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

# FORM 10-Q

(Mark One)

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

For the quarterly period ended **February 28, 2023**

or

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

For the transition period from [ ] to [ ]

Commission file number **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.) |
| #100 – 740 McCurdy Road, Kelowna BC Canada | V1X 2P7 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's Telephone number, including area code: **1.250.765.6424**

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

| Title of Class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, Par Value $0.001 | LEXX | The NASDAQ Stock Market LLC |
| Warrants | LEXXW | The NASDAQ Stock Market LLC |

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit files).

Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated Filer | ☒ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by 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 ☒

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

**5,985,650** common shares as of April 14, 2023

DOCUMENTS INCORPORATED BY REFERENCE
None.

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**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**LEXARIA BIOSCIENCE CORP.**
**CONSOLIDATED BALANCE SHEETS**
**(Unaudited)**

| | February 28, 2023 | August 31, 2022 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | **$ 3,272,102** | **$ 5,813,218** |
| Marketable securities | **267,704** | **347,335** |
| Accounts receivable | **136,796** | **201,784** |
| Inventory | **7,588** | **38,418** |
| Prepaid expenses and deposit | **319,591** | **576,761** |
| **Total Current Assets** | **4,003,781** | **6,977,516** |
| | | |
| **Non-current assets, net** | | |
| Right of use assets | **32,047** | **52,444** |
| Intellectual property | **517,730** | **488,462** |
| Property & equipment | **301,421** | **315,505** |
| **Total Non-current Assets** | **851,198** | **856,411** |
| | | |
| **TOTAL ASSETS** | **$ 4,854,979** | **$ 7,833,927** |
| | | |
| **LIABILITIES and STOCKHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | **$ 189,776** | **$ 151,449** |
| Deferred revenue | **4,275** | **-** |
| Lease payable | **29,080** | **42,587** |
| **Total Current Liabilities** | **223,131** | **194,036** |
| | | |
| **Long Term Liabilities** | | |
| Lease payable | **-** | **7,401** |
| **Total Long Term Liabilities** | **-** | **7,401** |
| | | |
| **TOTAL LIABILITIES** | **$ 223,131** | **$ 201,437** |
| | | |
| **Stockholders' Equity** | | |
| **Share Capital** | | |
| Authorized: | | |
| 220,000,000 common voting shares with a par value of $0.001 per share | | |
| Issued and outstanding: 5,950,998 common shares at February 28, 2023 | | |
| and at August 31, 2022 | **$ 5,951** | **$ 5,951** |
| **Additional paid-in capital** | **47,120,783** | **47,041,481** |
| **Deficit** | **(42,152,603)** | **(39,098,528)** |
| **Equity attributable to shareholders of the Company** | **4,974,131** | **7,948,904** |
| **Non-controlling Interest** | **(342,283)** | **(316,414)** |
| **Total Stockholders' Equity** | **4,631,848** | **7,632,490** |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | **$ 4,854,979** | **$ 7,833,927** |

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

**LEXARIA BIOSCIENCE CORP.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Unaudited)**

| | For the Three Months Ended February 28, | | For the Six Months Ended February 28, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| **Revenue** | $ 35,015 | $ 30,650 | $ 136,491 | $ 44,530 |
| **Cost of goods sold** | (2,958) | (6,387) | (18,753) | (11,957) |
| **Gross profit** | $ 32,057 | $ 24,263 | $ 117,738 | $ 32,573 |
| | | | | |
| **Expenses** | | | | |
| Research and development | 696,178 | 275,686 | 1,525,667 | 734,395 |
| General and administrative | 646,517 | 1,197,250 | 1,672,015 | 2,750,333 |
| **Total operating expenses** | $ 1,342,695 | $ 1,472,936 | $ 3,197,682 | $ 3,484,728 |
| | | | | |
| **Net Loss** | $ (1,310,638) | $ (1,448,673) | $ (3,079,944) | $ (3,452,155) |
| | | | | |
| **Net loss attributable to:** | | | | |
| **Common shareholders** | $ (1,298,131) | $ (1,425,776) | $ (3,054,075) | $ (3,418,933) |
| **Non-controlling interest** | $ (12,507) | $ (22,897) | $ (25,869) | $ (33,222) |
| | | | | |
| **Basic and diluted loss per share** | $ (0.22) | $ (0.25) | $ (0.51) | $ (0.59) |
| | | | | |
| **Weighted average shares outstanding - Basic and diluted** | 5,950,998 | 5,911,123 | 5,950,998 | 5,818,401 |

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

**LEXARIA BIOSCIENCE CORP.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | For the Six Months Ended February 28, 2023 | 2022 |
|---|---|---|
| | (Unaudited) | |
| **Cash flows used in operating activities** | | |
| Net loss | $ (3,079,944) | $ (3,452,155) |
| Adjustments to reconcile net loss to | | |
| net cash used in operating activities: | | |
| Stock based compensation | 79,302 | 408,544 |
| Depreciation and amortization | 49,459 | 54,093 |
| Noncash right-of-use lease expense | 20,397 | 18,942 |
| Unrealized loss on marketable securities | 79,631 | 281,473 |
| Shares issued for services | - | 300,000 |
| Lease accretion | (511) | 2,954 |
| Change in operating assets and liabilities | | |
| Accounts receivable | 64,988 | (164,221) |
| Inventory | 33,713 | (1,161) |
| Prepaid expenses and deposits | 257,170 | 97,292 |
| Accounts payable and accrued liabilities | 38,327 | 15,868 |
| Due to related parties | - | (5,223) |
| Operating lease liability | (20,397) | - |
| Deferred revenue | 4,275 | - |
| **Net cash used in operating activities** | $ (2,473,590) | $ (2,443,594) |
| | | |
| **Cash flows used in investing activities** | | |
| Purchase of equipment | (33,748) | (42,375) |
| Intellectual property | (33,778) | (50,263) |
| **Net cash used in investing activities** | $ (67,526) | $ (92,638) |
| | | |
| **Cash flows from financing activities** | | |
| Lease Payments | - | (22,191) |
| **Net cash used in financing activities** | - | $ (22,191) |
| | | |
| **Net change in cash for the period** | (2,541,116) | (2,558,423) |
| **Cash at beginning of period** | 5,813,218 | 10,917,797 |
| **Cash at end of period** | $ 3,272,102 | $ 8,359,374 |
| | | |
| **Supplemental information of cash flows:** | | |
| Non-cash shares for services included in prepaid expenses | $ - | $ 900,000 |

