

LEADING BRANDS INC
Form 20-F
May 28, 2014

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

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES
EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended **February 28, 2014**

OR

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

OR

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

Commission File No. **0-19884**

LEADING BRANDS, INC.

[Exact name of Registrant as specified in its charter]

Not Applicable

[Translation of Registrant's name into English]

British Columbia, Canada

[Jurisdiction of incorporation or organization]

Unit 101 33 West 8 Avenue, Vancouver, BC, Canada V5Y 1M8

[Address of principal executive offices]

Marilyn Kerzner, Director of Corporate Affairs

Phone Number: 604-685-5200

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Unit 101 33 West 8 Avenue

Vancouver, British Columbia Canada V5Y 1M8

(Name, telephone, e-mail and/or facsimile number and address of Company contact person)

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

Title of each class:

Name of each exchange on which registered:

Common Shares Without Par Value

NASDAQ Capital Market

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

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

As of February 28, 2014, Leading Brands, Inc. had 2,912,997 Common Shares, without par value, outstanding.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the Registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

Index

<u>PART I</u>	<u>6</u>
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	<u>6</u>
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	<u>6</u>
<u>ITEM 3. KEY INFORMATION</u>	<u>6</u>
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	<u>14</u>
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	<u>19</u>
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	<u>30</u>
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	<u>43</u>
<u>ITEM 8. FINANCIAL INFORMATION</u>	<u>45</u>
<u>ITEM 9. THE OFFER AND LISTING</u>	<u>46</u>
<u>ITEM 10. ADDITIONAL INFORMATION.</u>	<u>47</u>
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>49</u>
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	<u>50</u>
<u>PART II</u>	<u>50</u>
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.</u>	<u>50</u>
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.</u>	<u>50</u>
<u>ITEM 15. CONTROLS AND PROCEDURES.</u>	<u>51</u>
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	<u>52</u>
<u>ITEM 16B. CODE OF ETHICS</u>	<u>52</u>
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>53</u>
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	<u>53</u>
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.</u>	<u>53</u>
<u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	<u>54</u>
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	<u>55</u>
<u>ITEM 16H. MINE SAFETY DISCLOSURE</u>	<u>55</u>
<u>PART III</u>	<u>55</u>
<u>ITEM 17. FINANCIAL STATEMENTS.</u>	<u>55</u>
<u>ITEM 18. FINANCIAL STATEMENTS.</u>	<u>55</u>
<u>ITEM 19. EXHIBITS</u>	<u>56</u>

INTRODUCTION

The terms Leading Brands, the Company, we, us and our as used in this Annual Report on Form 20-F, or Report, refer to Leading Brands, Inc. and its consolidated subsidiaries, except where the context requires otherwise.

Unless otherwise specified, all references to dollars or \$ in this Annual Report are expressed in Canadian dollars (CDN), unless otherwise indicated, and all references to U.S. dollars, US\$ or USD\$ are expressed in the currency of the United States of America.

Forward-Looking Statements.

This Annual Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Statements which are not historical facts are forward-looking statements. The Company, through its management, makes forward-looking statements concerning its expected future operations, performance, results and other developments. The words may, continue, plan, believe, intend, expect, anticipate, project, estimate, and similar expressions are also intended to identify forward-looking statements. Forward-looking statements relate to, among other things:

- business objectives, goals and strategic plans;
- operating strategies;
- expected future revenues, earnings and margins;
- anticipated operating, selling and general and administrative costs;
- availability of raw materials, including water, sugar, cardboard and closures and flavoring;
- effects of seasonality on demand for our products;
- anticipated exchange rates, fluctuations in exchange rates and effects of exchange rates on our cost of goods sold;
- our expectation that we will have adequate cash from operations and credit facility borrowings to meet all future debt service, capital expenditure and working capital requirements in fiscal year 2015;
- anticipated capital expenditures; and
- anticipated increased sales volumes with certain product lines.

Such forward-looking statements are estimates reflecting the Company's judgment based upon current information and involve a number of risks and uncertainties, and there can be no assurance that other factors will not affect the accuracy of such forward-looking statements. It is impossible to identify all such factors. Factors which could cause actual results to differ materially from those estimated by the Company include, but are not limited to, those listed under Item 3.D. Risk Factors, as well as other possible risks such as general economic conditions, weather conditions, changing beverage consumption trends, pricing, availability of raw materials, economic uncertainties (including currency exchange rates), government regulation, managing and maintaining growth, the effect of adverse publicity, litigation, competition and other factors which may be identified from time to time in the Company's public announcements. Events may occur in the future that the Company is unable to accurately predict, or over which it has no control. If one or more of those uncertainties materialize, or if the underlying assumptions prove incorrect, actual outcomes may vary materially from those forward-looking statements included in this Annual Report.

All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances.

PART I**Item 1. Identity of Directors, Senior Management and Advisers**

This item is not applicable for an Annual Report.

Item 2. Offer Statistics and Expected Timetable

This item is not applicable for an Annual Report.

Item 3. Key Information**A. Selected financial data.**

1. and 2.

The following table sets forth certain selected consolidated financial information with respect to Leading Brands for the periods indicated. It should be read in conjunction with this Annual Report and the Company's consolidated financial statements listed in Item 18 Financial Statements of this Annual Report. The following table is derived from, and is qualified by, the Company's financial statements and the notes thereto which have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

	FISCAL YEAR ENDED Feb. 28, 2014	FISCAL YEAR ENDED Feb. 28, 2013	FISCAL YEAR ENDED Feb. 29, 2012	FISCAL YEAR ENDED Feb. 28, 2011	FISCAL YEAR ENDED Feb. 28, 2010
Net sales / operating revenue	\$15,313,468	\$17,240,342	\$18,404,052	\$18,909,031	\$20,526,233
Net income (loss)	\$1,163,295	\$591,304	\$1,550,858	(\$82,028)	\$1,211,271
Earnings (loss) per share, basic	\$0.40	\$0.20	\$0.46	(\$0.02)	\$0.30
Earnings (loss) per share, diluted	\$0.37	\$0.17	\$0.44	(\$0.02)	\$0.30
Total assets	\$15,140,842	\$14,127,121	\$14,981,079	\$15,670,153	\$17,483,684
Net assets	\$12,820,201	\$11,742,831	\$12,484,400	\$11,668,233	\$11,288,216
Share Capital	\$32,713,370	\$33,096,167	\$36,678,050	\$40,607,350	\$44,508,673
Long-term debt	NIL	\$75,027	\$218,374	\$1,628,412	\$2,596,069
Cash dividends declared per common share	NIL	NIL	NIL	NIL	NIL
Weighted average common shares outstanding basic and diluted	Basic: 2,929,722 Diluted: 3,246,223	Basic: 3,012,647 Diluted: 3,314,762	Basic: 3,368,751 Diluted: 3,541,859	3,853,866	3,980,202

3. Exchange Rates

Exchange Rate May 16, 2014: 1.0882

Exchange rates for the previous six months: US\$1 equivalent to the following in Canadian dollars:

	April 1-30, 2014	March 1-31, 2014	Feb. 1-28, 2014	Jan. 1-31, 2014	Dec. 1-31, 2013	Nov. 1-30, 2013
High	1.1055	1.1279	1.1196	1.1225	1.0737	1.0629
Low	1.0858	1.0955	1.0940	1.0589	1.0559	1.0398

Average exchange rates for each of the five most recent fiscal years: US\$1 equivalent to the following in Canadian dollars:

	Mar. 1, 2013 to Feb. 28, 2014	Mar. 1, 2012 to Feb. 28, 2013	Mar. 1, 2011 to Feb. 29, 2012	Mar. 1, 2010 to Feb. 28, 2011	Mar. 1, 2009 to Feb. 28, 2010
Average	1.0462	0.9988	0.9914	1.0209	1.1052

B. *Capitalization and indebtedness.*

This item is not applicable for an Annual Report.

C. *Reasons for the offer and use of proceeds.*

This item is not applicable for an Annual Report.

D. *Risk factors.*Risks Related To Our Business

The Company is vulnerable to exchange rate fluctuations.

Our operations are carried out primarily in Canada and in the United States. The Company purchases certain raw materials and goods, priced in U.S. dollars, for resale in Canada and also sells certain products, manufactured in Canada, into the United States. As a result, the Company is vulnerable to exchange rate fluctuations and it does not presently use any financial instruments to hedge foreign currency fluctuations. A significant increase in the value of the U.S. dollar in relation to the Canadian dollar would negatively impact our earnings.

The Company uses a limited number of suppliers.

The Company relies on a limited number of suppliers for certain raw materials. While other sources of supply do exist for these materials, an unexpected disruption in supply or an increase in pricing would have a negative impact on production and our earnings.

The Company is exposed to varying degrees of competition.

Increased consolidations of our competitors with and into larger companies, increased market place competition, and more competitive product and pricing pressures could impact the Company's earnings, market share and volume growth. This competition is likely to continue, and we cannot assure you that it will not intensify in the future, which could materially and adversely affect our financial condition and results of operations.

Changes in the nonalcoholic beverages business environment could adversely affect our financial results.

The nonalcoholic beverages business environment is constantly evolving as a result of, among other things, changes in consumer preferences, including changes based on health and nutrition considerations, shifting consumer tastes and needs, changes in consumer lifestyles and competitive product and pricing pressures. If we are unable to successfully adapt to this constantly changing environment, our earnings and sales could be negatively affected.

Changes in laws and regulations could negatively affect our operations.

The Company is subject to various laws and regulations, and changes in such laws and regulations could have a negative impact on our operations. For example:

- the Company has significant tax loss carry-forwards available, and a change in legislation affecting these losses could negatively impact future earnings;
- changes in environmental laws affecting beverage containers could add costs to the Company's operations and/or could decrease consumer demand for the Company's products; and,
- changes in laws and regulations, such as those of the U.S. Food and Drug Administration or Canadian Food Inspection Agency, could affect the way in which our products are marketed and produced, which could have a negative impact on our production and our earnings.

The Company depends on protections afforded by trademarks and copyrights.

The Company holds a number of trademarks and copyrights relating to certain significant products. We rely on trademark laws and contractual provisions to protect these trademarks and copyrights, and there can be no assurance that other third parties will not infringe or misappropriate our trademarks and copyrights. If we lose some or all of our intellectual property rights, our business may be materially adversely affected.

The Company is vulnerable to operating losses.

The Company's bottling operations are relatively capital intensive and in periods of low volumes, such as during seasonal fluctuations, fixed costs can result in operating losses.

Increases in costs and/or shortages of raw materials and/or ingredients could harm our business.

The principal raw materials used by us are juice concentrates and sugar, the costs of which are subject to fluctuations. We are uncertain whether the prices of any of the above or any other raw materials or ingredients may rise in the future. We are unsure whether we will be able to pass any of such increases on to our customers. We generally do not use hedging agreements or alternative instruments to manage the risks associated with securing sufficient ingredients or raw materials. In addition, some of these raw materials are available from a limited number of suppliers.

Our failure to accurately estimate demand for our products could adversely affect our business and financial results.

We may not correctly estimate demand for our products. Our ability to estimate demand for our products is imprecise, particularly with new products, and may be less precise during periods of rapid growth, particularly in new markets. If we materially underestimate demand for our products or are unable to secure sufficient ingredients or raw materials, we might not be able to satisfy demand on a short-term basis. Moreover, industry-wide shortages of certain raw materials could, from time to time in the future, be experienced. Such shortages could interfere with and/or delay production of certain of our products and could have a material adverse effect on our business and financial results. We generally do not use hedging agreements or alternative instruments to manage this risk.

A significant portion of the Company's revenue is derived from certain major customers.

The Company derives a substantial portion of its revenue from certain major customers, with the largest customer contributing 90% of our total revenue and the ten largest customers comprising 96% of revenue. The loss of certain major customers would have a negative impact on earnings.

The Company depends on key management employees.

Our business is dependent upon the continued support of existing senior management, including Ralph D. McRae, who is the Chairman, President, Chief Executive Officer and a director of the Company. Mr. McRae has been with Leading Brands since March 1996, and he has been responsible for our business planning, corporate and brand initiatives and financings. The loss of Mr. McRae, or any other key members of our existing management, could adversely affect our business and prospects. There may be a limited number of personnel with the requisite skills to serve in these positions and we may be unable to locate or employ such qualified personnel on acceptable terms.

Possible conflicts of interest may arise with our directors, officers, and other members of management.

Certain of our directors, officers, and other members of management presently serve as directors, officers, promoters or members of management of other companies, and therefore it is possible that a conflict may arise between their duties to Leading Brands and their duties to such other companies. All such conflicts will be disclosed in accordance with the provisions of applicable corporate legislation and directors and officers will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

The Company relies on credit facilities that may not be renewed.

The Company has credit facilities that are renewed annually in order to make sure that sufficient funds are available to meet its financial needs. There is a risk that these credit facilities will not be renewed by the existing lender and that the Company would then be required to seek an alternative source of financing.

Instability in the supply of utility services and oil prices may adversely impact our results of operations.

Our operations depend on a stable supply of utilities and fuel for our distribution. As a result of recent economic instability, we cannot assure you that such instability will not impair our ability to procure required utility services or fuel in the future, which could adversely impact our financial results or operations. Fluctuations in oil prices have adversely affected our cost of energy and transportation and we expect that they will continue to do so in the future.

Litigation or legal proceedings could expose us to significant liabilities and thus negatively affect our financial results.

We are a party, from time to time, to litigation claims and legal proceedings. Defending such proceedings could result in significant ongoing expenditures and the continued diversion of our management's time and attention from the operation of our business, which could have a negative effect on our business operations. Our failure to successfully defend or settle any litigation or legal proceedings could result in liability that, to the extent not covered by our insurance, could have a material adverse effect on our financial condition, revenue and profitability, and could cause the market value of our common shares to decline.

Other risks related to our business may arise and affect our sales and earnings.

For example, such risks may include:

- whether the Company's marketing programs are effective and successful, especially for newer brands;
- changes in consumer tastes and preferences and market demand for new and existing products;
- changes in general economic and business conditions; and
- adverse weather conditions, which could reduce demand for the Company's beverage products, sales of which are negatively affected by cooler temperatures.

Risks Related To Our Industry

The Company competes with large companies with greater resources.

Leading Brands competes, to some degree, with other larger companies in the beverage industry. Some of these competitors have substantially greater marketing, cash, distribution, production, technical and other resources than the Company. We cannot assure you that such competition will not intensify in the future which could materially and adversely affect our financial condition and operations.

Our industry is subject to various regulations and we must be in compliance with current and changing rules and regulations.

The production and marketing of our beverages, including contents, labels, caps and containers, are subject to the rules and regulations of various federal, provincial, state and local health agencies. If a regulatory authority finds that a current or future product or production run is not in compliance with any of these regulations, we may be fined, or production may be stopped, thus adversely affecting our financial condition and operations. Similarly, any adverse publicity associated with any non-compliance may damage our reputation and our ability to successfully market our products.

Significant additional labeling or warning requirements may inhibit sales of affected products.

Regulatory or governmental authorities may seek to adopt significant additional product labeling or warning requirements relating to the chemical content or perceived adverse health consequences of certain of our products. These types of requirements, if they become applicable to one or more of our products under current or future environmental or health laws or regulations may inhibit sales of such products.

Risks Related To Our Capital Stock

Our common shares have experienced significant price volatility.

Our common share price has experienced significant price volatility, with closing trading prices on the NASDAQ Capital Market ranging from a low of US\$0.28 to a high of US\$5.83 during the five year period from March 1, 2009 to February 28, 2014. (These amounts have been adjusted to reflect the 5:1 share consolidation that became effective on February 2, 2010.) During this period, the stock market for other small capitalization stocks has also experienced significant price fluctuations, which have often been unrelated to the operating performance of the affected companies. Such future fluctuations could adversely affect the market price of our common shares. The Company has had periods where the bid price of the Company's common shares closed below US\$1.00 per share, and therefore there is a risk that the Company will not continue to meet the minimum requirement for continued listing under NASDAQ's Marketplace Rule 5550(a)(2).

Sales of a substantial number of our common shares into the public market could result in significant downward pressure on the price of our common shares.

Our common shares are traded on the NASDAQ Capital Market under the symbol LBIX. As of February 28, 2014, there were 2,912,997 common shares issued and outstanding. The concurrent sale of a substantial number of our common shares in the public market could cause a reduction in the market price of our common shares.

We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses to us.

