sustainable and profitable growth, our company intends to control the timing and costs of our projects wherever possible. We have filed for patent protection of our delivery technology for additional compounds such as phosphodiesterase inhibitors, human hormones such as estrogen and testosterone, and more.

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

On October 27, 2017, the Company announced it extended the expiration date of warrants originally issued on January 9, 2017 with a one-year expiration date. The warrant quantity and exercise price remain unchanged. Those same 500,000 warrants remain exercisable at $0.44 but will now expire on January 9, 2019.

On October 31, 2017, the Company announced it received a Notice of Allowance from the United States Patent and Trademark Office ("USPTO") for the use of its technology as a delivery platform for all cannabinoids including THC; fat soluble vitamins; non steroidal anti-inflammatory pain medications ("NSAIDs"); and nicotine. The patent application number is 15/225,799, "Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof" and on December 12, 2017, the USPTO granted patent number US 9,839,612 B2 for the use of DehydraTECH™ technology as a delivery platform.

On November 2, 2017, the Company announced it acquired 100% ownership interest in its majority owned subsidiary Poviva Tea, LLC. The Company previously owned a 51% interest in Poviva Tea, LLC and acquired the remaining 49% interest. Compensation was $70,000, a waiver on certain debts from Poviva to the Company, and a 5%, 20-year royalty on net profits of ViPova Tea™ tea, coffee, and hot chocolate sales. No Lexaria stock or options were issued. The 20-year royalty was determined to have a $Nil fair value as PoViva operates at a loss and future profitability is uncertain.

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On November 9, 2017, the Company announced it filed a new patent application with the US Patent and Trademark Office utilizing the Lexaria DehydraTECH™ technology for delivery of phosphodiesterase type 5 (PDE5) inhibitors - trade names of existing well-known products include Viagra® (sildenafil) and Cialis® (tadalafil).

On November 27, 2017, the Company announced filing its annual Form 10-K including financial statements.

On December 1, 2017, the Company issued 14,634 restricted common shares at a price of $0.82 per shares to settle $12,000 of debt to a director of the Company. Lexaria awarded a total of 209,056 restricted common shares at an issuance price of $0.82 as required by intellectual property performance thresholds within an existing management consulting contract with the Company divided between three officers and three managers. Lexaria awarded 250,000 warrants with an exercise price of $0.83 and an expiration date of December 1, 2019 to a manager of the Company, pursuant to a management contract. The warrants were valued at $124,476 and included in consulting expense.

On December 1, 2017, Lexaria granted 200,000 stock options with an exercise price of $0.83 and an expiration date of December 1, 2022, to an officer of the Company, pursuant to an existing management contract. The options were valued at $122,562 and included in consulting expense.

On December 29, 2017, the Company announced it filed a S4 prospectus with the US Securities and Exchange Commission (“SEC”) intending to re-domicile out of the USA and into Canada. The process of changing legal jurisdiction involves a number of steps including seeking and obtaining shareholder approval. The meeting was held June 13, 2018, wherein all motions on the proxy were approved.

January 4, 2018, the Company announced it qualified for and began trading on the OTCQX Best Market, operated by OTC Markets Group.

January 17, 2018, the Company announced that it has engaged JGRNT Capital Corp to provide strategic consulting services to the Company for a one-year term and awarded 500,000 warrants, each valid to purchase one common share at a price of $1.83 and valid for two years. The warrants were valued at $567,647 and included in consulting expense.

January 25, 2018, the Company announced it entered a definitive technology licensing agreement with a 7-year term with Cannfections Group Inc. whereby Lexaria is providing its patented DehydraTECH™ technology to empower next-generation performance in cannabis infused chocolates and candies to be developed and sold in Canada and internationally.

February 26, 2018, the Company announced it entered an agreement with NeutriSci International Inc. ("NeutriSci") (TSX-V: NU, OTCQB: NRXCF) such that NeutriSci now owns 100% of Ambarii Trade Corporation and Lexaria has granted to NeutriSci an Intellectual Property License and Supply Agreement for the manufacturing and sale of CBD based products.

February 27, 2018, the Company announced it entered a definitive technology licensing agreement with a 5-year term with Los Angeles-based, privately-held Biolog, Inc. ("Biolog") whereby Lexaria is providing its patented DehydraTECH™ technology to empower a unique set of next-generation food and beverage cannabis infusion products to be sold in the United States.

March 20, 2018, the Company announced it filed a new patent application with the United States Patent and Trademark Office for use of DehydraTECH™ to improve the speed and quantity of absorption of active pharmaceutical ingredients through the skin. In the patent application, Lexaria has applied for patent protection for the delivery of all of the active ingredient classes already identified in its other issued and pending patent applications including cannabinoids, terpenes and terpenoids, NSAIDs, vitamins, nicotine and phosphodiesterase inhibitors, as well as a broad range of additional active ingredients commonly found in topical products today that may benefit from enhanced skin permeability performance in concert with the DehydraTECH™ technology.

On March 22, 2018, Lexaria received a Notice of Allowance from the USPTO for the delivery of both psychoactive and non-psychoactive cannabinoids as lipophilic active agents formulated together with the edible fatty acids that enable the bioavailability and taste enhancing properties of the DehydraTECH™ technology. The patent application number is 15/225,802 "Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof".

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On April 25, 2018, the Company announced that it entered a definitive technology licensing agreement with GP Holdings LLC, whereby Lexaria provided its patented DehydraTECH™ technology for cannabis infused beverages and topical skin products in California. GP acquired a 5-year semi-exclusive right. Subsequent to August 31, 2018, this contract was cancelled due to ongoing delays and non-performance.

On April 30, 2018, the Company announced a new 10-year licensing renewal with Nuka Enterprises LLC, maker of 1906 brand cannabis chocolates and other edible products. The new agreement provides Nuka Enterprises LLC with semi-exclusive ability to utilize the DehydraTECH™ technology across the US. Nuka also acquired an option to expand its products and brand to Canada, including using Lexaria's existing chocolate and confections contract manufacturer licensee Cannfections Group Inc. The agreement incorporates new rights in product categories in addition to the original chocolate formats, which include candies, beverages, capsules and pills, and topical creams.

May 28, 2018, the Company announced it entered into a consulting contract granting 250,000 warrants with an exercise price of $1.55 expiring three years after issuance. These warrants were valued at $319,699 and included in consulting expense.

On May 31, 2018, the Company announced that pursuant to existing stock option plans, it has granted stock options to directors, officers, employees and consultants that enable the option holders to purchase up to 1,725,000 common shares of the Company at a price of US$1.53 for a period of five years, vesting immediately. The options were valued at $173,428 and included in consulting expense.

On June 28, 2018, the Company announced it filed a new patent application with the USPTO for innovation in treatment options related to central nervous system disease or disorders titled: "Enhancement of Delivery of Lipophilic Active Agents Across the Blood-Brain Barrier and Methods for Treating Central Nervous System Disorders." Lexaria's application requests patent protection for the delivery of cannabinoids, terpenes and terpenoids, non-steroidal anti-inflammatory drugs (i.e., NSAIDs), vitamins, nicotine, phosphodiesterase type 5 (PDE5) inhibitors, estrogen, progestin, testosterone, scopolamine and more, utilizing Lexaria's already-patented DehydraTECH™ methodology combined with any of a wide variety of emulsifiers, starches, oils, flavorings and foods.

On July 3, 2018, the Company announced the results of the Annual General and Special Meeting wherein all motions were passed including the election as directors of Chris Bunka, John Docherty, Nick Baxter and Ted McKechnie, Davidson & Company LLP was appointed as auditors and the Plan of Conversion. It was also noted that tax experts specified that a certain class of shareholders may be adversely affected by punitive taxes upon the conversion of the Company from US-based to Canadian-based. As a result, the planned redomiciling from the USA to Canada has been placed on indefinite hold until such time as a solution to the inequitable tax treatment can be resolved. This may result in the plan of conversion taking place at a later time if a tax solution can eventually be realized, or not at all if equitable tax treatment cannot be obtained.

On July 31, 2018, the Company announced, and Hill Street Beverage Company Inc., (TSXV:BEER; “Hill Street”) jointly announced that they signed a Definitive Agreement to license Lexaria’s DehydraTECH™, on a semi-exclusive basis, for a term of five (5) years, to produce a line of cannabis-infused alcohol-free beverages for Canadian distribution, following regulatory approval. $56,250 (CDN$ 73,497), representing a portion of the compensation payable to Lexaria, shall be paid and satisfied in common shares in the capital of Hill Street, at a purchase price of CDN$0.175, for an aggregate of 419,982 common shares . The issuance of the shares is subject to regulatory approval, including without limitation, the approval of the TSX Venture Exchange. Subsequent to August 31, 2018 the shares were issued to Lexaria.

On August 7, 2018, the Company announced that it has issued a total of 355,000 restricted common shares as required by executive consulting agreements, shared by the Chief Executive Officer and the President of the Company. The shares are required to be issued upon certain intellectual property achievements and patent application filings. 172,500 shares were awarded at an issue price of $1.24; and 182,500 shares were awarded at an issue price of $1.32. Cash compensation of $185,200 designed to offset tax liabilities from the share award was also granted.

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On August 31, 2018, the Company announced that it issued a total of 69,000 restricted common shares at an issue price of US$2.07 as required by executive consulting agreements, to the Chief Executive Officer and the President of the Company. The shares are required to be issued upon certain intellectual property achievements and patent application filings in June that triggered the awards. Cash compensation of $64,170 designed to offset tax liabilities from the share award was also granted. Lexaria also granted 50,000 stock options to each of two Advisors to the Company, valid for five years with an exercise price of $2.06, vesting immediately.

During the year ended August 31, 2018 the Company issued 35,913 compensation warrants with an exercise price of $0.60 expiring April 3, 2019. These warrants were valued at $21,646 and recorded as a share issue cost within additional paid in capital for a net effect of $Nil. Within the period a total of $1,867,225 was received for the exercises of warrants and options.

**The Company experienced the following significant corporate developments subsequent to August 31, 2018**

On September 7, 2018, the Company announced three (3) new patents granted by the Australian Patent Office within Lexaria's first patent family, "Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof". The three new Australian patents are projected to expire on June 10, 2035.

On September 28, 2018, the Company announced filing a new patent application entitled "Lipophilic Active Agent Infused Tobacco Leaves and/or Tobacco Materials and Methods of Use Thereof". Lexaria also received $128,000 from the exercise of 250,000 warrants at $0.44 and 30,000 warrants at $0.60, previously granted to third parties who are neither officers nor directors of the Company. Lexaria announced it cancelled the contract announced on April 25 with GP Holdings LLC due to ongoing delays and non-performance.

On October 10, 2018, the Company announced completing the creation of four wholly-owned subsidiary companies: Lexaria CanPharm Corp., a Canadian company focused on providing DehydraTECH™ technology and other enhancements to the global cannabis industry, Lexaria Nicotine Corp., a US company with a global license to provide DehydraTECH™ technology to the global nicotine and tobacco industries, Lexaria Hemp Corp., a US company globally licensed to provide DehydraTECH™ to the hemp-based foods and supplements industries, and Lexaria Pharmaceutical Corp., a US company globally empowered to license DehydraTECH™ to the pharmaceutical sector. Lexaria also received $33,000 from the exercise of 330,000 options at the price of $0.10 previously granted to a third party who is neither an officer nor director of the Company. No commissions or placement fees were paid related to the funds received from these options exercised.

On October 16, 2018, the USPTO granted two new patents related to certain cannabinoid infused beverage compositions utilizing Lexaria's proprietary DehydraTECH™ process, bringing the Company's worldwide patent portfolio to ten issued patents. The granted patent numbers 10,103,225 and 10,084,044 provide protection for compositions as well as methods for making the compositions, each of which include the use of both non-psychoactive cannabinoids such as CBD and also psychoactive cannabinoids such as THC and are within Lexaria's first patent family, "Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof".

On October 31, 2018 Lexaria closed its non-brokered private placement with gross proceeds of $1,515,440 comprised of 947,150 units (each, a "Unit") at an issue price of $1.60 per Unit. Each Unit consists of one common share and one common share purchase warrant (each, a "Warrant"). Each Warrant shall entitle the holder to acquire one common share of the Company at a price of $2.25 per common share for a period of 24 months following the closing of the Offering. Finder's fees of $45,080 and 28,175 finder's warrants were paid on a portion of the proceeds raised, with each finder's warrant having exercisable at $2.25 for a period of 24 months following the closing.

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**Food Science and Technology**

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

On November 11, 2014, our Company acquired 51% of PoViva Tea LLC and executed an operating agreement to develop a business of legally producing, manufacturing, importing/exporting, testing, researching and developing, a line of hemp oil with cannabidiol-infused teas, drinks and foods. On November 2, 2017, we announced that we acquired 100% of PoViva Tea LLC.

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

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

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

> *"Cannabinoids have been found to have antioxidant properties, unrelated to NMDA receptor antagonism. This new found property makes cannabinoids useful in the treatment and prophylaxis of wide variety of oxidation associated diseases, such as ischemic, age-related, inflammatory and autoimmune diseases. The cannabinoids are found to have*

*particular application as neuroprotectants, for example in limiting neurological damage following ischemic insults, such as stroke and trauma, or in the treatment of neurodegenerative diseases, such as Alzheimer's disease, Parkinson's disease and HIV dementia."*

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

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

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

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

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

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Between 5.3% and 5.8% of the survey group at any one time reported that they had seen a complementary or alternative medicine provider. Based on the US population of ~328,000,000, this suggests between 17.4 million and 19.0 million Americans are seeking an alternative health care professional at any given time.

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

- Use of dietary supplements is common among the U.S. adult population. Over 40% used supplements in 1988–1994, and over one-half in 2003–2006.

**Status of Operations; Consumer product development and sales**

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

PoViva Tea LLC has filed patents pending, and has received four granted patents in the US and four in Australia, to bind active hemp oil ingredients with a lipid, potentially allowing for more efficient and comforting delivery of the CBD or other bioactive substances.

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

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

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

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

Lexaria had previously launched the “Lexaria Energy” brand that is 100% owned by the Company. Under this brand, the Company plans to develop hemp oil-infused food products for people with active lifestyles, such as protein bars, protein shakes and other similar products. On November 3, 2015, Lexaria Energy10 protein bars became available for retail sales with two flavors. The original contract manufacturer of these protein bars was unable to fulfill additional orders and we have not currently been able to locate and contract an alternative location to manufacture this more complicated food product, with the result that the product is temporarily discontinued while we search for a suitable manufacturing location.

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

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

1. Lexaria is seeking protection of its intellectual property under international treaties. To this end Lexaria has filed for PCT patent application protection. There are 148 countries that are signatories to the Patent Cooperation Treaty, including such major markets as Canada, China, India, much of Europe and the Middle East, the United Kingdom and Japan among others.

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

On October 26, 2016, the USPTO issued U.S Patent No. 9474725, Cannabinoid Infused Food and Beverage Compositions and Methods of Use Thereof, pertaining to our method of improving bioavailability and taste of certain cannabinoid lipophilic active agents in food products. This is the Company's first patent granted and has a publish date of October 27, 2016 (June 10 2017 in Australia No. 2015274698) and protects our technology for twenty years. On December 12, 2017, the USPTO granted patent number US 9,839,612 B2 for the use of DehydraTECH™ technology as a delivery platform. On May 22, 2018 patent US 9974739 B2, "Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof" was granted providing for "composition of matter" claims that protect the specific combination of substances which enable improved taste and bioabsorption properties of its DehydraTECH™ technology for the delivery of cannabinoids. On May 15, 2018 patent US 9972680 B2, "Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof" was granted providing claims that protect processes for making specific compositions of matter for enhanced cannabinoid delivery utilizing its DehydraTECH™ technology.