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

**LEXARIA BIOSCIENCE CORP.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**For the Six Months Ended February 28, 2023 and 2022**
**(Unaudited)**

| | Common Stock | | Additional Paid-in | | Non-controlling | Stockholders |
|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Interest | Equity |
| **Balance August 31, 2022** | **5,950,998** | **$ 5,951** | **$ 47,041,481** | **$ (39,098,528)** | **$ (316,414)** | **$ 7,632,490** |
| Stock based compensation | - | - | 68,776 | - | - | 68,776 |
| Net loss | - | - | - | (1,755,944) | - | (1,755,944) |
| Non-controlling interest | - | - | - | - | (13,362) | (13,362) |
| **Balance November 30, 2022** | **5,950,998** | **$ 5,951** | **$ 47,110,257** | **$ (40,854,472)** | **$ (329,776)** | **$ 5,931,960** |
| Stock based compensation | - | - | 10,526 | - | - | 10,526 |
| Net loss | - | - | - | (1,298,131) | - | (1,298,131) |
| Non-controlling interest | - | - | - | - | (12,507) | (12,507) |
| **Balance February 28, 2023** | **5,950,998** | **$ 5,951** | **$ 47,120,783** | **$ (42,152,603)** | **$ (342,283)** | **$ 4,631,848** |
| | | | | | | |
| **Balance August 31, 2021** | **5,726,699** | **$ 5,727** | **$ 45,089,114** | **$ (31,829,204)** | **$ (202,085)** | **$ 13,063,552** |
| Stock based compensation | - | - | 408,544 | - | - | 408,544 |
| Net loss | - | - | - | (1,993,157) | - | (1,993,157) |
| Non-controlling interest | - | - | - | - | (10,325) | (10,325) |
| **Balance November 30, 2021** | **5,726,699** | **$ 5,727** | **$ 45,497,658** | **$ (33,822,361)** | **$ (212,410)** | **$ 11,468,614** |
| Shares issued for services | 224,299 | 224 | 1,199,776 | - | - | 1,200,000 |
| Net loss | - | - | - | (1,425,776) | - | (1,425,776) |
| Non-controlling interest | - | - | - | - | (22,897) | (22,897) |
| **Balance February 28, 2022** | **5,950,998** | **$ 5,951** | **$ 46,697,434** | **$ (35,248,137)** | **$ (235,307)** | **$ 11,219,941** |

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

**LEXARIA BIOSCIENCE CORP.**
**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
February 28, 2023

**1. Nature of Business**

Lexaria Bioscience Corp. ("Lexaria", "we", "our" or "the Company") is a biotechnology company pursuing the enhancement of the bioavailability of a diverse and broad range of active pharmaceutical ingredients ("API") using DehydraTECH$^{TM}$, our patented proprietary drug delivery technology.

We are primarily a research and development company that continues to investigate the benefits of using DehydraTECH with numerous molecules.

Revenues are generated from intellectual property ("IP") licensing contracts for DehydraTECH based on the terms of use and defined geographic and licensing arrangements. We derive income from our third party contracted manufacturing of Business-to-Business ("B2B") DehydraTECH enhanced products which are made to customer specifications and sold online and in stores in the US. We also perform contract services in R&D for customer specific formulations that are used in comparison testing to customers' existing products.

***Going Concern Consideration***

The Company's consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and in accordance with accounting principles generally accepted in the United States ("US GAAP") applicable to a going concern which assumes the Company will have sufficient funds to pay it operational, research and development and capital expenditures for a period of at least 12 months from the date this Report.

Since inception, the Company has incurred significant operating and net losses. Annual losses attributable to shareholders were $7.4m (2022), $4.2m (2021) and $4.1m (2020). As of February 28, 2023, we had an accumulated deficit of $42.2m. We expect to continue to incur significant operational expenses and net losses in the upcoming 12 months. Our net losses may fluctuate significantly from quarter to quarter and year to year, depending on the stage and complexity of our R&D studies and corporate expenditures, additional revenues received from the licensing of our technology, if any, and the receipt of payments under any current or future collaborations we may enter into. The recurring losses and negative cash flows from operations raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not contain any adjustments that might result for this uncertainty.

The Company entered into a sales agreement with Maxim Group LLC, ("Maxim") on August 12, 2022, pursuant to which we may offer and sell shares of our common stock with an aggregate offering price of up to $5,925,000 under an At-The-Market ("ATM") Offering. This agreement provides that Maxim will be entitled to a sales commission equal to 3.0% of the gross sales price per share of all shares sold under the ATM.

We may also offer securities for sale during our fiscal year 2023 or thereafter in response to market conditions or other circumstances if we believe such a plan of financing is required to advance the Company's business plans and is in the best interests of our stockholders.

Based on our existing working capital and access to an ATM, management believes the Company has sufficient working capital to satisfy the Company's estimated liquidity needs for the next 12 months. In making this assessment, the Company believes that this alleviates the substantial doubt in connection with the Company's ability to continue as a going concern. However, there is no assurance that management's plans will be successful. If the Company is unable to obtain funding, the Company would be forced to delay, reduce or eliminate some or all of its research and development programs, preclinical and clinical testing or commercialization efforts, which could adversely affect its business prospects.

***Impacts of COVID-19 Pandemic***

The emergence of the COVID-19 pandemic in 2020 continues to present uncertainty and unforecastable new risks to the Company and its business plans. As of February 28, 2023, there has been no material impact on the Company's financial position as a direct result of the pandemic. The Company has experienced some supply chain disruptions and shortages in the timely procurement of ingredients and supplies used in both our R&D activities and B2B production. Management views this situation as transitory but cannot predict the length of time it may take for these disruptions to dissipate or if there will be a significant economic effect on the Company's operations. In the interim, it may cause delays in carrying out our research studies and in our production schedules.

There may be further actions we must take that alter our operations, including those that may be required by federal, state, provincial, or local authorities, or that we determine are in the best interests of our employees and other third parties with which we do business. We do not know when it will become practical to relax or eliminate some or all these measures entirely. The economic effect of a prolonged pandemic is difficult to predict and could result in a material financial impact in the Company's future reporting periods.

**2. Significant Accounting Policies**

The significant accounting policies of the Company are consistent with those of our audited financial statements on Form 10-K for the year ended August 31, 2022.

**Basis of Consolidation**

These interim consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries; Lexaria CanPharm ULC, Lexaria CanPharm Holdings Corp., PoViva Corp., Lexaria Hemp Corp., Kelowna Management Services Corp., and Lexaria Pharmaceutical Corp., and our 83.333% owned subsidiary Lexaria Nicotine LLC with the remaining 16.667% owned by Altria Ventures Inc. an indirect wholly owned subsidiary of Altria Group, Inc. All significant intercompany balances and transactions have been eliminated upon consolidation.

