

LEXARIA CORP (OTC: BB: LXRA.OB)

July 6, 2007

Industry: Oil and Gas Exploration
Fiscal Year Ends October 31

FYE Oct (US \$)	2005A	2006A	2007E	2008E
Revenue	0	20,307	452,188	3.38m
Operating Profit	(75,722)	(517,816)	(68,479)	2.01m
Net Income	(75,722)	(508,257)	(68,479)	2.01m
EPS, Pro Forma	(0.01)	(0.03)	0.00	0.11
P/E ¹	n/a	n/a	n/a	7.7

Closing Price \$0.85 (07/05/2007)
52-Week High \$0.99
52-Week Low. \$0.54
Shares Outstanding. 21.58 million shares
Market Cap \$16.83 million
Share Volume. 11,424 shares



Investment Conclusion

LXRA provides investors with an opportunity to invest in the potentially lucrative domestic natural gas and oil reserves located in the underdeveloped region of southwest Mississippi. Essentially, LXRA was in the right place at the right time when private Mississippi operator Griffin & Griffin lost its financial backers as a result of the WorldCom scandal before drilling could begin. Previously shot 3-D and 2-D seismic data have identified numerous oil and natural gas bright spots throughout the large ~200,000 acre area of mutual interest. LXRA's gross interests in the Mississippi wells vary from 30%-50%. To date, 80% of the wells drilled have found hydrocarbons and the project has achieved a 70% well success rate.

With its "fables" manufacturing structure, LXRA's "virtual" model minimizes the capital risk of professional staffing and substantial capital expenditures ensuring over 90% of money raised goes directly into the ground. Furthermore, LXRA spreads its exploration risk among lower cost and lower risk Frio wells as opposed to many exploration companies that concentrate their resources on one or two larger, more expensive Wilcox and Tuscaloosa wells. LXRA is poised to achieve a significant rise in free cash flow as the production of previously drilled wells is maximized and future wells are drilled and connected. We rate LXRA a BUY with a \$1.98 price target.

See the last page of this report for important Disclosure Information.

AVALON S.T.E.P. ANALYSIS

Story Line

Lexaria Corp. (LXRA) represents an attractive North American investment in a natural gas and oil exploration and production company. LXRA currently has interests in producing wells and drilling rights in Mississippi, Oklahoma and Alberta, Canada. LXRA's domestic operations combined with its "virtual" operating model provide the company with significant advantages over other exploration companies.

The company's main area of mutual interest (AMI) consists of a sizable 200,000 acre tract of land in southwest Mississippi one of which is called Palmetto Point. LXRA's exploration strategy is based on a results-driven exploration and production agenda. Using an extensive database of 3-D and 2-D seismic data, LXRA and its partners have achieved an impressive natural gas/oil success rate of 70%. The Company has a 30% interest in the initial and completed 10 well drilling program of which 8 found gas. Seven wells are currently producing. LXRA also has a 30% interest in an additional 2 previously drilled and proved wells. LXRA has a 40% interest in 7 wells drilled in winter 2006/2007 and a 50% interest in 43 future wells. To date, a total of 17 wells have been drilled of which up to 14 are expected to go into production. Production is set to ramp in the coming months on the initial 7 producing wells and the connection of the remaining 7 wells. LXRA's free cash flow should increase significantly.

In December 2006, oil as well as natural gas was found in one of the initial 10 wells, named PP F-12. Original estimates were for some 800,000 barrels of oil, of which LXRA owns 30%, in and around PP F-12. Griffin is currently completing flow testing and a more thorough study could increase the estimated number of barrels significantly.

In our view, three factors provide investors additional comfort not usually available in other situations. First, the Mississippi property's domestic location protects investors from political unrest faced by smaller exploration companies overseas. Additionally, the Mississippi AMI is located far enough inland that it is not affected by hurricanes. Finally the property boasts 40 miles of pipeline owned and operated by LXRA's partner, Griffin. The pipeline provides direct access to the Henry Hub resulting in favorable gas and oil prices and reduced shipping costs.

LXRA's risk mitigation strategies are designed to build cash flow instead of committing the company to one or two risky wells that may or may not payoff. The Mississippi AMI is made up of sandbars conducive to Frio wells. Frio wells are lower cost, shallow wells with heretofore high success rates. LXRA's virtual model allows management to keep operational costs low and take advantage of the expertise of partners and consultants. Over 90% of LXRA's money raised to date has gone directly into drilling projects.

Time Line

Griffin's detailed analysis of PP F-12 should be released in the coming month. Natural gas production will be increased and additional wells will come online by the end of the summer increasing LXRA's net cash flow to ~\$100,000/month. Phase II Stage II drilling will begin in July.

Earnings Line

On June 14, 2007, LXRA reported Q2 earnings of \$(0.02) on natural gas and oil revenue of \$39,614 compared to \$(0.00) on no natural gas and oil revenues in Q2 2006. Cash flow is poised to increase as new wells are connected and current wells are maximized. See page 17, Appendix III for our Earnings Model.

Price Line

Our initial price target of \$1.98 is based on LXRA achieving a price to earnings multiple of 18x our FY 2008 earnings estimate of \$0.11 – a 30% discount to comparables in the oil and gas exploration industry. Potential for upside to our revenue and earnings estimates exists driven by additional and larger oil and gas reserve discoveries.