In order to maintain our current status as a foreign private issuer (as such term is defined in Rule 405 under the Securities Act), where more than 50% of our outstanding voting securities are directly or indirectly owned by residents of the United States, we must not have any of the following: (i) a majority of our executive officers or directors being U.S. citizens or residents, (ii) more than 50% of our assets being located in the United States, or (iii) our business being principally administered in the United States. If we were to lose our foreign private issuer status:

we would no longer be exempt from certain of the provisions of U.S. securities laws, such as Regulation FD and the Section 16 short swing profit rules;

we would be required to commence reporting on forms required of U.S. companies, such as Forms 10-K, 10-Q and 8-K, rather than the forms currently available to us, such as Forms 20-F and 6-K;

we would be subject to additional restrictions on offers and sales of securities outside the United States, including in Canada;

we may lose the ability to rely upon exemptions from NASDAQ corporate governance requirements that are available to foreign private issuers; and

if we engage in capital raising activities after losing our foreign private issuer status, there is a higher likelihood that investors may require us to file resale registration statements with the Securities and Exchange Commission (the SEC) as a condition to any such financing.

We are incorporated in British Columbia, Canada, all of our directors and officers live in Canada, and most of our assets are in Canada; therefore, investors may have difficulty initiating legal claims and enforcing judgments against us and our directors and officers.

We are a corporation existing under the laws of British Columbia, all of our directors and officers are citizens of Canada and the majority of our assets and operations are located outside of the United States. It may not be possible for shareholders to enforce, in Canada, judgments against us obtained in the United States, including actions predicated upon the civil liability provisions of the U.S. federal securities laws.

While reciprocal enforcement of judgment legislation exists between Canada and the United States, we and our insiders may have defenses available to avoid, in Canada, the effect of U.S. judgments under Canadian law, making enforcement difficult or impossible. As such, there is uncertainty as to whether Canadian courts would enforce (a) judgments of U.S. courts obtained against us or such persons predicated upon the civil liability provisions of the U.S. federal and state securities laws or (b) in original actions brought in Canada, liabilities against us or such persons predicated upon the U.S. federal and state securities laws. Therefore, our shareholders in the United States may have to avail themselves of remedies under Canadian corporate and securities laws for any perceived oppression, breach of fiduciary duty and like legal complaints. Canadian law may not provide for remedies equivalent to those available under U.S. law.

We may be deemed to be a controlled foreign corporation or a passive foreign investment company under the Internal Revenue Code of 1986, as amended (the Code).

If more than 50% of the voting power of all of our classes of shares or total value of our shares is owned, directly or indirectly, by citizens or residents of the United States, U.S. domestic partnerships and corporations or estates or trusts other than foreign estates or trusts (U.S. Shareholders), each of which owns 10% or more of the total combined voting power of all of our classes of shares (10% U.S. Shareholders), we could be treated as a controlled foreign corporation, as such term is defined under Subpart F of the Code. This classification would effect many complex results, including the required inclusion by such U.S. Shareholders in income of their pro rata shares of our Subpart F income (as specifically defined by the Code), if any, and the requirement that 10% U.S. Shareholders comply with certain additional U.S. tax reporting obligations. While we do believe that we are a controlled foreign corporation, we have not made a determination as to whether we are a controlled foreign corporation under the Code, and cannot give any assurance that we would not be determined to be a controlled foreign corporation under the Code now or in the future.

Even if we are not a controlled foreign corporation, we could be treated as a passive foreign investment company under the Code, depending upon the nature of our income and assets and those of our subsidiaries. Such a status would effect many complex results to our U.S. Shareholders, including those who own less than 10% of the total combined voting power of our outstanding shares. These results might include imposition of higher rates of tax on certain dividends and on gains from sale of our shares than would otherwise apply. While we do not believe that we are a passive foreign investment company nor ever have been, we have not made a determination as to whether we are or have ever been a passive foreign investment company and so cannot give any assurance in this regard, whether now or in the future.

Item 4. Information on the Company

A. History and development of the Company.

1. The legal name of the Company is Leading Brands, Inc.
2. The Company was incorporated under the *Company Act* (British Columbia) on February 4, 1986 under the name 2060 Investments Ltd. On May 21, 1986, the Company changed its name to Camfrey Resources Ltd. On March 16, 1993, the Company changed its name to Brio Industries Inc., and on October 25, 1999, the Company changed its name to Leading Brands, Inc.
3. The Company is a corporation incorporated under the laws of the province of British Columbia, Canada, and is governed by the *Business Corporations Act* (British Columbia). The head office of the Company is located at:
33 W. 8th Avenue Unit 101
Vancouver BC
Canada V5Y 1M8
Tel: 604-685-5200
4. During the period since the beginning of the last fiscal year to May 16, 2014, there have been no material reclassifications, mergers or consolidations of the Company or any of its subsidiaries; acquisitions or dispositions of material assets other than in the ordinary course of business; material changes in the mode of conducting the business; material changes in the types of products produced or services rendered; or bankruptcy, receivership or similar proceedings with respect to the Company or its subsidiaries.

The name of the Company's subsidiary in the United States was changed from Blue Beverage Company, Inc. to Neurogenesis Inc. on January 31, 2014.

5. The Company expended \$565,015 on the purchase of property, plant and equipment in the fiscal year ended February 28, 2014, of which \$344,967 was for bottling equipment, \$100,452 was for leasehold improvements, \$10,898 was for vehicles, and \$108,698 was for office equipment, computers and software.

The Company expended \$1,496,572 on the purchase of property, plant and equipment in the fiscal year ended February 28, 2013, of which \$775,243 was for bottling equipment, \$365,248 was for leasehold improvements, \$265,332 was for vehicles, and \$90,749 was for office equipment, computers and software.

The Company expended \$401,719 on the purchase of property, plant and equipment in the fiscal year ended February 29, 2012, of which \$371,043 was for bottling equipment and \$30,676 was for office equipment, computers and software.

6. Capital expenditures that are planned for the fiscal year ending February 28, 2015 are in Canada and will be funded with cash on hand, by the Company's primary lender, or some combination of the two.

7. There have been no indications of public takeover offers by third parties in respect of the Company's shares or by the Company in respect of other companies' shares during the last and current fiscal year.

B. ***Business overview.***

1. The Company and its subsidiaries are engaged in beverage bottling, distribution, sales, merchandising, brand development and brand management of beverage products. The Company has evolved into a fully integrated bottling and distribution operation with customers across Canada, the western United States, and Asia.

In the fiscal year ended February 28, 2014, Leading Brands of Canada, Inc. was the principal operating subsidiary engaged in the Company's beverage business in Canada, and Neurogenesis Inc. (formerly Blue Beverage Company, Inc.) was the principal sales subsidiary in the United States.

2. Beverage Bottling, Distribution and Sales and Marketing

Bottling Plant. In the fiscal year ended February 28, 2014, the Company operated a 50,000 square foot bottling plant in Edmonton, Alberta. The Company bottles juices and new age beverages for a co-pack customer (as defined below) and the Company's own branded products. The Company's plant is primarily a hot fill plant designed to allow for extended shelf life of products without the use of preservatives. In a hot fill process, the liquid is heated to a high temperature prior to filling. The bottle is filled and capped while the liquid remains at the high temperature and then the filled bottle is sent through a cooling tunnel. The cooling causes a pressure seal which preserves the product without the need to add any artificial preservatives.

The Company provides beverage packaging (co-pack) services to a major branded beverage company. Co-pack customers own their brands, and handle the distribution of the product to market. The Company simply co-packs or makes the product at the customers' request. The Company charges a co-pack fee that equates to the packaging service provided and also bills for any materials not supplied by the customer.

Co-pack customers are charged only the co-pack fee because they supply all raw materials to make the product.

The Company's Edmonton plant is designed and equipped to handle various types of containers on its two lines that can fill containers of glass or polyethylene terephthalate (PET). The Company's goal for beverage operations during the coming year is to expand the volume of cases packaged through co-pack operations and to expand the distribution of the Company's own branded product lines.

The Company operates in Canada as a fully integrated healthy beverage bottler and distributor.

Distribution. In addition to the bottling plant, the sales and distribution system has a regional warehouse distribution center located in Edmonton, Alberta. In addition, there are third party distribution centers in Greater Vancouver, Metro Toronto, and in the State of Washington. The sales and distribution system distributes a variety of beverages to retail, wholesale and distribution outlets. As a market of approximately 34,000,000 people, covering more than 2,000,000 square miles, the Company believes that it is more cost effective for the Company to use a network of distributors to assist in the distribution of its products in Canada.

Sales and Marketing. The Company believes it differentiates itself in the marketplace with its customer service and product innovation. By selecting the right mix of products and flavours and determining the merchandising strategy for those items, the Company has been successful in increasing the turns of its customers' beverage inventory.

The Company has a sales and marketing team and outside broker network that covers most of Canada and the western United States. Through its distribution network, broker network and the Company's sales team, the Company maintains contact with its customers and provides the sales and merchandising services necessary to ensure proper presentation of the Company's brands on store shelves and to assure appropriate ordering and pull-through of the Company's products.

The sales and marketing team in Canada covers all aspects of the retail trade, including chain grocery and drug stores, mass merchandise centers, food service outlets and convenience stores.

The Company's marketing department continuously develops and implements innovative marketing programs for all the brands represented. From sales booklets and point of sale materials to contests, sampling events, interactive websites and in-store demonstrations, the Company works to bring its brands to the top of its consumers' minds. The Company strives to promote and market all the brands it represents in a healthy, positive and informed environment.

Brand Licensing and Brand Development

The Company has increased its focus on the development of its own brands. Several of the Company's branded products, including *TrueBlue*[®], *PureBlue*[®], *TrueBlack*[®] and *Happy Water*[®] are packaged and managed by the Company.

Other Business Overview Information

Substantially all of the Company's operations, assets and employees are located in Canada. In the year ended February 28, 2014, net export sales were less than 10% of the Company's net revenues.

3. Demand for the Company's beverage products is somewhat seasonal, with the warmer months producing more demand than the cooler months.

4. Sourcing and pricing of raw materials used in co-packing are generally the responsibility of the Company's co-pack customers. For the Company's branded and private label products, this risk remains with the Company.

Raw materials used in the beverage packaging business consist primarily of sugar, bottles, closures, flavoring, cardboard and juice concentrate. The Company generally uses filtered municipal water to manufacture products. The Company's Happy Water® brand is produced by blending two different spring waters.

Sugar is commodity priced and is generally purchased under a one-year contract. There are several suppliers in both Canada and the United States.

Bottles are generally purchased in the United States, but there is a PET bottle supplier in Canada. PET pricing is affected by changing oil prices.

Closures and flavorings are generally purchased in the United States, but Canadian suppliers are becoming available.

Cardboard is widely available and, while pricing fluctuates from year to year, it is generally stable in the short term.

Juice concentrates are commodity priced and generally purchased under volume contracts. Pricing varies with availability and demand and is impacted by crop performance in the respective growing regions.

5. The Company's marketing and sales are handled by a combination of the Company's sales force and outside brokers and agents. In markets outside of Canada, principally in the United States and Asia, the Company uses third-party contractors for market development and sales.
6. No material portion of the Company's business is dependent on a single or connected group of patents or licenses, industrial, commercial or financial contracts or new manufacturing processes.
7. The Company makes no statements concerning its competitive position.
8. The Company is subject to regulations of the Canadian Food Inspection Agency, Health Canada and Natural Health Product Directorate, as well as the U.S. Food and Drug Administration, with regards to ingredients and labeling of the Company's products.

The Company is also subject to compliance with the Canada Border Services Agency and the United States Department of Homeland Security, Customs and Border Protection, for border security and customs functions related to the cross-border movement of raw materials and finished goods.

C. **Organizational structure.**

Following is a list of the Company's significant subsidiaries as of February 28, 2014:

Leading Brands of Canada, Inc. (LBCI):

- incorporated provincially in Alberta, Canada;
- 100% owned by Leading Brands, Inc.;
- is the Company's principal operating subsidiary in Canada; and
- also operates as North American Bottling (a division of LBCI).

LBI Brands, Inc.:

- incorporated provincially in British Columbia, Canada;
- 100% owned by Leading Brands, Inc.; and
- owns certain of the Company's proprietary brands, trademarks and other intellectual property.

Neurogenesis Inc.:

- incorporated federally in Canada;
- 100% owned by Leading Brands, Inc.; and
- operating company for the Happy Water brand

Neurogenesis Inc.: (formerly Blue Beverage Company, Inc.)

- incorporated in Nevada, USA;
- 100% owned by Leading Brands, Inc.; and
- is the Company's principal operating subsidiary in the United States.

D. **Property, plant and equipment.**

Leading Brands owns and operates a 50,000 square foot bottling plant in Edmonton, Alberta. The plant contains two lines for a combined 144 oz. equivalent case capacity of approximately 10,000,000 cases per annum.

The Company leases a property occupying 61,872 square feet in Edmonton, Alberta which serves as a regional warehouse and distribution centre. The Company also utilizes third party distribution centres in Ontario, British Columbia, and the State of Washington.

The Company's head office is located at Unit 101 33 West 8th Avenue, Vancouver BC Canada. The space occupies 6,955 square feet and is leased until February 2023.

The Company bottles Happy Water[®] at a co-packing facility at 19500 5th Avenue, Surrey, B.C. Canada. The Company owns substantially all of the equipment utilized in the production of Happy Water[®].

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects**A. Operating results**Introduction

Leading Brands and its subsidiaries are involved in the development, production, marketing and distribution of the Company's branded and licensed beverage brands as well as production services for certain other customers.

The Company sells branded and licensed beverage products through its Integrated Distribution System (IDS) of distributors, wholesalers, and grocery chains. Its principal product lines include juices and other premium beverages. The Company's bottling plant provides bottling services for the Company's own products and for external customers, as requested. The Company also uses the services of third party bottlers as required to meet its objectives.

Overall Performance

The major developments during the year ended February 28, 2014 included:

The Company improved its gross margin percentages, excluding depreciation totaling \$753,210 (2013: \$681,045), from 37.2% in the fiscal year ended February 28, 2013 to 45.1% in the fiscal year ended February 28, 2014; and

The Company saw an increase in its net income from net income of \$591,304 for the fiscal year ended February 28, 2013 on \$18.4 million in gross sales to a net income of \$1,163,295 in the fiscal year-ended February 28, 2014 on \$16.0 million gross sales, principally due to a decrease in discounts and selling, general and administrative expenses.

Sales

Revenue	Fiscal Year ended February 28, 2014	Fiscal Year ended February 28, 2013	Change
Manufactured Products	\$ 15,872,966	\$ 17,685,644	(\$ 1,812,678)
Purchased Products	\$ 79,963	\$ 680,227	(\$ 600,264)
Total Gross Revenue	\$ 15,952,929	\$ 18,365,871	(\$ 2,412,942)
Discounts, Allowances and Rebates	(\$ 639,461)	(\$ 1,125,529)	(\$ 486,068)
Net Revenue	\$ 15,313,468	\$ 17,240,342	(\$ 1,926,874)

Gross sales for the fiscal year ended February 28, 2014 were \$15,952,929 compared to \$18,365,871 for the previous fiscal year, representing a decrease of 13.1% . This decrease of \$2,412,942 in gross sales for the year ended February 28, 2014 was the result of the following:

decreased revenues from manufactured products of \$1,812,678 due to a reduction of co-pack volume and reduced sales of certain branded beverage products; and

decreased sales of products that the Company purchases for resale of \$600,264 due to the discontinuation by the Company of a licensed brand.

Discounts, rebates and slotting fees for the fiscal year ended February 28, 2014 decreased \$486,068 compared to the prior fiscal year as a result of lower discounts on the Company's licensed brands, lower discounts on co-packing service and the Company's branded beverages due to lower demand.

Cost of Sales and Margin

Cost of Sales	Fiscal Year ended February 28, 2014	Fiscal Year ended February 28, 2013	Change
Manufactured Products	\$ 8,342,780	\$ 10,335,513	(\$ 1,992,733)
Purchased Products	\$ 65,778	\$ 497,270	(\$ 431,492)
Total	\$ 8,408,558	\$ 10,832,783	(\$ 2,424,225)

Cost of sales, excluding depreciation totaling \$753,210 (2013: \$681,045) for the fiscal year ended February 28, 2014 was \$8,408,558 compared to \$10,832,783 for the previous fiscal year, representing a decrease of 22.4% . This decrease in cost of sales of \$2,424,225 for the year ended February 28, 2014 was the result of the following:

lower cost of sales from products that the Company purchases for resale of \$431,492 in comparison to the prior fiscal year due to the discontinuation by the Company of a licensed brand; and

decreased cost of sales of products that the Company manufactures of \$1,992,733 primarily due to reduced Co-pack volume and improved productivity.