The Company does not know and cannot know whether these strategies will be successful, or if successful, how long it will take to gain consumer acceptance and customer loyalty. It can be a challenge to be successful by introducing

new consumer products to a competitive retail marketplace, and we can offer no assurances that our products will be a commercial success.

*International patent protection*

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

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*Additional molecules*

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

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

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

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

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

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

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

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

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

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

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*Scientific testing and validation*

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

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

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

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

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

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

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

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

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

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

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

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

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

In August of 2018 we released results from our TurboCBD™ capsules in a randomized, placebo-controlled, double-blind European human clinical study that evaluated TurboCBD™ - a proprietary, DehydraTECH™ powered, cannabidiol ("CBD") fortified hemp oil capsule developed by Lexaria. The degree and speed of CBD absorption into blood plasma and potential cardiovascular and cognitive performance enhancement in 12 healthy male volunteers were studied.

Key bioavailability data highlights from the study comparing the 90 mg dose of Lexaria's TurboCBD™ to a 90 mg dose of a positive control formulation without Lexaria's DehydraTECH™ technology were as follows:

- 30 Minutes: CBD delivered from Lexaria's TurboCBD™ capsules was absorbed much more effectively than from the positive control, delivering 317% more CBD to blood at the 30-minute mark of the study (i.e., 18.4 ng/mL compared to only 4.4 ng/mL on average respectively [95% CI; p=0.051]);
- 60 Minutes: The TurboCBD™ capsules went on to deliver more CBD to the blood at the 60-minute mark (i.e., 38.8 ng/mL) than the positive control capsules were able to reach at any time during the 6-hour study, further demonstrating the exceptional rapidity of action and effectiveness of the TurboCBD™ capsules;
- 90 Minutes: The TurboCBD™ capsules further went on to deliver significantly more CBD to the blood (86% more) than the positive control capsules at the 90-minute mark (i.e., 53.0 ng/mL compared to only 28.4 ng/mL respectively [95% CI; p=0.034]);
- Through to Study Completion: Lexaria's TurboCBD™ capsules continued to deliver more CBD to blood than the positive control capsules at each subsequent time point in the study through to the 6-hour mark when the study was completed.

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These results corroborate and confirm other in vitro and in vivo studies that have evaluated Lexaria's DehydraTECH™ technology. Although this study evaluated absorption only of CBD and its metabolites, Lexaria believes nearly identical bioavailability enhancement results would be achieved with other cannabinoids.

We have also completed our first study evaluating DehydraTECH™ used in a topical cream formulation for absorption of CBD through human skin. Results proved significant increases in both speed and quantity of CBD absorption through skin when compared to control formulations. The absorption study was performed on human skin at a California-based laboratory that specializes in Franz diffusion cell skin permeability testing. Lexaria's DehydraTECH™ technology was used together with a sophisticated oil-in-water emulsion formulation design and compared to a series of matching oil-in-water emulsion formulations prepared with the same CBD inputs, with and without the DehydraTECH™ technology and with and without two leading skin penetration enhancers currently used in the skin products industry. Several factors were measured, including the time required to detect CBD skin penetration and quantity, and peak amounts of CBD absorbed into and through the skin, at multiple testing intervals over a 48-hour duration.

Lexaria's DehydraTECH™-enabled topical formulation, absent either of the commercial penetration enhancers, was the fastest acting for absorption into the epidermis, dermis or through the skin into the systemic fraction representing permeation into the underlying circulatory system. Lexaria's DehydraTECH™-enabled product also had no odour even without the use of perfumes, contrary to other cannabinoid industry products that can be quite strongly odoriferous without the use of masking perfumes.

Furthermore, Lexaria's DehydraTECH™-enabled topical formulation without the addition of either of the commercial penetration enhancers, demonstrated the highest overall average quantity of CBD delivered through the skin and into the representative systemic fraction of all the formulations tested, with as much as a 225% increase in CBD permeability when compared to the highest performing commercial penetration enhancer formulation assessed and almost a 1,900% increase in CBD permeability when compared to a control formulation that was devoid of both the DehydraTECH™ technology or any commercial penetration enhancers. The commercial skin penetration enhancers only demonstrated performance that was on par or superior to the DehydraTECH™-enabled formulations tested in so far as total CBD absorption into the shallow epidermis or dermis was concerned.

We have also completed our first ingestible nicotine in vivo (animal) absorption study. Lexaria is pursuing the use of its patented DehydraTECH™ technology as a possible new nicotine delivery method, an edible dose absorbed through the gastrointestinal tract, with potential both as a nicotine replacement therapy as well as an alternative product format for regular tobacco users.

DehydraTECH™ delivered the following major nicotine absorption performance improvements: 1,160% faster delivery of equivalent peak quantities of nicotine to the bloodstream than achieved with controls (within 15 min vs.

2.9 hours), 148% gain in the quantity of peak nicotine delivery to the bloodstream relative to controls, 560% higher brain levels of nicotine where nicotine effects are focused, compared to controls, Lower urine levels of nicotine excreted than controls, for enhanced nicotine activity and bioavailability over the course of the study, lower quantities of key liver metabolites in the bloodstream than controls as hypothesized, suggesting bypass of first pass liver metabolism.

Study Design Parameters:

The study was designed to principally assess the relative ingestible nicotine absorption performance of DehydraTECH™-powered formulations compared to concentration-matched control formulations that lacked any form of delivery enabling technology in rats. Nicotine was administered in a nicotine polacrilex derivative format as is widely commercialized today in nicotine replacement therapy products such as chewing gums. Twelve male rats were divided into four groups of three, such that DehydraTECH™ and control formulations were each tested at a 1 mg/Kg and 10 mg/Kg dosage level. Formulations were administered orally and all rats were cannulated for blood collection at multiple intervals over an 8 hour duration post-dosing with the first data collection at the 15-minute mark. Urine and feces were also collected for up to a 24-hour duration post-dosing, and essential organ tissue samples were also collected for examination after the study. All samples were subjected to analytical testing in order to quantify the levels of nicotine therein, as well as the levels of three major liver metabolites thereof, hydroxycotinine, nicotine N'-oxide and cotinine, in order to assess the relative metabolite levels absorbed by the different formulations. Lexaria's hypothesis was tested to prove that its DehydraTECH™ technology would influence more rapid and complete intestinal bioabsorption of nicotine lymphatically with less metabolic degradation by the liver. All animals were also assessed for general tolerability of the administered formulations. The study was conducted at the same independent laboratory in Philadelphia where the Company completed its initial cannabidiol absorption study in 2015.

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Results & Observations:

The Lexaria formulations generally achieved faster absorption, higher peak absorption and higher overall quantities of nicotine, on average, in the blood than the concentration-matched control formulations at both the 1mg and 10 mg/Kg doses tested. Furthermore, as previously reported, there were no obvious signs of gastrointestinal distress such as vomiting or diarrhea indicating that the animals appeared to tolerate the treatment well.

Nicotine blood levels were evaluated multiple times over a period of 8 hours after dosing. In the 10mg/Kg dosing arm, the control formulation required nearly 3 hours to reach similar levels of blood absorption that the Lexaria formulation reached in only 15 minutes. Furthermore, the Lexaria formulation went on thereafter to demonstrate peak plasma levels that were 148% of those achieved by the control formulation. If replicated in human studies, these findings are suggestive that Lexaria's technology could prove more effective in elevating blood nicotine levels through edible formats much more quickly and substantially than previously theorized, potentially making ingestible nicotine preparations a viable alternative to today's available product formats while also leading to a more rapid nicotine craving satiation.

Analysis of the liver metabolites revealed, as expected, that overall levels in the blood of two of the three metabolites studied were higher in the control group than in the Lexaria formulation group at the 10 mg/Kg dose. This result was especially pronounced in the 45-minute to 2-hour time interval post-dosing which is consistent with the expected timing of release of metabolites in higher quantity into the bloodstream by the liver following normal physiological processing of ingested nicotine with the control preparation, compared to the DehydraTECH™ technology that is believed to elude first pass liver metabolism. The Lexaria formulation also demonstrated lower quantities of nicotine in the rat urine at both doses, which is consistent with the fact that the levels of nicotine in the rat blood remained higher over the duration of the study with the Lexaria formulation than with the control. The study also revealed that the Lexaria formulation at the 10 mg/Kg level achieved up to 5.6-times as much nicotine upon analysis of the rat brain tissue than was recovered with the matching control formulation. These findings together perhaps suggest prolongation of nicotine effectiveness with the Lexaria formulation which may also be beneficial in humans to control cravings over an extended time-period from a single edible nicotine dose.

In our follow-up third-party *in vivo* statistically significant study, including two groups of 20 animals, further defining delivery of nicotine in edible form at each of the 2, 4, 6, 8 and 10-minute intervals post-dosing, with 90.2% greater delivery than the concentration-matched control formulation by the 10-minute mark (95% CI; p=0.044), and significantly greater absorption levels than the control formulation at all subsequent time points in the study. Speed of onset is a key attribute for oral drug administration, and it is of particular importance for the consideration of non-inhalation nicotine delivery formats.

Key highlights of the follow-up study are as follows:

- Peak Level: 79% improvement in peak blood levels (maximum concentration or “Cmax”) at 394 ng/mL using Lexaria’s DehydraTECHTM technology vs. 220 ng/mL with the control (95% CI; p=0.0257);

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In addition to the above described scientific testing and validation studies, Lexaria has also conducted various cannabinoid formulation experiments, together with potential DehydraTECH™ licensee partners, on chocolates, candies, gummies, mouth-melts, chocolate bars, protein bars, beverages such as beer, spices, tea, coffee, supplements and more over the past several years. Beverage formulations have produced cannabinoid water-based products including de-alcoholized beer that mask unwanted cannabis flavor and are fast acting. Chocolate formulations were reported as being the fastest acting, most consistent, and best-tasting products relative to comparator control formulations in approximately 70% of cases in a recent 2017 consumer study. As well, on March 22, 2016, Lexaria announced results from another chocolate formulation consumer study in which test subjects ranked those chocolates that had been created with Lexaria's technology as the best tasting, most palatable and providing the best overall experience of the chocolates sampled. Furthermore, the test subjects in that study indicated a time of onset of the cannabis oil effects in as little as 15-20 minutes on average. The study included 12 volunteers who were all regular cannabis consumers with experience ingesting conventional edibles. All chocolates used in the study were blinded (unmarked) in order that the subjects could not discern the product formulations applied.

*Technology out-licensing*

On May 14, 2016, the Company entered into a Licensing Agreement with Nuka Enterprises, LLC for a two-year period, to utilize the Company's technology to create, test, manufacture, and sell marijuana-infused consumable and/or topical products, in the state of Colorado, with an option of extending the terms of the Licensing Agreement to Washington, Oregon, and California. On April 30, 2018, the Company announced a new 10-year renewal licensing agreement with Nuka Enterprises LLC, maker of 1906 brand cannabis chocolates and other edible products. The new agreement provides Nuka Enterprises LLC with semi-exclusive ability to utilize the DehydraTECH™ technology across the US. Nuka also acquired an option to expand its products and brand to Canada, including using Lexaria's existing chocolate and confections contract manufacturer licensee Cannfections Group Inc. The agreement incorporates new rights in product categories in addition to the original chocolate formats, which include candies, beverages, capsules and pills, and topical creams.

On January 25, 2018, the Company announced it entered a definitive technology licensing agreement with a 7-year term with Cannfections Group Inc. whereby Lexaria is providing its patented DehydraTECH™ technology to empower next-generation performance in cannabis infused chocolates and candies to be developed and sold in Canada and internationally.

On February 26, 2018 the Company announced it entered an agreement with NeutriSci International Inc. ("NeutriSci") (TSX-V: NU, OTCQB: NRXCF) such that NeutriSci now owns 100% of Ambarii Trade Corporation and Lexaria has granted to NeutriSci an Intellectual Property License and Supply Agreement for the manufacturing and sale of CBD based products.

On February 27, 2018 the Company announced it entered a definitive technology licensing agreement with Los Angeles-based, privately-held Biolog, Inc. (“Biolog”) for a 5-year term whereby Lexaria provided its patented DehydraTECH™ technology to empower a unique set of next-generation food and beverage cannabis infusion products to be sold in the United States.

On April 25, 2018, the Company announced that it entered a definitive technology licensing agreement with GP Holdings LLC, (“GP”) whereby Lexaria provided its patented DehydraTECH™ technology for cannabis infused beverages and topical skin products in California. GP acquired a 5-year semi-exclusive right. Subsequent to year end, on September 28, 2018, the Company cancelled the contract due to ongoing delays and non-performance.

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On July 31, 2018, the Company announced, and Hill Street Beverage Company Inc., (TSXV:BEER; "Hill Street") jointly announced that they signed a Definitive Agreement to license Lexaria's DehydraTECH™, on a semi-exclusive basis, for a term of five (5) years, to produce a line of cannabis-infused alcohol-free beverages for Canadian distribution, following regulatory approval.

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

We are not yet profitable and have not yet demonstrated our ability to generate significant revenues from our business plan. We will require additional corporate funds if our existing capital is not sufficient to support the Company until potential future profitability is reached. There are no assurances that we will be able to obtain further funds required for our long-term operations. We do not expect to require additional operating capital during our fiscal 2019 year, but do expect to require capital in order to establish our own, federally licensed Canadian laboratory on-premises for our internal R&D purposes. There can be no assurance that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to obtain the additional financing on a timely basis, we will be unable to conduct our operations as planned, and we will not be able to meet our other longer-term obligations as they become due. In such event, we could be forced to scale down or perhaps even cease our operations. There is uncertainty as to whether we can obtain additional long-term financing if we do in fact require it.

Our business plan anticipates that we will hire three to six employees and that we will require new office space in order to facilitate a federally licensed Canadian laboratory on-premises for our internal R&D purposes. We expect to be able to utilize contracted third parties for most of our production and distribution needs, instead focusing our capital on higher value added aspects of the business such as research and development, and scientific testing. We have no current plans to build our own production facility.

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

*Competition*

The legal marijuana industry is comprised of several sub-sectors, and is legal under different guidelines in many states though it remains illegal under most federal laws. Notwithstanding, the overall sector is generally recognized to be one of the fastest growing in the USA, with state-legal revenue of over $8 billion in 2016. Independent projections and publicized reports expect revenue of $20 billion or more in 2020 and as much as $100 billion or more in 2025 both as the sector gains in credibility and acceptance, and as more and more states legalize either medical use or adult recreational use; or both. In any fast growing industry, competition is expected to be both strong and also difficult to evaluate as to the most effective competitive threats. While we are an early adopter within the cannabinoid delivery sector, there are already reports of more than 300 public companies that have claimed to be involved in the sector in some fashion; and an unknown number of private companies. Our current strategies may prove to be ineffective as the sector grows and matures, and if so, we will have to adapt quickly to changing sectoral circumstances. Accordingly, the Company intends to aggressively pursue technology out-licensing opportunities not only within the cannabinoids sector where it is already active, but also across other sectors where its DehydraTECH™ technology is patent allowed and/or pending, including the opportunities in the vitamin and supplements sector, the pain relief sector and the nicotine products sector.