INVESTMENT HIGHLIGHTS

- ***Chris Bunka and then-private company Lexaria discovered an opportunity to partner with a respected Mississippi oil and gas operator, Griffin & Griffin.*** Griffin had suffered a financial setback related to the failure of WorldCom and its related investors in 2002. Griffin needed additional funding to begin drilling the area providing Lexaria with opportunity to fund the drilling program in December 2005.
- ***Lexaria became public in July 2006, with Chris Bunka joining as its CEO in October 2006.*** Bunka brings a wealth of natural resource experience to LXRA. Chris Bunka, an investor in LXRA as a private company, saw the opportunity and guided LXRA in its transformation into a public company, becoming its CEO.
- ***PP F-12, the tenth well drilled in Phase I is expected to produce natural gas and oil. Testing on PP F-12 will be carried out in the coming months by Griffin to better determine the potential reserves of the well.*** The reserves could be significant. PP F-12 is located near known oil and natural gas producing Stamps Field. Over its lifespan, Stamps Field has produced over 600,000 barrels of crude oil. Palmetto Point normally floods between January and June prohibiting proper assessment until summer 2007.
- ***LXRA owns a 30% interest in Phase I of a 10 Frio well program in southwest Mississippi led by operator Griffin and 2 additional proven wells.*** During 2006, 10 Frio wells were drilled as a part of Phase I and achieved a 70% success rate. LXRA has a 40% interest in the 7 wells of Phase II Stage I also drilled during 2006/2007. Five of these wells proved to find gas and two were dry holes. LXRA has a 50% gross interest in the 43 remaining wells of Phase II yet to be drilled. Drilling of Stage II of Phase II is set to begin in July.
- ***Currently, 7 Mississippi wells are producing natural gas. In the coming months, an additional 6 wells will be connected and the production rate of the initial 7 will be increased.*** Presently, LXRA's share of the natural gas production is ~\$10,000 a month. LXRA's share could rise to near \$100,000 a month with increased production.
- ***The Mississippi AMI provides LXRA with several geographic advantages. Palmetto Point is connected to Griffin's 40 miles of pipeline leading to Henry Hub, the centralized point for natural gas futures trading in the U.S.*** As a result, LXRA receives premium pricing for its natural gas and low transportation costs. Palmetto Point is a landlocked inland property and is not affected by Gulf storms and hurricanes.
- ***Through its relationship with Griffin, LXRA has access to over 145,000 acres of 3-D and 7,500 miles of 2-D seismic data.*** LXRA believes seismic data of this nature is valued in excess of \$25 million. Using 2-D and 3-D seismic data, LXRA is better able to accurately choose drill targets increasing the company's success rate.
- ***In addition to the Mississippi properties, LXRA has interests in drilling programs in Oklahoma and Alberta, Canada.*** Though not as large as the Mississippi area, these properties could provide future sources of revenue.
- ***LXRA's historical focus on capital conservation, over 90% of the company's funding to date has gone directly into the ground.*** Operational costs are low. LXRA operates under a "virtual" manufacturing model outsourcing the majority of its professional staffing.

ANALYSIS AND COMMENTARY

The Right Place at the Right Time

LXRA was approached by Griffin to provide financing for the first phase of a Frio well natural gas exploration program in Mississippi after Griffin lost its financial backers as a result of the WorldCom scandal in 2002. LXRA took a 20% interest in a 10 well program in December 2005 that was expanded to 12 in September 2006. Following the successful Phase I drilling program in which 7 wells were found to be proved, 3 impaired and 2 failed, LXRA took a 40% stake in Phase II, a 50 well program in an expanded AMI. LXRA recently raised their interest to 50% of the remainder of Phase II and 30% of Phase I.

Griffin had already shot 30,000 acres of 3-D seismic data at Palmetto Point. Partnering with Griffin gave LXRA access to Griffin's extensive seismic database and area pipeline network. With the seismic data, LXRA has greatly diminished the risk of dry holes as evidenced by the roughly 70% success rate.

Crosby Timber/Shell Oil Lawsuit

The history of much of the Mississippi AMI property dates back to the 1970s and 1980s. Crosby-Mississippi Resources, Ltd. owned and still owns the land. In the 1980s, Shell Oil shot and began evaluating 2-D seismic data of the property. Crosby eventually sued Shell for shooting over their land without permission forcing Shell to withdraw and shut down evaluation. The property remained off the market until the mid-1990s when the lawsuit was resolved.

In the 1990s, Griffin obtained rights to the land through the company's relationship with the landholder and began purchasing the Shell 2-D seismic data. During this time period, Griffin also began shooting and acquiring 3-D seismic data. In 2000, Griffin refined their bright spot technology and in 2001 negotiated the Shell-Crosby settlement and optioned 150,000 acres from Crosby Minerals. Patterson Energy was brought in as a partner to shoot additional 3-D seismic in 2002. Favorable lease terms with Crosby resulted from Griffin senior management's relationship with the owners over the past two generations. LXRA became involved in 2005 after Griffin lost much of its financial backing in the WorldCom collapse.

Griffin & Griffin Exploration

Griffin & Griffin Exploration, LLC was formed in 1996 as an E&P company. Griffin applies advanced 3-D and 2-D seismic data to exploit reserves near its founders' home in Mississippi. Griffin management has over 40 years of experience operating in Mississippi and Louisiana and has developed key partnerships with landowners. Key relationships have enabled Griffin to use its technology to locate reserves that larger oil and gas companies would not normally pursue.

Griffin's management has drilled, owned or operated more than 100 Frio, Wilcox and Lower Tuscaloosa wells in the region. They currently have 175,000 to 200,000 acres under lease or option in the area. Effectively, Griffin controls one of the largest undeveloped acreage positions in Wilkinson and Amite counties of Mississippi. The Griffin management group has a history of significant discoveries including Roxie Field in Franklin County, Mississippi.



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Griffin owns and operates several pipelines in the area including Tunica Pipeline, LLC, 40 linear miles, and Eastfork Pipeline, LLC, 15 linear miles. Additional lines, owned by other operators, in the area include Duke, Mid-La, Pinnacle, and TRANSCO. Tunica ties into the Mid-Louisiana system leading to Henry Hub and will be used to service Palmetto Point wells. The Tunica Pipeline could be laid across the Mississippi River into Louisiana. At this point, Griffin would be able to extend its operations into Louisiana. The nearest pipeline to this area of Louisiana is over 40 miles away and Griffin is a 50% owner and operator of this line.

Mississippi Palmetto Point Area Pipelines			
Name	Length (Linear Miles)	Owner Operator	Transportation Costs For Griffin & Griffin
Tunica Pipeline, LLC	40	Griffin & Griffin	Nil
Eastfork Pipeline, LLC	15	Griffin & Griffin	Nil
Duke, Mid-La, Pinnacle, TRANSCO	N/A	Other	\$0.11 to \$0.35 per MCF

3-D and 2-D Seismic Data

Griffin has shot and acquired over 30,000 acres of 3-D seismic data in Palmetto Point and over 145,000 acres in total. Griffin has well logs for more than 500 wells located in and around the Mississippi AMI. Through its partnership with Griffin, LXRA has access to over 7,500 miles of previously shot 2-D seismic data and 250 square miles of 3-D seismic. LXRA believes the data are worth over \$25 million. One hundred drill targets in southwest Mississippi have been identified. The seismic data has significantly increased Griffin and LXRA's ability to identify prospects. The four 3-D seismic surveys most relevant to LXRA are listed below.