Margin	Fiscal Year ended February 28, 2014	Fiscal Year ended February 28, 2013	Change
Manufactured Products	\$ 6,891,692	\$ 6,286,705	\$ 604,987
Purchased Products	\$ 13,218	\$ 120,854	(\$ 107,636)
Total	\$ 6,904,910	\$ 6,407,559	\$ 497,351
Margin percentage	45.1%	37.2%	7.9%

Margin for the fiscal year ended February 28, 2014 was \$6,904,910 compared to \$6,407,559 for the previous fiscal year, representing an increase in margin as a percentage of net sales of 7.9% . The increase in margin of \$497,351 for the fiscal year ended February 28, 2014 was the result of increased margin from manufactured products of \$604,987 offset by decreased margin from products that the Company purchases for resale of \$107,636.

Selling, General and Administrative Expenses

For the fiscal year ended February 28, 2014, selling, general and administrative expenses decreased \$57,799 from \$4,740,375 in the fiscal year ended February 28, 2013 to \$4,682,576 in the year ended February 28, 2014 as a result of:

- decreased stock-based compensation expense of \$97,444;
- decreased office rent and operating cost of \$193,813;
- decreased advertising cost of \$137,482; offset by
- increased costs resulting from settling litigation with a supplier to the Company.

Other Expenses

The Company recorded interest expense on current and long-term debt of \$9,474 as compared to \$18,165 in the prior fiscal year.

In the fiscal year ended February 28, 2014, the Company recorded interest income from bank balances of \$7,012 compared to \$2,908 in the prior fiscal year.

The Company recorded a non-cash income tax expense of \$255,408 in the fiscal year ended February 28, 2014 relating to Canadian operations, as compared to a \$306,652 expense in the prior fiscal year. Deferred tax assets in other operating entities are offset by a valuation allowance.

Depreciation expense increased to \$753,210 for the fiscal year ended February 28, 2014, as compared to \$681,045 in the prior fiscal year.

Fiscal Year Ended February 28, 2013Sales

Revenue	Fiscal Year ended February 28, 2013	Fiscal Year ended February 29, 2012	Change
Manufactured Products	\$ 17,685,644	\$ 18,621,941	(\$ 936,297)
Purchased Products	\$ 680,227	\$ 834,564	(\$ 154,337)
Total Gross Revenue	\$ 18,365,871	\$ 19,456,505	(\$ 1,090,634)
Discounts, Allowances and Rebates	(\$ 1,125,529)	(\$ 1,052,453)	(\$ 73,076)
Net Revenue	\$ 17,240,342	\$ 18,404,052	(\$ 1,163,710)

Gross sales for the fiscal year ended February 28, 2013 were \$18,365,871 compared to \$19,456,505 for the previous fiscal year, representing a decrease of 5.6% . This decrease of \$1,090,634 in gross sales for the year ended February 28, 2013 was the result of the following:

decreased revenues from manufactured products of \$936,297 due to the Company focusing its efforts on brands that are more profitable and a lag in listings of the Company's principal juice brands due to a change in packaging format; and

decrease in sales of products that the Company purchases for resale of \$154,337 due to reduced sales volumes.

Discounts, rebates and slotting fees for the fiscal year ended February 28, 2013 increased \$73,076 compared to the prior fiscal year as the Company invested in new listings and promotions of its branded beverages.

Cost of Sales and Margin

Cost of Sales	Fiscal Year ended February 28, 2013	Fiscal Year ended February 29, 2012	Change
Manufactured Products	\$ 10,335,513	\$ 10,665,787	(\$ 330,274)
Purchased Products	\$ 497,270	\$ 621,292	(\$ 124,022)
Total	\$ 10,832,783	\$ 11,287,079	(\$ 454,296)

Cost of sales, excluding depreciation totaling \$681,045 (2012: \$676,464), for the fiscal year ended February 28, 2013 was \$10,832,783 compared to \$11,287,079 for the previous fiscal year, representing a decrease of 4.0% . This decrease in cost of sales of \$454,296 for the year ended February 28, 2013 was the result of the following:

lower cost of sales from products that the Company purchases for resale of \$124,022 in comparison to the prior fiscal year due to reduced sales volumes; and decreased cost of sales of products that the Company manufactures of \$330,274 primarily due to reduced sales volumes.

Margin	Fiscal Year ended February 28, 2013	Fiscal Year ended February 29, 2012	Change
Manufactured Products	\$ 6,286,705	\$ 6,945,434	(\$ 658,729)
Purchased Products	\$ 120,854	\$ 171,539	(\$ 50,685)
Total	\$ 6,407,559	\$ 7,116,973	(\$ 709,414)
Margin percentage	37.2%	38.7%	(1.5%)

Margin for the fiscal year ended February 28, 2013 was \$6,407,559 compared to \$7,116,973 for the previous fiscal year, representing a decrease in margin as a percentage of net sales of 1.5% . The decrease in margin of \$709,414 for the fiscal year ended February 28, 2013 was the result of decreased margin from products that the Company purchases for resale of \$50,685, and manufactured products of \$658,729.

Selling, General and Administrative Expenses

For the fiscal year ended February 28, 2013, selling, general and administrative expenses increased \$84,077 from \$4,656,298 in the fiscal year ended February 29, 2012 to \$4,740,375 in the year ended February 28, 2013 as a result of:

increased selling and marketing costs of \$392,290; offset by, decreased stock-based compensation expense of \$262,905; and decreased administration costs of \$45,308.

Other Expenses

Interest on current and long-term debt was lower due to the Company's repayment of \$1.7 million of outstanding debts in the prior fiscal year. The Company recorded interest expense on current and long-term debt of \$18,165 as compared to \$115,627 in the prior fiscal year.

In the fiscal year ended February 28, 2013, the Company recorded interest income from bank balances of \$2,908 compared to \$8,216 in the prior fiscal year.

The Company recorded a non-cash income tax expense of \$306,652 in the fiscal year ended February 28, 2013 relating to Canadian operations, as compared to a \$93,103 expense in the prior fiscal year. Deferred tax assets in other operating entities are offset by a valuation allowance.

Depreciation expense increased to \$681,045 for the fiscal year ended February 28, 2013, as compared to \$676,464 in the prior fiscal year.

B. Liquidity and Capital Resources**Fiscal Year Ended February 28, 2014**

As of February 28, 2014, the Company had working capital of \$1,617,029 compared to working capital of \$130,131 at the prior fiscal year end. The Company held \$2,393,784 in cash account balances at February 28, 2014 compared with \$53,352 at the prior fiscal year end.

Considering the positive working capital position, including the cash on hand at February 28, 2014, available debt and other internal resources, the Company believes that it has sufficient working capital to continue operations for the next twelve months.

Cash provided by (used in):	Fiscal Year ended February 28, 2014	Fiscal Year ended February 28, 2013	Change
Operating activities	\$ 3,189,637	\$ 1,957,760	\$ 1,231,877
Investing Activities	(\$ 565,015)	(\$ 1,474,617)	\$ 909,602
Financing activities	(\$ 283,743)	(\$ 1,619,641)	\$ 1,335,898

For the fiscal year ended February 28, 2014, the cash generated from operating activities was the result of positive operating results. The increase of \$1,231,877 is the result of the greater net income this fiscal year.

The decrease in cash utilized in the fiscal year ended February 28, 2014 for investing activities is due to less cash being used for equipment for a new brand and the Company's bottling plant as compared to the prior fiscal year.

Cash used for financing activities in the fiscal year ended February 28, 2014 decreased in comparison to the prior fiscal year due to less cash being used for the Company's share repurchase program as compared to the prior year.

The Company has a demand revolving operating bank loan with a credit limit of \$3,500,000 (the Revolving Facility), subject to the availability of eligible collateral, with an interest rate of the Canadian prime rate of its lender plus 1.00% to 1.50% per annum. At February 28, 2014, the availability under the Revolving Facility, as determined by the amount of eligible collateral, was \$329,900. The Company's requirement for operating capital increases in the summer months due to increased sales and decreases in winter months due to decreased sales. The unused portion of the Revolving Facility is expected to accommodate those requirements as inventory and accounts receivable levels increase with sales volumes.

The Revolving Facility agreement contains four financial covenants: (i) a tangible net worth covenant; (ii) a current ratio covenant; (iii) a debt coverage covenant; (iv) a capital expenditure covenant. The Company was in compliance with all covenants at February 28, 2014.

Other sources of financing are more fully described in the consolidated financial statements appearing in Item 18 Financial Statements of this Annual Report.

The Company generally maintains cash or cash equivalents in Canadian and U.S. funds and does not use financial instruments for hedging purposes.

The Company is committed to spend \$158,480 Euro in capital expenditures in the fiscal year ending February 28, 2015.

Fiscal Year Ended February 28, 2013

As of February 28, 2013, the Company had working capital of \$130,131 compared to working capital of \$1,352,067 at the prior fiscal year end. The Company held \$53,352 in cash account balances at February 28, 2013 compared with \$1,189,539 at the prior fiscal year end.

Considering the positive working capital position, including the cash on hand at February 28, 2013, available debt and other internal resources, the Company believes that it has sufficient working capital to continue operations for the next twelve months.

Cash provided by (used in):	Fiscal Year ended February 28, 2013	Fiscal Year ended February 29, 2012	Change
Operating activities	\$ 1,957,760	\$ 2,632,410	(\$ 674,650)
Investing activities	(\$ 1,474,617)	(\$ 401,158)	(\$ 1,073,459)
Financing activities	(\$ 1,619,641)	(\$ 2,912,313)	\$ 1,292,672

For the fiscal year ended February 28, 2013, the cash generated from operating activities was the result of positive operating results. The decrease of \$674,650 was the result of the lower net income this fiscal year, offset by a decrease in inventory.

The increase in cash utilized in the fiscal year ended February 28, 2013 for investing activities was attributable to the purchase of equipment required for a new brand, upgrades to the Company's bottling plant, and computer equipment.

Cash used for financing activities in the fiscal year ended February 28, 2013 decreased in comparison to the prior fiscal year due to repayment of long-term debt in the prior year.

The Company has a demand revolving operating bank loan with a credit limit of \$3,500,000 (the Revolving Facility), subject to the availability of eligible collateral, with an interest rate of the Canadian prime rate of its lender plus 1.00% to 1.50% per annum. At February 28, 2013, the availability under the Revolving Facility, as determined by the amount of eligible collateral, was \$817,700. The Company's requirement for operating capital increases in the summer months due to increased sales and decreases in winter months due to decreased sales. The unused portion of the Revolving Facility is expected to accommodate those requirements as inventory and accounts receivable levels increase with sales volumes.

The Revolving Facility agreement contains four financial covenants: (i) a tangible net worth covenant; (ii) a current ratio covenant; (iii) a debt coverage covenant; (iv) a capital expenditure covenant. The Company was in compliance with three of the four covenants and received a waiver for the fourth (capital expenditures exceeding \$1,000,000) at February 28, 2013.

Other sources of financing are more fully described in the consolidated financial statements appearing in Item 18 Financial Statements of this Annual Report.

The Company generally maintains cash or cash equivalents in Canadian and U.S. funds and does not use financial instruments for hedging purposes.

The Company had no material commitments for capital expenditures in the fiscal year ending February 28, 2014.

C. *Research and development, patents and licenses, etc.*

The Company does not have any deferred product costs at this time. The Company does not have a formal research and development program. It develops products as and when it sees fit by working with existing staff and outside consultants, where appropriate.

The Company has a large inventory of formulations for a wide variety of juices and new age beverages, as well as many U.S., Canadian and foreign trademarks.

D. *Trend Information.*

Since 2009, the Company has focused on producing and selling beverage products that can generate superior margins. At times that has meant sacrificing sales volume for profitability. Over the same time the Company has eliminated its reliance on brands licensed from third parties. The Company continues to develop its own branded beverages that it trials and from time to time releases to market. Those brands can take a year or more to gain consumer recognition and replace the volume of more established, but lower margin brands. Consequently, the Company has recently experienced a decline in gross revenues combined with a trend of increased gross margin.

E. *Off-balance sheet arrangements.*

1. The Company is committed to operating leases for premises and equipment and other agreements as disclosed in Note 11 of the consolidated financial statements appearing in Item 18 Financial Statements of this Annual Report.
2. The Company had no off balance sheet arrangements during the fiscal year ended February 28, 2014.

F. *Tabular disclosure of contractual obligations.*

The following table presents our contractual obligations as of February 28, 2014:

<i>Contractual Obligations</i>	Payments due by period				
	<i>Total</i>	<i>less than 1 year</i>	<i>1-3 years</i>	<i>4-5 years</i>	<i>more than 5 years</i>
Long-term Debt Obligations	-	-	-	-	-
Capital (Finance) Lease Obligations	\$75,027	\$75,027	-	-	-
Operating Lease Obligations (1)	\$3,313,740	\$747,616	\$1,519,221	\$608,738	\$438,165
Purchase Obligations	\$1,122,645	\$867,788	\$251,889	\$2,968	-
Other Long-term Liabilities Reflected on the Company's Balance Sheet under the GAAP of the primary financial statements	-	-	-	-	-
Interest on Capital Lease	\$ 1,346	\$1,346	-	-	-
Total	\$4,512,758	\$1,691,777	\$1,771,110	\$611,706	\$438,165

(1) The Company is committed to operating leases for premises and equipment as disclosed in Note 11 of the consolidated financial statements appearing in Item 18 Financial Statements of this Annual Report.

Critical Accounting Policies

The Company's annual financial statements have been prepared in accordance with U.S. GAAP. Some accounting policies have a significant impact on the amount reported in these financial statements. A summary of those significant accounting policies can be found in the Summary of Significant Accounting Policies in the annual financial statements. Note that the preparation of this Annual Report requires the Company to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates. The Company believes, as explained below, that the most critical accounting policies cover the following areas: accounts receivable; inventory; revenue recognition; stock-based compensation, derivative liability and income taxes.

Accounts Receivable

Accounts receivable invoices are recorded when the products are delivered and title transfers to customers or when bottling services are performed and collection of related receivables is reasonably assured. Allowances for doubtful accounts are based primarily on historical write-off experience. Account balances that are deemed uncollectible are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Allowances for doubtful accounts of \$51,579 are netted against accounts receivable as at February 28, 2014. A 10% change in the estimates for doubtful accounts would not result in a material change to the financial statements.

Inventory

Raw materials and finished goods purchased for resale are valued at the lower of cost, determined on a first-in, first-out basis, and market value. Finished goods, produced from manufacturing operations, are valued at the lower of standard cost which approximates average cost of raw materials, direct labour and overhead and market value. The provisions for obsolete or excess inventory are based on estimated forecasted usage of inventories. A significant change in demand for certain products as compared to forecasted amounts may result in recording additional provisions for obsolete inventory. Provisions for obsolete or excess inventory are recorded as cost of goods sold. At February 28, 2014, the inventory balance was presented net of a provision for obsolete inventory in the amount of \$100,058. A 10% change in the estimates of provision for obsolete inventory would not result in a material change to the financial statements.

Revenue Recognition

Revenue on sales of products is recognized when the products are delivered and title transfers to customers. Revenues from the provision of manufacturing, bottling or other services are recognized when the services are performed and collection of related receivables is reasonably assured. The Company records shipping and handling revenue as a component of sales revenue, and shipping and handling costs are included in the cost of sales. Incentives offered to customers including rebates, cash discounts, volume discounts, and slotting fees are recorded as a reduction of net sales when the sales are recognized.

Stock-based Compensation

Under U.S. GAAP, the Company follows Accounting Standards Codification (ASC) 718 Share-Based Payment (ASC 718). ASC 718 requires the Company to recognize in the statement of operations the grant date fair value of share-based compensation awards granted to employees over the requisite service period. Compensation expense recognized reflects estimates of award forfeitures and any changes in estimates thereof are reflected in the period of change.

Compensation costs are charged to the Consolidated Statements of Comprehensive Income.

Derivative Liability

Under ASC 815-40-15 Derivatives and Hedging, non-employee stock options granted during the year ended February 28, 2011 met the criteria of a derivative instrument liability because they were exercisable in a currency other than the functional currency of the Company and thus did not meet the fixed-for-fixed criteria of that guidance. As a result, the Company was required to separately account for the stock options as a derivative instrument liability recorded at fair value and marked-to-market each period with the changes in the fair value each period charged or credited to income. Changes in fair value are recognized as stock compensation until fully vested, and after that time as change in fair value.