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Competition in alternative health sectors and in consumer products in the USA is fierce. We expect to encounter competitive threats from existing participants in the sector and new entrants. Although PoViva Tea LLC has filed patent applications to protect intellectual property, there is no assurance that patents beyond those already issued will be granted nor that other firms may not file superior patents pending. Food supplements, organic foods, and health food markets are all well established and our Company will face many challenges trying to enter these markets. Lexaria is also aware of various competing technologies that exist in the marketplace that claim to also enhance the bioabsorption of cannabinoids as Lexaria has demonstrated through repeated *in vitro* and *in vivo* scientific testing with its patented DehydraTECH™ technology. By and large, these technologies are all forms of nanotechnology that generally claim to enable the formation of microencapsulated and/or microemulsions of cannabinoid active ingredients, although additional technologies are also beginning to emerge in the cannabinoid sector including transgenic synthesis means to generate cannabinoid molecules with enhanced hydrophilicity. These technologies can enable exceptional water solubility of cannabinoid ingredients and can impart improved intestinal bioabsorption as a result. However, it is Lexaria's belief that its patented DehydraTECH™ technology offers a host of benefits beyond what competing technologies can offer, including superior oral palatability, a more appealing and all-natural ingredient compositional profile from a food and beverage formulation perspective and superior scalability and cost effectiveness from a manufacturing perspective. Lexaria believes that its DehydraTECH™ technology is, therefore, significantly distinguished from competing technologies in these respects, with a view to growing the breadth and number of licensees that will adopt its technology for their product offerings going forward. Lexaria believes that these competitive advantages together with its wealth of scientific data showing noteworthy bioabsorption enhancements with its DehydraTECH™ technology constitute a compelling value proposition for its prospective licensees, and it intends to continue to pursue license arrangements not only within the cannabinoids edibles sector where it is already active, but also in the various other bioactive ingredient sectors identified in its issued and pending patent applications.

**Compliance with Government Regulation**

Over 30 States in the USA have passed some form of legislation related to that state's permission to grow, cultivate, sell or use marijuana either for medical purposes or for recreational or "adult use" purposes; or both. The various state legislation is not necessarily harmonious with one another, leading to potential conflicts between state laws. It is most often not legal to transport cannabis-related products across state lines.

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

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

with laws and required regulations.

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

Lexaria's corporate offices are located in Canada. Canada has passed federal legislation that currently allows legal medical-purposed cannabis. On October 17, 2018 Canada enacted federal legislation that allows, recreationally-purposed cannabis for personal use, with edible regulations expected within 12 months. Cannabis possession – in regulated quantities – by any person older than 18 is now legal in Canada. Lexaria complies with all Canadian legislation related to Cannabis and other controlled substances.

*Enertopia Joint Venture*

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

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On June 26, 2015, we signed a Definitive agreement to sell our interest in the Burlington joint venture along with the MMPR application number 10MMPR0610. The Burlington MMPR license application will continue in the application process under new ownership. Pursuant to the agreement, the joint venture received a non-refundable $10,000 deposit and is entitled to receive up to $1,500,000 in milestone payments upon the Burlington facility becoming licensed under the MMPR. These monies would be split 51% to Enertopia and 49% to Lexaria. The Enertopia and Lexaria Master Joint Venture Agreement entered into on March 5, 2014 still governs the relationship between the Company and Enertopia. Notwithstanding the foregoing, we do not expect the grant of a production license for the Burlington facility. There is no assurance that any monies will in fact ever be received from our sale of the license application.

*Marijuana Production in the United States*

In the United States it is still illegal under federal law to grow, cultivate and sell medical or adult use marijuana. However approximately twenty-nine states have approved medical marijuana for use and at least eight states have approved adult use regulations. The United States Federal government justice department has released memos that will respect the individual states where strict guidelines are followed and enforced so that the health, safety and security are protected at all times by state authorities but there is no assurance that federal laws will not at any time be more vigorously enforced. If the individual state framework fails to protect the public the Federal government will act in enforcing the controlled substances act of 1970 and the DEA will enforce the federal law.

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

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

**Significant Acquisitions and Dispositions**

We are planning to lease a new head-office location in Kelowna, Canada, that will include the purchase of office equipment, furniture, computers, and communications systems subject to permit approvals. We are also planning for the construction of a federal licensed Canadian laboratory on-premises for our internal R&D purposes. As of August 31, 2018 a suitable location has been identified and final permitting and approval was in process. Costs are not known at this time but could amount to $300,000 - $600,000. Subsequent to August 31, 2018, permit approvals were received and quotes were in process for construction, equipment and other requirements.

**Contractors**

We primarily use sub-contractors and consultants in the intellectual property development and licensing, and alternative health product sectors. We primarily engage with consultants to serve our executive needs.

The Company has an agreement with CAB for a consulting fee of $12,000 per month. The term of the agreement is two years but can be terminated by either party by providing two months notice. During the year ended August 31, 2018 Mr. Bunka was granted 175,000 shares as part of the IP Incentives “B”. The Company may pay Mr. Bunka a bonus from time to time, at its sole discretion. Mr. Bunka will be entitled to receive common stock-based and stock option based bonuses upon achieving certain milestones during the time of his consultancy with the Company. These milestones are during the first 12 months after the date of the agreement with CAB:

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

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

- Δυρινγ τηε τερμ οφ τηε αγρεεμεντ, φορ εαχη προϖισιοναλ πατεντ αππλιχατιον συβσταντιϖελψ δεϖισεδ βψ ΧΑΒ ανδ συχχεσσφυλλψ χρεατεδ, ωριττεν ανδ φιλεδ ωιτη τηε ΥΣ Πατεντ Οφφιχε φορ τηε Χομπανψ σ Τεχηνολογψ, ΧΑΒ ωιλλ βε εντιτλεδ το αν αωαρδ οφ 250,000 ρεστριχτεδ χομμον σηαρεσ οφ τηε Χομπανψ.

On June 1, 2017, the Company appointed Mr. Allan Spissinger as acting CFO, Corporate Secretary and Treasurer. On July 1, 2018 the Company executed an updated three-year consulting contract with M&E Services Ltd. (M&E), a company wholly owned by Mr. Allan Spissinger, with monthly compensation of CAD$12,000 including an 8% annual increase superseding the previous CAD$8,000 per month contract that included 200,000 incentive stock options exercisable at $0.37. The Company may pay Mr. Spissinger a bonus from time to time, at its sole discretion. Mr. Spissinger will be entitled to receive additional common stock-based and stock option based bonuses upon achieving certain milestones during the time of his consultancy with the Company. These milestones are:

- Revenue Incentives "A" as defined above.

***Intellectual Property Milestones (IP Incentives "C")***

- Δυρινγ τηε τερμ οφ τηε αγρεεμεντ, φορ εαχη προϖισιοναλ πατεντ αππλιχατιον συβσταντιϖελψ δεϖισεδ βψ Μ&Ε ανδ συχχεσσφυλλψ χρεατεδ, ωριττεν ανδ φιλεδ ωιτη τηε ΥΣ Πατεντ Οφφιχε φορ τηε Χομπανψ σ Τεχηνολογψ, Μ&Ε ωιλλ βε εντιτλεδ το αν αωαρδ οφ υπ το 100,000 χομμον σηαρεσ οφ τηε Χομπανψ το α μαξιμυμ ϖαλυε οφ ∃250,000 ατ τηε τιμε οφ ισσυανχε; ορ α χαση αωαρδ νοτ το εξχεεδ ∃10,000 φορ αν ιδεα ορ χονχεπτ οριγιναλλψ χονχειϖεδ βψ Μ&Ε βυτ μορε τηαν 80% οφ τηε συβσεθυεντ ωορκ, τιμε ανδ εξπενσεσ παιδ φορ βψ Τηε Χομπανψ.

The Company appointed Mr. John Docherty as President of Lexaria effective April 15, 2015. On March 1, 2017, the Company executed a twenty four month consulting contract with Docherty Management Limited, solely owned by Mr. John Docherty with monthly compensation of CAD$15,000 plus applicable taxes, superseding the previous agreement with monthly compensation of CAD$12,500 plus applicable taxes. The Company may pay Mr. Docherty a bonus from time to time, at its sole discretion. During the year ended August 31, 2018 Mr. Docherty was granted 425,000 shares as part of the IP Incentives "B". Pursuant to the previous agreement, Mr. Docherty received 800,000 stock options and 924,000 restricted common shares of the Company. Mr. Docherty will be entitled to receive additional common stock-based and stock option based bonuses upon achieving certain milestones during the time of

his consultancy with the Company. These milestones are during the first 12 months after the date of the agreement with Docherty Management Ltd.:

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

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

- Revenue Incentives "A" as defined above.

On December 1, 2017, the Company executed a contract with a contractor as office manager and assistant to the CEO and CFO. The agreement is for two years continuing month to month thereafter and may be terminated with one month's notice for CAD$6,500 per month. The contractor was granted 250,000 warrants exercisable at $0.83. They will be entitled to receive additional common stock-based and stock option based bonuses upon achieving certain milestones during the time of their consultancy with the Company. These milestones are during the first 12 months after the date of the agreement:

- Revenue Incentives "A" as defined above, with the exception that the common share awards are revised to 75,000 share instead of 100,000, 40,000 instead of 50,000, 150,000 instead of 200,000 and 80,000 instead of 100,000.

We are planning an increase in the number of personnel over the next 12 month period to enhance capacity and, subject to regulatory approval of the lab facility, for R&D purposes. We do and will continue to outsource contract employment as needed. Additional capacity may be required with product advancement or retail acceptance of our new products, we may need to retain additional personnel particularly in the fields of product manufacturing, development, sales and distribution. It is not possible to accurately project potential needs into the future based on circumstances that may or may not occur.

**Research and Development**

Lexaria incurred $492,864 (2017 $54,185) in research and development expenditures over the last fiscal year. With the successful financing efforts during fiscal 2017, the Company announced a $1 million budget to conduct research and development and additional scientific testing. Delays outside of our control shifted the timing of some of the research programs planned, however they are in progress and expansion into other molecules, such as Nicotine, were advanced during the year based on results from testing performed and the additional patents that were filed and granted. Specific R&D programs are in ongoing development and will be tightly related to our financial ability to

undertake each research phase for each molecule. Due to our expanding portfolio coverage, we are continuing to examine accelerated timetable options for testing, research and development.

The Company's plans to include *in vitro* absorption tests of our patented technology of molecules such as: Vitamin E, Ibuprofen, and Nicotine allowed us to perform testing on Nicotine with positive results. Our plan to conduct our first ever *in vivo* absorption tests on CBD also yielded positive results. Ongoing testing plans are proceeding to further define molecular compatibility, absorption rates, timing and viable formats of delivery.

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

**Subsidiaries**

Lexaria has one wholly owned Canadian corporate subsidiary, Lexaria CanPharm Corp., and three Delaware subsidiaries Lexaria Hemp Corp., Lexaria Nicotine Corp. and Lexaria Pharma Corp. We also have a 100%-owned (as of October 2017) subsidiary Poviva Tea, LLC which was incorporated on December 12, 2014, under the laws of the State of Nevada that has been converted into a corporation subsequent to August 31, 2018.

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**Item 1A. Risk Factors**

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

**Risks Associated with Our Business**

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

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

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

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

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

them, ultimate consumer acceptance of these products is not reliably forecastable.

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

Our revenues now are generated primarily from outlicensing of our technology. We should be considered to be a start-up: the revenue recognized for the year ended August 31, 2018 was $433,287.

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

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

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

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

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

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

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

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

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

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

commercializing our nutrient infusion technology. Others may also independently develop products or technologies similar to those that we have developed or may reverse engineer or discover our trade secrets through proper means.

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

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

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

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

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

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

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

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

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

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

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

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

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

All applicable Regulations, in the United Sates, over 30 states, including our state of incorporation, Nevada, have approved and regulate medical marijuana use. Similarly, four states have approved and regulate non-medical marijuana use by adults. However, it remains illegal under United States federal law to grow, cultivate or sell marijuana for any purpose. In that regard, the United States Justice Department has released the COLE Memorandum of 8-29-13 which states that the Justice Department will not prioritize the prosecution of marijuana related activities authorized under state laws provided that state authorities implement and enforce strict guidelines to ensure the health, safety and security of the public. While the COLE Memorandum has expired, elected officials are introducing other protective measures to continue to protect and enhance the viability of the industry. Where the individual state framework fails to protect the public, the Justice Department has instructed federal prosecutors to enforce the Controlled Substances Act of 1970. The Department of Justice has not, to our knowledge, published any policy or guidance specifically regarding the participation of a United States corporation in lawful medical marijuana related activities outside of the United States.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Risks Associated with Our Common Stock**

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

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

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

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

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

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

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

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

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

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

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

**Other Risks**

*Protection against environmental risks.*

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

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

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*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.

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

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

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

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

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

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

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

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

*Trends, risks and uncertainties.*

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

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**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

*Executive Offices*

The address of our principal executive office is 156 Valleyview Road, Kelowna BC Canada V1X3M4, where we share ~1,200 square feet of office space, which includes several offices for a monthly rental of CAD$1,052. Our telephone number is (250) 765 6424. We have an additional administrative office space in Langley British Columbia and Phoenix Arizona at nominal costs. We are in process of acquiring new office space in order to accommodate the planned increase in personnel and to establish a federal licensed Canadian laboratory on-premises for our internal R&D purposes. As of August 31, 2018 a suitable location has been identified and final permitting and approval was in process. Costs are not known at this time but could amount to $300,000 - $600,000. Subsequent to August 31, 2018, permit approvals were received and quotes were in process for construction, equipment and other requirements.

***Significant Acquisitions and Dispositions***

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

On June 26, 2015, we entered into a definitive agreement with our joint venture partner Enertopia Corp., and Shaxon Enterprises Ltd. to sell our 49% interest in the Burlington Joint Venture and the MMPR application number 10MMPR0610. The Burlington MMPR license application will continue in the application process under new

ownership. Pursuant to the agreement, the joint venture received a non-refundable $10,000 deposit and is entitled to receive up to $1,500,000 in milestone payments upon the Burlington facility becoming licensed under the MMPR. All payments made pursuant to the Definitive Agreement would be divided 51% to Enertopia Corp. and 40% to our Company. Notwithstanding the foregoing, we do not expect the grant of a production license for the Burlington facility.

**Item 3. Legal Proceedings**

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

**Item 4. Mine Safety Disclosures**

Not Applicable.

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## PART II

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

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

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

| | OTC Bulletin Board[1] | |
|---|---|---|
| **Quarter Ended** | **High** | **Low** |
| November 30, 2015 | $ 0.235 | $ 0.111 |
| Feb 28, 2016 | $ 0.28 | $ 0.08 |
| May 31, 2016 | $ 0.169 | $ 0.08 |
| August 31, 2016 | $ 0.154 | $ 0.08 |
| November 30, 2016 | $ 0.35 | $ 0.11 |
| February 28, 2017 | $ 0.699 | $ 0.20 |
| May 31, 2017 | $ 0.625 | $ 0.27 |
| August 31, 2017 | $ 0.43 | $ 0.27 |
| November 30, 2017 | $ 1.01 | $ 0.32 |
| February 28, 2018 | $ 2.54 | $ 0.82 |
| May 31, 2018 | $ 1.65 | $ 0.78 |
| August 31, 2018 | $ 2.43 | $ 1.50 |

[1] Over-the-counter market quotations reflect inter-dealer prices without retail mark- up, mark-down or commission, and may not represent actual transactions.