Tecumseh 3-D

Tecumseh is a 32.5 square mile survey. Ten Frio well prospects and 1 Lower Tuscaloosa well prospect were identified. Griffin owns a 50% working interest in the Tecumseh survey. Reprocessing of the Tecumseh survey could lead to additional Frio and Lower Tuscaloosa prospects.

Palmetto Point 3-D

Palmetto Point is a 50 square mile survey. Griffin has a 50% working interest in the data. One to 2 Lower Tuscaloosa well prospects and 100 Frio well prospects were found.

Buffalo River 3-D

Fifty square miles was surveyed in the Buffalo River area. Once again, Griffin has a 50% working interest in the Buffalo River survey. Over 70 Frio well prospects were found.

Red Bug 3D

3-D seismic data was shot on 18.5 square miles. 8 Frio well and 2 Lower Tuscaloosa well candidates were identified. Griffin owns 100% interest in the Red Bug Survey.

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Mississippi Area of Mutual Interest Major 3-D Seismic Surveys		
Name	Size (Square Miles)	Owners
Palmetto Point (PP)	50	Griffin, Shell Oil & Enserch
Buffalo River (BR)	50	Griffin, Mobil & Stratex
Tecumseh (TEC)	32.5	Griffin, Texaco & PGI
Red Bug (RB)	18.5	Griffin, Oxy & Teledyne
Total	151	

In addition to the 3-D seismic data, Griffin has acquired more than 2,000 miles of 2-D seismic data shot by Shell in 1983 (Shell Data). Griffin reprocesses the 2-D Shell Data to identify Frio bright spots, or geophysical anomalies, and deeper prospects. The Shell Data is also used to help identify potential target areas for new seismic surveys.

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Lexaria's Current Projects

Mississippi

LXRA's current focus is on its projects located in the Mississippi AMI and includes Palmetto Point and Red Bug. The property spans some 200,000 acres and is primarily focused on Frio gas and Frio oil targets. Plymouth Church, a Wilcox oil target also in Mississippi failed and has been abandoned. LXRA does not plan on participating in any additional Wilcox drilling at this time.



Palmetto Point and Red Bug

LXRA purchased a 20% interest in a Phase I 10 well program at Palmetto Point owned by Griffin December 21, 2005 for \$700,000. In September of 2006, LXRA agreed to purchase an additional 2 wells under the same terms for \$140,000. LXRA's total cost for the 12 wells was \$840,000. LXRA acquired an additional 10% gross working interest in the 12 previously drilled wells of Phase I June 2007. LXRA will pay approximately \$520,000 cash to a non-related company for the interest bringing its total gross interest to 30% going forward.

August 2006, LXRA acquired a 40% interest in Phase II, an additional 50 well program within a 200,000 acre AMI between southwest Mississippi and northeast Louisiana. This program includes Palmetto Point, Red Bug and others. Seven wells were drilled in Stage I of Phase II of which LXRA has a 40% gross interest.

In June 2007, LXRA acquired an additional 10% interest from Brinx Resources Ltd. LXRA now has a 50% interest in the remaining 43 wells of Phase II yet to be drilled. Stage II of Phase I will begin in July. Seven wells are planned for Stage II. See Appendix V, page 19 for a summary of LXRA's Mississippi interests by well.

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Phase I has been completed providing LXRA with an impressive 70% success rate. Phase II is underway and is expected to continue into 2008.

The Mississippi project is subject to the Mississippi State Tax Commission. The partners in Palmetto Point are subject to state severance and maintenance oil and gas taxes. The severance tax is 6% of gross receipts of each well. The maintenance tax is ½% per MCF of production.

LXRA's Palmetto Point Partners

The Stallion Group (SLGR.OB)

SLGR is an independent oil and gas exploration group focusing on North America. The company did not participate in Phase I of the Palmetto Point drilling program and acquired a 30% interest in the first 7 wells drilled in Phase II, February 22, 2007. SLGR increased their interest of the 43 remaining wells to 40% in June 2007 when they acquired an additional 10%. The company also has rights to mineral property in British Columbia, Canada. SLGR changed its focus from gold exploration to oil and natural gas with the AMI rights acquisition.

Delta Oil & Gas, Inc. (DOIG.OB)

DOIG is an independent North American oil and gas exploration company. In spring 2006, current LXRA CEO Chris Bunka sold his personal 10% interest in Phase I Palmetto Point to DOIG for \$425,000. In addition to Palmetto Point, DOIG has interests in California and Alberta, Canada. DOIG also shares a 4% interest in LXRA's Strachan project in Alberta.

Brinx Resources (BNXR.OB)

BNXR is an independent North American oil and gas exploration company. BNXR has a 10% interest in Palmetto Point. The company also has interests in projects located in Oklahoma. The 10% interest in Phase I Palmetto Point was acquired in February 2006 from Bud Enterprises, a British Columbia, Canada corporation. BNXR paid \$350,000 for all of Bud Enterprise's interest. BNXR also has a 10% interest in the 7 wells drilled in Stage I of Phase II. June 2007, BNXR sold their 10% interest in the remaining 43 wells of Phase II to LXRA bringing LXRA's interest to 50%. BNXR also has a 50% interest in LXRA's Owl Creek project in Oklahoma.

Turner Valley Oil & Gas (TVOG.OB)

TVOG is an independent North American oil and gas exploration company. The company acquired a 10% interest in Palmetto Point August 2006 and also has a 10% interest in the first 7 wells drilled in Phase II. TVOG sold their 10% stake of the remaining 43 wells in June 2007. TVOG is also a part of LXRA's Strachan project and has interests in additional properties located in Alberta, Canada.