**Basis of Presentation**

The Company's unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with United States generally accepted accounting principles (US GAAP) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of results for a full year or for any subsequent period.

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated annual financial statements and notes thereto included in our annual report filed on Form 10-K for the year ended August 31, 2022.

**Recent Accounting Guidance**

*Pronouncements Issued but Not Yet Adopted*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The FASB subsequently issued amendments to ASU 2016-13, which have the same effective date and transition date of January 1, 2023. These standards require that credit losses be reported using an expected losses model rather than the incurred losses model that is currently used, and establishes additional disclosures related to credit risks. For available-for-sale debt securities with unrealized losses, these standards now require allowances to be recorded instead of reducing the amortized cost of the investment. These standards limit the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and requires the reversal of previously recognized credit losses if fair value increases. The Company does not currently expect the adoption of these standards to have a material impact on its consolidated financial statements.

**Estimates and Judgments**

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

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

In preparing these unaudited interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited consolidated financial statements for the year ended August 31, 2022.

**3. Marketable Securities**

The components of Marketable Securities were as follows:

| | Cost Basis | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| August 31, 2021 | $ 1,037,025 | $ 16,243 | $ (219,427) | $ 833,841 |
| Common stock | 278,107 | 118,196 | (882,809) | (486,506) |
| August 31, 2022 | $ 1,315,132 | $ 134,439 | $ (1,102,236) | $ 347,335 |
| Common stock | - | - | (79,631) | (79,631) |
| **February 28, 2023** | **$ 1,315,132** | **$ 134,439** | **$ (1,181,867)** | **$ 267,704** |

Marketable securities held by Lexaria represent available-for-sale common stock of Hill Street Beverage Company Inc. Unrealized gains and losses from common stock are due to market price movements. In management's opinion based on the evaluation of available information at February 28, 2023, unrealized losses represent temporary impairments.

**4. Accounts Receivable**

Accounts receivable at February 28, 2023 and August 31, 2022 consist of the following:

| | February 28, 2023 | August 31, 2022 |
|---|---|---|
| Trade and deposits | $ 69,309 | $ 80,374 |
| Territory license fees | 16,875 | 37,248 |
| Sales tax | 50,612 | 84,162 |
| | **$ 136,796** | **$ 201,784** |

**5. Inventory**

Inventory at February 28, 2023, and August 31, 2022, consists of the following:

| | February 28, 2023 | August 31, 2022 |
|---|---|---|
| Raw materials | $ 5,788 | $ 38,418 |
| Work in progress | 1,800 | - |
| | **$ 7,588** | **$ 38,418** |

During the six-month period ended February 28, 2023, raw materials inventory valued at $29,391 was expensed to R&D.

**6. Prepaid Expenses and Deposits**

Prepaid expenses consist of the following at February 28, 2023 and August 31, 2022:

| | February 28, 2023 | August 31, 2022 |
|---|---|---|
| Advertising & conferences | $ 70,742 | $ 359,863 |
| Legal fees | 25,000 | 25,000 |
| License, filing fees, dues | 39,167 | 15,000 |
| Office & insurance | 37,995 | 80,863 |
| Capital financing | 146,687 | 96,035 |
| | **$ 319,591** | **$ 576,761** |

**7. Intellectual Property, net**

The following is a list of capitalized US patents held by the Company:

| Issued Patent # | Patent Certificate Grant Date | Patent Family |
|---|---|---|
| US 9,474,725 B1 | 10/25/2016 | Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof |
| US 9,839,612 B2 | 12/12/2017 | |
| US 9,972,680 B2 | 05/15/2018 | |
| US 9,974,739 B2 | 05/22/2018 | |
| US 10,084,044 B2 | 09/25/2018 | |
| US 10,103,225 B2 | 10/16/2018 | |
| US 10,381,440 | 08/13/2019 | |
| US 10,374,036 | 08/06/2019 | |
| US 10,756,180 | 08/25/2020 | |
| US 11,311,559 | 04/26/2022 | Compositions and Methods for Enhanced Delivery of Antiviral Agents |

A continuity schedule for capitalized patents is presented below:

| | February 28, 2023 | August 31, 2022 |
|---|---|---|
| Balance – beginning | $ 488,462 | $ 364,623 |
| Addition | 33,778 | 131,448 |
| Amortization | (4,510) | (7,609) |
| **Balance – ending** | **$ 517,730** | **$ 488,462** |

Patents are amortized over their 20 year legal life.

**8. Property & Equipment**

| Six Months Ended February 28, 2023 | Cost | Period Amortization | Additions | Accumulated Amortization | Net Balance |
|---|---|---|---|---|---|
| Leasehold improvements | $ 259,981 | $ (27,019) | $ - | $ (221,704) | $ 38,277 |
| Computers | 70,781 | (2,366) | - | (63,790) | $ 6,991 |
| Furniture fixtures equipment | 31,126 | (3,209) | - | (26,047) | $ 5,079 |
| Lab equipment | 333,675 | (15,238) | 33,748 | (116,349) | $ 251,074 |
| | **$ 695,563** | **$ (47,832)** | **$ 33,748** | **$ (427,890)** | **$ 301,421** |

| Year Ended August 31, 2022 | Cost | Period Amortization | Additions | Accumulated Amortization | Net Balance |
|---|---|---|---|---|---|
| Leasehold improvements | $ 259,981 | $ (54,037) | $ - | $ (194,685) | $ 65,296 |
| Computers | 63,964 | (9,874) | 6,817 | (61,424) | 9,357 |
| Furniture fixtures equipment | 31,126 | (6,417) | - | (22,837) | 8,289 |
| Lab equipment | 291,235 | (31,572) | 42,375 | (101,047) | 232,563 |
| | **$ 646,306** | **$ (101,900)** | **$ 49,192** | **$ (379,993)** | **$ 315,505** |

During the six month period ended February 28, 2023, amortization of $2,883 was included in cost of goods sold.