As of November 7, 2018, there were 60 holders of record of our common stock. As of such date, 77,090,621 shares of common stock were issued and outstanding.

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

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

*Dividend Policy*

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

*Recent Sales of Unregistered Securities*

Other than set out below, we did not sell any equity securities which were not registered under the Securities Act during the year ended August 31, 2018 that were not otherwise disclosed on our quarterly reports on Form 10-Q or our current reports on Form 8-K filed during the year ended August 31, 2018.

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A summary of the activity is set out in the table below:

| Type of Issuance | Number of Shares | | Total Value |
|---|---|---|---|
| **Option Exercise** | 545,875 | $ | 93,703 |
| **Warrant Exercise** | 6,364,145 | $ | 1,773,522 |
| **Per Agreements**[2, 3] | 633,056 | $ | 769,056 |
| **Debt Settlement**[1] | 14,634 | $ | 12,000 |
| | 7,557,710 | $ | 2,648,281 |

(1) Lexaria issued 14,634 restricted common shares at a price of $0.82 per shares to settle $12,000 of debt to a director of the Company (shares issued for services).

(2) The Company awarded a total of 209,056 restricted common shares at an issuance price of $0.82 for a value of $171,426 as required by intellectual property performance thresholds within an existing management consulting contract with the Company divided between three officers and three managers.

(3) The Company issued a restricted common shares as required by executive consulting agreements, shared by the Chief Executive Officer and the President of the Company. The shares are required to be issued upon certain intellectual property achievements and patent application filings trigger the awards. As a result the following restricted shares were awarded: 172,500 at an issue price of $1.24, 182,500 at an issue price of $1.32, and 69,000 at an issue price of $2.07 with cash compensation of $249,370 designed to offset tax liabilities from the share award was also granted.

*Warrants*

Lexaria awarded 250,000 warrants with an exercise price of $0.83 and an expiration date of December 1, 2019 to a manager of the Company, pursuant to a management contract. The warrants were valued at $124,476 and included in consulting expense.

January 17, 2018 the Company announced that it has engaged JGRNT Capital Corp to provide strategic consulting services to the Company for a one-year term and awarded 500,000 warrants, each valid to purchase one common share at a price of $1.83 and valid for two years. The warrants were valued at $567,647 and included in consulting expense.

May 28, 2018, the Company announced it entered into a consulting contract granting 250,000 warrants with an exercise price of $1.55 expiring three years after issuance. These warrants were valued at $319,699 and included in consulting expense.

During the period ended August 31, 2018 the Company recognized $51,488 in consulting expense for warrants previously granted to a consultant upon vesting.

During the period ended August 31, 2018 the Company issued 35,913 warrants with an exercise price of $0.60 expiring April 3, 2019. These warrants were valued at $21,646 and recorded as a share issue cost within additional paid in capital for a net effect of $Nil.

**Equity Compensation Plan Information**

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

**2007 Equity Plan**

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

The 2007 Plan permits our company to issue up to 2,000,000 shares of our common stock to eligible employees and directors of our company.

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**2010 Equity Compensation Plan**

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

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

**2014 Stock Option Plan**

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

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

| Equity Compensation Plan Information | | | |
|---|---|---|---|
| **Plan category** | **Number of securities to be issued upon exercise of outstanding options,** | **Weighted-average exercise price of outstanding options, warrants and rights** | **Number of securities remaining available for future issuance under equity compensation** |

| | warrants and rights | | plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity compensation plans not approved by shareholders | Nil | Nil | Nil |
| Equity compensation plans approved by shareholders: | | | |
| 2007 Equity compensation plan | Nil | Nil | 2,000,000 |
| 2010 Equity compensation plan | 1,625,000 | $1.53 | 355,000 |
| 2014 Stock Option Plan approved by security holders | 3,175,000 | $0.29 | 675,000 |
| **Total** | **4,800,000** | **$0.71** | **3,030,000** |

**Convertible Securities**

As of August 31, 2018, we had outstanding options to purchase 4,800,000 shares of our common stock exercisable between prices of $0.10 and $2.06. In December 2015 we experienced a 1.1 for 1.0 forward stock split that adjusted quantities and strike prices of all previously granted options. Those adjustments are reflected herein.

On December 1, 2017, Lexaria granted 200,000 stock options with an exercise price of $0.83 and an expiration date of December 1, 2022 to an officer of the Company, pursuant to an existing management contract. The options were valued at $140,457 and included in consulting expense.

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On May 31, 2018, the Company announced that that pursuant to existing stock option plans, it has granted stock options to directors, officers, employees and consultants that enable the option holders to purchase up to 1,725,000 common shares of the Company at a price of $1.53 for a period of five years, vesting immediately. The options were valued at $2,266,157 and included in consulting expense.

On August 31, 2018, the Company granted 100,000 stock options to Advisors to the Company, valid for five years with an exercise price of $2.06, vesting immediately. The options were valued at $173,428 and included in consulting expense.

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

We did not purchase any of our shares of common stock or other securities during our fiscal year ended August 31, 2018.

**Performance graph**

The graph below compares the cumulative five-year total return on our common stock from September 1, 2013, through August 31, 2018, to the cumulative total return over such period for (i) the Nasdaq Composite Index and (ii) the Nasdaq Biotechnology Index. The graph assumes the investment of $100 on September 1, 2013, with the reinvestment of dividends, although dividends have not been declared on our common stock, and is calculated according to the Securities and Exchange Commission's methodology. We caution that the stock price performance shown in the graph may not be indicative of future stock price performance.

*$100 invested on September 1, 2013 in stock or index, including reinvestment of dividends. Fiscal year ending August 31.

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**Item 6. Selected Financial Data**

The following Selected Financial Data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" included below in this Annual Report on Form 10-K.

The following amounts related to earnings per share and shares outstanding have been adjusted for all periods reported for the 1.1 forward stock split that we effected in December of 2016.

| | Years Ended August 31, | | | | |
|---|---|---|---|---|---|
| | **2018** | **2017** | **2016** | **2015** | **2014** |
| **Consolidated Statement of Operations Data:** | | | | | |
| **Revenue** | 433,287 | 63,639 | 40,718 | 14,702 | - |
| **Cost of Goods Sold** | 25,185 | 29,750 | 45,615 | 29,883 | - |
| **Gross profit (loss)** | 408,102 | 33,889 | (4,897) | (15,181) | - |
| | | | | | |
| **Expenses** | | | | | |
| General and administrative | 6,524,425 | 1,909,169 | 1,263,328 | 1,821,623 | 1,559,341 |
| Research and development | 492,864 | 54,185 | 9,024 | 146,466 | - |
| Total Expenses | 7,017,289 | 1,963,354 | 1,272,352 | 1,968,089 | 1,559,341 |
| **(Loss) for the period before other income** | (6,609,187) | (1,929,465) | (1,277,249) | (1,983,270) | (1,559,341) |
| **Income (Loss) from discontinued operations** | - | - | - | 48,918 | (1,698,371) |
| | | | | | |
| **Net (loss) for the period** | (6,609,187) | (1,929,465) | (1,277,249) | (1,934,352) | (3,257,712) |
| **Net (loss) attributable to: Common Shareholders** | (6,598,843) | (1,869,277) | (1,214,773) | (1,770,500) | (3,257,712) |
| **Non-Controlling Interest** | (10,344) | (60,188) | (62,476) | (163,852) | - |
| | | | | | |
| **Basic and diluted (loss) per share** | (0.09) | (0.03) | (0.03) | (0.05) | (0.06) |

| | | | | | |
|---|---|---|---|---|---|
| **Basic and diluted (loss) per share from discontinued operations** | - | - | - | 0.00 | (0.07) |
| | | | | | |
| **Weighted average number of common shares outstanding** | | | | | |
| **- Basic and diluted** | 70,960,416 | 58,765,806 | 43,840,378 | 39,700,841 | 25,706,934 |

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| | As at August 31, | | | | |
|---|---|---|---|---|---|
| **Consolidated Balance Sheet Data:** | **2018** | **2017** | **2016** | **2015** | **2014** |
| Cash and cash equivalents | 1,727,184 | 2,533,337 | 93,409 | 260,075 | 703,030 |
| Assets held for sale | - | - | - | - | 1,400,000 |
| Total Assets | 2,431,826 | 2,860,178 | 566,638 | 711,722 | 2,635,136 |
| Loan payable | - | - | - | - | 776,936 |
| Accumulated deficit | (19,768,782) | (13,169,939) | (11,300,662) | (10,085,889) | (8,315,389) |
| Total equity | 2,388,186 | 3,006,307 | 266,045 | 772,409 | 1,717,098 |
| Total liabilities and equities | 2,431,826 | 2,860,178 | 566,638 | 711,722 | 2,635,136 |

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

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

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

**Plan of Operation**

During the next twelve month period (beginning September 1, 2018), we intend to:

- continue sales and marketing efforts for consumer product lines
- pursue technology out-licensing opportunities for our patented DehydraTECHTM technology. This will be focused first primarily on the cannabinoid and nicotine sectors, and will evolve as time allows for completed

R&D in other sectors, to the NSAID, and vitamin sectors;

- identify and secure sources of equity and/or debt financing for intellectual property pursuit and maintenance, R&D, and consumer product formulation and marketing;
- set up new corporate offices with a federally licensed Canadian laboratory on-premises for our internal R&D purposes

Our plans beyond fiscal 2019 are dependent upon our ability to obtain sufficient capital to execute. During the previous year we did raise sufficient capital to fulfill all our plans. Without sufficient capital, our plans will change, and could change materially. We anticipate that we will incur the following operating expenses during this period:

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**Estimated Funding Required During the 12 Months beginning September 1, 2019**

| Expense | Amount ($) | Estimated Completion/Due Date |
|---|---|---|
| Research and Development of additional products | 70,000 | 12 months |
| Research and Development (General) | 800,000 | 12 months |
| Patent applications and trademark | 300,000 | 12 months |
| Marketing and Sales | 200,000 | 12 months |
| Consulting Fees (~50% is officers and directors) | 1,200,000 | 12 months |
| Wages and Salaries | 575,000 | 12 months |
| Professional fees | 160,000 | 12 months |
| Rent | 45,000 | 12 months |
| Other general administrative expenses (including travel, insurance, conferences, and fees) | 300,000 | 12 months |
| Interest Expense | 10,000 | 12 months |
| **Total** | 3,660,000 | |

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

As at August 31, 2018, we had a working capital surplus of $2,236,764 and cash on hand of $1,727,184. We therefore estimate that we will be required to raise approximately $1.5 million in cash to finance our planned expenditures for the 12 months beginning September 1, 2018. In the uncertain event that we are unable to raise sufficient funds to execute our current business plan, or in the uncertain event that all of our debt obligations become due, we will be required to scale back our operations to prioritize immediate and necessary expenses in our longer term planning into fiscal 2020. These necessary expenses include professional fees and general and administrative expenses necessary to satisfy our public reporting requirements.

Our business strategy involves several elements. We intend to prioritize our revenue generating efforts in 2019/20 on technology licensing, with a secondary focus on our consumer food products enriched with full spectrum hemp oil.

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

We first began selling trial amounts of ViPova™ branded black tea fortified with hemp oil and utilizing our technology, in January 2015 and added additional flavours over time. We currently sell three flavors of ViPova tea. Sales of these products have been modest but are expected to improve in the long term.

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

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

ViPova™ branded products are owned by our wholly owned Poviva Tea LLC subsidiary (2017 51%).

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

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

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

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

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

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

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

At this time we are not planning to offer for sale any products containing THC in quantities higher than 0.3%. However we envision licensing our technology to companies legally state-licensed to offer THC products in the states or international jurisdictions where they do business. We also plan to license our technology to other companies for the delivery of molecules other than THC or cannabinoids, such as nicotine. Our October 31, 2017 announcement of the USPTO Notice of Allowance and subsequent patent granting of our technology related to new molecule groups, and our ongoing patent filing and grants, may enhance our ability to successfully pursue this initiative during fiscal 2019.

We will attempt to communicate the benefits of our technology to potential licensing partners, i.e. with higher absorption levels a manufacturer could perhaps infuse smaller amounts of active molecules into a product, thus reducing their manufacturing input costs, or to provide higher bioavailability with the dosing limits being imposed or contemplated in many jurisdictions. We believe this to a meaningful competitive advantage that may lead to the potential to generate licensing revenue, and will pursue these opportunities within the cannabinoids and nicotine markets both within the USA and also internationally, in those locations where they are legal and regulated by government.

We will not sell any THC products – we only license technology to already-licensed participants in valid jurisdictions. We expect a low number of licensees initially and currently have five revenue generating agreements with such licensees and additional letters of intent and negotiations with other potential licensees.

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

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

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

***Results of Operations for our Year Ended August 31, 2018 and August 31, 2017***

Our net loss and comprehensive loss for the year ended August 31, 2018, for the year ended August 31, 2017 and the changes between those periods for the respective items are summarized as follows:

| | **Year Ended August 31, 2018** | **Year Ended August 31, 2017** | **Change** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Revenue | 433,287 | 63,639 | 369,648 |
| General and administrative | 7,017,288 | 1,963,354 | 5,053,934 |
| Interest expense | - | 6,015 | (6,015) |
| Consulting fees | 5,332,397 | 1,017,872 | 4,314,525 |
| Professional Fees | 374,615 | 210,297 | 164,318 |
| Net loss | (6,609,186) | (1,929,465) | (4,679,721) |

***Revenue***

Licensing revenues represent the majority of the $433,287 in revenues during the year ended August 31, 2018 and illustrate a significant gain from the previous year. Revenue increases were primarily based on new licence agreements entered into recognising the IP Territory Licensing fee and they are expected to generate future ongoing IP Usage Licensing fees.

One year ago the Company had one Licensee and today we have five Licensees. The Territory fees consist of IP licensing fees for the transfer of the Technology with the signing of definitive agreements for the DehydraTECH™ technology with: the Cannfections Group Inc. for a 7-year term for infused chocolates and candies to be developed and sold in Canada and internationally, NeutriSci International Inc. for a 2-year term for the manufacturing and sale of CBD based products, Biolog, Inc. for a 5-year term to manufacture food and beverage infused products to be sold in the United States, GP Holdings LLC for infused beverages and topical skin products for a 5-year term (subsequent to August 31, 2018 we cancelled this contract due to non-performance), Nuka Enterprises LLC for their 1906 Chocolates for 10 years renewing from their chocolate only 2 year contract to now include chocolate, candies, beverages, capsules and pills, and topical creams, and Hill Street Beverage Company for a 5-year term for infused alcohol-free beverages in Canada. The additional Licensing fees include payments due upon transfer of the Technology and installment payments that are receivable within 12 months (Note 7). We are pleased that our licensing revenues are increasing in scale and across a larger number of customers although they have not grown as quickly as anticipated.

Consumer product sales remain low due to challenges in securing expansive distribution opportunities, 3rd-party production challenges, inconsistent federal vs. state or local regulations, and payment processing changes. The Company continues to pursue more widespread distribution possibilities which have the potential to unlock more significant consumer product revenues.