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Phase I (12 Wells Drilled) Palmetto Point Partners and Interests

Partner	Interest
U.S. Investor	50%
Lexaria	30%
Brinx Resources	10%
Delta Oil & Gas	10%
Canadian Investor	0% ¹
The Stallion Group	0%

¹Sold 10% interest to LXRA June 2007

Phase II Drilled (50 Well AMI) Palmetto Point Partners; Stage I (7 Wells Drilled)

Partner	Interest
Lexaria	40%
The Stallion Group	30%
Brinx Resources	10%
Delta Oil & Gas	10%
Turner Valley Oil & Gas	10%

Phase II Future Drilling (50 Well AMI – 43 Remain) Palmetto Point Partners; Stage II (Anticipate 6 Wells)¹

Partner	Interest
Lexaria	50%
The Stallion Group	40%
Delta Oil & Gas	10%
Brinx Resources	0% ²
Turner Valley Oil & Gas	0%

¹Drilling anticipated to begin July 2007.

²Sold 10% interest to LXRA June 2007

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Oklahoma

Owl Creek

August 3, 2006, LXRA purchased a 7.5% working interest for \$100,000 in the Owl Creek Prospect. This interest includes the right to participate in a 7.5% interest in all future wells and participate in any AMIs acquired by Owl Creek Prospect.

Alberta, Canada

Strachan

September 2005, LXRA entered an agreement to participate in the Strachan Leduc Reef Farm-In in Alberta, Canada. The company paid \$218,739 for 4% participation in Strachan costs. Additional payments have been made by LXRA and total expenditures on Strachan to date have been \$405,407. In return, LXRA has received a 2% interest in petroleum and natural gas at the base of Manville formation and a 4% interest in natural gas in Leduc formation before payout, 1.6% of rights below the base of the Shunda formation in Section 10, Township 38, Range 9W5M and 1.289% interest below the Shunda base in Sections 15 and 16, Township 38, Range 9W5M.

The Strachen gas pool was discovered 35 years ago. To date, wells in this region have produced between 150 and 225 billion cubic feet of natural gas each totaling 962 billion cubic feet of recovered natural gas reserves. Production has slowed leaving the Strachan gas plant underutilized.

No new discoveries were made in the area until November 2004 when Shell Oil announced it had discovered potentially one trillion cubic feet of natural gas reserves. LXRA's Strachan project is located 12 miles northeast of the Shell discovery. The prospect of LXRA's Strachan project is based on 3-D seismic data.

Oil and Natural Gas Wells

Frio

Frio wells refer to geological formations known as Frio formations. Frio wells offer several attractive benefits with deeper Wilcox and Tuscaloosa wells. Lower finding and development costs are typical of Frio wells because natural gas is located in shallow reservoirs, decreasing drilling expenses. Frio wells can be drilled in days rather than weeks. Frio wells require very little completion costs and processing after completion.

Frio wells are usually 2,500 to 5,500 feet deep and can be completed in one week. The typical cost is \$350,000 a well. LXRA is responsible for 50% of the expenses for each well – \$175,000, going forward. The average lifespan of Frio wells is 5 years and payback occurs in 18-months assuming natural gas prices of \$7/MCF.

While discovery rates for conventional oil and gas wells can be below 50%, very few Frio wells fail to find gas. As a result, Frio wells enjoy a 70%-80% success rate. LXRA and its partners use Frio wells for the majority of their drilling at Palmetto Point.

Wilcox

Wilcox wells refer to geological formations known as Wilcox formations. Wilcox wells are deeper than Frios and average 6,000 to 10,000 feet in depth. Oil, rather than natural gas, is targeted. Wilcox wells cost \$500,000 to drill and drilling takes 3 weeks. The success rate is about 20%. A successful well including completion costs is \$850,000. The average lifespan of Wilcox wells is 8 years. Payback from a successful well is achieved in 8 months assuming oil prices of \$55/barrel.

Tuscaloosa

Tuscaloosa wells refer to geological formations known as Tuscaloosa formations. Tuscaloosa wells are the deepest and most expensive wells in the region. Drilling costs for Tuscaloosa wells are \$3,300,000 and successful wells run \$3,800,000 and are drilled 12,000 to 15,000 feet deep. Tuscaloosas have the longest average lifespan producing oil for 10 years or longer. Successful drilling rates are around 65%. Assuming \$55 oil prices and \$7 natural gas prices, payback is achieved in 8 months.

ANALYSIS AND COMMENTARY

Future Catalysts for Revenue Growth

Strong Indications LXRA Found Oil – PP F-12 Well

PP F-12, the final well drilled during Phase I of the Palmetto Point project demonstrated strong indications of a new oil discovery. Natural gas was the target and was also encountered. LXRA has a 30% interest in this well. PP F-12 was drilled and completed December 24, 2006, just prior to the Mississippi River flooding season January through June. The wells are routinely inaccessible due to the rising waters, but can continue production if completed earlier during dry conditions.

Additional evaluation of PP F-12 will begin in the next 2-3 weeks when the flood waters recede. Located 3.5 miles from proven oil field Stamps Field the new oil discovery could be significant. Stamps Field resulted in 14 feet of pay and has produced some 600,000 barrels of oil to date.

LXRA, through its relationship with Griffin, has access to seismic data of Stamps Field. PP F-12 and the 2 surrounding areas show similar characteristics. Updated reserve calculations could be provided by independent consultants in the coming months. A significant oil discovery could provide LXRA with considerable revenue upside.

Proximity to Large Mississippi Natural Gas Find

Fifty miles east of Palmetto Point and the Macedonia 3-D seismic survey is Independence Field. Independence Field is one of the largest oil and gas fields located in southwestern Mississippi. Discovered in 1988 by Arkla Exploration Company, the group of nine small gas producing areas has produced more than 12 billion cubic feet of natural gas. Arkla drilled 28 Frio wells at Independence Field of which, 21 or 75% were gas producers. The similarities between the geology and successful drill rates of the Mississippi AMI and Independence Field suggest the possibility that LXRA may also find significant quantities of gas.

Additional seismic in Mississippi

One hundred Frio well prospects have been identified through existing seismic data. The data covers a relatively small portion of the Mississippi AMI. New targets could be identified if and when LXRA and their partners shoot additional 3-D seismic data.

Wilcox and Tuscaloosa Wells

Palmetto Point Frio well drilling is expected to continue through the end of 2008. Tuscaloosa drilling could begin in the area late 2007 and last through 2010. Although more expensive and riskier than Frio wells, Tuscaloosa wells provide larger payoffs, longer lifespans and a larger growth impact as LXRA matures into a larger company. As cash flow increases, LXRA can consider higher impact larger wells.