Income Taxes

Deferred income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates by tax jurisdiction at each balance sheet date. Deferred income tax assets also result from unused loss carry-forwards and other deductions. The valuation of deferred income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. Significant management judgment is required in determining our provision for income taxes, our deferred income tax assets and liabilities and any valuation allowance recorded against our net deferred income tax assets. We evaluate all available evidence, such as recent and expected future operating results by tax jurisdiction, and current and enacted tax legislation and other temporary differences between book and tax accounting to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. There is a risk that management estimates for operating results could vary significantly from actual results, which could materially affect the valuation of the deferred income tax asset. Although the Company has tax loss carry-forwards and other deferred income tax assets, management has determined certain of these deferred income tax assets do not meet the more likely than not criteria, and accordingly, these deferred income tax asset amounts have been partially offset by a valuation allowance as disclosed in Note 10 of the consolidated financial statements appearing in Item 18 Financial Statements of this Annual Report. The valuation allowance represents tax losses and deferred income tax assets from inactive United States subsidiaries, with a tax rate of 37%, totaling \$3,493,269; and inactive Canadian subsidiaries, with a tax rate of 26%, totaling \$195,474.

If management's estimates of the cash flows or operating results do not materialize due to errors in estimates or unforeseen changes to the economic conditions affecting the Company, it could result in an impairment adjustment in future periods up to the carrying value of the deferred income tax balance of \$2,152,567. A 10% change in revenue estimates without a corresponding reduction in overhead costs, gross margins or operating costs could materially change the valuation of the deferred income tax assets. The majority of the deferred income tax asset commences expiration at February 28, 2026.

New Pronouncements

In April 2014, the Financial Accounting Standards Board (the FASB) amended the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. The provisions of the new guidance were effective prospectively as of the beginning of the fiscal years ended after December 15, 2014. We are currently evaluating the impact of the new guidance on our financial statements.

In July 2013, the FASB issued guidance on the presentation of unrecognized tax benefits which better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carry forwards, similar tax losses, or tax credit carry forwards exist. The provisions of the new guidance were effective prospectively as of the beginning of the fiscal years ended after December 15, 2014. We are currently evaluating the impact of the new guidance on our financial statements.

In February 2013, the FASB issued guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements. The provisions of the new guidance were effective prospectively as of the beginning of the fiscal years ended after December 15, 2013. The Company adopted this standard, and it did not materially impact the consolidated financial statements.

Item 6. Directors, Senior Management and Employees

A. *Directors and senior management.*

The following is a list of the current directors and senior officers of the Company, their municipalities of residence, their current positions with the Company, areas of experience, and principal business activities performed outside the Company:

Name and Municipality of Residence	Principal Occupation and Areas of Experience
James Corbett West Vancouver, BC Canada	Mr. Corbett has been a director of Leading Brands, Inc. since June 2008. He trained as a Chartered Accountant, and is the founder and president of Canadian Outback Adventures. Mr. Corbett has served as a member of the Tourism Management Advisory Committee of Capilano University, and is also a guest lecturer at various colleges.

Name and Municipality of Residence	Principal Occupation and Areas of Experience
Darryl R. Eddy Vancouver, BC Canada	<p>Mr. Eddy has been a director of Leading Brands, Inc. since July 2009. He is also a director of various other public and private corporations.</p> <p>Mr. Eddy is a retired partner of PricewaterhouseCoopers LLP and a past Managing Director of PricewaterhouseCoopers Corporate Finance Inc.</p>
Stephen K. Fane, FCA Vancouver, BC Canada	<p>Mr. Fane has been a director of Leading Brands, Inc. since October 2007. He is also President of New Century Holdings Ltd.</p> <p>Mr. Fane was the Executive Chair of Alterrus Systems Inc. Mr. Fane was President and CEO of Hot House Growers Income Fund, a publicly traded income trust, from December 2003 to October 2006.</p> <p>He is a former partner in a predecessor firm to PricewaterhouseCoopers.</p> <p>A graduate of the University of British Columbia, he became a Chartered Accountant in 1972 and was elected a Fellow of the Institute of Chartered Accountants in 1997.</p>
R. Thomas Gaglardi Vancouver, BC Canada	<p>Mr. Gaglardi has been a director of Leading Brands, Inc. since October 1998.</p> <p>He is also the President of Northland Properties Corporation, a hotel, real estate and restaurant company, and Chairman and CEO of Sandman Hotels, Inns & Suites, Moxie's Restaurants LP, Shark Clubs of Canada, Inc. and Denny's Restaurants of Canada</p> <p>.</p>
Ralph D. McRae West Vancouver, BC Canada	<p>Mr. McRae is a director and the Chairman, President and Chief Executive Officer of the Company and has been with Leading Brands, Inc. since March 1996. He is also a director and the Chairman, CEO and Secretary/Treasurer of Leading Brands of Canada, Inc.</p> <p>Mr. McRae is a director and the Chairman and CEO of McRae Management Ltd., a waste management and water company based in Surrey, British Columbia.</p>

**Name and Municipality
of Residence**

Principal Occupation and Areas of Experience

He is a member of the Bar of British Columbia and holds a Bachelor of Commerce (1980) and LLB (1981) from the University of British Columbia.

Sinan ALZubaidi
Edmonton, AB
Canada

Mr. ALZubaidi is the Vice-President of Bottling Operations for Leading Brands of Canada, Inc.

Prior to joining Leading Brands in 1998, Mr. ALZubaidi worked for Sweet Ripe Drinks (Ontario & Nova Scotia) for 7.5 years as a Director of Operations. Prior to this he worked for 12 years as a senior Statistician for the federal government of UAE.

Mr. ALZubaidi has a BA degree in Statistics and post graduate courses in the same field.

Dave Read
Edmonton, AB
Canada

Mr. Read is the Executive Vice-President of Leading Brands of Canada, Inc.

Prior to joining Leading Brands in 1999, Mr. Read owned and operated (with a partner) distribution and food production companies. Those companies were sold to the Company in 1999.

Fei Xu
Vancouver, BC
Canada

Ms. Xu is the Corporate Controller and the Principal Financial Officer of the Company. She has been with Leading Brands since 2001.

There are no arrangements or understandings pursuant to which any of the above was selected as a director or executive officer. There are no family relationships between any of the persons named above.

B. Compensation.

Compensation Principles

The Company is committed to the philosophy of sharing the benefits of success with those who help the Company grow and prosper. The Company's strength and ability to sustain growth is based on an organization that perceives people as its single most important asset. The Company's philosophy is to provide sufficient compensation opportunities in order to attract and retain key executive officers critical to the Company's long-term success. The Company has developed a profit participation plan for senior management and an employee share option plan to increase the risk/reward ratio of its executive compensation program, to focus management on long term strategic issues, and to align management's interests with those of the shareholders of the Company in the sustained growth of shareholder value.

The Company does not have a formal compensation committee. The Company relies on the independent members of the Board for determining executive compensation. The Board may from time to time retain independent consultants to advise on compensation matters.

Compensation Program

The Company's executive compensation program includes base salary, annual cash or short-term incentives (bonuses) and long-term incentive compensation in the form of stock options.

The compensation program is designed to:

- promote an ownership mentality among key leadership and the Board of Directors;
- enhance the overall performance of the Company; and
- recognize and reward individual performance and responsibility.

Base Compensation

The Company determines base salary based on a combination of factors, including comparable market data, experience, expertise, and job responsibilities. The Company's process for determining executive compensation is relatively simple and does not include formal targets, criteria or analysis. Salary levels are reviewed periodically and adjustments may be made, if warranted, after an evaluation of executive and Company performance, salary trends in the Company's business sector, and any increase in responsibilities assumed by the executive.

Short-Term Incentives

Bonuses for senior management are, with limited exceptions, discretionary and are intended to reward senior managers for exceptional performance that positively impacts the profitability and growth of the Company. Depending on the Company's financial and operating performance, performance-based bonuses may be awarded.

Long-Term Incentives

The long-term incentives are intended to align executive and shareholder interests by creating a strong and direct link between executive compensation and shareholder return, and to enable executive officers to develop and maintain a significant, long-term stock ownership position in the Company's common shares. Long-term incentives may be granted in the form of stock options which generally vest over several years of service with the Company. Further discussion follows in the section titled "Option-Based Awards."

Risk Considerations

As the Company does not have a bonus program in place for its employees generally, and any significant bonuses for the Named Executive Officers (as defined below in the section Summary Compensation Table) must be approved by the Board, the Board has not considered the implications of risks associated with the Company's compensation policies and practices. While the Board of Directors does not formally analyse risks associated with the Company's compensation policies and practices, these policies and practices do not include structural inconsistencies that are likely to unduly encourage or cause an executive officer to expose the Company to inappropriate or excessive risks.

Financial Instruments

No Named Executive Officer or director is permitted to purchase financial instruments to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the Named Executive Officer or Director.

Option-Based Awards

The Company does not have a formal stock option plan. Options for the purchase of common shares of the Company are granted from time to time to directors, officers, consultants and employees as an incentive. These options are long-term incentives that generally vest over several years of service with the Company. The options granted are exercisable at a price which is equal to or greater than the fair market value of the common shares at the date the options are granted. Options are granted in consideration of the level of responsibility of the employee as well as his or her impact or contribution to the long-term operating performance of the Company.

In determining the amount and frequency of such grants, a variety of factors are evaluated, including job level, and past, current and prospective services rendered. The Board also takes into account the number of options, if any, previously granted, and the exercise price of any outstanding options to ensure that such grants are in accordance with all applicable regulatory policies.

Summary Compensation Table

The following table sets forth all remuneration paid by the Company and its subsidiaries for the three most recently completed fiscal years to its Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and each of the three most highly compensated executive officers, whose total compensation was, individually, more than \$150,000 for the fiscal year (collectively the "Named Executive Officers" or NEOs).

These tables are presented in accordance with National Instrument Form 51-102F6 (Canada).

Name and Principal Position	Fiscal Year Ending	Salary (\$)	Share-based awards (\$)	Option-Based Awards ⁽¹⁾ (\$)	Non-Equity Annual Incentive Plans (\$)		All Other Compensation (\$)	Total Compensation (\$)
					Annual Incentive Plans	Long-Term Incentive Plans		
Ralph McRae Chairman, President and CEO	2014	nil	nil	nil	nil	nil	528,000 ⁽²⁾ 84,000 ⁽³⁾ 14,370 ⁽⁴⁾	626,370
	2013	nil	nil	nil	nil	nil	528,000 ⁽²⁾ 84,000 ⁽³⁾	612,000
	2012	nil	nil	nil	nil	nil	528,000 ⁽²⁾ 84,000 ⁽³⁾	612,000
Fei Xu⁽⁵⁾ Corporate Controller and Principal Financial Officer	2014	94,196	nil	nil	nil	nil	nil	94,196
	2013	82,000	nil	nil	nil	nil	nil	82,000
	2012	82,000	nil	nil	nil	nil	nil	82,000
Dave Read Executive Vice President	2014	nil	nil	nil	nil	nil	150,000 ⁽⁶⁾	150,000
	2013	nil	nil	nil	nil	nil	271,400 ⁽⁶⁾	271,400
	2012	nil	nil	nil	15,000	nil	245,350 ⁽⁶⁾	260,350
Sinan ALZubaidi Vice President of Bottling Operations	2014	167,801	nil	nil	33,500	nil	nil	201,301
	2013	168,610	nil	nil	28,917	nil	nil	197,527
	2012	151,691	nil	nil	28,500	nil	nil	180,191

- (1) The value of option awards reflects the grant date fair value of option based awards in the 2012, 2013, and 2014 fiscal years. The options are granted in U.S. dollars and are converted into Canadian dollars at the Bank of Canada closing rate as of the date of the options grant for accounting purposes.
- (2) McRae Ventures, Inc., a company of which Mr. McRae is also a director, received \$528,000 for consulting services provided by Mr. McRae.
- (3) BBI Holdings Inc., a company of which Mr. McRae is also a director, receives \$7,000 per month for consulting services provided by Mr. McRae.
- (4) Medical Reimbursement Plan
- (5)

Ms. Xu is the Corporate Controller of the Company. Since September 8, 2012, she has also served as the Company's Principal Financial Officer.

- (6) VE Services Ltd., a company owned by Mr. Read, received this amount for consulting services provided by Mr. Read.

The Company does not have formal employment or consulting agreements. Some executives are paid as employees of the Company and others are paid as consultants, who invoice the Company for their services.

Outstanding Option-Based Awards for Named Executive Officers

The following table sets forth information concerning all stock option awards outstanding at the end of the most recently completed fiscal year, including awards granted before the most recently completed fiscal year, to each of the Named Executive Officers. The Company has not granted any share-based awards.

<i>Name</i>	<i>Number of Securities Underlying Unexercised Options (#)</i>	<i>Option Exercise Price (\$USD)</i>	<i>Option Expiration Date</i>	<i>Value of Unexercised In-The-Money Options ⁽¹⁾ (\$USD)</i>
Ralph McRae	20,000	3.00	June 26, 2018	20,600
	245,000	2.45	June 1, 2020	387,100
Fei Xu	2,000	6.20	April 4, 2018	nil
	2,000	2.45	June 1, 2020	3,160
Dave Read	20,000	7.10	January 10, 2018	nil
	100,000	2.45	June 1, 2020	158,000
Sinan ALZubaidi	2,416	4.05	February 9, 2015	nil
	1,367	5.35	January 11, 2016	nil
	5,000	6.20	April 4, 2018	nil
	3,553	3.00	June 26, 2018	3,660
	25,000	2.45	June 1, 2020	39,500

- (1) This amount is calculated based on the difference between the market value of the Shares underlying the options at the end of the most recently completed fiscal year, which was USD\$4.03, and the exercise or base price of the option. The Shares are traded on the Nasdaq Capital Market in U.S. dollars. The effective exchange rate to convert from U.S. dollars to Canadian dollars at the end of the fiscal year was US\$1 = CAD\$1.0462.

The terms of the Company's stock options are discussed under the "Option-Based Awards" section above.

Option Exercises During the Most Recently Completed Fiscal Year

The following table sets out the number of options that were exercised by the Named Executive Officers during the most recently completed fiscal year.

<i>Name</i>	<i>Securities Acquired on Exercise (#)</i>	<i>Aggregate Value Realized⁽¹⁾ (\$USD)</i>
Sinan ALZubaidi	30,864	38,372

- (1) Based on the difference between the option exercise price and the closing market price of the Shares on the date of exercise.

Option Repricing

The Company did not reprice any stock options during the most recent fiscal year.

Value Vested or Earned During the Year

The following table sets out the value vested or earned of all stock options that vested during the most recently completed fiscal year for each of the Named Executive Officers:

Name	Option-Based Awards - Value Vested During The Year ⁽¹⁾ (\$USD)
Ralph McRae	883
Fei Xu	nil
Dave Read	nil
Sinan ALZubaidi	116

- (1) This amount is the dollar value that would have been realized as computed by obtaining the difference between the market price of the underlying Shares at exercise and the exercise or base price of the options under the option-based award on the vesting date. The actual value of the options granted to the Named Executive Officers will be determined based on the market price of the Shares at the time of exercise of such options, which may be greater or less than the value at the date of vesting referred to in the table above.

The Company does not have a formal stock option plan. Stock options generally vest over several years of service with the Company. The value vested during the year varies according to the vesting date and the market price of the underlying securities on a selected exercise date. In the Company's fiscal year ended February 28, 2014, 30,864 stock options were exercised by the Named Executive Officers.

Further details regarding stock options may be found in the sections above titled "Option-Based Awards for Named Executive Officers" and below titled "Outstanding Option-Based Awards for Directors".

Pension Plan Benefits

The Company does not have a pension plan or defined contribution plan that provides for payments or benefits to the Named Executive Officers at, following, or in connection with retirement.

Termination of Employment, Change in Responsibilities and Employment Contracts

The Company and its subsidiaries have no contracts, agreements, plans or arrangements that provide for payments to a Named Executive Officer at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, change in control of the Company or change in a Named Executive Officer's responsibilities. The local laws regarding termination and severance are assumed to apply.