During the year ended August 31, 2018, our revenues were derived within the following categories: $415,183 (2017 $45,809) (an 806% increase year over year) of licensing revenue and $18,104 (2017 $17,830) (a 1.5% increase year over year) in product and other revenues.

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As fiscal 2018 came to a close, hemp oil fortified foods, and hemp seed products continued gaining consumer acceptance and provide a reason to believe that sales could increase. In addition, legislative trends in America and in many nations around the world such as Canada and the UK are supportive of additional opportunities in the hemp-based foods and supplements sector. Those trends could support higher potential consumer product sales. Release of the TurboCBD™ product was successful but sales were limited by changes to payment processing services outside of the Company's control. At the time of this report the Company had extinguished its supplies of certain products like protein bars and the lack of inventory was also a negative impact on consumer product sales potential.

For 2019 the Company expects to continue to derive the majority of its revenues from technology licensing to third parties noting that IP Territory fees are recognized when new definitive license agreements occur and IP Usage fees are dependent up on licensees opportunity to implements the technology based upon regulatory approval. Canadian regulatory approval for ingestible products is anticipated within 12 months of the October 17, 2018 legalization of recreational cannabis in that country. At August 31, 2015 the Company had zero technology licensing agreements entered. By August 31, 2016 we had entered several LOI's or definitive agreements related to technology out-licensing. During the period ended August 31, 2018 we have entered into six new licensing agreements that increased our IP licensing revenue and we expect additional revenue will be generated from the licensees utilizing the technology in their processes from the usage fees as their production and sales occur. It is the Company's view that the December 9, 2017, grant of patent US 9839612 B2, and the grants of US 9972680 B2 and US 9974739 B2 during May 2018 and its expanding patent portfolio is a positive step in enabling the generation of more significant revenues during fiscal 2018. At the time of this report the Company has entered more than 10 formal letters of intent or definitive agreements and is negotiating more. It is the Company's view that its expanding patent portfolio is a positive step in enabling the generation of more significant revenues during 2019.

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

***General and Administrative***

Our general and administrative expenses increased by $5,053,935 during the year ended August 31, 2018. The increase in our general and administrative expenses was largely due to non-cash expenses related to valuation of grants for service and share based payments required by contracts. The total of non-cash based payments for the period was $4,446,565.

If this non-cash expense is subtracted from the total expenses increase, then our G&A expenses increased by only $607,370. Contemplating the expenses other than the non-cash related items, actual cash expenses are in line with our expected increasing R&D, patent and trademark filings, and brand awareness requirements. The increases in executing

budgeted work included significant increases in R&D for execution of studies supporting our patent filings, such as the *in vivo* Nicotine and European human studies, for a year on year increase of $438,679. Ongoing increases to legal expenses, year on year of $152,852 for our world-wide patent and trademark filings, as well as increases to our advertising and promotions to engage our markets to generate awareness and licensing clients, year on year $280,024. Fiscal 2019 expects to continue these increases based on available funding.

***Interest Expense***

Interest expense for the year ended August 31, 2018 was $Nil (2017 $6,015). The decrease was due to the conversion as of August 31, 2017 of the convertible debt and extinguishment of the long-term loan. The Company has no debt at this time other than month-to-month receivables.

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***Consulting fees***

Our consulting fees increased during the year ended August 31, 2018 due to the involvement of additional consultants, contract updates and non-cash payments for services of $4,446,565. Our executives are typically hired and compensated as consultants and costs associated with those agreements comprise the majority of our consulting fees expense (Note 14) and thus our Consulting Expenses category includes certain fees that might otherwise be recognized under wages and salaries.

***Professional Fees***

Our professional fees increased by $164,318 to $374,615 during fiscal 2018 primarily due to increases in patent and trademark filings of $152,852, with the balance primarily being increases in tax and other accounting services. We recognize certain legal fees, tax advice fees, and accounting services all as “Professional Fees.”

**Liquidity and Financial Condition**

| | **August 31 2018** | **August 31 2017** |
|---|---|---|
| ***Working Capital*** | **$** | **$** |
| Current assets | 2,284,051 | 2,795,495 |
| Current liabilities | 43,640 | 92,347 |
| Working capital balance | 2,240,411 | 2,703,148 |

The Company’s working capital balance decrease during the year ended August 31, 2018, was limited due to the ongoing exercises of outstanding options and warrants providing significant incoming funds. The Company maintained a positive and strong working capital position throughout the year.

| | **Year Ended** | |
|---|---|---|
| ***Cash flows*** | **August 31 2018** | **August 31 2017** |

| | $ | $ |
|---|---|---|
| Cash flows (used in) provided by operating activities | (2,517,978) | (1,545,909) |
| Cash flows (used in) provided by investing activities | (155,399) | (9,699) |
| Cash flows (used in) provided by financing activities | 1,867,224 | 3,995,536 |
| Increase (decrease) in cash | (806,153) | 2,439,928 |

***Operating Activities***

Net cash used in operating activities was $2,514,332 for the year ended August 31, 2018 compared with cash used in operating activities of $1,545,909 during the same period in 2017. This difference was largely due to the increased costs pertaining to consulting, advertising and promotion, patent and trademark related filings, research and development, and travel.

***Investing Activities***

Net cash used in investing activities was $155,399 (2017 $9,699) for the year ended August 31, 2018 is due to the Company’s cost incurred related to its patent related applications $85,399 and the purchase of the remaining 49% of Poviva LLC of $70,000.

***Financing Activities***

Net cash provided from financing activities was $1,863,577 during the year ended August 31, 2018 compared to net cash provided of $3,995,536 during the same period in 2017. During fiscal 2018, the Company did not pursue additional financing, instead utilizing existing funding and ongoing exercises of stock options and warrant exercises only.

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

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

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

***Revenue***

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

As fiscal 2017 came to a close, hemp oil fortified foods, and hemp seed products continued gaining consumer acceptance and provide a reason to believe that sales could increase. Those trends should support higher potential consumer product sales. Release of the TurboCBD product was successful but sales were limited by changes to payment processing services outside of the Company’s control. At the time of this report the Company had

extinguished its supplies of certain products like protein bars and the lack of inventory was also a negative impact on consumer product sales potential.

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

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

***General and Administrative***

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

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***Interest Expense***

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

***Consulting fees***

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

***Professional Fees***

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

**Liquidity and Financial Condition**

| | **August 31 2017** | **August 31 2016** |
|---|---|---|
| ***Working Capital*** | **$** | **$** |
| Current assets | 2,795,495 | 510,166 |
| Current liabilities | 92,347 | 433,881 |
| Working capital balance | 2,703,148 | 76,285 |

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

period.

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

***Operating Activities***

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

***Investing Activities***

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

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***Financing Activities***

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

**Contractual Obligations**

Not Applicable

**Going Concern**

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has a net loss attributable to its common shareholders of $6,598,843 for the year ended August 31, 2018 (2017: $1,869,277) and at August 31, 2018 had a deficit accumulated since its inception of $19,768,782 (2017: $13,169,939). The Company has a working capital balance of $2,236,764 as at August 31, 2018 (2017: $2,703,148). The Company requires additional funds to maintain its operations and developments beyond fiscal 2019. Management's plans in this regard are to raise equity and debt financing as required, but there is no certainty that such financing will be available or that it will be available at acceptable terms. The outcome of these matters cannot be predicted at this time.

**Off-Balance Sheet Arrangements**

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

**Critical Accounting Policies**

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

**Accounting Pronouncements**

Effective March 1, 2018, the Company began recognizing revenue in accordance with Financial Accounting Standards Board (FASB) ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"). The Company adopted ASC 606 utilizing the modified retrospective method, meaning the cumulative effect of applying the standard was recognized to opening retained earnings as of January 1, 2018 the effect was not material. ASC 606 provides for a five-step model that includes identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when, or as, an entity satisfies a performance obligation.

In January 2016, FASB issued an ASU, Subtopic 825-10, to amend certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most prominent among the amendments is the requirement for changes in fair value of equity investments, with certain exceptions, to be recognized through profit or loss rather than other comprehensive income. The new standard will be effective for the Company beginning September 1, 2018. We estimate a $14,000 impact on the Company's financial statements upon implementation.

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

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

In February 2018, the FASB issued ASU No. 2018-02, Income Statement–Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted by the U.S. federal government on December 22, 2017 (the “2017 Tax Act”). Consequently, the amendments eliminate the stranded tax effects resulting from the 2017 Tax Act and will improve the usefulness of information reported to financial statement users. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The Company is currently evaluating the effect this ASU will have on its consolidated financial statements and related disclosures, but does not expect it to have a material impact on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. This is a simplification that involves several aspects of accounting for nonemployee share-based payments resulting from expanding the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The new standard will be effective for Lexaria for September 1, 2019. The company does not expect it to have a material impact on its consolidated financial

statements.

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

**Interest Rate Risk**

We invest our excess cash in investment-grade, interest-bearing securities. The primary objective of our investment activities is to preserve principal and liquidity. To achieve this objective, we invest in redeemable Guaranteed Income Certificates (GICs) with maturity dates of less than one year. If a 10% change in interest rates were to have occurred on August 31, 2018, this change would not have had a material effect on the fair value of our investment portfolio as of that date.

**Foreign Currency Exchange Risk**

We have one wholly owned subsidiary and several contractors and vendors in Canada, which exposes us to foreign currency exchange risk. The functional currency of our subsidiaries in Canada is US Dollars.

Foreign currency transaction gains and losses recorded in continuing operations are insignificant. If a 10% change in the US dollar-to-Canadian Dollar exchange rate were to have occurred on August 31, 2018, this change is estimated to have approximately a $119,000 effect on continuing operations.

We have not hedged exposures denominated in foreign currencies, but may do so in the future.

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Directors of

Lexaria Biosciences Corp.

***Opinion on the Consolidated Financial Statements***

We have audited the accompanying consolidated balance sheets of Lexaria Biosciences Corp. (the "Company"), as of August 31, 2018, and 2017, and the related consolidated statements of operations, comprehensive loss, cash flows, and stockholders' equity for the years ended August 31, 2018, 2017, and 2016, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lexaria Biosciences Corp. as of August 31, 2018 and 2017, and the results of its operations and its cash flows for the years ended August 31, 2018, 2017, and 2016 in conformity with accounting principles generally accepted in the United States of America.

***Going Concern***

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the

applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatements of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

***Critical Audit Matters***

We have served as the Company's auditor since 2016.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Professional Accountants

November 13, 2018

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

| | | August 31 2018 | | August 31 2017 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current** | | | | |
| Cash | $ | **1,727,184** | $ | **2,533,337** |
| Marketable Securities (Note 20) | | **10,151** | | **-** |
| Accounts and other receivable (Note 7) | | **265,751** | | **45,293** |
| Inventory (Note 8) | | **87,233** | | **67,174** |
| Prepaid expenses and deposit (Note 18) | | **193,732** | | **149,691** |
| | | **2,284,051** | | **2,795,495** |
| | | | | |
| Patent (Note 9) | | **146,538** | | **62,827** |
| Equipment (Net) | | **1,237** | | **1,856** |
| | | **147,775** | | **64,683** |
| **TOTAL ASSETS** | $ | **2,431,826** | $ | **2,860,178** |
| | | | | |
| **LIABILITIES** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities | $ | **35,785** | $ | **32,574** |
| Unearned revenue (Note 11) | | **-** | | **17,083** |
| Due to related parties (Note 15) | | **7,855** | | **42,690** |
| **Total Current Liabilities** | | **43,640** | | **92,347** |
| | | | | |
| **TOTAL LIABILITIES** | | **43,640** | | **92,347** |
| | | | | |
| **STOCKHOLDERS' EQUITY** | | | | |
| **Share Capital (Note 12)** | | | | |
| Authorized: 220,000,000 common voting shares with a par value of $0.001 per share Issued and outstanding: 75,533,471 common shares at August 31, 2018 and 67,975,761 common shares at August 31, 2017 | | **75,533** | | **67,976** |
| **Additional paid-in capital (Note 12)** | | **22,095,682** | | **16,108,270** |
| **Accumulated Other Comprehensive Income** | | **(14,247)** | | **-** |
| **Deficit** | | **(19,768,782)** | | **(13,169,939)** |
| **Equity attributable to shareholders of the Company** | | **2,388,186** | | **3,006,307** |
| **Non-Controlling Interest (Note 9)** | | **-** | | **(238,476)** |
| **Total Stockholders' Equity** | | **2,388,186** | | **2,767,831** |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ | **2,431,826** | $ | **2,860,178** |

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

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

| | YEAR ENDED | | |
|---|---|---|---|
| | **August 31 2018** | **August 31 2017** | **August 31 2016** |
| **Revenue** | | | |
| Sales (Note 14) | **$ 433,287** | **$ 63,639** | **$ 40,718** |
| **Cost of Goods Sold** | | | |
| Cost of goods sold | **25,185** | **29,750** | **45,615** |
| **Gross Profit / (Loss)** | **408,102** | **33,889** | **(4,897)** |
| | | | |
| **Expenses** | | | |
| Accounting and audit | **85,553** | **74,087** | **95,921** |
| Depreciation and Amortization (Note 9) | **2,307** | **1,488** | **619** |
| Advertising and promotions | **489,058** | **209,034** | **185,459** |
| Consulting (Note 12, 13, 15) | **5,332,398** | **1,130,916** | **657,813** |
| Interest expense (Note 10) | **-** | **6,015** | **2,250** |
| Investor relations (Note 12) | **188** | **91,681** | **61,574** |
| Legal and professional | **289,062** | **136,210** | **37,939** |
| Office and miscellaneous | **217,655** | **129,726** | **133,679** |
| Research and development | **492,864** | **54,185** | **9,024** |
| Travel | **99,236** | **61,401** | **44,034** |
| Gain on disposal of assets | **(3,998)** | **-** | **-** |
| Inventory write-off (Note 8) | **12,966** | **68,611** | **44,040** |
| | **7,017,289** | **1,963,354** | **1,272,352** |
| **Net loss loss for the year** | **$ (6,609,187)** | **$ (1,929,465)** | **$ (1,277,249)** |
| **Net loss and comprehensive loss attributable to:** | | | |
| **Common shareholders** | **$ (6,598,843)** | **$ (1,869,277)** | **$ (1,214,773)** |
| **Non-controlling interest (Note 9)** | **$ (10,344)** | **$ (60,188)** | **$ (62,476)** |
| **Basic and diluted loss per share** | **$ (0.09)** | **$ (0.03)** | **$ (0.03)** |
| **Weighted average number of common shares outstanding** | | | |
| **- Basic and diluted** | **70,960,416** | **58,765,806** | **43,840,378** |

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

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**LEXARIA BIOSCIENCE CORP.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
**(Expressed in U.S. Dollars)**

| | YEAR ENDED | | |
|---|---|---|---|
| | **August 31 2018** | **August 31 2017** | **August 31 2016** |
| **Net Loss** | **$ (6,609,187)** | **$ (1,929,465)** | **$ (1,277,249)** |
| **Other comprehensive loss** | | | |
| Unrealized loss on marketable securities | **(14,247)** | **-** | **-** |
| **Comprehensive loss** | **$ (6,623,434)** | **$ (1,929,465)** | **$ (1,277,249)** |