Acquiring more rights/opportunities

LXRA is an opportunistic company and could acquire rights to additional projects as attractive prospects come available. Increased cash flow and potential financings will allow LXRA to analyze and participate in future potentially lucrative natural gas and oil opportunities.

Competition

LXRA's competition includes its partners, other junior exploration companies such as SLGR, TNVF, BNXR and DOIG. Other, and more relevant, competitors include more established oil and gas companies such as Crane Company (CR), Cabot Oil & Gas (COG) and Gulfport Energy (GPOR).

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Earnings Outlook and Valuation

We expect strong oil and natural gas pricing and demand to continue through FY 2007 and 2008. LXRA has 30% to 50% interests in 62 drilled and future wells located in southwest Mississippi that could potentially net LXRA nearly \$28 million in revenue over the next 5 years. The company's additional projects and future opportunistic oil and natural gas gross interests should sustain LXRA's revenue stream beyond 2013.

LXRA has enough cash to operate throughout 2007. The company will likely raise additional cash through equity sale or the acquisition of debt to fund additional projects.

Our initial price target of \$1.98 is based on 18x our FY 2008 earnings estimate of \$0.11. This is a 30% discount to comparable oil and gas exploration company forward price to earnings ratios. Upside exists driven by potential new and/or larger than expected oil and natural gas finds and the acquisition of additional interests in other oil and natural gas exploration projects.

Capital Structure

Fully Diluted Share Count

The following table details currently outstanding shares and common stock equivalents, including warrants and share incentive options according to strike price. LXRA has no debt.

Lexaria Structure	
<i>Common Shares</i>	21,582,000
Total	21,582,000
Debt	0
Warrants (\$0.60 strike price)	4,000,000
<i>Fully Diluted</i>	25,582,000

Source: Company Reports

Background

LXRA was incorporated under the laws of Nevada on December 9, 2004 as an oil and natural gas exploration company. Since inception, LXRA's business has been acquiring opportunities to explore for oil and natural gas. LXRA focuses on acquiring interests in potentially high-impact oil and natural gas properties offering timely drilling abilities and near pipeline infrastructures. LXRA chooses properties where successful wells can be quickly connected to existing pipelines and brought to production as quickly as possible to generate cash flow. The company has focused on capital conservation limiting professional staffing and relying on the expertise of partners and outside consultants. LXRA currently has interests in oil and natural gas exploration in Mississippi, Louisiana and Canada. LXRA has no debt and all wells have been prepaid. Its staff consists of 2 full-time employees and 5 outside consultants. Over 90% of the money LXRA has raised to date has gone to fund drilling projects.

ANALYSIS AND COMMENTARY

LXRA \$3,270,060 Raised To Date	
Project	Expense
Strachan, Alberta	\$405,000
Oklahoma	\$201,000
Phase I Mississippi	\$700,000
2-Well Purchase, Mississippi	\$140,000
Phase II, Stage I, Mississippi	\$1,600,000
Total	\$3,046,000
Percent	93%

LXRA's current focus is located in southwest Mississippi. The property is inland from the Gulf of Mexico shielding the company from most potential hurricane disruptions. Additionally, the ground is primarily sediments, conducive to Frio wells, providing LXRA and its partners with lower drilling costs and faster drilling times. The Mississippi property is also immune from political unrest faced by other exploration companies operating overseas.

Management Team

CEO Chris Bunka is an experienced growth company CEO with a natural resources background. As a venture capitalist and corporate consultant Bunka has participated in the development of several growth companies. He is also chairman and CEO of Golden Aria Corp. (GARA.OB), a mineral exploration company. Bunka also has experience in the capital raising markets.

Director and Vice President of LXRA Leonard MacMillan has served as a LXRA director since December 2004. With over 20 years of experience advising early stage private and public companies, MacMillan brings a wealth of marketing, financial and communications knowledge to LXRA. He also has been employed by his three wholly owned companies: RMA Resource Management Associates, Leonard MacMillan & Associates and Lentec Capital Corporation. MacMillan is also CFO and a director of Trend Technology Corporation, a mineral exploration company.

LXRA Advisory Board member Peter Philipchuk has been a member of the Advisory Board since April 2006. He has worked as a geologist for Texaco, Mobil Oil, Phillips Petroleum and other firms. Philipchuck assists LXRA in evaluating all of their existing projects and is available to advise management on oil and gas and industry matters.

William Griffin III, president and CEO of LXRA's Mississippi operator Griffin & Griffin, has over 30 years of experience developing oil and natural gas wells in the region. Deep relationships with landowners developed over many years have allowed Griffin to negotiate favorable lease terms.

INVESTMENT RISKS

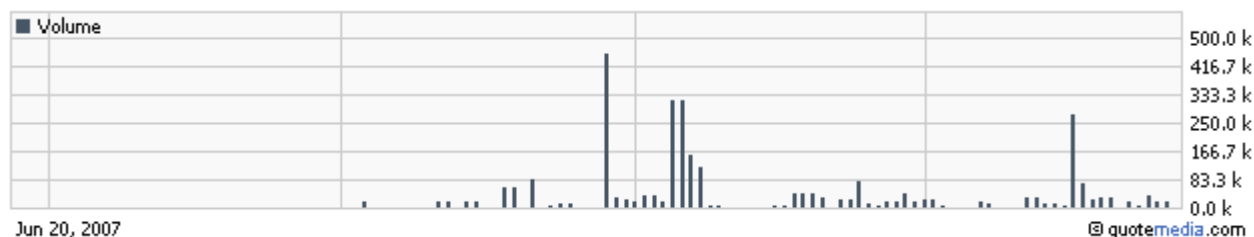
The primary investment risk is lack of proper financing. Additional risks include limited trading liquidity, oil and natural gas price volatility and changes to environmental regulations. Operational risks that can be somewhat mitigated by proper risk management include blowouts, cratering, explosions, uncontrollable flow of oil and gas, fires, etc. Operational risks are inherent to most exploration companies.

Lack of Proper Financing

Much of the future of LXRA's and their partners' ability to increase revenue is tied to its ability to fund and develop additional oil and natural gas interests. LXRA does not currently have the financial means to fund additional exploration interests or service existing wells. Additional funds will likely need to be raised through the sale of equity capital and could dilute the share capital of current investors.