Director Compensation

Directors who are not paid executives of the Company receive \$1,500 per quarter (pro-rated for those serving less than a full quarter) and \$500 for each Board meeting and committee meeting attended. Reference is made to the Summary Compensation Table above for details of compensation paid to directors who are also Named Executive Officers, in their capacity as executive officers of the Company. Directors are also compensated for their services in their capacity as directors by the granting from time to time of incentive stock options.

The following table sets forth all amounts of compensation provided to the directors, who are not Named Executive Officers, for the Company's most recently completed fiscal year:

<i>Director Name</i>	<i>Fees Earned (\$)</i>	<i>Share-based Awards (\$)</i>	<i>Option-Based Awards (\$)</i>	<i>Non-Equity Incentive Plan Compensation (\$)</i>	<i>All Other Compensation (\$)</i>	<i>Total (\$)</i>
James Corbett	9,500	nil	nil	nil	nil	9,500
Darryl Eddy	10,500	nil	nil	nil	nil	10,500
Stephen Fane	10,500	nil	nil	nil	nil	10,500
R. Thomas Gaglardi	7,000	nil	nil	nil	nil	7,000

Outstanding Option-Based Awards for Directors

Options for the purchase of Shares of the Company are granted from time to time to directors under the same terms as those granted to employees, and described above in "Option-Based Awards".

The following table sets forth information concerning all stock option awards outstanding at the end of the most recently completed fiscal year, including awards granted before the most recently completed fiscal year, to each of the directors. The Company has not granted any share-based awards.

<i>Director Name</i>	<i>Number of Securities Underlying Unexercised Options (#)</i>	<i>Option Exercise Price (\$USD)</i>	<i>Option Expiration Date</i>	<i>Value of Unexercised In-The-Money Options ⁽¹⁾ (\$USD)</i>
James Corbett	20,000	3.00	June 26, 2018	20,600
	10,000	3.50	Sept. 28, 2019	5,300
	50,000	2.45	June 1, 2020	79,000
Darryl Eddy	20,000	5.20	July 15, 2014	nil
	10,000	3.50	Sept. 28, 2019	5,300
	50,000	2.45	June 1, 2020	79,000
Stephen Fane	10,000	15.75	Oct. 4, 2017	nil
	20,000	3.00	June 26, 2018	20,600
	10,000	3.50	Sept. 28, 2019	5,300
	50,000	2.45	June 1, 2020	79,000

<i>Director Name</i>	<i>Number of Securities Underlying Unexercised Options (#)</i>	<i>Option Exercise Price (\$USD)</i>	<i>Option Expiration Date</i>	<i>Value of Unexercised In-The-Money Options ⁽¹⁾ (\$USD)</i>
R. Thomas	20,000	3.00	June 26, 2018	20,600
Gaglardi	10,000	3.50	Sept. 28, 2019	5,300
	50,000	2.45	June 1, 2020	79,000

(1) This amount is calculated based on the difference between the market value of the securities underlying the options at the end of the most recently completed fiscal year, which was USD\$4.03, and the exercise price of the option. The Company's shares are traded on the Nasdaq Capital Market in U.S. dollars. The effective exchange rate to convert from U.S. dollars to Canadian dollars at the end of the fiscal year was US\$1 = CAD\$1.0462.

No stock options were exercised by the directors during the most recently completed fiscal year, nor were any of the stock options repriced during that period.

Value Vested or Earned During the Year

The following table sets out the value vested or earned of all stock options that vested during the most recently completed fiscal year for each of the directors who are not Named Executive Officers:

Director Name	Option-Based Awards - Value Vested During The Year ⁽¹⁾ (\$USD)
James Corbett	2,168
Darryl Eddy	1,285
Stephen Fane	2,168
R. Thomas Gaglardi	2,168

(1) This amount is the dollar value that would have been realized as computed by obtaining the difference between the market price of the underlying Shares at exercise and the exercise or base price of the options under the option-based award on the vesting date. The actual value of the options granted to the Named Executive Officers will be determined based on the market price of the Shares at the time of exercise of such options, which may be greater or less than the value at the date of vesting referred to in the table above.

The Company does not have a formal stock option plan. Options granted generally vest over several years of service with the Company. The value vested during the year varies according to the vesting date and the market price of the underlying Shares on a selected exercise date. In the Company's fiscal year ended February 28, 2014, no stock options were exercised by directors. Further details regarding stock options may be found in the sections above titled "Outstanding Option-Based Awards for Named Executive Officers" and "Outstanding Option-Based Awards for Directors".

C. **Board Practices.**

1. The Company's Board of Directors has been set at five directors and is divided into three classes designated as Class I, Class II and Class III, to provide for a rotation of three year terms of office. Any director whose term has expired is eligible for re-election subject to Board approval.

The following table lists the current terms of office for the directors and the period during which the directors have served:

<u>Name</u>	<u>Class</u>	<u>Term of Office</u>	<u>Director Since</u>
Ralph D. McRae	I	July 2013 to Annual General Meeting ("AGM") 2016	March 1996
Darryl R. Eddy	I	July 2013 to AGM 2016	July 2009
James Corbett	II	June 2011 to AGM 2014	June 2008
Stephen K. Fane	III	June 2012 to AGM 2015	October 2007
R. Thomas Gagliardi	III	June 2012 to AGM 2015	October 1998

Three of the five current directors are independent based upon the tests for independence set forth in applicable Canadian and U.S. securities legislation. Ralph McRae is not independent as he is the Chairman, President and CEO of the Company. R. Thomas Gagliardi is not independent as he has beneficial ownership of more than 10% of the common shares of the Company.

2. There are no directors' service contracts with the Company or any of its subsidiaries providing for benefits upon termination of service.
3. *Audit Committee*

The members of the Company's audit committee are:

James Corbett
Darryl Eddy
Stephen Fane

All members of the audit committee are independent directors, are financially literate, and are considered financial experts as defined by the SEC. For details on their professional careers, see Item 6.-A. Directors, Senior Management and Employees .

The audit committee has a written charter which specifies the scope of its authority and responsibility. A copy of the Audit Committee Charter was previously filed as an exhibit to the Company's Annual Report on Form 20-F, filed on May 30, 2008, and is incorporated by reference. The audit committee reviews and re-assesses the adequacy of its written charter on an annual basis. The function of the audit committee is one of review and oversight. The committee also is responsible for monitoring the independence, qualifications and performance of the Company's external auditors, overseeing the audits of the Company's financial statements and approving any non-audit services. The committee reports to the Board of Directors from time to time with respect to its activities and its recommendations and provides background and supporting information as may be necessary for the Board of Directors to make an informed decision.

Nomination of Directors

The Board has adopted a charter for the Nominating and Corporate Governance Committee. The committee is currently comprised of the three independent directors (James Corbett, Darryl R. Eddy and Stephen K. Fane).

Pursuant to its charter, the responsibilities, powers and operation of the committee include, identifying and recommending new candidates for Board nomination; evaluating the effectiveness of the Board, its committees and its directors; monitoring and reviewing the Company's corporate governance practices and policies and make recommendations for changes when appropriate; and ensuring that a comprehensive orientation is received by new directors and that continuing education opportunities are available.

In connection with its responsibilities relating to Board nominations, the committee is responsible for identifying and recommending new candidates for nomination to the Board based upon: (i) the competencies and skills necessary for the Board as a whole to possess; (ii) the competencies and skills necessary for each individual director to possess; (iii) the competencies and skills which each new nominee to the Board is expected to bring; and (iv) whether the proposed nominee to the Board will be able to devote sufficient time and resources to the Company. Other members of the Board and representatives of the food and beverage industry are consulted for possible candidates.

The size of the Board is reviewed on a regular basis by the committee and the Board. The committee and the Board will take into account the number of directors required to carry out the Board's duties effectively, and to maintain a diversity of view and experience.

Compensation of Directors and the CEO

The independent directors have the responsibility for determining and reviewing compensation for the directors and senior management of the Company. Reference is made to the Compensation section above for further information.

Assessments

The Board conducts informal assessments of the Board's effectiveness, the individual directors and each of its committees on a regular basis. As part of the assessments, the Board reviews the mandates or charters and conducts reviews of applicable corporate policies.

As of May 16, 2014, the executive officer of Leading Brands, Inc. is:

Ralph D. McRae Chairman, President and Chief Executive Officer

D. *Employees.*

Following are the number of employees of the Company for the past three fiscal years as at the end of each fiscal year:

	February 28, 2014	February 28, 2013	February 29, 2012
Canada	79	95	86
United States	0	0	0

E. *Share ownership.*

Options to purchase common shares from the Company are granted from time to time to directors, officers and employees of the Company on terms and conditions acceptable to the Board of Directors.

As of May 16, 2014, the Company had 923,569 issued and outstanding options, with a weighted average exercise price of US\$3.055.

Of the total stock options granted, 918,229 have vested and are available for exercise as of May 16, 2014.

The following table provides share ownership information with respect to the directors and officers listed in "Item 6 Directors, Senior Management and Employees" above, as at May 16, 2014.

Name	Common Shares Held ⁽¹⁾ (#)	# of Common Shares under Options Granted	Date of Grant	Exercise Price (\$USD)	Expiration Date
Ralph McRae	185,626 (6.4%)	20,000 245,000	June 26, 2008	\$3.00	June 26, 2018
			June 1, 2010	\$2.45	June 1, 2020
James Corbett	<1%	20,000 10,000 50,000	June 26, 2008	\$3.00	June 26, 2018
			Sept. 28, 2009	\$3.50	Sept. 28, 2019
			June 1, 2010	\$2.45	June 1, 2020

Darryl R. Eddy	89,834 (3.1%)	20,000	July 15, 2004	\$5.20	July 15, 2014
		10,000	Sept. 28, 2009	\$3.50	Sept. 28, 2019
		50,000	June 1, 2010	\$2.45	June 1, 2020
Stephen K. Fane	<1%	10,000	October 4, 2007	\$15.75	October 4, 2017
		20,000	June 26, 2008	\$3.00	June 26, 2018
		10,000	Sept. 28, 2009	\$3.50	Sept. 28, 2019
		50,000	June 1, 2010	\$2.45	June 1, 2020
R. Thomas Gaglardi	419,125 ⁽²⁾ (14.4%)	20,000	June 26, 2008	\$3.00	June 26, 2018
		10,000	Sept. 28, 2009	\$3.50	Sept. 28, 2019
		50,000	June 1, 2010	\$2.45	June 1, 2020
Fei Xu	< 1%	2,000	Apr. 4, 2008	\$6.20	Apr. 4, 2018
		2,000	June 1, 2010	\$2.45	June 1, 2020
Dave Read	< 1%	20,000	Jan. 10, 2008	\$7.10	Jan. 10, 2018
		100,000	June 1, 2010	\$2.45	June 1, 2020
Sinan ALZubaidi	< 1%	2,416	Feb. 9, 2005	\$4.05	Feb. 9, 2015
		1,367	Jan. 11, 2006	\$5.35	Jan. 11, 2016
		5,000	Apr. 4, 2008	\$6.20	Apr. 4, 2018
		3,553	June 26, 2008	\$3.00	June 26, 2018
		25,000	June 1, 2010	\$2.45	June 1, 2020

(1) The information as to number of shares beneficially owned (directly or indirectly or over which control or direction is exercised) is not within the direct knowledge of the management of the Company and has been furnished by the respective director or officer.

(2) 404,125 of these shares are held by Northland Properties Corporation, a company affiliated with Mr. Gaglardi. Further information regarding stock options with respect to the directors and officers may be found in the sections above, titled Outstanding Option-Based Awards for Named Executive Officers and Outstanding Awards for Directors.

There are no other arrangements involving the employees in the capital of the Company.

Item 7. Major Shareholders and Related Party Transactions

A. Major shareholders.

As at May 16, 2014, the Company had 2,912,997 common shares without par value issued and outstanding.

1. Following are the shareholders that are the beneficial owners of 5% or more of the Company's voting securities, as of May 16, 2014:

(a)

Shareholder	Number of Shares	Percentage of Issued Capital
R. Thomas Gaglardi/ Northland Properties Corporation ⁽¹⁾	419,125	14.4%
Milwaukee Private Wealth Management, Inc.	263,424	9.04%
Salzhauer family	191,769	6.6%
Ralph McRae	185,626	6.4%

(1) Northland Properties Corporation is an affiliate of R. Thomas Gaglardi, a director of Leading Brands, Inc. 404,125 of Mr. Gaglardi's Shares are held by Northland Properties Corporation.

- (b) There has been no significant change in the percentage ownership held by any major shareholders during the past three fiscal years.
- (c) The Company's major shareholders do not have different voting rights than other shareholders.
2. The Company's register of 260 members showed that as of May 16, 2014, 1,690,544 of the Company's common shares, or 58%, were held by 220 registered shareholders residing in the United States. The register includes Cede and Co., an American depository holding shares on behalf of beneficial shareholders.
3. To the Company's knowledge, the Company is not owned or controlled, directly or indirectly, by another corporation, any foreign government, or by any other natural or legal persons.
4. To the Company's knowledge, there are no arrangements the operation of which at a subsequent date may result in a change in control of the Company. A substantial number of common shares of the Company are held by depositories, brokerage firms and financial institutions in street form.

B. *Related party transactions.*

1. The Company has not at any time during the period since the beginning of the last fiscal year to May 16, 2014 been a party to any material transactions in which any director or officer of the Company, or any relative or spouse, or any relative of any such spouse, has any direct or indirect material interest except as follows:
 - a) A company with a director in common with the Company provided consulting service in the amount of \$84,000.
 - b) A company with a director in common with the Company provided professional service in the amount of \$528,000.
 - c) A company with a director in common with the Company supplied sales and marketing services in the amount of \$80,900.
 - d) A company with a director in common with the Company supplied bottling services in the amount of \$111,519.
 - e) A company with a director in common with the Company provided consulting service in the amount of \$150,000.
 - f) Companies with a director in common with the Company supplied hotel and restaurant services in the amount of \$4,352.
 - g) Companies with a director in common with the Company supplied garbage services in the amount of \$1,003.

The Company believes that the services described above were provided to the

Company on a basis not less favorable than would be provided to an unrelated third party.

2. There are no outstanding loans or guarantees made by the Company or any of its subsidiaries to or for the benefit of any of the persons listed above.

C. *Interest of experts and counsel.*

This Item is not applicable for an Annual Report.

Item 8. Financial Information

A. *Consolidated Statements and Other Financial Information.*

Please see Item 18 - Financial Statements for a list of the financial statements filed as part of this Annual Report.

A-7.Legal Proceedings

The Company is subject to certain legal proceedings and claims that arise in the ordinary course of its business, none of which are expected to have significant effects on the Company's financial position, profitability, or cash flows.

A-8.Dividend Distributions

The Company intends to consider dividend distributions when it determines that it cannot realize better returns to investors by investing internally.

B. Significant Changes.

There have been no significant changes since the date of the annual financial statements.

Item 9. The Offer and Listing.**A. Offer and listing details.**

Following is information regarding the price history of the Company's common shares on the NASDAQ Capital Market, in U.S. dollars. These amounts have been adjusted to reflect the 5:1 share consolidation that became effective on February 2, 2010.

- (a) For the five most recent full fiscal years:

Period	High \$	Low \$
March 1, 2013 to Feb. 28, 2014	5.83	3.30
March 1, 2012 to Feb. 28, 2013	4.50	3.26
March 1, 2011 to Feb. 29, 2012	4.50	2.04
March 1, 2010 to Feb. 28, 2011	4.10	1.25
March 1, 2009 to Feb. 28, 2010	4.25	0.28

- (b) For each full financial quarter of the two most recent full fiscal years:

Period	High \$	Low \$
4 th Quarter Dec. 1, 2013 Feb. 28, 2014	4.32	3.80
3 rd Quarter Sept. 1, 2013 Nov. 30, 2013	5.18	3.60
2 nd Quarter June 1, 2013 Aug. 31, 2013	5.83	3.33

1 st Quarter Mar. 1, 2013 May 31, 2013	4.88	3.30
4 th Quarter Dec. 1, 2012 Feb. 28, 2013	4.20	3.26
3 rd Quarter Sept. 1, 2012 Nov. 30, 2012	4.35	3.71
2 nd Quarter June 1, 2012 Aug. 31, 2012	4.47	3.80
1 st Quarter Mar. 1, 2012 May 31, 2012	4.50	3.33

(c) for the most recent six months:

Period	High \$	Low \$
April 1 - 30, 2014	4.19	3.88
March 1 31, 2014	4.04	3.88
February 1 28, 2014	4.04	3.87
January 1 31, 2014	4.28	3.85
December 1 31, 2013	4.32	3.80
November 1 30, 2013	4.35	3.87

C. *Markets.*

The Company's common shares have been quoted on the NASDAQ Capital Market (formerly called the NASDAQ Small-cap Market) since August 3, 1993. The ticker symbol is LBIX.