**9. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at February 28, 2023 and August 31, 2022 consist of the following:

| | February 28, 2023 | August 31, 2022 |
|---|---|---|
| **Accounts Payable** | | |
| Trades payable | $ 167,751 | $ 57,150 |
| Sales tax payable | 9,652 | 31,303 |
| **Accrued Liabilities** | | |
| Trades payable | 12,373 | 62,996 |
| | **$ 189,776** | **$ 151,449** |

**10. Revenues**

A breakdown of our revenues by type for the six months ended February 28, 2023 and 2022 are as follows:

| | Six Months Ended February 28, | |
|---|---|---|
| | 2023 | 2022 |
| IP Licensing | $ 80,310 | $ 16,160 |
| B2B | 30,300 | 17,512 |
| Other | 25,881 | 10,858 |
| | **$ 136,491** | **$ 44,530** |

During the six month period ended February 28, 2023, the Company recognized licensing revenue consisting of IP licensing fees for transfer of the DehydraTECH technology in line with definitive agreements and also includes royalty fees. B2B product revenues of $30,300 (2022 - $17,512) were recorded that relate to sales of our intermediate products for use by B2B customers in their products. The Company recognized $80,310 (2022 - $16,160) in licensing revenue in the same period.

**11. Common Shares, Warrants and Options**

There was no change to our issued and outstanding shares during the six-months ended February 28, 2023.

During the six months ended February 28, 2023, no warrants were issued or exercised.

A continuity schedule for warrants for the six months ended February 28, 2023, is presented below:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| **Balance August 31, 2022** | 2,421,983 | **$** 8.04 |
| **Cancelled/expired** | (7,500) | **$** 24.00 |
| **Balance February 28, 2023** | **2,414,483** | **$ 7.99** |

A summary of warrants outstanding as of February 28, 2023, is presented below:

| Number of Warrants | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (years) |
|---|---|---|---|
| 60,798 | $ | 36.00 | 1.71 - 1.75 |
| 317,190 | $ | 10.50 | 2.19 |
| 116,667 | $ | 9.00 | 1.13 - 2.05 |
| 200,000 | $ | 7.00 | 1.13 |
| 1,719,828 | $ | 6.58 | 2.88 |
| **2,414,483** | **$** | **7.99** | **2.54** |

**Stock Options**

The Company has established an Equity Incentive Plan whereby the board of directors may grant up to 510,433 stock options to directors, officers, employees, and consultants Stock options granted must be exercised within five years from the date of grant or such lesser period as determined by the Company's board of directors. The vesting terms of each grant are also set by the board of directors. The exercise price of an option is equal to or greater than the closing market price of the Company's common shares on the day preceding the date of grant.

The Company granted the following options during the six months ended February 28, 2023:

| | Options | | Weighted Average Exercise Price | Contractual Life (years) |
|---|---|---|---|---|
| | 41,200 | $ | 1.96 | 5 |
| | 5,000 | $ | 2.73 | 5 |
| | 3,400 | $ | 3.04 | 5 |
| **Total** | **49,600** | **$** | **2.11** | **(Avg. Remaining Life) 4.64** |

A continuity schedule for stock options is presented below:

| | Options | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | | Aggregate Intrinsic Value |
|---|---|---|---|---|---|---|
| **Balance August 31, 2021** | 206,170 | $ | 8.90 | | | |
| Cancelled/expired | (3,334) | | 9.60 | | | |
| Granted | 222,000 | | 4.21 | | | |
| **Balance August 31, 2022** | 424,836 | | 6.45 | 3.69 | $ | 5,175 |
| Granted | 49,600 | | 2.11 | 4.64 | | 55,748 |
| **Balance February 28, 2023 (granted)** | **474,436** | **$** | **5.32** | **3.68** | **$** | **90,938** |
| **Balance February 28, 2023 (exercisable)** | **446,936** | **$** | **5.38** | **3.68** | **$** | **41,200** |

The fair value of stock options granted in the six months ended February 28, 2023 were estimated as of the date of the grant by using the Black-Scholes option pricing model with the following assumptions:

| | |
|---|---|
| **Expected volatility** | 98%-119% |
| **Risk-free interest rate** | 0.75-4.12% |
| **Expected life** | 5 years |
| **Dividend yield** | 0% |
| **Estimated fair value per option** | $1.60 - $2.58 |

As of February 28, 2023, the total unrecognized non-cash compensation costs are $95,369 related to 27,500 non-vested stock options with a weighted average price of $4.40. These costs are expected to be recognized over a weighted average period of 0.37 years. All non-vested options are attributable to employees.

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

***Right of Use Assets - Operating Lease***

The corporate office and R&D laboratory are located in Kelowna, British Columbia, Canada. The facility is leased until November 15, 2023, with a five-year renewal option. In addition to minimum lease payments, the lease requires us to pay property taxes and other operating costs which are subject to annual adjustments.

| | February 28, 2023 | August 31, 2022 |
|---|---|---|
| Right of use assets - operating leases | $ 52,444 | $ 91,041 |
| Amortization | (20,397) | (38,597) |
| Total lease assets | $ 32,047 | $ 52,444 |
| | | |
| Liabilities: | $ 49,988 | $ 89,393 |
| Lease payments | (20,397) | (44,600) |
| Interest accretion | (511) | 5,195 |
| Total lease liabilities | $ 29,080 | $ 49,988 |
| | | |
| Operating lease cost | $ 32,047 | $ 52,444 |
| Operating cash flows for lease | $ 20,397 | $ 44,599 |
| Remaining lease term | 0.59 Years | 1.17 Years |
| Discount rate | 7.25% | 7.25% |

Pursuant to the terms of the Company's lease agreements in effect, the following table summarizes the Company's maturities of operating lease liabilities as of February 28, 2023:

| | |
|---|---|
| 2023 (six months remaining) | 22,408 |
| 2024 | 7,469 |
| Thereafter | - |
| Total lease payments | 29,877 |
| Less: imputed interest | (797) |
| Present value of operating lease liabilities | 29,080 |
| Less: current obligations under leases | (29,080) |
| **Total** | - |

**13. Segment Information**

The Company's operations involve the development and usage, including licensing, of its proprietary DehydraTECH Technology. Lexaria is centrally managed and its chief operating decision makers, being the President and the CEO, use the consolidated and other financial information, supplemented by revenue information by category of alternative health consumer products and technology licensing, to make operational decisions and to assess the performance of the Company. The Company has identified two reportable segments: Intellectual Property and B2B Products. Licensing revenues are significantly concentrated on one licensee.