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

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

| | YEAR ENDED | | |
|---|---|---|---|
| | **August31 2018** | **August 31 2017** | **August 31 2016** |
| **Cash flows used in operating activities** | | | |
| Net loss and comprehensive loss for the year | **$ (6,609,187)** | **$ (1,929,465)** | **$ (1,277,249)** |
| Adjustments to reconcile net loss and comprehensive loss to net cash used in operating activities: | | | |
| Stock based compensation | **2,602,239** | **113,044** | **122,015** |
| Depreciation and amortization | **2,307** | **1,488** | **619** |
| Inventory write-off | **12,966** | **68,611** | **44,040** |
| Unrealized foreign exchange | **602** | **-** | **-** |
| Common shares issued for interest (Note 12) | **-** | **1,125** | **-** |
| Common shares issued for services | **781,056** | **207,660** | **79,500** |
| Warrants issued for services | **1,063,270** | **292,750** | **32,252** |
| Change in working capital: | | | |
| Accounts and other receivable | **(245,458)** | **(7,710)** | **(6,201)** |
| Inventory | **(33,025)** | **(1,061)** | **(10,778)** |
| Prepaid expenses and deposit | **(44,041)** | **(17,817)** | **26,190** |
| Accounts payable and accrued liabilities | **3,210** | **(40,436)** | **56,937** |
| Due to related parties | **(34,835)** | **(238,681)** | **259,319** |
| Unearned revenue | **(17,083)** | **4,583** | **12,500** |
| **Net cash used in operating activities** | **(2,517,979)** | **(1,545,909)** | **(660,856)** |
| | | | |
| **Cash flows used in investing activities** | | | |
| Investment in Poviva | **(70,000)** | **-** | **-** |
| Patent | **(85,399)** | **(9,699)** | **(17,008)** |
| Acquisition of Equipment | **-** | **-** | **(3,094)** |
| **Net cash used in investing activities** | **(155,399)** | **(9,699)** | **(20,102)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from (Payments of) loans/convertible debentures | **-** | **(50,000)** | **95,000** |
| Proceeds from issuance of equity | **1,867,224** | **4,045,536** | **419,292** |
| **Net cash from financing activities** | **1,867,224** | **3,995,536** | **514,292** |
| | | | |
| **Change in cash** | **(806,153)** | **2,439,928** | **(166,666)** |
| **Cash, beginning of year** | **2,533,337** | **93,409** | **260,075** |
| **Cash, end of year** | **$ 1,727,184** | **$ 2,533,337** | **$ 93,409** |
| **Supplemental information of cash flows:** | | | |
| Interest paid in cash | **$ -** | **$ 4,890** | **$ 2,250** |
| Income taxes paid in cash | **$ -** | **$ -** | **$ -** |
| Shares issued to convert convertible debt | **$ -** | **$ 45,000** | **$ -** |
| Subscription funds receivable | **$ -** | **$ -** | **$ 93,500** |
| Stock based compensation recognized from prepaid expense | **$ -** | **$ 19,076** | **$ 38,150** |

| | | | |
|---|---|---|---|
| Shares issued for services in accounts payable and accrued liabilities | **$ 12,000** | **$ 17,000** | **$ -** |
| Reclassification of NCI to additional paid in capital on acquisition | **$ 318,820** | **$ -** | **$ -** |

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

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**LEXARIA BIOSCIENCE CORP.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

**(Expressed in U.S. Dollars)**

| | COMMON STOCK AMOUNT | | ADDITIONAL PAID-IN CAPITAL | | | | TOTAL STOCKHOLDERS' EQUITY |
|---|---|---|---|---|---|---|---|
| | SHARES | $ | $ | DEFICIT $ | NCI $ | AOCI $ | $ |
| **Balance, August 31, 2015** | **43,838,286** | **43,838** | **10,814,460** | **(10,085,889)** | **(115,812)** | **-** | **656,597** |
| Shares issued for services | 625,000 | 625 | 78,875 | - | - | - | 79,500 |
| Non-controlling Interest | - | - | - | - | (62,476) | - | (62,476) |
| Stock based compensation (Note 13) | - | - | 83,865 | - | - | - | 83,865 |
| Private placement of shares, net of issuance cost | 5,266,858 | 5,267 | 414,025 | - | - | - | 419,292 |
| Private placement subscription receivable | 1,558,333 | 1,558 | 91,942 | - | - | - | 93,500 |
| Warrants to be issued for services | - | - | 32,252 | - | - | - | 32,252 |
| Net loss and comprehensive loss | - | - | - | (1,214,773) | - | - | (1,214,773) |
| **Balance, August 31, 2016** | **51,288,477** | **51,288** | **11,515,419** | **(11,300,662)** | **(178,288)** | **-** | **87,757** |
| Shares issued for services | 939,354 | 938 | 223,722 | - | - | - | 224,660 |
| Non-controlling Interest | - | - | - | - | (60,188) | - | (60,188) |
| Stock based compensation (Note 13) | - | - | 93,968 | - | - | - | 93,968 |
| Private placement of shares, net of issuance cost | 4,104,280 | 4,105 | 1,537,637 | - | - | - | 1,541,742 |
| Warrants issued for services | - | - | 292,750 | - | - | - | 292,750 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Exercise of stock options | 1,014,125 | 1,015 | 176,247 | - | - | - | 177,262 |
| Exercise of warrants | 10,322,025 | 10,322 | 2,222,710 | - | - | - | 2,233,032 |
| Conversion of debt | 307,500 | 308 | 45,817 | - | - | - | 46,125 |
| Net loss and comprehensive loss | - | - | - | (1,869,277) | - | - | (1,869,277) |
| **Balance August 31, 2017** | **67,975,761** | **67,976** | **16,108,270** | **(13,169,939)** | **(238,476)** | **-** | **2,767,831** |
| Non-controlling Interest (Note 9) | - | - | (318,820) | - | 248,820 | - | (70,000) |
| Shares issued for services | 647,690 | 648 | 780,408 | - | - | - | 781,056 |
| Stock based compensation (Note 13) | - | - | 2,602,239 | - | - | - | 2,602,239 |
| Warrants issued for services | - | - | 1,063,270 | - | - | - | 1,063,270 |
| Exercise of stock options | 545,875 | 546 | 93,156 | - | - | - | 93,702 |
| Exercise of warrants | 6,364,145 | 6,363 | 1,767,159 | - | - | - | 1,773,522 |
| Net loss | - | - | - | (6,598,843) | (10,344) | - | (6,609,187) |
| Other Comprehensive loss | - | - | - | - | - | (14,247) | (14,247) |
| **Balance, August 31, 2018** | **75,533,471** | **75,533** | **22,095,682** | **(19,768,782)** | **-** | **(14,247)** | **2,388,186** |

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

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**LEXARIA BIOSCIENCE CORP.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**August 31, 2018**

**(Expressed in U.S. Dollars)**

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

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**3. Significant Accounting Policies**

**a) Accounting Principles**

**d) Inventory and Cost of Sales**

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**e) Cash and Cash Equivalents**

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**k) Financial Instruments**

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**o) Credit Risk and Receivable Concentration**

**4. Basis of Consolidation**

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

**6. Recent Accounting Guidance**

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In February 2018, the FASB issued ASU No. 2018-02, Income Statement–Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted by the U.S. federal government on December 22, 2017 (the "2017 Tax Act"). Consequently, the amendments eliminate the stranded tax effects resulting from the 2017 Tax Act and will improve the usefulness of information reported to financial statement users. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The Company is currently evaluating the effect this ASU will have on its consolidated financial statements and related disclosures, but does not expect it to have a material impact on its consolidated financial statements.

| | August 31 2018 | August 31 2017 |
|---|---|---|
| | $ | $ |
| Trade and deposits receivable | 5,200 | 1,778 |
| Territory License Fee receivable (Note 14) | 199,375 | - |
| Sales tax receivable | 61,176 | 43,515 |
| | 265,751 | 45,293 |

**8. Inventory**

| | August 31 2018 | August 31 2017 |
|---|---|---|

| | $ | $ |
|---|---|---|
| Raw materials | 29,355 | 14,220 |
| Finished goods | 9,752 | 42,266 |
| Work in progress | 48,126 | 10,688 |
| | 87,233 | 67,174 |

During the year ended August 31, 2018, the Company wrote down $12,966 (2017 - $68,611) of inventory to reflect its net realisable value.

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**9. Alternative Health Products**

| Issued Patent # | Patent Issuance Date | Patent Family |
|---|---|---|
| US 9,474,725 B1 | 10/25/2016 | Food and Beverage Compositions Infused With<br><br>Lipophilic Active Agents and Methods of Use Thereof |

A continuity schedule for patents is presented below:

| | **August 31 2018** | **August 31 2017** |
|---|---|---|
| | **$** | **$** |
| Balance – Beginning | 62,827 | 53,997 |
| Additions | 85,399 | 9,699 |
| Amortization* | (1,688) | (869) |
| Balance – Ending | **146,538** | **62,827** |

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** The patents are amortized over their legal life of 20 years.*

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**10. Convertible Debenture**

**11. Unearned Revenue**

| | August 31 2018 | August 31 2017 |
|---|---|---|
| | $ | $ |
| Balance – Beginning | 17,083 | 12,500 |
| Territorial License fees received/receivable | - | 30,000 |
| Advance payments on product sales | - | 4,900 |
| Earned revenue (Note 14) | (17,083) | (30,317) |
| Balance – Ending | - | 17,083 |

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**12. Common Shares and Warrants**

| Type of Issuance | Number of Shares | | Total Value |
|---|---|---|---|
| **Warrant Exercise[1]** | 6,364,145 | $ | 1,773,522 |
| **Option Exercise** | 545,875 | $ | 93,703 |
| **Per Agreements[2]** | 633,056 | $ | 769,056 |
| **Debt Settlement[3]** | 14,634 | $ | 12,000 |
| | **7,557,710** | **$** | **2,648,281** |

[1] Includes 111,291 broker warrants exercised for gross proceeds of $39,522
[2] The Company awarded the restricted common shares as required by intellectual property performance thresholds within an existing management consulting contracts for patent application filings (Note 9, 15)
[3] Issued to settle outstanding debts (Note 15)

***Fiscal 2017 Activity***

During September and October 2017 the Company received $93,500 of private placement receivable (Note 7) as at August 31, 2016.

On October 11, 2016, pursuant to its agreement with Docherty Management Ltd. (Note 17), the Company issued 252,000 common shares with a value of $35,760.

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

The Company reached an agreement with a director to settle the outstanding amount pursuant to an advisory agreement (Note 15), through issuance of common shares of the Company.

| Date | Amount[2] | Shares | Price |
|---|---|---|---|
| October 31, 2016[1] | $ 16,000 | 114,286 | $ 0.14 |
| February 27, 2017 | $ 16,000 | 29,091 | $ 0.55 |

| | | | | | |
|---|---|---|---|---|---|
| May 31, 2017 | $ | 12,000 | 35,294 | $ | 0.34 |
| August 25, 2017 | $ | 12,000 | 32,433 | $ | 0.37 |

(1) A Total of $8,000 of the $16,000 was recognized as consulting fees during the year ended August 31, 2016.
(2) There was a $NIL difference between the fair value of the shares issued and the carrying value of the debt.

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

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

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

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

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

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

On June 22, 2017, pursuant to the agreement with Mr. Chris Bunka (Note 17), the Company issued 210,000 common shares at $0.295 per share for $61,950, for services rendered as the Chief Executive Officer of the Company.

On June 22, 2017, pursuant to the agreement with Mr. John Docherty (Note 17), the Company issued 210,000 common shares at $0.295 per share for $61,950, for services rendered as the President of the Company.

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

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

| | Number of Warrants | Weighted Average Exercise Price $ |
|---|---|---|
| Balance, August 31, 2016 | 12,136,241 | 0.18 |
| Cancelled/Expired | (1,004,150) | 0.22 |
| Exercised | (10,322,025) | 0.23 |
| Issued | 8,034,440 | 0.36 |
| Balance, August 31, 2017 | 8,844,506 | 0.29 |
| Cancelled/Expired | (230,000) | 0.17 |
| Exercised | (6,364,145) | 0.28 |
| Issued | 1,035,913 | 1.48 |
| Balance, August 31, 2018 | 3,286,274 | 0.72 |

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

| | August 31 2018 | August 31 2017 |
|---|---|---|
| Expected volatility | 100% - 154% | 102% - 138% |
| Risk-free interest rate | 1.21% - 2.60% | 0.65% - 1.27% |
| Expected life | 1.21 - 3 years | 0.46 - 2 years |
| Dividend yield | 0.00% | 0.00% |
| Estimated fair value per option | $0.40 - $1.48 | $0.09 - $0.20 |

A summary of warrants outstanding as of August 31, 2018 is presented below:

| # of Warrants | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price $ |
|---|---|---|
| 500,000 | 0.36 years | 0.44 |
| 624,065 | 0.59 years | 0.60 |
| 212,209 | 0.59 years | 0.42 |
| 200,000 | 0.80 years | 0.29 |
| 750,000 | 3.11 years | 0.14 |
| 250,000 | 1.25 years | 0.83 |
| 500,000 | 1.38 years | 1.83 |
| 250,000 | 2.73 years | 2.73 |
| 3,286,274 | 1.48 years | 0.72 |

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**13. Stock Options**

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A continuity schedule for stock options is presented below:

| | Number of Options | Weighted Average Exercise Price $ |
|---|---|---|
| Balance, August 31, 2016 (vested and outstanding) | 3,485,000 | 0.15 |
| Exercised | (1,014,125) | 0.17 |
| Granted | 850,000 | 0.14 |
| Balance, August 31, 2017 (outstanding) | 3,320,875 | 0.15 |
| Exercised | (545,875) | 0.17 |
| Granted | 2,025,000 | 1.49 |
| Balance, August 31, 2018 (outstanding) | 4,800,000 | 0.71 |
| Balance, August 31, 2018 (exercisable) | 4,600,000 | 0.73 |

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

| | August 31 | August 31 |
|---|---|---|

| | 2018 | 2017 |
|---|---|---|
| Expected volatility | 127% - 131% | 98% - 108% |
| Risk-free interest rate | 2.13% - 2.74% | 0.83% - 1.78% |
| Expected life | 5 years | 2 - 5 years |
| Dividend yield | 0.00% | 0.00% |
| Estimated fair value per option | $0.70 - $1.73 | $0.07 - $0.27 |

A summary of the Company's vested and outstanding stock options as at August 31, 2018 is presented below:

| Number of Stock Options | Number of Stock Options Exercisable | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price $ | Aggregate Intrinsic Value $ |
|---|---|---|---|---|
| 990,000 | 990,000 | 1.31 years | 0.10 | 1,930,500 |
| 275,000 | 275,000 | 1.43 years | 0.09 | 538,750 |
| 550,000 | 550,000 | 1.57 years | 0.09 | 1,077,500 |
| 110,000 | 110,000 | 2.05 years | 0.17 | 206,500 |
| 300,000 | 300,000 | 2.62 years | 0.11 | 582,000 |
| 200,000 | 200,000 | 3.76 years | 0.37 | 336,000 |
| 350,000 | 150,000 | 3.81 years | 0.30 | 614,250 |
| 200,000 | 200,000 | 4.25 years | 0.83 | 244,000 |
| 1,725,000 | 1,725,000 | 4.75 years | 1.53 | 897,000 |
| 100,000 | 100,000 | 5.00 years | 2.06 | (1,000) |
| 4,800,000 | 4,600,000 | 3.17 years | 0.71 | 6,425,500 |

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**14. Revenues**

| | August 31 2018 | August 31 2017 |
|---|---|---|
| | $ | $ |
| Product sales | 16,967 | 16,866 |
| Licensing revenue (Note 11) | 415,183 | 45,809 |
| Freight revenue | 1,137 | 964 |
| | 433,287 | 63,639 |

The Company recognized licensing revenue on a pro-rated basis over the term of the Licensing Agreement (Note 10) and additional licensing fees as they were earned. The Company has determined that the support services form an insignificant portion of the licensing contract as they are substantially completed prior to delivery of the DehydraTECH™ Technology (the Technology) and that delivery of the license is complete when the Technology is transferred to the licensee. Additional licensing fees and royalties are recognized as they are earned. During the year ended August 31, 2018, the Company recognized $17,083 of deferred revenue (Note 11) and $398,100 of additional Intellectual Property Licensing fees.