Item 10. Additional Information.

A. *Share capital*

This item is not applicable for an Annual Report.

B. *Memorandum and articles of association.*

The Notice of Articles relating to the consolidation of the Company's common shares and the increase in authorized share capital that were filed with the British Columbia Registry Services on February 1, 2010 were filed on a Form 6-K on February 3, 2010.

All other information required by this Item 10.B was previously reported to the SEC in the Company's registration statement on Form F-3, filed on September 24, 2007, and is incorporated by reference.

C. *Material contracts.*

There are no additional material contracts.

D. *Exchange controls.*

Canada has no system of exchange controls. There are no exchange restrictions on borrowing from foreign countries or on the remittance of dividends, interest, royalties and similar payments, management fees, loan repayments, settlement of trade debts, or the repatriation of capital. Any such remittances to U.S. residents, however, may be subject to withholding tax.

E. *Taxation.*

A brief and general description is included below of certain taxes, including withholding taxes, to which U.S. security holders may be subject under the existing tax laws and regulations of Canada. The consequences, if any, of provincial taxes are not considered.

Please note that the following information is a brief summary only and security holders should seek the advice of their own tax advisors with respect to the applicability or effect on their own individual circumstances of the matters referred to herein and of any U.S. federal, state or local taxes.

Taxation on Dividends

Generally, cash dividends paid or deemed to be paid by a Canadian-corporation to non- resident shareholders are subject to a withholding tax of 25% (unless an income tax convention applies to reduce the withholding tax rate to some other amount). Dividends paid to U.S. residents are subject to a withholding tax of 15%, and dividends paid to a U. S. resident company which owns 10% or more of the voting shares of the Canadian corporation are subject to a withholding tax of 5%. Dividends paid by a Canadian corporation to shareholders residing in Canada are not subject to withholding tax.

Taxation on Capital Gains

Generally, the disposition by a non-resident of shares of a Canadian public corporation is not subject to Canadian income tax, unless such shares are taxable Canadian property within the meaning of the Income Tax Act (Canada) and no relief is afforded under any applicable tax treaty. The shares of the Company would be taxable Canadian property of a non-resident purchaser if the non-resident purchaser used the shares in carrying on a business in Canada, or if the non-resident, together with persons with whom he does not deal at arm's length, owned 25% or more of the issued shares of any class of the capital stock of the Canadian corporation at any time during the five-year period immediately preceding the disposition.

In addition, Canada may tax capital gains realized by an individual resident in the United States on the disposition of shares of a Canadian corporation if the following conditions are met:

the individual was resident in Canada for 120 months during any period of 20 consecutive years preceding, and at any time during the 10 years immediately preceding, the disposition of shares; and

the individual owned the shares when he ceased to be resident in Canada.

Holders of common shares of the Company should seek independent advice from their own professional tax advisers with respect to the income tax consequences arising from the holding of common shares of the Company.

F. *Dividends and paying agents.*

This item is not applicable for an Annual Report.

G. *Statement by experts.*

This item is not applicable for an Annual Report.

H. *Documents on display.*

Copies of documents concerning the Company, which are referred to in this Annual Report, are available for inspection at the head office of the Company located at Unit 101 - 33 W. 8th Avenue, Vancouver BC Canada V5Y 1M8.

I. *Subsidiary Information.*

This item is not applicable for an Annual Report.

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

The Company's primary market risk exposure is risk related to interest rates from changes in the Canadian prime rate of its lenders under its Revolving Facility.

The table below shows the long-term debt whose fair value is subject to market risk as interest rates change.

FIXED INTEREST RATE

LONG TERM DEBT	Lease
Interest Rate	6.125%
Principal at February 28, 2014	\$75,027
Principal payments by year:	
2014	75,027

2015	-
2016	-
2017	-
2018 and thereafter	-
TOTAL	\$75,027

The fair value of this debt decreases as market interest rates increase. The fair value of this debt approximates book value as at February 28, 2014

Currency risk

The Company concludes sales in U.S. dollars to customers in the U.S. and other foreign countries. The Company also purchases raw materials as well as equipment in U.S. dollars. Consequently, it is exposed to the risk of exchange rate fluctuations with respect to the receivable and payable balances denominated in U.S. dollars. The Company has not hedged its exposure to currency fluctuations.

At February 28, 2014, the Company's cash balances included \$158,600 denominated in EURO dollars (2013 - \$Nil).

At February 28, 2014, the Company's cash balances included \$179,600 denominated in U.S. dollars (2013 - \$4,000), accounts receivable balances included \$Nil denominated in U.S. dollars (2013 - \$44,000), and the Company's accounts payable and accrued liabilities balance included \$166,000 denominated in U.S. dollars (2013 - \$206,000).

As at February 28, 2014, all other factors being equal, a 5% U.S. dollar rise per Canadian dollar would have an unfavourable impact of approximately \$25,000 on net earnings for the year. A 5% U.S.-to-Canadian dollar decrease would have a positive impact of similar magnitude.

Item 12. Description of Securities Other than Equity Securities.

This item is not applicable for an Annual Report, except for Item 12.D.3 and Item 12.D.4. The Company does not have securities represented by American Depositary Receipts.

P A R T II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

A. On June 30, 2010, the Company's shareholders approved an amended and restated shareholder rights plan agreement. A copy of this agreement was filed with the SEC on a Form 6-K on July 2, 2010 and is incorporated by reference. The Company has had a shareholders rights plan in place since 1991.

On February 2, 2010, a 5:1 consolidation of the Company's common shares, also known as a reverse stock split, became effective. Fractional shares were rounded to the nearest whole number. In connection with the share consolidation, the Company increased its authorized number of common shares to 500,000,000 common shares.

The documents relating to the share consolidation were filed with the SEC on a Form 6-K on February 3, 2010 and are incorporated by reference.

- B. There were no material modifications to any class of securities during the fiscal year ended February 28, 2014.
- C. There has been no material withdrawal or substitution of assets securing any class of registered securities of the Company.
- D. There has been no change of trustee or paying agent for any registered securities.
- E. This item is not applicable.

Item 15. Controls and Procedures.

Disclosure Controls and Procedures

Based on their evaluation as of February 28, 2014, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is:

recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms regarding required disclosure; and

accumulated and communicated to the Company's management, including the Chief Executive Officer and principal financial officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's system of internal controls is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Management recognizes that effective internal control over financial reporting may nonetheless not prevent or detect all possible misstatements or frauds. Also, 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 policies or procedures may deteriorate.

As part of its evaluation of the effectiveness of its internal control over financial reporting as required by paragraph (c) of Rules 13a-15 or 15d-15 of the Exchange Act, the Company utilized the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework (1992). The Company annually reviews the final documentation to ensure that controls are still functioning as described and serving the purposes for which they were designed.

Management has assessed the effectiveness of the Company s internal control over financial reporting as of the fiscal year ended February 28, 2014. Based on this evaluation, management concluded that the Company s internal control over financial reporting is effective as of the fiscal year ended February 28, 2014.

This Annual Report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management s report in this Annual Report.

Changes in internal control over financial reporting

There has been no change in the Company s internal control over financial reporting that occurred during the Company s fiscal year ended February 28, 2014 that has materially affected or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert.

The Company s Board of Directors has determined that all three members of its Audit Committee, James Corbett, Darryl Eddy and Stephen Fane, satisfy the requirements of audit committee financial expert. All members of the Audit Committee are independent directors. For details on their professional careers, and for further information regarding the Company s Audit Committee, see Item 6.A and Item 6.C above.

Item 16B. Code of Ethics.

The Company has adopted a Code of Business Conduct and Ethics (the Code of Ethics) that applies to the Company s directors, officers and employees. A copy of this Code of Ethics was filed with the SEC on June 1, 2005 and is incorporated by reference. Copies will be provided at no charge upon request to the Company at Unit 101 - 33 W. 8th Avenue, Vancouver BC Canada V5Y 1M8, or electronically to info@Lbix.com.

There were no amendments or waivers to the Code of Ethics during the most recently completed fiscal year.

Item 16C. Principal Accountant Fees and Services.

- a) **Audit Fees** Audit fees billed for the fiscal years ended February 28, 2014 and February 28, 2013 totaled \$80,000 and \$95,750 respectively.
- b) **Audit-Related Fees** No audit-related fees were billed for the fiscal years ended February 28, 2014 and February 28, 2013.
- c) **Tax Fees - Tax fees** billed for the fiscal years ended February 28, 2014 and February 28, 2013 totaled \$11,445 and \$26,488 respectively for tax compliance, advice and planning.
- d) **All Other Fees** No other fees were billed for the fiscal years ended February 28, 2014 and February 28, 2013.
- e) The Audit Committee approves all audit, audit-related services, tax services and other services provided by BDO Canada LLP. Any services provided by BDO Canada LLP that are not specifically included within the scope of the audit must be pre-approved by the Audit Committee in advance of any engagement. Under the Sarbanes-Oxley Act of 2002, audit committees are permitted to approve certain fees for audit-related services, tax services and other services pursuant to a de minimus exception prior to the completion of an audit engagement. None of the fees paid to BDO Canada LLP were approved pursuant to the de minimus exception.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

None.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Tender Offer

On June 18, 2012, the Company completed its previously announced modified Dutch Auction tender offer. In accordance with the terms and conditions of the tender offer, Leading Brands purchased an additional 2% of its outstanding shares and accepted for purchase 259,854 of its common shares at a price of US\$4.10 per share, for an aggregate cost of approximately \$1,096,511 (US\$1,065,400), plus fees and expenses of \$174,603 relating to the tender offer. These shares represented approximately 8% of Leading Brands then-outstanding common shares.

Share Buyback

From the fiscal year ended February 28, 2010 through to February 28, 2014, the Company's Board of Directors authorized a share repurchase program for the repurchase of up to US\$3,500,000 of the Company's outstanding common shares. A total of 48,348 common shares were purchased during the fiscal year ended February 28, 2014 for a total cost of \$224,992 (US\$215,395). All shares repurchased in the fiscal year have been returned to treasury.

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The following table provides details of the Company's share repurchases during the fiscal year ended February 28, 2014.

Period	Total Number of Shares Purchased	Average Price Paid per Share		Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Program
		USD\$	CAD\$		
Month #1 March 1 - 31, 2013	nil	n/a	n/a	nil	-
Month #2 April 1 - 30, 2013	nil	n/a	n/a	nil	-
Month #3 May 1 - 31, 2013	18,996	4.56	4.70	18,996	-
Month #4 June 1 - 30, 2013	nil	n/a	n/a	nil	-
Month #5 July 1 - 31, 2013	2,969	5.14	5.30	2,969	-
Month #6 August 1 - 31, 2013	2,200	5.21	5.40	2,200	-
Month #7 September 1 - 30, 2013	nil	n/a	n/a	nil	-
Month #8 October 1 - 31, 2013	13,520	4.31	4.49	13,520	-
Month #9 November 1 - 30, 2013	3,963	4.06	4.25	3,963	-
Month #10 December 1 - 31, 2013	nil	n/a	n/a	nil	-
Month #11 January 1 - 31, 2014	3,800	4.04	4.45	3,800	-
Month #12 February 1 - 28, 2014	<u>2,900</u>	3.93	4.34	<u>2,900</u>	-
Total	48,348	4.44	4.63	48,348	US\$601,981

(a) The share repurchase program was originally announced in a news release on September 9, 2009, followed by additional news releases on November 19, 2010, February 15, 2011, April 29, 2011, September 29, 2011, January 12, 2012, June 19, 2012, July 12, 2012 and July 11, 2013.

(b)

The total dollar amount approved for the share repurchase program in the years ended February 28, 2010, February 28, 2011, February 29, 2012, February 28, 2013 and February 28, 2014 was US\$3,500,000.

(c) The share repurchase plan does not have an expiration date.

Item 16F. Change in Registrant's Certifying Accountant

None.

Item 16G. Corporate Governance

The NASDAQ Rules provide that foreign private issuers may follow home country practice in lieu of the NASDAQ corporate governance requirements, subject to certain exceptions and requirements and except to the extent that such exemptions would be contrary to U.S. federal securities laws and regulations. The Company has chosen to comply with the NASDAQ corporate governance rules as though it was a U.S. company, except for Rule 5635(c), requiring shareholder approval of equity compensation arrangements and Rule 5605(d) regarding Compensation Committees. The Company has notified NASDAQ that it has elected to follow British Columbia practice in lieu of these Nasdaq rules.

Item 16H. Mine Safety Disclosure

Not applicable.

P A R T III

Item 17. Financial Statements.

Not applicable.

Item 18. Financial Statements.

The following financial statements for the year ended February 28, 2014 are included in this report:

- (a) Balance sheets
- (b) Statements of Comprehensive Income
- (c) Statements of Cash Flows
- (d) Statements of Changes in Shareholders' Equity
- (e) Notes to the Consolidated Financial Statements

Leading Brands, Inc.
Consolidated Financial Statements
February 28, 2014 and February 28, 2013
(Expressed in Canadian Dollars)

Independent Auditors Report
Consolidated Financial Statements

Balance Sheets
Statements of Comprehensive Income
Statements of Cash Flows
Statements of Changes in Shareholders Equity
Notes to the Consolidated Financial Statements

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BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

Independent Auditors Report

To the Shareholders of Leading Brands, Inc.

We have audited the accompanying consolidated financial statements of Leading Brands, Inc. which comprise the Consolidated Balance Sheets as at February 28, 2014 and February 28, 2013 and the Consolidated Statements of Comprehensive Income, Cash Flows and Changes in Shareholders Equity for each of the years in the three-year period ended February 28, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with United States Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Leading Brands, Inc. as at February 28, 2014 and February 28, 2013 and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 2014, in accordance with United States Generally Accepted Accounting Principles.