| **Six Months Ended February 28, 2023** | **IP Licensing** | **B2B** | **Corporate** | **Consolidated Total** |
|---|---|---|---|---|
| Revenue | $ 80,310 | $ 30,300 | $ 25,881 | $ 136,491 |
| Cost of goods sold | - | (18,753) | - | (18,753) |
| Operating expenses | (45,758) | (183,030) | (2,968,894) | (3,197,682) |
| Segment income (loss) | $ 34,552 | $ (171,483) | $ (2,943,013) | $ (3,079,944) |
| Total assets | **$ 114,546** | **$ 72,929** | **$ 4,667,504** | **$ 4,854,979** |

| **Six Months Ended February 28, 2022** | **IP Licensing** | **B2B** | **Corporate** | **Consolidated Total** |
|---|---|---|---|---|
| Revenue | $ 16,160 | $ 17,512 | $ 10,858 | $ 44,530 |
| Cost of goods sold | - | (11,957) | - | (11,957) |
| Operating expenses | (1,367,712) | (190,611) | (1,926,406) | (3,484,729) |
| Segment loss | $ (1,351,552) | $ (185,056) | $ (1,915,548) | $ (3,452,156) |
| | | | | |
| Total assets | **$ 939,790** | **$ 87,291** | **$ 10,387,483** | **$ 11,414,564** |

| Capital Asset by Region<br>Six Months Ended February 28, 2023 | Cost US | Addition US | Net Balance US | Cost Canada | Addition Canada | Net Balance Canada | Total Net Balance |
|---|---|---|---|---|---|---|---|
| Leasehold Improvements | $ - | $ - | $ - | $ 259,981 | $ - | $ 38,277 | $ 38,277 |
| Computers | - | - | - | 70,781 | - | 6,991 | 6,991 |
| Furniture & Fixtures | - | - | - | 31,126 | - | 5,079 | 5,079 |
| Lab Equipment | 140,487 | 33,748 | 127,880 | 193,185 | - | 123,194 | 251,074 |
| | **$ 140,487** | **$ 33,748** | **$ 127,880** | **$ 555,073** | **$ -** | **$ 173,541** | **$ 301,421** |

| Capital Asset by Region<br>Year Ended August 31, 2022 | Cost US | Addition US | Net Balance US | Cost Canada | Addition Canada | Net Balance Canada | Total Net Balance |
|---|---|---|---|---|---|---|---|
| Leasehold Improvements | $ - | $ - | $ - | $ 259,981 | $ - | $ 65,296 | $ 65,296 |
| Computers | - | - | - | 63,964 | 6,817 | 9,357 | 9,357 |
| Furniture & Fixtures | - | - | - | 31,126 | - | 8,289 | 8,289 |
| Lab Equipment | 98,050 | 42,375 | 100,031 | 193,185 | - | 132,533 | 232,563 |
| | **$ 98,050** | **$ 42,375** | **$ 100,031** | **$ 548,256** | **$ 6,817** | **$ 215,475** | **$ 315,505** |

**14. Subsequent Events**

Subsequent to February 28, 2023, the Company sold 34,652 shares under the ATM Offering for gross proceeds of $114,456 with an average price of $3.30 per share.

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

***Cautionary Note Regarding Forward-Looking Statements***

*This quarterly report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Any statements contained herein that are not statements of historical fact may be forward-looking statements. These statements relate to future events or our future financial performance. Any forward-looking statements are based on our present beliefs and assumptions as well as the information currently available to us. In some cases, forward-looking statements are identified by terminology such as "may", "will", "should", "could", "targets", "goal", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors" set forth in Item 1(A) in our annual report on Form 10-K, as filed with the Securities and Exchange Commission on November 25, 2022, 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. We caution you not to place undue reliance on any forward-looking statements as they speak only as of the date on which such statements were made, and we undertake no obligation to update any forward-looking statement or to reflect the occurrence of an unanticipated event. New factors may emerge and it is not possible to predict all factors that may affect our business and prospects. Further, management cannot assess the impact of each factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.*

Our unaudited interim consolidated financial statements are stated in United States Dollars ("US$") and are prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP"). The following discussion should be read in conjunction with our financial statements and the related notes that appear elsewhere in this quarterly report.

In this quarterly report, unless otherwise specified, all dollar amounts are expressed in US dollars. All references to "common shares" and "shares" refer to the common shares in our capital stock, unless otherwise indicated. The terms "Lexaria" "we", "us", "our" and "Company" mean the Company and/or our subsidiaries, unless otherwise indicated.

The following discussion should be read in conjunction with our condensed financial statements and accompanying notes in this quarterly report on Form 10-Q, and our audited financial statements with notes in our annual report on Form 10-K for the year ended August 31, 2022.

**Overview**

Lexaria's patented DehydraTECH technology improves the delivery of bioactive compounds while promoting healthy ingestion methods, lowers overall dosing, and is highly effective in active molecule delivery available in a range of formats from oral ingestible to oral buccal/sublingual to topical products. DehydraTECH substantially improves the rapidity and quantity of Active Pharmaceutical Ingredients ("API") transport to the blood plasma and brain using the body's natural process for distributing fatty acids. Applications of this technology extends across many categories beyond the primary pharmaceutical focus of the Company from foods and beverages to cosmetic products and nutraceuticals.

Our mission is to obtain FDA approval for a DehydraTECH – CBD drug for use on hypertension. Lexaria operates a federally licensed, in-house research laboratory and continues to build upon our intellectual property portfolio with 28 patents granted internationally and roughly 50 patents pending worldwide.

Lexaria is advancing several R&D activities in both preclinical and future clinical programs. Our primary focus during the current year is on our investigations of CBD for the reduction of hypertension. In fiscal 2022 we completed three human studies on hypertension with the results of our fourth and largest hypertension study to date continuing to be released throughout fiscal 2023.

The Company continues to engage in small R&D projects and B2B formulation for third parties who are evaluating our technology for use in their products.

**Patents**

Our current patent portfolio includes patent family applications or grants pertaining to our method of improving bioavailability and taste, and the use of DehydraTECH as a delivery platform for a wide variety of APIs including, but not limited to, fat soluble vitamins; anti-viral drugs; phosphodiesterase inhibitors; human hormones; regulated cannabinoids, and nicotine and its analogs.