Limited Trading Liquidity

LXRA currently trades on the Bulletin Board exchange and trading volume is limited. LXRA is a penny stock and may be restricted by the SEC's penny stock regulations and NASD's sales practice requirements. The graph below shows the value of shares traded monthly over the last year.



Source: OTC Bulletin Board

Potential Share Dilution

Our estimates assume a basic share count of 21.58 million increasing 20% each year to 31.08 million in 2009. The share count could rise substantially with the exercise of warrants which are already "in the money."

Oil and Natural Gas Pricing

LXRA's current projections are based on \$55/barrel oil and \$7/MCF natural gas. Oil and natural gas prices are subject to large fluctuations in response to supply and demand and political factors. A decrease in the price of oil and natural gas will affect LXRA's revenues, cash flows and earnings and may affect the company's ability to attract financing capital. Oil and natural gas prices are beyond LXRA's control. See Appendix VI, page 23, for estimated future oil and natural gas pricing.

Operational Risks:

LXRA is not the operator of any of their oil and gas interests and such interests are exposed to the risks of third parties including outside consultants working directly for LXRA's partners. These partners could become competitors in the future. Equipment failures, availability of drilling rigs and equipment delivery, pressures or irregularities in geological formations and poor weather conditions could all negatively impact LXRA's operations.



APPENDIX I: COMPETITION AND RELATIVE VALUATION

Symbol	Name	Price	Market Cap	EPS Est (Current Year)	EPS Est. (Next Year)	Trailing P/E	Forward P/E	EBITDA	Price/ EBITDA
LXRA	Lexaria Corp	0.85	18,343,000	\$0.00	\$0.11	N/A	7.73	(\$68479)	(148.98)
ABP	Abraxas Petroleum	4.51	193,380,000	\$0.12	\$0.35	N/A	12.88	\$33,180,000	5.83
AEZ	American Oil & Gas	6.41	295,290,000	(\$0.06)	\$0.09	N/A	71.22	(\$4,820,000)	-61.26
CR	Crane Co.	46.68	2,790,000,000	\$2.93	\$3.25	16.8	14.36	\$333,500,000	8.37
DNR	Denbury Inc.	38.77	4,690,000,000	\$1.43	\$1.77	27.59	21.9	\$471,120,000	9.96
GSX	Gasco Energy	2.25	216,220,000	\$0.00	\$0.07	N/A	32.14	\$11,700,000	18.48
KDKN.OB	Kodiak Energy Inc.	3.65	330,020,000	N/A	N/A	N/A	N/A	(\$941,790,000)	-0.35
PTSG.OB	Petrosearch Energy	1.37	53,230,000	N/A	N/A	N/A	N/A	(\$1,520,000)	-35.02
COG	Cabot Oil & Gas	37.76	3,660,000,000	\$1.86	\$2.08	11.74	18.15	\$445,990,000	8.21
UPL	Ultra Petroleum	56.65	8,610,000,000	\$1.59	\$2.34	39.5	24.21	\$487,080,000	17.68
MPET	Magellan Petroleum	1.57	65,160,000	N/A	N/A	39.25	N/A	\$11,620,000	5.61
PDO	Pyramid Oil	3.49	13,060,000	N/A	N/A	17.9	N/A	\$988,100	13.22
GPOR	Gulfport Energy	21.81	765,570,000	\$1.24	\$1.91	23.23	11.42	\$51,940,000	14.74
MCF	Contango Oil & Gas	37.17	592,940,000	N/A	N/A	N/A	N/A	(\$6,060,000)	-92.84
Averages Not Including LXRA						25.14	25.79		11.34

APPENDIX II: MS AMI: POTENTIAL ECONOMICS & ASSUMPTIONS

MISSISSIPPI AMI: POTENTIAL ECONOMICS & ASSUMPTIONS

ASSUMPTIONS	Phase I	Phase II/ Stage I	Phase II/ Stage II	Phase II/ Stage III	Additional Crude Oil
Severance/Maintenance Tax	6.0%	6.0%	6.0%	6.0%	6.0%
Land Owner Expense	25.0%	25.0%	25.0%	25.0%	25.0%
G & G Expense	15.0%	25.0%	25.0%	25.0%	25.0%
LXRA Revenue Interest	30.0%	40.0%	50.0%	50.0%	30.0%
LXRA Operating Expense	25.5%	30.0%	37.5%	37.5%	25.5%
Number of Wells Drilled	12	7	16	27	n/a
% Success Hydrocarbons	80%	80%	80%	80%	n/a
% Success w/Gas	70%	70%	70%	70%	n/a
MCF Sold, Daily	140	140	140	140	n/a
Gas, Ave Price MCF	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00
Oil, Ave Price Barrel	\$ 55.00	\$ 55.00	\$ 55.00	\$ 55.00	\$ 55.00
Operating Cost/Well/Year	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
First Time Fully Operational	06/30/07	07/31/07	12/31/07	01/15/09	12/31/07
Life of Project, Years	5	5	5	5	15
NPV Discount Rate	10.0%	10.0%	10.0%	10.0%	10.0%
Barrels Oil Per Day					80
LXRA ANNUAL ESTIMATES	Phase I	Phase II/ Stage I	Phase II/ Stage II	Phase II/ Stage III	Additional Crude Oil
Number of Wells Producing	7	4	11	18	4
Gross Revenue	\$ 2,469,600	\$ 1,411,200	\$ 3,880,800	\$ 6,350,400	\$ 6,336,000
Severance/Maintenance Tax	(148,176)	(84,672)	(232,848)	(381,024)	(380,160)
Net Revenue	\$ 2,321,424	\$ 1,326,528	\$ 3,647,952	\$ 5,969,376	\$ 5,955,840
Landowner Expense	(580,356)	(331,632)	(911,988)	(1,492,344)	(1,488,960)
Net After Land Owner Exp	\$ 1,741,068	\$ 994,896	\$ 2,735,964	\$ 4,477,032	\$ 4,466,880
LXRA Revenue	\$ 522,320	\$ 397,958	\$ 1,367,982	\$ 2,238,516	\$ 1,340,064
LXRA Expense	(53,550)	(36,000)	(123,750)	(202,500)	(30,600)
Net Revenue to LXRA	\$ 468,770	\$ 361,958	\$ 1,244,232	\$ 2,036,016	\$ 1,309,464
Project % Net-Net to LXRA	18.98%	25.65%	32.06%	32.06%	20.67%
Net Present Value	\$1,777,009	\$1,372,107	\$4,716,618	\$7,016,457	\$9,959,887