/s/ BDO CANADA LLP
Chartered Accountants

Vancouver, Canada
May 27, 2014

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Leading Brands, Inc.
Consolidated Balance Sheets
(Expressed in Canadian Dollars)

As at	Feb. 28, 2014	Feb. 28, 2013
Assets		
Current		
Cash	\$ 2,393,784	\$ 53,352
Accounts receivable	499,337	754,404
Inventory (Note 2)	586,513	1,079,590
Prepaid expenses and deposits (Note 4)	173,841	307,157
	3,653,475	2,194,503
Property, plant and equipment (Note 3)	9,334,800	9,524,643
Deferred tax assets (Note 10)	2,152,567	2,407,975
Total Assets	\$ 15,140,842	\$ 14,127,121
Liabilities and Shareholders Equity		
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 1,961,419	\$ 1,921,025
Current portion of long-term debt	75,027	143,347
	2,036,446	2,064,372
Long-term debt (Note 5)	-	75,027
Derivative Liability non-employee stock options (Note 9)	284,195	244,891
	2,320,641	2,384,290
Shareholders Equity		
Share Capital		
Authorized (Note 7(a))		
500,000,000 common shares without par value		
20,000,000 preferred shares without par value		
Issued		
2,912,997 common shares (2013 2,930,481)	32,713,370	33,096,167
Additional paid-in capital	18,361,758	18,064,886
Accumulated other comprehensive income - currency translation adjustment	577,916	577,916
Accumulated deficit	(38,832,843)	(39,996,138)
	12,820,201	11,742,831
Total Liabilities and Shareholders Equity	\$ 15,140,842	\$ 14,127,121

Approved on behalf of the Board:

_____/s/ Ralph Director
McRae_____

_____/s/ Stephen K. Director
Fane_____

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Leading Brands, Inc.
Consolidated Statements of Comprehensive Income
(Expressed in Canadian Dollars)

For the year ended	Feb. 28, 2014	Feb. 28, 2013	Feb. 29, 2012
Gross Sales	\$ 15,952,929	\$ 18,365,871	\$ 19,456,505
Less: Discounts, rebates and slotting fees	(639,461)	(1,125,529)	(1,052,453)
Net Sales	15,313,468	17,240,342	18,404,052
Expenses (income)			
Cost of sales (excluding depreciation shown separately below)	8,408,558	10,832,783	11,287,079
Selling, general and administrative	4,682,576	4,740,375	4,656,298
Depreciation of property, plant and equipment	753,210	681,045	676,464
Interest on long-term debt	9,396	17,891	114,902
Interest on current debt	78	274	725
Foreign exchange loss	6,560	593	4,666
Interest income	(7,012)	(2,908)	(8,216)
Change in fair value of derivative liability	39,304	(18,252)	17,160
Loss on disposal of assets	2,095	90,585	11,013
	13,894,765	16,342,386	16,760,091
Income before income tax	1,418,703	897,956	1,643,961
Income tax provision (Note 10)	255,408	306,652	93,103
Net and Comprehensive income	\$ 1,163,295	\$ 591,304	\$ 1,550,858
Earnings per share			
Basic	\$ 0.40	\$ 0.20	\$ 0.46
Diluted (Note 7(e))	\$ 0.37	\$ 0.17	\$ 0.44
Weighted average common shares outstanding			
Basic	2,929,722	3,012,647	3,368,751
Diluted (Note 7(e))	3,246,223	3,314,762	3,541,859

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Leading Brands, Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

For the year ended **Feb. 28, 2014** Feb. 28, 2013 Feb. 29, 2012

Cash provided by (used in)

Operating activities

Net income	\$ 1,163,295	\$ 591,304	\$ 1,550,858
Items not involving cash			
Depreciation of property, plant and equipment	753,210	681,045	676,464
Amortization of leasehold inducement (Note 6)	-	(24,491)	(25,560)
Loss on disposal of assets	2,095	90,585	11,013
Stock based compensation (Note 8)	54,471	151,916	414,822
Change in derivative liability (Note 9)	39,304	(18,252)	17,160
Deferred income tax provision	255,408	306,652	93,103
Changes in non-cash operating working capital			
Accounts receivable, net	255,067	(32,017)	8,497
Inventory, net	493,077	202,063	(306,914)
Prepaid expenses and other assets	133,316	(56,251)	(72,991)
Accounts payable	40,394	65,206	265,958
	3,189,637	1,957,760	2,632,410

Investing activities

Purchase of property, plant and equipment	(565,015)	(1,496,572)	(401,719)
Proceeds on disposal of assets	-	21,955	561
	(565,015)	(1,474,617)	(401,158)

Financing activities

Repurchase of common shares	(224,992)	(1,544,342)	(1,168,764)
Proceeds from issuance of common shares	84,596	59,553	19,251
Repayment of long-term debt	(143,347)	(134,852)	(1,762,800)
	(283,743)	(1,619,641)	(2,912,313)

Increase (Decrease) in cash and cash equivalents **2,340,879** **(1,136,498)** **(681,051)**

Effect of exchange rates on cash **(447)** **311** **(10)**

Cash and cash equivalents, beginning of year **53,352** **1,189,539** **1,870,600**

Cash and cash equivalents, end of year **\$ 2,393,784** **\$ 53,352** **\$ 1,189,539**

**Supplementary disclosure of cash flow
Information**

Cash paid (received) during the year			
Interest received	\$ (7,012)	\$ (2,098)	\$ (8,216)

Interest paid	9,474	18,165	79,061
Income taxes	-	-	-

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Leading Brands, Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Common Stock		Treasury Stock	Additional Paid-In Capital	AOCI	Accum. Deficit	Total Shareholders' Equity
	Shares	Amount					
Balance at February 28, 2011	3,579,249	\$ 40,607,350	\$ (19,536)	\$ 12,640,803	\$ 577,916	\$ (42,138,300)	\$ 11,668,233
Net income						1,550,858	1,550,858
Exercise of stock options	7,400	39,192		(19,941)			19,251
Shares repurchased under provisions of the share repurchase plan			(3,948,956)	2,780,192			(1,168,764)
Shares cancelled	(349,981)	(3,968,492)	3,968,492				-
Stock based compensation expense (Note 8)				414,822			414,822
Balance at February 29, 2012	3,236,668	\$ 36,678,050	\$ -	\$ 15,815,876	\$ 577,916	\$ (40,587,442)	\$ 12,484,400
Net income						591,304	591,304
Exercise of stock options	20,000	112,449		(52,896)			59,553
Shares repurchased under provisions of the share repurchase plan			(3,694,332)	2,149,990			(1,544,342)
Shares cancelled	(326,187)	(3,694,332)	3,694,332				-
Stock based compensation expense (Note 8)				151,916			151,916
Balance at February 28, 2013	2,930,481	\$ 33,096,167	\$ -	\$ 18,064,886	\$ 577,916	\$ (39,996,138)	\$ 11,742,831
Net income						1,163,295	1,163,295
	30,864	160,158		(75,562)			84,596

Exercise of stock options						
Shares repurchased under provisions of the share repurchase plan		(542,955)	317,963		(224,992)	
Shares cancelled	(48,348)	(542,955)	542,955			-
Stock based compensation expense (Note 8)				54,471		54,471
Balance at February 28, 2014	2,912,997	\$ 32,713,370	\$ -	\$ 18,361,758	\$ 577,916	\$ (38,832,843)
						\$ 12,820,201

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

1. Operations and Summary of Significant Accounting Principles

Nature of Operations Leading Brands, Inc. (the Company) and its subsidiaries are involved in the development, production, marketing and distribution of the Company's branded beverage brands and bottling for third parties.

The Company sells branded beverage products through its Integrated Distribution System (IDS) of distributors, wholesalers, and grocery chains. Its principal product lines include juices and other premium beverages. The bottling plant provides bottling services for the Company's own products and for an external customer. The Company also uses the services of third party bottlers as required to meet its objectives.

Basis of Presentation The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes.

On an ongoing basis, the Company evaluates its estimates, including those related to inventories, trade receivables, useful lives of property, plant and equipment, income taxes, and stock-based compensation, among others. The reported amounts and note disclosure are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. Actual results could differ from those estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Foreign Currency Translation The Company's functional and reporting currency is the Canadian dollar. Foreign-currency denominated transactions are translated at the rate of exchange prevailing at the time of the transaction. Monetary assets and liabilities have been translated into Canadian dollars at the year-end exchange rate. All such exchange gains and losses are included in the determination of income.

Cash and Cash Equivalents Amounts recognized as cash and cash equivalents include investments of surplus cash in highly liquid securities with maturities at date of purchase of three months or less.

Accounts Receivable Accounts receivable invoices are recorded when the products are delivered and title transfers to customers or when bottling services are performed and collection of related receivables is reasonably assured. Allowances for doubtful accounts are based primarily on historical write-off experience. Account balances that are deemed uncollectible are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Allowances for doubtful accounts of \$51,579 and \$124,672 as of February 28, 2014 and February 28, 2013, respectively, are netted against accounts receivable.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

1. Operations and Summary of Significant Accounting Principles (continued)

Accounts Receivable (continued)	Allowances for Doubtful Accounts	2014	2013	2012
	Balance at beginning of year	\$ 124,672	\$ 43,353	\$ 24,227
	Bad debt provision	-	95,838	35,925
	Write-off of receivables	(73,093)	(14,519)	(16,799)
	Balance at end of year	\$ 51,579	\$ 124,672	\$ 43,353

Inventory Raw materials and finished goods purchased for resale are valued at the lower of cost, determined on a first-in, first-out basis, and market value. Finished goods, produced from manufacturing operations, are valued at the lower of standard cost which approximates average cost of raw materials, direct labour and overhead and market value. The provisions for obsolete or excess inventory are based on estimated forecasted usage of inventories. A significant change in demand for certain products as compared to forecasted amounts may result in recording additional provisions for obsolete inventory. Provisions for obsolete or excess inventory are recorded as cost of goods sold.

Property, plant and equipment Property, plant and equipment are recorded at cost and are amortized using the declining-balance method at annual rates as follows:

	7% -
Plant and equipment	20%
Buildings	5%
Automotive equipment	20%
Land improvements	8%
Furniture, fixtures, computer hardware and software	20%

Leasehold improvements are amortized over the lesser of their expected life or the lease term.

Management reviews property, plant and equipment for impairment when conditions exist that indicate the carrying amount of the assets may not be fully recoverable. If required an undiscounted operating cash flow analysis is completed to determine if impairment exists. When testing for impairment of assets held for use, assets and liabilities are grouped at the lowest level for which cash flows are separately identifiable. If impairment is determined to exist, the loss is calculated based on estimated fair value.

Leases Leases are classified as either capital or operating in nature. Capital leases are those which substantially transfer the benefits and risks of ownership to the lessee. Obligations recorded under capital leases are reduced by the principal portion of lease payments. The imputed interest portion of the lease payment is charged to expense.

Revenue Recognition Revenue on sales of products is recognized when the products are delivered and title transfers to customers. Revenues from the provision of manufacturing, packaging or other services are recognized when the services are performed and collection of related receivables is reasonably assured. The Company records shipping and handling revenue as a component of sales revenue, and shipping and handling costs are included in the cost of sales.

Incentives offered to customers including rebates, cash discounts, volume discounts, and slotting fees are recorded as a reduction of net sales when sales are recognized.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

1. Operations and Summary of Significant Accounting Principles (continued)

Advertising Costs Advertising costs, which also include samples, trade show, product demo, media promotion costs are expensed as incurred. During the years ended February 28 2014, February 28, 2013 and February 29, 2012, the Company incurred advertising costs of \$509,433, \$646,915 and \$419,070, respectively.

Earnings (loss) per common share Basic EPS is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS gives effect to all dilutive potential common shares outstanding during the year including stock options and warrants using the treasury stock method. In computing diluted EPS, the average stock price for the year is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants.

Stock-Based Compensation Compensation costs are charged to the Consolidated Statements of Comprehensive Income. Compensation costs for employees are amortized over the period from the grant date to the date the options vest. Compensation expense for non-employees is recognized immediately for past services and pro-rata for future services over the service provision period. Compensation for non-employees is re-measured at each balance sheet date until the earlier of the vesting date or the date of completion of the service. Upon exercise of stock options, the consideration paid by the option holder, together with the amount previously recognized in additional paid-in capital, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of stock options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Changes in fair value of options granted to non-employees that are accounted for as liabilities are recognized as stock compensation until fully vested, and after that time as change in fair value.

Income Tax Deferred income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates by tax jurisdiction when these differences are expected to be realized. Deferred income tax assets also result from unused loss carry-forwards and other deductions. The valuation of deferred income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. Significant management judgement is required in determining the provision for income taxes, the deferred income tax assets and liabilities and any valuation allowance recorded against the net future income tax assets. Management evaluates all available evidence, such as recent and expected future operating results by tax jurisdiction, and current and enacted tax legislation and other temporary differences between book and tax accounting to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Management has determined certain of these deferred tax assets do not meet the more likely than not criteria, and accordingly, these deferred income tax asset

amounts have been partially offset by a valuation allowance (Note 10). No reserves for an uncertain tax position have been recorded for the years ended February 28, 2014 or February 28, 2013.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

1. Operations and Summary of Significant Accounting Principles (continued)

Comprehensive Income Comprehensive income includes both net earnings and other comprehensive income which are presented in a single continuous statement.

Fair Value Measurements The book value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of those instruments. Based on borrowing rates currently available to the Company under similar terms, the book value of long term debt and capital lease obligations approximate their fair values. The fair value hierarchy under US GAAP is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - observable inputs other than Level I, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 - assets and liabilities whose significant value drivers are unobservable by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company had certain financial liabilities required to be recorded at fair value on a recurring basis in accordance with US GAAP. As at February 28, 2014 and February 28, 2013, the derivative liability on non-employee stock options is a financial liability classified for Level 3 fair value measurement. See Note 14 for more information.

Recent Accounting Pronouncements In April 2014, the Financial Accounting Standards Board (the FASB) amended the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity s operations and financial results. The provisions of the new guidance were effective prospectively as of the beginning of the fiscal years ended after December 15, 2014. The Company is currently evaluating the impact of the new guidance on our financial statements.

In July 2013, the FASB issued guidance on the presentation of unrecognized tax benefits which better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carry forwards, similar tax losses, or tax credit carry forwards exist. The provisions of the new guidance were effective prospectively as of the beginning of the fiscal years ended after December 15, 2014. The Company is currently evaluating the impact of the new guidance on our financial statements.

In February 2013, the FASB issued guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements. The provisions of the new guidance were effective prospectively as of the beginning of the fiscal years ended after December 15, 2013. The Company adopted this standard, and it did not materially impact the consolidated financial statements.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

2. Inventory

	2014	2013
Finished goods, net	\$ 219,842	\$ 526,810
Raw materials	366,671	552,780
	\$ 586,513	\$ 1,079,590

The ending balance above includes a total inventory obsolescence provision of \$100,058 as at February 28, 2014 (2013 - \$129,106).

Inventory Obsolescence Provision	2014	2013	2012
Balance at beginning of year	\$ 129,106	\$ 115,413	\$ 117,320
Obsolescence provision	156,000	242,717	88,883
Write-off of inventory	(185,048)	(229,024)	(90,790)
Balance at end of year	\$ 100,058	\$ 129,106	\$ 115,413

3. Property, Plant and Equipment

	2014		
	Cost	Accumulated Depreciation	Net
Plant and equipment	\$ 15,917,608	\$ 8,739,219	\$ 7,178,389
Buildings	1,931,944	1,238,488	693,456
Automotive equipment	286,252	86,857	199,395
Land	433,613	-	433,613
Land improvements	1,861	1,277	584
Leasehold improvements	695,182	237,054	458,128
Furniture and fixtures	681,926	573,822	108,104
Computer hardware and software	2,277,183	2,014,052	263,131
	\$ 22,225,569	\$ 12,890,769	\$ 9,334,800

	2013		
	Cost	Accumulated Depreciation	Net
Plant and equipment	\$ 15,572,642	\$ 8,210,156	\$ 7,362,486
Buildings	1,931,944	1,201,991	729,953
Automotive equipment	274,899	35,765	239,134
Land	433,613	-	433,613
Land improvements	1,861	1,226	635
Leasehold improvements	594,730	182,224	412,506
Furniture and fixtures	602,617	554,837	47,780
Computer hardware and software	2,259,805	1,961,269	298,536
	\$ 21,672,111	\$ 12,147,468	\$ 9,524,643

Property, plant and equipment includes equipment acquired under capital leases with an initial cost of \$2,687,820 (2013 - \$2,687,820). Accumulated amortization of assets acquired under capital leases is \$1,027,297 (2013 - \$902,312). No impairment of property, plant, and equipment was recognized in the year ended February 28, 2014

(2013 - nil).

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

4. Prepaid Expenses and Deposits

	2014	2013
Slotting fees	\$ 9,508	\$ 112,625
Insurance premiums	72,433	72,093
Rental deposits and other	91,900	122,439
	\$ 173,841	\$ 307,157

5. Long-term Debt

	2014	2013
a) Capital lease, principal and interest repayable at \$12,729 per month including interest at a seven-year fixed rate of 6.125% per annum, collateralized by certain pieces of manufacturing equipment until September, 2014.	\$ 75,027	\$ 218,374
	75,027	218,374
Less: current portion	75,027	143,347
	\$ -	\$ 75,027

Minimum payments due over the remaining terms of the capital lease are as follows:

	Principal	Interest
2015	\$ 75,027	\$ 1,346
	\$ 75,027	\$ 1,346

- b) The Company has a demand revolving operating bank loan with a credit limit of \$3,500,000 (2013 - \$3,500,000) subject to the availability of eligible collateral. As at February 28, 2014, \$329,900 (2013 - \$817,700) of the facility was available, due to a limit on eligible collateral available. Interest is charged on the drawn-down amounts at the bank prime rate plus 1.00% to 1.50% (2013 - 1.00% to 1.50%). The operating loan is collateralized by a charge on all assets of the Company and an assignment of all risk insurance on land, buildings, equipment and inventory owned by the Company. The credit facility contains four financial covenants. The bank loan is subject to an annual review process.

6. Lease Inducement

In the 2009 fiscal year, the Company received a lease inducement of \$115,016 worth of leasehold improvements as an incentive to enter into a 5-year lease term for the Vancouver offices. This amount was amortized over the remainder of the lease term. The amortization for the fiscal year ended February 28, 2014 was \$Nil (2013 - \$24,491, 2012 - \$25,560) with a corresponding credit to rental expense under the category of selling, general and administrative expenses.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

7. Shareholders Equity

a) <i>Share capital</i>	Number of Authorized Shares		
	2014	2013	2012
Common shares without par value	500,000,000	500,000,000	500,000,000
Preferred shares without par value	9,999,900	9,999,900	9,999,900
Series A preferred shares	1,000,000	1,000,000	1,000,000
Series B preferred shares	100	100	100
Series C preferred shares	1,000,000	1,000,000	1,000,000
Series D preferred shares	4,000,000	4,000,000	4,000,000
Series E preferred shares	4,000,000	4,000,000	4,000,000
	20,000,000	20,000,000	20,000,000

There are no preferred shares outstanding as at February 28, 2014 (2013 - nil; 2012 - nil).