We continue to pursue patent protection in more than 40 countries around the world as vigorously as we are able, since the successful granting of more of those applications could lead to material increases in shareholder value. The Company currently has over 50 patent applications pending worldwide**.**

The Company has patents issued in the United States, Australia, Europe, India, Mexico, and Japan. On December 29, 2022, Lexaria was granted its first patent in Canada, marking our 28$^{th}$ patent to date as listed below:

| **Issued Patent #** | **Patent Family** |
|---|---|
| US 9,474,725 B1 | #1 Food and Beverage Compositions Infused With Lipophilic Active Agents and Methods of Use Thereof |
| US 9,839,612 B2 | |
| US 9,972,680 B2 | |
| US 9,974,739 B2 | |
| US 10,084,044 B2 | |
| US 10,103,225 B2 | |
| US 10,381,440 | |
| US 10,374,036 | |
| US 10,756,180 | |
| AU 2015274698 | |
| AU 2017203054 | |
| AU 2018202562 | |
| AU 2018202583 | |
| AU 2018202584 | |
| AU 2018220067 | |
| EP 3164141 | |
| JP 6920197 | |
| AU 2016367036 | #2 Methods for Formulating Orally Ingestible Compositions Comprising Lipophilic Active Agents |
| JP 6963507 | |
| MX 388 203 B | |
| AU 2016367037 | #3 Stable Ready-to-Drink Beverage Compositions Comprising Lipophilic Active Agents |
| IN 365864 | |
| JP 6917310 | |
| MX 390001 | |
| CDN 3093414 | #6 Transdermal and/or Dermal Delivery of Lipophilic Active Agents |
| JP 7112510 | #7 Lipophilic Active Agent Infused Compositions with Reduced Food Effect |
| AU 2019256805 | #8 Compositions Infused with Nicotine Compounds and Methods of Use Thereof |
| US 11,311,559 | #18 Compositions and Methods for Enhanced Delivery of Antiviral Agents |

**Research & Development**

Lexaria is advancing several R&D activities in both preclinical and clinical programs. Currently, our primary research program is the investigation of cannabidiol (CBD) for the reduction of hypertension leading to an application under the FDA for an Investigational New Drug (“IND”). Other programs include nicotine for oral pouches and nicotine replacement therapy, hormones, diabetes, dementia and others. From time to time the Company will engage in contract R&D for third parties who are interested in evaluating DehydraTECH in their products.

During the quarter ended February 28, 2023, Lexaria incurred $696,178 (Feb 2022- $275,686) in R&D expenditures. Specific R&D programs are in ongoing development and align to our financial ability to undertake each research phase for each API. Due to our expanding portfolio coverage, we continually examine accelerated timetable options for testing, research, and development of each API. Fiscal 2023 continues to highlight the direction of our research and development programs with confirmatory results from our ongoing programs. We continue to devote an increasing proportion of our resources and focus toward pharmaceutical applications.

***Investigational New Drug***

The FDA provided Lexaria with a positive written response on August 10, 2022 from our pre-IND meeting regarding DehydraTECH-CBD for the treatment of hypertension. The FDA confirmed that it has agreed with Lexaria’s proposal to pursue a 505(b)(2) new drug application (“NDA”) regulatory pathway for our program. We continue working toward our IND filing which is anticipated to be in late fiscal 2023 or early 2024. We have begun the process of selecting our contract research organization (“CRO”) to perform the IND study which will be a Phase 1(b) study that we are designating HYPER-H23-1. We have begun certain manufacturing work associated with that study in advance of our IND filing and corresponding response from the FDA. Along with our CRO, we will soon begin certain administrative tasks associated with the IND study as we prepare for what we anticipate to be first-in-patient dosing during Q1 of our 2024 fiscal year.

***HYPER-H21-4***

The first results of our hypertension study HYPER-H21-4 were announced on October 27, 2022, with the primary safety and efficacy objectives being met. The study showed, among other things, a sustained drop in blood pressure in normally active hypertensive patients following multiple weeks of oral cannabidiol ("CBD") therapy, using Lexaria's patented DehydraTECH-CBD capsule formulation.

On December 21, 2022 further results were released from this multi-week human clinical hypertension study, indicating superior cannabidiol ("CBD") blood absorption levels from our patented DehydraTECH-CBD™ relative to those of published, pharmaceutical-grade CBD industry.

On February 21, 2023 the Company announced additional findings demonstrating a potentially novel mechanism of action in reducing blood pressure. These latest results from study HYPER-H21-4 imply that the antihypertensive effects of DehydraTECH-CBD may be explained, at least in part, by its interaction with the sympatho-chromaffin system via catestatin modulation. This suggests a potentially unique mechanistic benefit upon cardiovascular regulation with DehydraTECH-CBD treatment that has not previously been demonstrated, to our knowledge, with testing of CBD for blood pressure reduction. Additional study endpoint analyses as described in the complete study protocol are still underway and any relevant material findings will be reported upon as these findings become available.

***EPIL-A21-1***

In March 2022, Lexaria initiated an animal study to determine if DehydraTECH-CBD evidences superior treatment of seizure activity when compared to Epidiolex. Epidiolex is an FDA-approved oral solution prescription CBD available to children 1 year of age and older to treat seizures associated with Lennox-Gastaut syndrome, Dravet syndrome or tuberous sclerosis complex.

On November 29, 2022, Lexaria announced findings from the study indicating its patented DehydraTECH-CBD has demonstrated performance enhancements compared to one of the world's leading anti-seizure medications, Epidiolex®, generally at a lower DehydraTECH-CBD dose.

Additional work has been completed in study program EPIL-A21-1 with the final study designed to establish an ED50 (i.e., the dose required to achieve seizure inhibition in 50% of the animals tested) for DehydraTECH-CBD in this animal model, where ED50 determination is a common performance metric in preclinical animal studies for developmental therapeutics. This ED50 study is designed to corroborate the experimental findings to date. Final results are expected to be released in the third quarter of fiscal 2023.

***DEM-A22-1***

On November 8, 2022 commencement of animal study program DEM-A22-1 was announced. The study is designed to determine whether DehydraTECH-CBD may offer therapeutic utility against diabetes and dementia respectively. We are expecting the results of this study program in Q4 of fiscal 2023.

***DIAB-A22-1***

We announced the commencement of animal study program DIAB-A22-1 on November 8, 2022. On March 2, 2023 the Company announced that its diabetes animal model study has completed and produced at least three positive outcomes including weight loss in obese diabetic-conditioned animals, together with improved triglyceride and cholesterol levels. Additional study work is nearing completion with results expected in fourth fiscal quarter of 2023.

***NIC-H22-1***

On November 1, 2022, the Company announced that independent review board approval had been received for human clinical nicotine study NIC-H22-1. The study is a 36-person human pharmacokinetic randomized, double blinded, cross-over study conducted in current cigarette smokers, wherein each person will visit the laboratory to be dosed three times over a period of weeks. During each visit only one oral nicotine pouch will be administered and evaluated: either DehydraTECH-nicotine; On! brand manufactured by Altria; or Zyn brand manufactured by Swedish Match. The study had earlier faced certain time extensions due to manufacturing and logistics issues which have since been resolved. Dosing continued during the second and into the third fiscal quarter of 2023. At the date of this report, the study is nearing completion. Results are anticipated to be released in the fourth quarter of 2023.