APPENDIX III: EARNINGS MODEL

		12 Mos Ending 10/30/2007		12 Mos Ending 10/30/2008		12 Mos Ending 10/30/2009
Revenue						
Net Revenue to LXRA	\$	452,188	\$	3,384,425	\$	5,420,441
COGS						
Nat Gas Depletion		113,047		518,740		1,027,744
Depletion		-		392,839		392,839
Total COGS		113,047		911,579		1,420,583
Gross Profit	\$	339,141	\$	2,472,845	\$	3,999,857
Expenses						
Accounting & Audit	\$	75,000	\$	75,000	\$	75,000
Bank Charges/Exchange		7,852		10,000		10,000
Consulting ¹		60,000		60,000		60,000
Depreciation		672		672		672
Fees and Dues		8,096		1,000		1,000
Interest Expense		-		-		-
Investor Relations		38,000		38,000		38,000
Legal		48,000		48,000		48,000
Office Misc		70,000		12,000		12,000
Rent		12,000		12,000		12,000
Salaries		60,000		180,000		180,000
Travel		28,000		30,000		30,000
Total Expenses	\$	407,620	\$	466,672	\$	466,672
Other Income		-		-		-
Earnings Before Tax	\$	(68,479)	\$	2,006,173	\$	3,533,185
Tax		-		-		-
Net Income	\$	(68,479)	\$	2,006,173	\$	3,533,185
EPS, GAPP		(0.00)		0.09		0.17
Pro Forma Net Income	\$	44,568	\$	2,917,753	\$	4,953,769
EPS, Pro Forma		0.00		0.11		0.16
EBITDA	\$	(182,198)	\$	1,093,922	\$	2,111,930
Weighted Ave Shares		21,582,000		25,898,400		31,078,080

¹Consulting expense excludes non cash options related charge of \$257,000 in Q2

APPENDIX IV: BALANCE SHEET

Consolidated Balance Sheet as of April 30, 2007
FY Ends October 31

	3 Months End 4/30/2007 Unaudited \$	2006 Audited \$	2005 Audited \$
Assets			
Current Assets			
Cash and cash equivalents	29,002	1,285,298	863,500
Account receivable	10,464	11,733	-
Other receivable	-	1,726	-
Prepaid expenses	7,063	-	18,214
Total current assets	46,529	1,298,757	881,774
Capital assets, net			
Oil and gas properties			
Proved property	249,418	162,308	-
Unproved properties	2,142,223	1,256,585	218,739
	2,391,641	1,418,893	218,739
Total assets	2,439,427	2,719,243	1,100,513
Liabilities and Stockholder's Equity			
Liabilities			
Current			
Accounts payable	21,912	1,688	1,175
Accrued liabilities	3,375	13,000	10,000
Premium on loan payable	-	13,241	-
Loan payable	50,000	1,986,759	-
Due to related party	23,783	-	-
Total current liabilities	99,070	2,014,688	11,175
Stockholders' equity			
Share capital			
Authorized			
75,000,000 common voting shares; par value \$0.001/share			
Issued and outstanding	21,582,000	17,582,000	16,882
Additional paid-in capital	3,527,098	1,270,952	1,148,178
Deficit accumulated during the exploration stage	-1,208,324	-583,979	(75,722)
Total stockholders' equity	2,340,357	704,555	1,089,338
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	2,439,427	2,719,243	1,100,513

Source: Company Reports

APPENDIX V: MISSISSIPPI AMI BREAKDOWN BY WELL

Phase I Palmetto Point: LXRA 30% Gross Interest

Well	Start	Complete	Results	Depth	Status
PP F-40	05/11/2006	05/16/2006	Frio Gas; 12 ft.	3850	Producing
PP F-118	05/18/2006	05/22/2006	Frio Gas; 14 ft.	3808	Producing
PP F-121	05/24/2006	05/29/2006	Dry	3850	Plug & Abandon
PP F-7	05/31/2006	06/04/2006	Dry	3800	Plug & Abandon
PP F-39	06/10/2006	06/16/2006	Frio Gas/Oil; 12 ft.	3900	Producing
PP F-42	06/18/2006	06/21/2006	Frio Gas/Oil; 10 ft.	3170	Producing
PP F-36-2	06/23/2006	07/02/2006	Frio Gas; 8 ft.	3450	Producing
PP F-4	10/31/2006	11/05/2006	Frio Gas; 8 ft.	4200	Producing
PP F- 29	11/11/2006	11/14/2006	Frio Gas; 37 ft.	4100	Producing
PP F-12	12/18/2006	12/24/2006	Frio Gas; 3 ft. Frio Oil, 26 ft.	4016	Connection Pending
PP F-6B		07/27/ 2006	Frio Gas		Connection Pending
PP F-52A		07/27/2006	Frio Gas		Connection Pending

PP: Palmetto Point

Phase IIA: LXRA 40% Gross Interest

Well	Start	Complete	Results	Depth	Status
CMR-USA-39-14 RB F-3	09/08/2006	09/12/2006	Frio Gas 14 ft.	3200	Producing
Dixon #1	01/03/2007	01/20/2007	Wilcox Target; Dry	8650	Plug & abandon
Faust #1, TEC F-1	02/05/2007	02/11/2007	Frio Gas 9 ft	5350	Connection pending
CMR/BR F-24	02/20/2007	02/24/2007	Frio Gas	3250	Completed, awaiting testing
RB F-1 Red Bug #2	05/08/2007	05/13/2007	Frio Gas 10 ft	3180	Completed, awaiting testing
BR F-33	05/20/2007	05/24/2007	Frio Gas 12 ft	3837	Tested @ 194 MCFD
Randall #1 Closure F-4	05/27/2007	06/03/2007	Frio Target; Dry	5100	Plug & abandon