In the year ended February 28, 2014, the Company repurchased and cancelled 48,348 of its issued and outstanding shares in the amount of \$224,992. Since the average issue price of cancelled common shares at the time of repurchase was \$11.23, share capital has been reduced by \$542,955 and additional paid-in capital has been increased by \$317,963.

In the year ended February 28, 2013, the Company repurchased and cancelled 326,187 of its issued and outstanding shares in the amount of \$1,544,342. Since the average issue price of cancelled common shares at the time of repurchase was \$11.34, share capital has been reduced by \$3,694,332 and additional paid-in capital has been increased by \$2,149,990.

In the year ended February 29, 2012, the Company repurchased 344,381 of its issued and outstanding shares in the amount of \$1,149,228, and cancelled an additional 5,600 shares held in treasury at prior year-end in the amount of \$19,536. Since the average issue price of cancelled common shares at the time of repurchase was \$11.34, share capital has been reduced by \$3,968,492 and additional paid-in capital has been increased by \$2,780,192.

b) *Shareholder protection rights plan*

On August 26, 2003, a Shareholder Protection Rights Plan was adopted whereby one share purchase right is attached to each outstanding common share, exercisable only in the case of a specific event, such as the acquisition by an acquirer of 20% or more of the issued common shares of the Company, and at a predetermined calculated price.

At the Annual General Meeting on June 30, 2010, shareholders approved the updating and five-year extension of the Company's Shareholder Protection Rights Plan.

c) *Stock options*

The Company occasionally grants stock options to its employees, officers, directors and consultants to purchase common shares of the Company. The options granted are exercisable at a price which is equal to or greater than the fair market value of the common shares at the date the options are granted. The options are granted with varied vesting periods including immediately, one and five years. Options granted generally have a life of 10 years. The Company does not have a formal stock option plan.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

7. Shareholders Equity (continued)c) *Stock options (continued)*

At February 28, 2014, stock options were outstanding and exercisable as follows:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (USD)	Number of Options Exercisable	Weighted Average Exercise Price (USD)
\$2.45 to \$2.99	667,000	6.25	2.45	667,000	2.45
\$3.00 to \$3.99	170,553	4.80	3.19	163,043	3.18
\$4.00 to \$5.99	38,016	0.48	5.13	38,016	5.13
\$6.00 to \$24.65	48,000	3.68	9.33	48,000	9.33
	923,569			916,059	

A summary of the Company's stock option activity is as follows:

	Outstanding Options	Weighted Average Exercise Price (USD)
Options outstanding as at February 28, 2011	969,000	3.07
Granted	20,000	3.00
Expired	(5,167)	7.22
Exercised	(7,400)	2.63
Options outstanding as at February 29, 2012	976,433	3.05
Granted	-	-
Expired	(2,000)	6.20
Exercised	(20,000)	3.00
Options outstanding as at February 28, 2013	954,433	3.04
Granted	-	-
Expired	-	-
Exercised	(30,864)	2.64
Options outstanding as at February 28, 2014	923,569	3.06
Options exercisable, February 28, 2014	916,059	3.05
Options vested and expected to vest	923,569	3.06

The aggregate intrinsic value of stock options exercised during the year ended February 28, 2014 was \$38,372 USD (2013 - \$22,200, 2012 - \$8,060).

The aggregate intrinsic value of stock options outstanding as at February 28, 2014 was \$1,197,000 USD (2013 - \$945,640, 2012 - \$1,059,900).

The aggregate intrinsic value of stock options exercisable as at February 28, 2014 was \$1,193,000 USD (2013 - \$936,711, 2012 - \$1,023,571).

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

7. Shareholders Equity (continued)c) *Stock options (continued)*

A summary of the Company's non-vested stock option activity and related information for the year ended February 28, 2014 is as follows:

	Outstanding Options	Weighted Average Exercise Price (USD)
Non-vested at March 1, 2013	28,408	3.43
Granted	-	-
Vested	(20,898)	3.40
Exercised	-	-
Expired	-	-
Non-vested at February 28, 2014	7,510	3.50

As of February 28, 2014, there was \$24,815 of total unrecognized compensation cost related to non-vested stock options. That cost is expected to be recognized next year.

d) *Share purchase warrants*

The Company's issued and outstanding share purchase warrants as at February 28, 2014, February 28, 2013 and February 29, 2012 are as follows:

	Number of Warrants	Average Exercise Price (USD)
Share purchase warrants issued and outstanding, February 29, 2012	363,400	\$ 19.75
Expired	(363,400)	\$ 19.75
Share purchase warrants issued and outstanding, February 28, 2014 and February 28, 2013	-	\$ -

The Company issued 330,000 common share purchase warrants related to a private placement and 33,400 common share purchase warrants to the placement agent pursuant to the terms of an agreement related to the issuance of common shares on August 9, 2007. Each common share purchase warrant is exercisable for the purchase of one common share and all of the warrants expired unexercised on February 9, 2013.

e) *Earnings per common share*

For the years ended February 28, 2014, February 28, 2013, and February 29, 2012, common equivalent shares (consisting of shares issuable on exercise of stock options and warrants) totaling 83,600, 473,833, and 511,400 respectively, were not included in the computation of diluted earnings per share because the effect was anti-dilutive.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

7. Shareholders Equity (continued)e) *Earnings per common share (continued)*

	2014	2013	2012
Weighted average shares - basic EPS	2,929,722	3,012,647	3,368,751
Plus: incremental shares from assumed exercise of stock options	316,501	302,115	173,108
Weighted average shares - diluted EPS	3,246,223	3,314,762	3,541,859
	2014	2013	2012
Net income	1,163,295	591,304	1,550,858
Gain/ Loss from dilutive instruments	39,304	(18,252)	17,160
Net Income	1,202,599	573,052	1,568,018
Earnings per share, basic	\$ 0.40	\$ 0.20	\$ 0.46
Earnings per share, diluted	\$ 0.37	\$ 0.17	\$ 0.44

8. Stock-Based Compensation

There were no options granted during the years ended February 28, 2014 and 2013 (2012 - 20,000). The estimated fair value of the stock options granted in 2012 was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2014	2013	2012
Risk-free rate	-	-	1.11%
Dividend yield	-	-	Nil%
Volatility factor of the expected market price of the Company's common shares	-	-	97%
Weighted average expected life of the options (months)	-	-	120

In connection with the vesting of certain employees, officers and directors' stock options for the year ended February 28, 2014, the Company has recorded stock option compensation of \$54,471 (2013 - \$151,916; 2012 - \$414,822) which was credited to additional paid-in capital and expensed in selling, general and administrative expenses in the year.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

9. Derivative Liability

In accordance with ASC 815-40-15, stock options granted to non-employees that are exercisable in US dollars are required to be accounted for as derivative liabilities because they are considered not to be indexed to the Company's stock due to their exercise price being denominated in a currency other than the Company's functional currency.

The non-employee options are required to be re-valued with the change in fair value of the liability recorded as a gain or loss on the change of fair value of derivative liability and included in other items in the Company's Consolidated Statements of Comprehensive Income at the end of each reporting period. The fair value of the options will continue to be classified as a liability until such time as they are exercised, expire or there is an amendment to the respective agreements that renders these financial instruments to be no longer classified as a liability.

The non-employee share purchase option liabilities are accounted for at their respective fair values and are summarized as follows:

	2014	2013	2012
Derivative liability, opening balance	\$ 244,891	\$ 263,143	\$ 245,983
Change in fair value of options	39,304	(18,252)	17,160
Derivative liability, closing balance	\$ 284,195	\$ 244,891	\$ 263,143

An estimate for the fair value of non-employee stock options is determined through use of the Black-Scholes Model. Assumptions applied by management as at February 28, 2014 were as follows: (1) risk-free rate of 2.01% (2013 1.55%; 2012 1.78%); (2) dividend yield of nil (2013 nil; 2012 nil); (3) an expected volatility of 111.6% (2013 111.9%; 2012 113.4%); (4) an expected life of 75 months (2013 - 87 months; 2012 99 months); and (5) an exercise price of \$2.45 USD. These options have been included in the stock options data presented in Note 7(c).

Non-employee option holders' exercise will result in a reduction of the option derivative liability.

10. Income Tax

Earnings before income taxes and the provision for income taxes consisted of the following for the years ended February 28, 2014, February 28, 2013, and February 29, 2012:

	2014	2013	2012
Earnings before income taxes:			
Canada	\$ 1,441,059	\$ 1,017,263	\$ 1,797,445
United States	(22,356)	(119,307)	(153,484)
Total	\$ 1,418,703	\$ 897,956	\$ 1,643,961
Provision for income taxes:			
Current	\$ -	\$ -	\$ -
Deferred, Canada	255,408	306,652	93,103
Deferred, United States	-	-	-
Total	\$ 255,408	\$ 306,652	\$ 93,103

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

10. Income Tax (continued)

Income tax computed at statutory tax rates reconciles to the income tax provision, using a 25.75% (2013 25%, 2012 26.25%) statutory tax rate, as follows:

	2014	2013	2012
Tax at statutory rates at CDN rates	\$ 367,903	\$ 220,492	\$ 431,540
Foreign loss taxed at US rates	(3,360)	(16,690)	(17,894)
Effect of change in statutory rate	-	-	14,400
Effect of foreign exchange on loss carry-forwards	(236,464)	(150,732)	(100,346)
Non-deductible expenses	26,232	37,979	108,776
Expiry of loss carry-forwards	-	-	104,076
Other items, net	(156,542)	38,652	(23,278)
Change in valuation allowance	257,639	176,951	(424,171)
Income tax provision for year	\$ 255,408	\$ 306,652	\$ 93,103

Effective July 1, 2013, the British Columbia provincial rate increased from 10.00% to 11.00% . The tax rate for the Federal corporate tax remained the same at 15.00% .

As at February 28, 2014, the Company and its subsidiaries have accumulated net operating losses in the amount of approximately \$5.8 million which can be applied against future earnings in Canada and \$8.4 million in the United States. The net operating loss carry forward amounts commence to expire in 2025 through 2032.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	2014	2013
Operating and other losses carried forward	\$ 4,907,476	\$ 4,755,713
Property, plant and equipment	821,547	935,074
Trademark and deferred costs	113,355	104,716
Un-realized foreign exchange loss	(1,068)	43,576
Financing costs	-	-
Total deferred tax assets	5,841,310	5,839,079
Valuation allowance	(3,688,743)	(3,431,104)
Net deferred tax assets	\$ 2,152,567	\$ 2,407,975

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of tax assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company has recognized a valuation allowance for those deferred tax assets for which realization is not more likely than not to occur.

The tax years that remain open to examination by the tax authorities are generally 2009-2014. The net operating losses from prior years are subject to adjustment under examination to the extent they remain unutilized in an open year.

There are no uncertain tax positions to recognize at February 28, 2014 and February 28, 2013.

The valuation allowance represents tax losses and deferred income tax assets from inactive United States subsidiaries, with a tax rate of 37%, totaling \$3,493,269; and inactive Canadian subsidiaries, with a tax rate of 26%, totaling \$195,474.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

11. Commitments

The Company is committed to certain agreements and operating leases. The minimum amounts due over the remaining terms of those agreements are as follows:

2015	\$	747,616
2016		751,449
2017		767,772
2018		495,182
2019		113,556
and thereafter		438,165
Total future minimum payments		\$ 3,313,740

During the years ended February 28, 2014, February 28, 2013 and February 29, 2012, the Company incurred rental expenses of \$723,437, \$931,224, and \$893,951 respectively.

The Company has committed to certain purchase obligations as follows:

2015	\$	867,788
2016		122,587
2017		129,302
2018		2,544
2019		424
and thereafter		-
Total future minimum payments		\$ 1,122,645

12. Contingencies

The Company is a party to various legal claims which have arisen in the normal course of business, none of which are expected to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

Subsequent to year end the Company settled litigation with a supplier that had been pending since 2009 and that settlement is reflected in these Consolidated Financial Statements.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

13. Related Party Transactions

Related party transactions not disclosed elsewhere are as follows:

	2014	2013	2012
i) Incurred consulting fees with a company related by a director in common	\$ 84,000	\$ 84,000	\$ 84,000
ii) Incurred professional service fees with a company related by a director in common	\$ 528,000	\$ 528,000	\$ 528,000
iii) Incurred marketing consulting services with a company related by a director in common	\$ 80,900	\$ 80,800	\$ 76,700
iv) Incurred bottling services from a company related by a director in common	\$ 111,519	\$ 89,493	\$ 574
v) Incurred consulting fees with a company related by an officer in common	\$ 150,000	\$ 271,400	\$ 260,350
vi) Incurred services from a company related by a director in common	\$ 5,355	\$ 3,763	\$ 7,217

As at February 28, 2014, the Company had an accounts payable balance of \$15,447 (2013 - \$5,011; 2012 - \$nil) to the bottling service company related by a director in common. The security on this amount is \$nil (2013 - \$nil; 2012 - \$nil) and the interest rate is 24% (2013 - nil%; 2012 - nil%) per annum.

As at February 28, 2014, the Company had an accounts payable balance of \$8,084 payable to companies related by directors in common (2013 - \$nil; 2012 - \$11,646).

14. Fair Value of Financial Instruments

The Company's financial assets and financial liabilities as at February 28, 2014, measured at fair value on a recurring basis are summarized below:

	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance, February 28, 2014
Cash and cash equivalents	\$ 2,393,784	\$ -	\$ -	\$ 2,393,784
Derivative liability	-	-	(284,195)	(284,195)
	\$ 2,393,784	\$ -	\$ (284,195)	\$ 2,109,589

The Company's financial assets and financial liabilities as at February 28, 2013, measured at fair value on a recurring basis are summarized below:

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)

14. Fair Value of Financial Instruments (continued)

	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance, February 28, 2013
Cash and cash equivalents	\$ 53,352	\$ -	\$ -	\$ 53,352
Derivative liability	-	-	(244,891)	(244,891)
	\$ 53,352	\$ -	\$ (244,891)	\$ (191,539)

The fair value of cash and cash equivalents approximates its carrying value.

The fair value of the derivative liability for non-employee stock options is determined through use of the Black-Scholes model (Note 9).

15. Segmented Information

The Company operates in one industry segment being the production and distribution of beverages. The Company's principal operations are comprised of an integrated bottling and distribution system for beverages. Substantially, all of the Company's operations, assets and employees are located in Canada and net revenue from export sales during all the years reported are less than 10%.

During the year ended February 28, 2014, the Company's ten largest customers comprised approximately 96% (2013 - 92%; 2012 - 87%) of revenue and no one customer comprised more than 90% (2013 - 83%; 2012 - 78%) of revenue. As at February 28, 2014 and February 28, 2013, one customer comprised more than 10% of trade receivables.

Item 19. Exhibits.

Exhibit No. Description

1.1	Certificate of Incorporation and Articles and amendments to the Articles and Memorandum of the Company, incorporated by reference from prior filing as Exhibit 3.1 to the Form F-3, filed with the Securities and Exchange Commission on September 24, 2007.
1.2	Notice of Articles, incorporated by reference from prior filing as Exhibits 99.1 and 99.2 to the Form 6-K filed with the Securities Exchange Commission on February 3, 2010.
2.1	Form of Warrant, incorporated by reference from prior filing as Exhibit 99.5 to the Form 6-K filed with the Securities and Exchange Commission on August 10, 2007.
2.2	Amended and Restated Shareholder Rights Plan Agreement, incorporated by reference from prior filing on Form 6-K filed with the Securities and Exchange Commission on July 2, 2010.
<u>8.1*</u>	<u>Subsidiaries of the Registrant</u>
<u>12.1*</u>	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>12.2*</u>	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>13.1*</u>	<u>Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>15.1*</u>	<u>Consent of Independent Registered Public Accounting Firm</u>

*Filed herewith.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

LEADING BRANDS, INC.

/s/ Ralph McRae

Ralph D. McRae
Chairman and Chief Executive Officer

Dated: May 27, 2014

INDEX TO EXHIBITS

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8.1* Subsidiaries of the Registrant

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