**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 Estimates**

Our consolidated financial statements and accompanying notes are prepared in accordance with US GAAP. These accounting principles require management to make certain estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses during the periods reported. Based on information available to management at the time, these estimates, judgments and assumptions are considered reasonable. We believe that understanding the basis and nature of the estimates, judgments and assumptions involved with the following aspects of our financial statements is critical to an understanding of our financials. We considered the impact of the COVID-19 pandemic on the assumptions and estimates used and determined that there were no material adverse impacts on the financial statements for the period ending February 28, 2023.

For a discussion of our critical accounting estimates, please read*Note 4. Estimates and Judgements* as found in the financial statements in our Annual Report on Form 10-K for the year ended August 31, 2022. There have been no material changes to the critical accounting estimates as previously disclosed in our 2022 Form 10-K.

***Funding Requirements***

We anticipate that our expenditures will increase in connection with our ongoing R&D program, specifically with respect to our animal and human clinical trials of our DehydraTECH formulations for the purposes of treating hypertension, dementia and diabetes. As we move forward with our IND application with the FDA, we anticipate that our expenditures will further increase and accordingly, we expect to incur increased operating losses and negative cash flows for the foreseeable future.

Through February 28, 2023, we have funded our operations primarily through the proceeds from the sale of common stock. The Company has consistently incurred recurring losses and negative cash flows from operations, including net losses of $3,079,944 and $3,452,155 for the six months ended February 28, 2023 and 2022, respectively.

The continuation of Lexaria as a going concern depends on raising additional capital and/or attaining and maintaining profitable operations. The accompanying financial statements do not include any adjustment relating to the recovery and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should our Company discontinue operations. The recurring losses from operations and net capital deficiency do raise doubt about the Company's ability to continue as a going concern within one year following the date that these consolidated financial statements are issued.

On August 12, 2022, we entered into an At-The-Market ("ATM") Offering equity distribution agreement with Maxim Group LLC, ("Maxim"), pursuant to which we may offer and sell shares of our common stock with an aggregate offering price of up to $5,925,000. The equity distribution agreement entitles Maxim to a sales commission equal to 3.0% of the gross sales price per share of all shares sold under the ATM.

As of the issuance date of these consolidated interim financial statements, we expect our approximately $3.3m cash at February 28, 2023, along with funds anticipated from both our ATM and brokered financing will be sufficient to fund our R&D programs, operating expenses and capital expenditure requirements through the forthcoming 12 months from the issuance date of this report.

***Results of Operations for the Period Ended February 28, 2023 and 2022***

Our net loss for the six months ended for the respective items are summarized as follows:

| Six Months Ended February 28, | 2023 | 2022 | Change |
|---|---|---|---|
| **Gross profit** | $ 117,738 | $ 32,573 | $ 85,165 |
| **Expenses** | | | |
| **Research and development** | 1,525,667 | 734,395 | 791,272 |
| **Consulting fees & salaries** | 627,475 | 1,174,863 | (547,388) |
| **Legal and professional** | 197,650 | 365,657 | (168,007) |
| **Other general and administrative** | 846,890 | 1,209,813 | (362,923) |
| **Net Loss** | **$ 3,079,944** | **$ 3,452,155** | **$ (372,211)** |

**Revenue**

Fees from intellectual property licensing increased by $64k and B2B sales increased by $12.8k with other sales slightly higher by $15k year- over year.

***Research and Development***

Expenditures on R&D increased by $791k year-over-year for the period ended February 28, 2023, as the Company continues with applied research and development programs in our pharmaceutical division with our primary focus being on DehydraTECH-CBD to treat hypertension.

***Consulting Fees and Salaries***

In the six months ended February 28, 2023 consulting fees and salaries decreased by $547k primarily due to the prior years' recognition of stock-based compensation costs recorded for contractors ($287K) and employees ($121K), and the payment of management bonuses in the second quarter of 2022.

***Legal and Professional Fees***

Our legal and professional fees decreased by $168k during the period compared to the same prior year period. Previous year expenditures were higher due to increased patent and trademark filings and the utilization of additional legal advisory services.

***General and Administrative***

Our other general and administrative expenses decreased overall by $363k during the period ended February 28, 2023, over the same period last year. Advertising and promotion was down by $140k in the current period with a slight decrease in investor relations ($35k) offset by an increase in office expenses ($34k). Unrealized losses on marketable securities were less in the current year ($80k vs $281k).

***Liquidity and Financial Condition***

| **Working Capital** | **February 28, 2023** | **August 31, 2022** |
|---|---|---|
| **Current assets** | $ 4,003,781 | $ 6,977,516 |
| **Current liabilities** | (223,131) | (194,036) |
| **Net Working Capital** | **$ 3,780,650** | **$ 6,783,480** |

| Cash Flows | **February 28, 2023** | **2022** |
|---|---|---|
| Cash flows used in operating activities | $ (2,473,590) | $ (2,443,593) |
| Cash flows used in investing activities | (67,526) | (92,638) |
| Cash flows used in financing activities | - | (21,191) |
| **Decrease in cash** | **$ (2,541,116)** | **$ (2,557,422)** |

***Operating Activities***

Net cash used in operating activities increased by $30k for the period compared with cash used during the same period in 2022. This difference was largely due to decreased stock-based compensation ($79k vs $409k), unrealized losses on marketable securities ($80k vs $281k) and an increased reduction in prepaid expenses balance in the current six months ended of $257k vs $97k in the prior year.

***Investing Activities***

Net cash used in investing activities decreased by $25k over 2022 due to decreased spending on acquisitions of equipment.

***Financing Activities***

The change in net cash used in financing activities in the prior year relate to the reduction of the lease liability.

***Liquidity and Capital Resources***

We have incurred net losses of approximately $7.4m and $4.2m respectively in the past two fiscal years. We expect to continue to incur significant expenditures for R&D and operational activities resulting in net losses in the upcoming 12 months and beyond. Our net losses may fluctuate significantly from quarter to quarter and year to year, depending on the stage and complexity of our R&D studies and related expenditures, the receipt of additional revenues from the licensing of our technology and B2B sales, if any, and the receipt of payments under any current or future collaborations we may enter into.

As the Company continues with our IND application process and progresses into the clinical development of our initial product candidate, the need for substantial capital resources increases. Our existing cash will not be sufficient to complete the full development, testing and commercialization of an FDA approved product candidate. To achieve this objective, we will require substantial funding in the future.