The additional Licensing fees consist of IP licensing fees for transfer of the Technology with the signing of definitive agreements for the DehydraTECH™ technology. The additional Licensing fees include payments due upon transfer of the Technology and installment payments that are receivable within 12 months (Note 7).

**15. Related Party Transactions**

| | Cash | % | | % | Aug 31 | Cash | % | | % | Aug 31 |
|---|---|---|---|---|---|---|---|---|---|---|

| | $ | | SBC and Share Awards[2] $ | | 2018 Total $ | $ | | SBC and Share Awards[2] $ | | 2017 Total $ |
|---|---|---|---|---|---|---|---|---|---|---|
| Management, consulting and accounting services: | | | | | | | | | | |
| C.A.B Financial Services[1] | 144,000 | 11% | 1,212,269 | 89% | 1,356,269 | 136,000 | 65% | 73,750 | 35% | 209,750 |
| M&E Services Ltd.[1] | 85,663 | 13% | 568,737 | 87% | 654,401 | 54,963 | 100% | - | 0% | 54,963 |
| Docherty Management Limited[1] | 140,471 | 11% | 1,148,152 | 89% | 1,288,622 | 125,394 | 52% | 115,750 | 48% | 241,144 |
| Company controlled by a director | 12,000 | 15% | 65,686 | 85% | 77,686 | 48,000 | 100% | - | 0% | 48,000 |
| Director | - | 0% | 65,686 | 100% | 65,686 | - | 0% | - | 0% | - |
| | **382,134** | | **3,060,530** | | **3,442,664** | **364,357** | | **189,500** | | **553,857** |

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(1) C.A.B. Financial Services is owned by the CEO of the Company, M&E Services Ltd. is owned by the CFO of the Company (as of June 1 2017), and Docherty Management Limited is owned by the President of the Company.

(2) Stock Based Compensation (SBC) and Share Awards include the total value of the grants and award included in expenses. The Company granted a total of 1,700,000 incentive stock options to officers and directors of the Company with a fair value of $2,111,028 and included in Consulting expense (Note 12).

| August 31, 2018 | Common shares | | Fair value | | Cash |
|---|---|---|---|---|---|
| Docherty Management (Note 11,16) (A) | 345,250 | $ | 458,305 | $ | 164,361 |
| CAB (Note 11,16) (B) | 143,225 | $ | 192,195 | $ | 100,475 |
| M&E Services Ltd (Note 11,16) | 41,666 | $ | 34,166 | | - |

(A) Issued in lieu of issuance of 466,666 common shares, as mutually agreed to between the parties.

(B) Issued in lieu of issuance of 216,670 common shares, as mutually agreed to between the parties.

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| August 31, 2017 | Common shares | Fair value | Cash |
|---|---|---|---|
| Docherty Management (Note 11,16) [1] | 252,000 | $ 35,760 | $ 6,240 |
| Docherty Management (Note 11,16) [1] | 210,000 | $ 61,950 | $ 11,800 |
| CAB (Note 11,16) [2] | 210,000 | $ 61,950 | $ 11,800 |

[1] Issued in lieu of issuance of 300,000 common shares, as mutually agreed to between the parties.

[2] Issued in lieu of issuance of 250,000 common shares, as mutually agreed to between the parties.

Due to related parties:

As at August 31, 2018, $7,855 (August 31, 2017 - $42,690) was payable to related parties included in due to related parties.

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

**16. Segment Information**

| | IP Licensing | Consumer Products | Corporate | Consolidated Total |
|---|---|---|---|---|
| External Revenue | | | | |
| US | 240,183 | 18,104 | - | |
| Canada | 175,000 | - | - | 433,287 |
| CoGS | - | (25,185) | - | (25,185) |
| Operating Expenses | (2,237,598) | 150,040 | (4,629,651) | 7,017,289 |
| Segment Loss | (1,822,415) | (157,121) | (4,629,651) | (6,609,187) |
| Total Assets | 345,913 | 88,470 | 1,997,443 | 2,431,826 |

**17. Commitments, Significant Contracts and Contingencies**

| Party | Monthly Commitment | Expiry Date |
|---|---|---|
| C.A.B Financial Services [1] [2] | $12,000 | November 30, 2018 |
| Docherty Management Ltd. [1] [2] | CAD $15,000 | March 1, 2018 |
| M&E Services Ltd. [1] [3] | CAD $12,000 | June 1, 2021 |
| Corporate Development[4] [5] | CAD $4,000 | Month to Month |
| Corporate Development[4] [5] | CAD $1,000 | January 16, 2019 |
| | | |
| Investor relations and communications – Alex Blanchard Capital[1] | CAD $7,500 | Month to Month |
| Office Management [6] [7] | CAD $6,500 | December 1, 2019 |
| Business Development | $3,000 | Month to Month |
| Research & Development | CAD $3,854 | Month to Month |

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***Revenue Incentive Milestones***

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

***Intellectual Property Milestones***

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

(3) During the term of the agreement, for each provisional patent application substantively devised and successfully created, written, and filed with the U.S. Patent Office for the Company's Technology, 100,000 restricted common shares of the Company will be issuable to a maximum value of $250,000 at the time of issuance; or a cash award not to exceed $10,000 for an idea or concept originally conceived by but more than 80% of the subsequent work, time and expenses paid for by the Company.

***Corporate Development Milestones***

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

(5) For new customers sourced by the Consultant until July 10, 2017; for combined Lexaria Energy and ViPova products and including all combined sales efforts and/or technology licensing revenues, achieving non-refundable revenues of $500,000 in any fiscal quarter would result in a restricted common share award of 200,000 Company

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

***Office Management Milestones***

(6) Until December 1, 2018 for combined Lexaria Energy and ViPova products and including all combined sales efforts and/or technology licensing revenues, achieving non-refundable revenues of $200,000 would result in a restricted common share award of 75,000 Company shares; and from December 2, 2018, until December 1, 2019 for combined Lexaria Energy and ViPova products and including all sales efforts, achieving non-refundable revenues of $200,000 would result in a restricted common share award of 40,000 Company shares; this clause limited to one payment per customer during the 24-month period, but payable on each customer that meets these sales/licensing thresholds;

(7) Until December 1, 2018 for combined Lexaria Energy and ViPova products and including all combined sales efforts and/or technology licensing revenues, achieving non-refundable revenues of $500,000 in any fiscal quarter would result in a restricted common share award of 150,000 Company shares; and, from December 2, 2018, until December 1, 2019 for combined Lexaria Energy and ViPova products and including all sales efforts, achieving non-refundable revenues of $500,000 in any fiscal quarter would result in a restricted common share award of 80,000 Company shares; this clause limited to one payment per fiscal quarter.

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**18. Prepaid Expenses**

| | August 31 2018 | August 31 2017 |
|---|---|---|
| | $ | $ |
| Advertising & Conferences | 137,654 | 106,682 |
| Consulting Fees | 4,555 | 23,984 |
| Office & Insurance | 21,533 | 15,062 |
| Legal Fees | 29,990 | 3,963 |
| | **193,732** | **149,691** |

**19. Income Tax**

| | August 31 2018 | August 31 2017 | August 31 2016 |
|---|---|---|---|
| | $ | $ | $ |
| Loss before taxes | (6,295,564) | (1,933,473) | (1,267,454) |
| Expected income tax recovery | (1,322,068) | (676,716) | (443,609) |
| Non-deductible items | 2,724 | 242,635 | 97,612 |
| Change in estimates | (54,057) | (174,135) | (897,713) |
| Effect of changes in foreign and long-term tax rates | 1,816,659 | - | - |

| | | | |
|---|---|---|---|
| Change in valuation allowance | (443,258) | 608,216 | 1,243,710 |
| Total income taxes | - | - | - |

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax assets at August 31, 2018 and 2017 are comprised of the following:

| | **August 31 2018** | **August 31 2017** | **August 31 2016** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Non-capital losses | 4,124,662 | 4,567,920 | 3,959,704 |
| Valuation allowance | (4,124,662) | (4,567,920) | (3,959,704) |
| Net deferred tax assets recognized | - | - | - |

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The Company has net operating loss carryforwards of approximately $19,591,000 which may be carried forward to apply against future year income tax for U.S. tax purposes.

| Year | Amount |
|---|---|
| 2025 | 76,000 |
| 2026 | 508,000 |
| 2027 | 1,056,000 |
| 2028 | 720,000 |
| 2029 | 753,000 |
| 2030 | 552,000 |
| 2031 | 538,000 |
| 2032 | 252,000 |
| 2033 | 344,000 |
| 2034 | 3,257,000 |
| 2035 | 2,268,000 |
| 2036 | 989,000 |
| 2037 | 1,738,000 |
| 2038 | 6,540,000 |
| | 19,591,000 |

## 20. Marketable Securities

| | Cost Basis | Unrealized Gains | Unrealized Losses | Total |
|---|---|---|---|---|
| August 31, 2017 | | | | |
| Common Stock | $ - | $ - | $ - | $ - |
| Total | $ - | $ - | $ - | $ - |
| August 31, 2018 | | | | |
| Common Stock | 25,000 | - | (14,247) | 10,753 |
| **Total** | **$ 25,000** | $ - | **$ (14,247)** | **$ 10,753** |

Unrealized losses from common stock are due to market price movements. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence.

## 21. Subsequent Events

1)

October 31, 2018 Lexaria closed a non-brokered private placement for gross proceeds of $1,515,440 comprised of 947,150 units at an issue price of $1.60 per unit. Each Unit consists of one common share of the Company and one common share purchase warrant (“Warrant”). Each Warrant is exercisable for 24 months at a price of $2.25 per warrant. Finders fees of $45,080 and 28,175 finder’s warrants exercisable for 24 months at a price of $2.25.

2) Subsequent to August 31, 2018 280,000 warrants and 330,000 options were exercised for a total of $161,000.

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

There were no disagreements related to accounting principles or practices, financial statement disclosure, internal controls or auditing scope or procedure during the two fiscal years and their respective interim periods.

**Item 9A. Controls and Procedures**

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

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

As of August 31, 2018, the end of our fiscal year covered by this report, we carried out an evaluation, under the supervision and with the participation of our President and chief executive officer and chief financial officer (also our principal executive and financial reporting and accounting officers), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president, chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States. Our management assessed the effectiveness of our internal control over financial reporting as of August 31, 2018. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of

the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*. Our management has concluded that, as of August 31, 2018, our internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US generally accepted accounting principles. Our management reviewed the results of their assessment with our Board of Directors.

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

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

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

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

There have been no changes in our internal controls over financial reporting that occurred during the year ended August 31, 2018 that have materially or are reasonably likely to materially affect, our internal controls over financial reporting.

**Item 9B. Other Information**

None

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## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

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

| Name | Position Held with our Company | Age | Date First Elected Or Appointed | Date of Resignation |
|---|---|---|---|---|
| Christopher Bunka | Chairman, Chief Executive Officer, and Director | 57 | October 26, 2006<br><br>February 14, 2007 | - |
| John Docherty | President and Director | 48 | April 15, 2015<br><br>April 29, 2016 | - |
| Allan Spissinger | Chief Financial Officer | 49 | June 1, 2017 | - |
| Nicholas Baxter | Director | 65 | July 8, 2011 | - |
| Ted McKenchnie | Director | 71 | September 16, 2015 | - |

*Business Experience*

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

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

Mr. Bunka has been Chairman of the Board and CEO since 2006 and was primarily responsible for the corporate pivot from older business activities to bioscience. Mr. Bunka is a serial entrepreneur and has been involved in several private and public companies since the late 1980's. He was well known for more than a decade as a part-time business

commentator in print and radio, as well as an author. He has extensive experience in the capital markets, corporate governance, project acquisition and corporate finance. He is a named inventor on some of Lexaria's pending patents.

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

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

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

Mr. Docherty was appointed President of Lexaria effective April 15, 2015. Prior to Lexaria Mr. Docherty was former President and Chief Operating officer of Helix BioPharma Corp. (TSX: HBP), where he led the company's pharmaceutical development programs for its plant and recombinantly derived therapeutic protein product candidates.

Mr. Docherty is a senior operations and management executive with over 20 years experience in the pharmaceutical and biopharmaceutical sectors. He has worked with large multinational companies and emerging, private and publicly held start-ups. At Helix, Mr. Docherty was also instrumental in the areas of investor/stakeholder relations, capital raising, capital markets development, strategic partnering, regulatory authority interactions and media relations, and he also served as a management member of its board of directors. Prior to this, Mr. Docherty was President and a board member of PharmaDerm Laboratories Ltd., a Canadian drug delivery company that developed unique microencapsulation formulation technologies for use with a range of active compounds.

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

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

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

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

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

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

***Mr. Ted McKechnie – Director***

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

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

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**Family Relationships**

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

**Involvement in Certain Legal Proceedings**

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

1. A petition under the Federal bankruptcy laws or any state insolvency law was filed by or against, or a receiver, fiscal agent or similar officer was appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;

2. Such person was convicted in a criminal proceeding or is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);

3. Such person was the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from, or otherwise limiting, the following activities:

i. Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity

4. Such person was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any Federal or State authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity described in paragraph (f)(3)(i) of this section, or to be associated with persons engaged in

any such activity;

5. Such person was found by a court of competent jurisdiction in a civil action or by the Commission to have violated any Federal or State securities law, and the judgment in such civil action or finding by the Commission has not been subsequently reversed, suspended, or vacated;

6. Such person was found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any Federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated;

7. Such person was the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of:

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

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

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

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

Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during fiscal year ended August 31, 2018, all filing requirements applicable to our officers, directors and greater than 10% percent beneficial owners were complied with.

**Code of Ethics**

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

**Board and Committee Meetings**

Our board of directors held one formal meeting and several informal meetings during the year ended August 31, 2018. All proceedings of the board of directors were conducted by resolutions consented to in writing by all the directors and filed with the minutes of the proceedings of the directors. Such resolutions consented to in writing by the directors

entitled to vote on that resolution at a meeting of the directors are, according to the Nevada General Corporate Law and our Bylaws, as valid and effective as if they had been passed at a meeting of the directors duly called and held.

**Nomination Process**

As of August 31, 2018, we did not effect any material changes to the procedures by which our shareholders may recommend nominees to our board of directors. Our board of directors does not have a policy with regards to the consideration of any director candidates recommended by our shareholders. Our board of directors has determined that it is in the best position to evaluate our company's requirements as well as the qualifications of each candidate when the board considers a nominee for a position on our board of directors. If shareholders wish to recommend candidates directly to our board, they may do so by sending communications to the president of our Company at the address on the cover of this annual report.