PP: Palmetto Point TEC: Tecumseh BR: Buffalo River RB: Red Bug



APPENDIX V: MISSISSIPPI AMI BREAKDOWN BY WELL CONTINUED

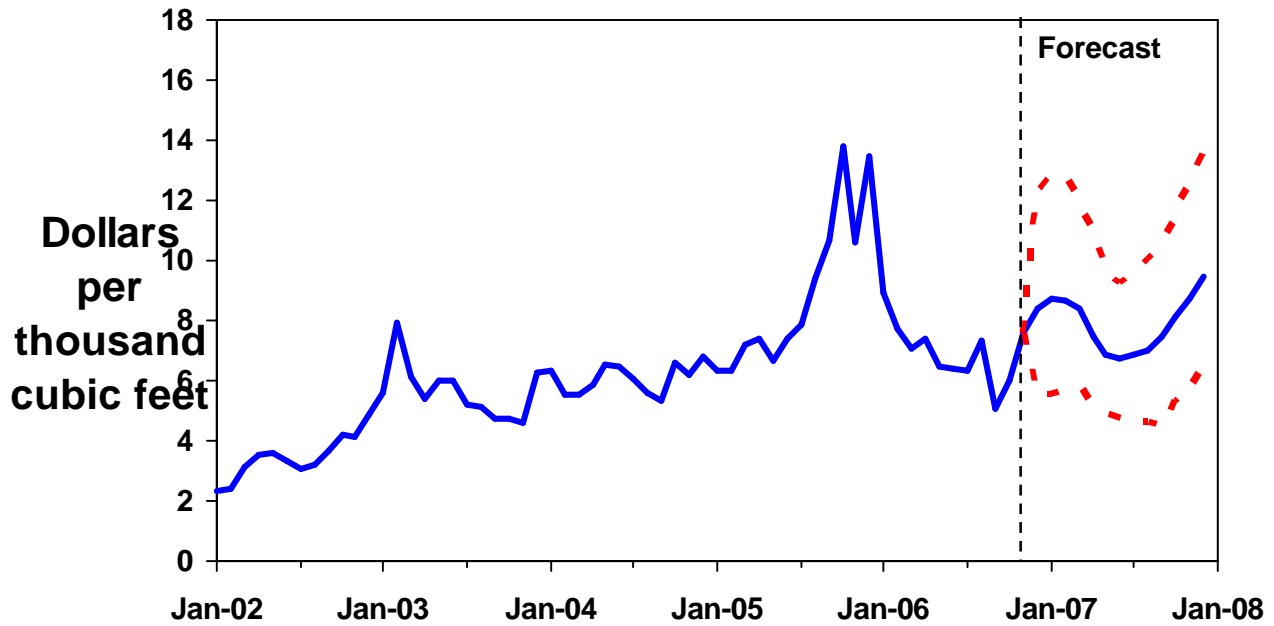
Phase II B 50% Interest Drilling to Begin July 2007

Well	Start	Complete	Results	Depth	Status
PP F-6A					Integrating title
PP F-91					Starting final title opinion
White #1 TEC F-11/17					Final title opinion and one more track
PP F-100					Title under way
PP F- 82					Pooling titles
PP F-119					Ready, waiting for water to recede
PP F-119					Ready, waiting for water to recede
PP F-111					Land work near completion
PP F-69					Title work on going
TEC F-4					Force pooling work
PP F-77					Force pooling work

PP: Palmetto Point TEC: Tecumseh BR: Buffalo River RB: Red Bug

APPENDIX VI: PROJECTED OIL AND NATURAL GAS PRICING

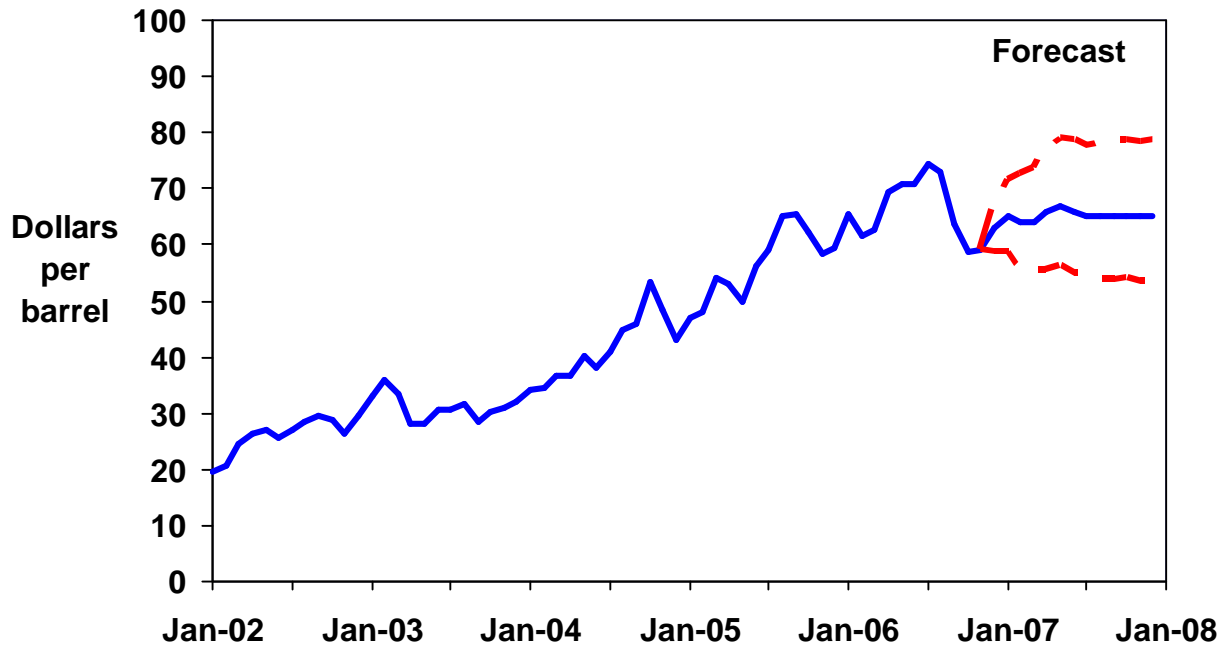
Natural Gas Henry Hub Spot Prices
(Base Case and 95% Confidence Interval¹)



Source: EIA Short Term Energy Outlook, December 2006

¹The confidence intervals show +/- 2 standard errors based on the properties of the model

West Texas Intermediate Crude Oil Price
(Base Case and 95% Confidence Interval¹)



Source: EIA, Short Term Energy Outlook, December 2006

¹The confidence intervals show +/- 2 standard errors based on the properties of the model

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