On August 12, 2022, we entered into an equity distribution agreement with Maxim , pursuant to which we may offer and sell shares of our common stock with an aggregate offering price of up to $5,925,000 under an ATM. The equity distribution agreement provides that Maxim will be entitled to a sales commission equal to 3.0% of the gross sales price per share of all shares sold under the ATM. As of April 1, 2023 we have sold 34,652 shares into the market through the ATM for gross proceeds of $114,546.

During the first half of fiscal 2023 we did not sell any shares. Subsequent to the six months ended February 28, 2023, we issued 34,652 shares of our common stock in a series of sales under the ATM at an average price of $3.30 per share and gross proceeds of $114,456. As of April 14, 2023, $5,810,544 in shares of our common stock remain eligible for sale under the ATM.

We may also offer securities in response to market conditions or other circumstances if we believe such a plan of financing is required to advance the Company's business plans. There is no certainty that future equity or debt financing will be available or that it will be at acceptable terms. The outcome of these matters is unpredictable. A lack of adequate funding may force us to reduce spending, curtail or suspend planned programs or possibly liquidate assets. Any of these actions could adversely and materially affect our business, cash flow, financial condition, results of operations, and potential prospects. The sale of additional equity may result in additional dilution to our stockholders. Entering into additional licensing agreements, collaborations, partnerships, alliances marketing, distribution, or licensing arrangements with third parties to increase our capital resources is also possible. If we do so we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us.

The Company has evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern. As of February 28, 2023, the Company had cash on hand of approximately $3.3m to settle $223k in current liabilities. The Company believes this is sufficient to fund our expected R&D and operating expenditures for twelve months following the date of filing this report. We anticipate making few if any material capital expenditures in fiscal 2023 as we believe our current facilities and equipment are sufficient for the forthcoming twelve months following the date of filing this report.

***Impact of COVID-19***

To date, we have not experienced any material impact on our financial statements, impairments of any of our assets or any major business disruptions, including with our vendors. We will continue to actively monitor the evolving situation related to COVID-19 and may take further actions that alter our operations, including those that may be required by federal, state, provincial, or local authorities, or that we determine are in the best interests of our employees and other third parties with whom we do business. We do not know when, or if, it will become practical to revise or eliminate some or all these measures entirely.

**Item 3. 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 SEC's rules and forms, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer (Principal Executive Officer) and our Chief Financial Officer (Principal Financial and Accounting Officer) to allow for timely decisions regarding required disclosure.

As of February 28, 2023, the fiscal quarter covered by this report, we carried out an evaluation, under the supervision and with the participation of our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our CEO and CFO concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of February 28, 2023.

***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, regulations, 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 error. 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***

During the quarter ended February 28, 2023, our controls and controls processes remained consistent with August 31, 2022. There have been no changes in our internal controls over financial reporting that occurred during the quarter ended February 28, 2023, that have materially or are reasonably likely to materially affect our internal controls over financial reporting.

Our control processes are designed to include remote workers. The advent of the COVID-19 pandemic has not materially impacted our internal controls over financial reporting other than increasing requirements for social distancing and some additional remote working requirements for staff.

**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

The risks associated with our business, common stock and other factors are those described in the Form 10-K for the year ended August 31, 2022 as filed with the SEC on November 25, 2022.

**Item 2. Exhibits, Financial Statement Schedules**

a) Financial Statements

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

2) All financial statement schedules are omitted because they are not applicable, not material or the required information is shown in the financial statements or notes thereto.

b) Exhibits

| Exhibit Number | Description |
|---|---|
| **(3)** | **Articles of Incorporation and Bylaws** |
| **(31)** | **Rule 13(a) - 14 (a)/15(d) - 14(a)** |
| 31.1 | Section 302 Certifications under Sarbanes-Oxley Act of 2002 of Principal Executive Officer |
| 31.2 | Section 302 Certifications under Sarbanes-Oxley Act of 2002 of Principal Financial Officer and Principal Accounting Officer |
| **(32)** | Section 1350 Certifications |
| 32.1 | Section 906 Certification under Sarbanes Oxley Act of 2002 of Principal Executive Officer |
| 32.2 | Section 906 Certification under Sarbanes Oxley Act of 2002 of Principal Financial Officer and Principal Accounting Officer |
| **(101)**** | **Interactive Data Files** |
| **101.INS** | **XBRL Instance Document** |
| **101.SCH** | **XBRL Taxonomy Extension Schema Document** |
| **101.CAL** | **XBRL Taxonomy Extension Calculation Linkbase Document** |
| **101.DEF** | **XBRL Taxonomy Extension Definition Linkbase Document** |
| **101.LAB** | **XBRL Taxonomy Extension Label Linkbase Document** |
| **101.PRE** | **XBRL Taxonomy Extension Presentation Linkbase Document** |

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

SIGNATURES

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

**LEXARIA BIOSCIENCE CORP.**

By:/s/ Christopher Bunka
Christopher Bunka
Chief Executive Officer, Chairman and Director
(Principal Executive Officer)
Date: April 14, 2023

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: April 14, 2023

By:/s/ Greg Downey
Greg Downey CPA, CMA
Chief Financial Officer
(Principal Financial and Accounting Officer)
Date: April 14, 2023

By:/s/ John Docherty
John Docherty
President and Director
Date: April 14, 2023

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. ss 1350, AS ADOPTED PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Chris Bunka, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lexaria Bioscience Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's first fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2023

*/s/ Chris Bunka*
Chris Bunka
CEO and Director
(Principal Executive Officer)

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. ss 1350, AS ADOPTED PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gregory Downey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lexaria Bioscience Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's first fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2023

*/s/ Gregory Downey*
Gregory Downey CPA, CMA
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**EXHIBIT 32.1**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Chris Bunka, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q of Lexaria Bioscience Corp. for the quarter ended February 28, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Lexaria Bioscience Corp.

Dated: April 14, 2023

*/s/ Chris Bunka*
Chris Bunka
CEO and Director
(Principal Executive Officer)
Lexaria Bioscience Corp.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Lexaria Bioscience Corp. and will be retained by Lexaria Bioscience Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregory Downey, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q of Lexaria Bioscience Corp. for the quarter ended February 28, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Lexaria Bioscience Corp.

Dated: April 14, 2023

*/s/ Gregory Downey*
Gregory Downey CPA, CMA
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Lexaria Bioscience Corp.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Lexaria Bioscience Corp. and will be retained by Lexaria Bioscience Corp. and furnished to the Securities and Exchange Commission or its staff upon request.