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**Audit Committee and Audit Committee Financial Expert**

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

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

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

**Item 11. Executive Compensation**

The particulars of the compensation paid to the following persons:

(a) our principal executive officer;

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

**SUMMARY COMPENSATION TABLE**

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($) | Option Awards ($) | Non-Equity Incentive Plan Compensation ($) | Non-Qualified Deferred Compensation Earnings ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|---|---|
| Christopher Bunka (1) | | | | | | | | | |
| Chairman, Chief Executive Officer & Director | 2018 | - | - | 292,669(4) | 919,600(6) | - | - | 144,000 | 1,356,269 |
| | 2017 | - | - | 61,950 | - | - | - | 147,800 | 209,750 |
| John Docherty (2) President | 2018 | - | - | 622,666(3) | 525,486(6) | - | - | 140,471 | 1,288,623 |
| | 2017 | - | - | 97,710 | - | - | - | 143,434 | 241,144 |
| Allan Spissinger (8) Interim Chief Financial Officer | 2018 | - | - | 34,166(5) | 534,571(6)(7) | - | - | 85,663 | 654,400 |
| | 2017 | - | - | - | 54,204 | - | - | 57,104 | 111,308 |

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(1) Mr. Bunka was appointed as chairman, president, chief executive officer, and director on October 26, 2006, and was chief financial officer of our company from April 29, 2016 to May 31 2017. He resigned as president on April 15, 2015. We pay Mr. Bunka a consulting fee through CAB Financial Services Ltd., where he is also the Chief Executive Officer.

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

*Consulting Agreements*

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

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

On June 1, 2018, the Company executed a thirty six month contract with M&E Services Ltd., a wholly owned company by Mr. Allan Spissinger, as Chief Financial Officer with monthly compensation of CAD$12,000 plus applicable taxes, including an annual 8% increase, superseding the previous agreement for $8,000 per month plus applicable taxes.

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

**Grants of Plan-Based Awards Table**

We did not grant any awards to our named executive officers in the during our fiscal year ended August 31, 2018.

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**Outstanding Equity Awards at Fiscal Year End**

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

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

| | OPTION AWARDS | | | | | STOCK AWARDS | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Name** | **Number of Securities Underlying Unexercised Options Exercisable (#)** | **Number of Securities Underlying Unexercised Options Unexercisable (#)** | **Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)** | **Option Exercise Price ($)** | **Option Expiration Date** | **Number of Shares or Units of Stock That Have Not Vested (#)** | **Market Value of Shares or Units of Stock That Have Not Vested ($)** | **Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)** | **Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)** |
| Christopher Bunka | 550,000 | - | - | $ 0.11 | 2019/12/22 | - | - | - | - |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 700,000 | - | - | $ | 1.53 | 2023/05/31 | - | - | - | - |
| John Docherty | 550,000 | - | - | $ | 0.10 | 2020/03/26 | - | - | - | - |
| | 300,000 | - | - | $ | 0.11 | 2021/04/15 | - | - | - | - |
| | 400,000 | - | - | $ | 1.53 | 2023/05/31 | - | - | - | - |
| Allan Spissinger | 200,000 | - | - | $ | 0.37 | 2022/06/01 | - | - | - | - |
| | 200,000 | - | - | $ | 0.83 | 2022/11/30 | - | - | - | - |
| | 300,000 | - | - | $ | 1.53 | 2023/05/31 | - | - | - | - |

**Option Exercises**

During our fiscal year ended August 31, 2018, Christopher Bunka exercised 247,500 options previously granted at $0.09.

**Compensation of Directors**

We do not have any agreements for compensating our directors for their services in their capacity as directors, although such directors received during our year ended August 31, 2018 received a total of 100,000 options exercisable at $1.53 with an expiry of May 31 2023, and are expected in the future to receive stock options to purchase shares of our common stock as awarded by our board of directors. We had an agreement with a director for marketing services that is not in their capacity as a director for $4,000 per month plus applicable taxes, which concluded November 30, 2017.

**Pension, Retirement or Similar Benefit Plans**

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

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

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

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**Compensation Committee Interlocks and Insider Participation**

During 2018, we did not have a compensation committee or another committee of the board of directors performing equivalent functions. Instead the entire board of directors performed the function of compensation committee. Our board of directors approved the executive compensation, however, there were no deliberations relating to executive officer compensation during 2018.

**Compensation Committee Report**

None.

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

The following table sets forth, as of October 25, 2018, certain information with respect to the beneficial ownership of our common shares by each shareholder known by us to be the beneficial owner of more than 5% of our common shares, as well as by each of our current directors and executive officers as a group. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percentage of Class |
|---|---|---|
| Christopher Bunka; Kelowna BC Canada | 14,458,148(1) | 18.99% |
| Nicholas Baxter; Aberdeenshire, UK* | 380,000(2) | 0.50% |
| John Docherty; Toronto, Ontario | 2,872,250(3) | 3.77% |
| Ted McKechnie; Toronto, Ontario* | 445,738(4) | 0.59% |
| Allan Spissinger; Langley, BC | 769,166(5) | 1.01% |
| **Directors and Executive Officers as a Group (5 persons)** | **18,925,302** | **24.85%** |

* Less than 1%.

(1) Includes 6,081,844 shares held in the name of C.A.B. Financial Services and 7,126,304 shares held directly by Chris Bunka, chairman, chief executive officer and a director of our company. Includes 550,000 options with an exercise price of $0.10 and 700,000 options which are exercisable at $1.53.

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*Changes in Control*

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

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

Except as disclosed herein, no director, executive officer, shareholder holding at least 5% of shares of our common stock, or any family member thereof, had any material interest, direct or indirect, in any transaction, or proposed transaction since the year ended August 31, 2018, in which the amount involved in the transaction exceeded or exceeds the lesser of $120,000 or one percent of the average of our total assets at the yearend for the last three completed fiscal years.

*Director Independence*

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

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

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

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

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

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

The aggregate fees billed for the most recently completed fiscal year ended August 31, 2018 and for fiscal year ended August 31, 2017 for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows:

| | Year Ended August 31, 2018 | Year Ended August 31, 2017 |
|---|---|---|
| Audit Fees | 39,972 | 35,392 |
| Audit Related Fees | - | - |
| Tax Fees | - | 15,982 |
| All Other Fees | - | - |
| Total | 39,972 | 51,374 |

*Audit Fees:* Audit fees consist of fees billed for professional services rendered for the audits of our financial statements, reviews of our interim financial statements included in quarterly reports, services performed in connection with filings with the Securities and Exchange Commission and related comfort letters and other services that are provided by the Company's principal accountants for the fiscal years ended August 31, 2018 and August 31, 2017 in connection with statutory and regulatory filings or engagements.

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

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

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

generates information that is significant to our financial statements, are provided internally or by other service providers.

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

- approved by our audit committee (which consists of our entire board of directors); or

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

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

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## PART IV

### Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements

(1) Financial statements for our Company are listed in the index under Item 8 of this document

**Exhibit**

| Number | Description |
|---|---|
| **(2)** | **Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession** |
| 2.1 | Plan of Conversion (included as Schedule "A" to the proxy statement/prospectus) |
| **(3)*** | **Articles of Incorporation and Bylaws** |
| 3.1* | Articles of Incorporation |
| 3.2* | Bylaws |
| **(4)** | **Instruments Defining the Rights of Security Holders, including Indentures** |
| 4.1 | 2007 Equity Incentive Plan |
| 4.2 | 2010 Equity Compensation Plan |
| 4.3 | 2014 Stock Option Plan |
| 4.4* | Specimen ordinary share certificate |
| **(5)** | **Opinion regarding Legality** |
| 5.1 | Opinion of Macdonald Tuskey regarding the legality of the securities being registered |
| **(8)** | **Opinions regarding Tax Matters** |
| 8.1 | Opinion of Dale Matheson Carr-Hilton Labonte LLP regarding U.S. tax matters |
| 8.2 | Opinion of Dale Matheson Carr-Hilton Labonte LLP regarding Canadian tax matters |
| **(10)** | **Material Contracts** |
| 10.1 | Membership Purchase Agreement dated October 23, 2017 with Marian Washington and Michele Reillo (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed November 2, 2017) |
| 10.2 | Services Agreement dated August 15, 2017 with Adam Mogil |
| 10.3 | Management Services Agreement dated June 19, 2017 with Dr. Phil Ainslie |
| 10.4 | Management Services Agreement dated June 1, 2017 with M&E Services Ltd. (Spissinger) |
| 10.5 | Marketing Agreement dated March 24, 2017 with Dig Media Inc. |
| 10.6 | Management Services Agreement dated March 1, 2017 with Docherty Management Ltd. |
| 10.7 | Collaborative Research Agreement dated February 6, 2017 with National Research Counsel |
| 10.8 | Services Agreement dated January 1, 2017 with Correlation Capital Inc. |
| 10.9 | Joint Venture Agreement dated April 6, 2017 with NeutriSci International Inc. |
| 10.10 | Management Services Agreement dated December 1, 2016 with CAB Financial Services ltd. |
| 10.11 | Private Label Agreement dated September 5, 2016 with Timeless Herbal Care Limited |
| 10.12 | Intellectual Property License Agreement dated September 3, 2016 with Timeless Herbal Care Limited |
| 10.13 | Private Placement Subscription Agreement dated July 5, 2016 (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed August 16, 2016) |
| 10.14 | |

| | |
|---|---|
| | Loan agreement dated July 25, 2016 with CAB Financial Services Ltd. (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed July 26, 2016) |
| 10.15 | Form of subscription agreement for Private Placement closed on June 6, 2016 (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed June 8, 2016) |
| 10.16 | Form of warrant agreement dated June 6, 2016(incorporated by reference as exhibit 10.2 of our Current Report on Form 8-K filed June 8, 2016) |
| 10.17 | Form of Stock Option Agreement (incorporated by reference as exhibit 10.3 of our Current Report on Form 8-K filed June 8, 2016) |

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|---|---|
| 10.18 | Consulting Agreement dated June 3, 2016 with Frontier Merchant Capital Group (incorporated by reference as exhibit 10.4 of our Current Report on Form 8-K filed June 8, 2016) |
| 10.19 | Licensing Agreement dated May 14, 2016 of Lexaria Bioscience Corp. (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed May 20, 2016) |
| 10.20 | License Agreement dated August 11, 2015 with PoViva Tea LLC (incorporated by reference to exhibit 10.1 of Current Report on Form 8-K filed August 12, 2015) |
| 10.21 | Share Purchase Agreement dated June 24, 2015 with Shaxon Enterprises Ltd. (incorporated by reference to exhibit 10.1 of Current Report on Form 8-K filed June 26, 2015) |
| 10.22 | Letter of Intent dated June 10, 2014 with Shaxon Enterprises (incorporated by reference to exhibit 10.1 of Current Report on Form 8-K filed June 12, 2015) |
| 10.23 | Operating Agreement dated November 11, 2014 with Poppy's Teas LLC (incorporated by reference to exhibit 10.1 of our Current Report on Form 8-K filed November 12, 2014) |
| 10.24 | Joint Venture Agreement dated May 27, 2014 with Lexaria (incorporated by reference to exhibit 10.1 of our Current Report on Form 8-K filed May 29, 2014) |
| 10.25 | Joint Venture Agreement dated March 5, 2014 with Enertopia Corp. et al. (incorporated by reference to exhibit 10.1 of our Current Report on Form 8-K filed March 5, 2014) |
| 10.26 | Consulting Agreement with JGRNT dated January 17, 2018 (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed January 22, 2018) |
| 10.27 | Licensing Agreement with Cannfections Group Inc. dated January 25, 2018 (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed January 25, 2018) |
| 10.28 | Licensing Agreement with Neutrisci International Corp. dated February 23, 2018 (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed March 2, 2018) |
| 10.29 | Licensing Agreement with Biolog, Inc. dated February 23, 2018 (incorporated by reference as exhibit 10.2 of our Current Report on Form 8-K filed March 2, 2018) |
| 10.30 | Form S-4/A Amendment No. 2 filed March 1, 2018 |
| 10.31 | 424B3 Notice Of Annual And Special Meeting Proxy Statement/Prospectus Summary |
| 10.32 | Licensing agreement with GP Holdings LLC dated April 20, 2018 (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed April 26, 2018) |
| 10.33 | Licensing agreement with Nuka Enterprises LLC dated April 24, 2018 (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed May 4, 2018) |
| 10.34 | Consulting contract with Nuka Enterprises, LLC dated May 25, 2018 (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed June 4, 2018) |
| 10.35 | Licensing Agreement with Hill Street Beverages Co. dated July 30, 2018 (incorporated by reference as exhibit 10.1 of our Current Report on Form 8-K filed August 2, 2018) |
| **(21)** | **Subsidiaries** |
| 21.1 | Lexaria Canpharm Corp., a Canadian federal company |
| 21.2 | Poviva Tea LLC, a Nevada corporation |
| 21.3 | Lexaria Hemp Corp., a Delaware corporation |
| 21.4 | Learia Nicotine Corp., a Delaware corporation |
| 21.5 | Lexaria Pharma Corp., a Delaware corporation |
| (23) | Consents of Experts and Counsel |
| 23.1 | Consent of Macdonald Tuskey (Included in Exhibit 5.1) |
| 23.2 | Consent of Dale Matheson Carr-Hilton Labonte LLP (Included in Exhibit 8.1 and Exhibit 8.2) |
| 23.3 | Consent of Davidson & Company LLP, Chartered Professional Accountants |
| 23.4 | Consent of MNP LLP, Chartered Accountants |
| **(31)** | **Rule 13a-14(a)/15d-14(a)** |
| 31.1* | Section 302 Certifications under Sarbanes-Oxley Act of 2002 of Principal Executive Officer |

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

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|---|---|
| **(32)** | **Section 1350 Certifications** |
| 32.1 | Section 906 Certification under Sarbanes Oxley Act of 2002 of Principal Executive Officer |
| 32.2 | Section 906 Certification under Sarbanes Oxley Act of 2002 of Principal Financial Officer and Principal Accounting Officer |
| **(101)**** | **Interactive Data Files** |
| **101.INS** | **XBRL Instance Document** |
| **101.SCH** | **XBRL Taxonomy Extension Schema Document** |
| **101. CAL** | **XBRL Taxonomy Extension Calculation Linkbase Document** |
| **101.DEF** | **XBRL Taxonomy Extension Definition Linkbase Document** |
| **101.LAB** | **XBRL Taxonomy Extension Label Linkbase Document** |
| **101.PRE** | **XBRL Taxonomy Extension Presentation Linkbase Document** |

* *Filed herewith*

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**SIGNATURES**

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

**LEXARIA CORP.**

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

Date: November 14, 2018

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

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

Date: November 14, 2018

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

Date: November 14, 2018

By: /s/ Allan Spissinger
Allan Spissinger CPA, CA
Chief Financial Officer
(Principal Accounting Officer)

Date: November 14, 2018

By: /s/ Ted McKechnie

Ted McKechnie
Director

Date: November 14, 2018

By: /s/ Nicholas Baxter
Nicholas Baxter
Director

Date: November 14, 2018