

Leading Brands, Inc.
Consolidated Financial Statements
February 28, 2009 and February 29, 2008
(Expressed in Canadian Dollars)

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Independent Auditors' Report

To the Shareholders of Leading Brands, Inc.

We have audited the Consolidated Balance Sheets of Leading Brands, Inc. as at February 28, 2009 and February 29, 2008 and the Consolidated Statements of Loss and Comprehensive Loss, Cash Flows and Changes in Shareholders' Equity for each of the years in the three-year period ended February 28, 2009. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2009 and February 29, 2008 and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 2009 in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants

Vancouver, Canada
May 26, 2009



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Comments by Auditors for U.S. Readers on Canada-United States Reporting Difference

The reporting standards of the Public Company Accounting Oversight Board (United States) for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by changes in an accounting policy, such as those described in the Company's Change in Reporting Currency accounting policy, that have a material effect on the consolidated financial statements. Although we conducted our audit in accordance with both Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), our report to the shareholders on the Consolidated Financial Statements dated May 26, 2009 is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditors' report when these are adequately disclosed in the financial statements.

(signed) "BDO Dunwoody LLP"

Chartered Accountants

Vancouver, Canada
May 26, 2009

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

As at	Feb. 28, 2009	Feb. 29, 2008
Assets		
Current		
Cash and cash equivalents	\$ 699,931	\$ 2,886,809
Accounts receivable (Note 16(a))	1,478,433	2,329,720
Inventory (Note 1)	3,096,403	4,588,833
Prepaid expenses and deposits (Note 5)	177,638	400,339
	5,452,405	10,205,701
Property, plant and equipment (Note 2)	9,615,327	9,714,120
Trademarks and rights	108,960	108,960
Goodwill (Note 4)	3,353,543	3,353,543
Future income taxes (Note 13)	4,223,742	4,511,629
Total Assets	\$ 22,753,977	\$ 27,893,953
Liabilities and Shareholders' Equity		
Liabilities		
Current		
Bank indebtedness (Note 6)	\$ 1,512,915	\$ 2,084,714
Accounts payable and accrued liabilities	2,348,884	3,907,257
Current portion of long-term debt (Note 7)	1,300,981	1,251,243
	5,162,780	7,243,214
Long-term debt (Note 7)	3,808,986	4,947,418
Lease Inducement (Note 3)	101,171	-
	9,072,937	12,190,632
Shareholders' Equity		
Share Capital		
Authorized (Note 8(a))		
500,000,000 common shares without par value		
20,000,000 preferred shares without par value		
Issued		
19,958,124 common shares (2008 – 19,958,124)	45,283,762	45,283,762
Contributed surplus (Note 9)	7,420,785	7,114,012
Accumulated other comprehensive income - currency translation adjustment	577,916	593,275
Deficit	(39,601,423)	(37,287,728)
	13,681,040	15,703,321
Total Liabilities and Shareholders' Equity	\$ 22,753,977	\$ 27,893,953

Approved on behalf of the Board:

/s/ Ralph McRae Director

/s/ Stephen Fane Director

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

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

For the year ended	Feb. 28, 2009	Feb. 29, 2008	Feb. 28, 2007
Gross Sales	\$ 32,497,912	\$ 36,866,555	\$ 57,298,868
Less: Discounts, rebates and slotting fees	(4,302,262)	(4,288,385)	(5,244,197)
Net Sales	28,195,650	32,578,170	52,054,671
Expenses (income)			
Cost of sales	19,071,688	24,446,540	38,105,292
Selling, general and administrative	9,892,150	13,830,530	14,646,709
Amortization of property, plant and equipment	767,798	728,317	983,320
Amortization of deferred costs and other	-	6,563	75,277
Interest on long-term debt	327,148	375,427	331,157
Interest on current debt	137,421	201,925	198,627
Loss (gain) on contract settlement (Note 12)	308,280	(1,389,263)	(250,000)
Impairment of, property, plant and equipment (Note 2)	-	-	3,604,711
Interest income	(33,545)	(96,127)	-
(Gain) loss on sale of assets (Note 12)	(250,880)	101,486	37,004
	30,220,060	38,205,398	57,732,097
Loss before income taxes	(2,024,410)	(5,627,228)	(5,677,426)
Income taxes recovery (expense) (Note 13)	(289,285)	(40,944)	1,633,618
Net loss for the year	(2,313,695)	(5,668,172)	(4,043,808)
Foreign exchange translation adjustment	(15,359)	266,591	(65,164)
Comprehensive loss	\$ (2,329,054)	\$ (5,401,581)	\$ (4,108,972)
Loss per share			
Basic and diluted	\$ (0.12)	\$ (0.31)	\$ (0.26)
Weighted average common shares outstanding			
Basic and diluted (Note 8(h))	19,958,124	18,412,993	15,788,230

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, 2009	Feb. 29, 2008	Feb. 28, 2007
Cash provided by (used in)			
Operating activities			
Net loss for the year	\$ (2,313,695)	\$ (5,668,172)	\$ (4,043,808)
Items not involving cash			
Amortization of property, plant and equipment	767,798	728,317	983,320
Amortization of deferred costs and other	-	6,563	75,277
Amortization of leasehold inducement (Note 3)	(13,845)	-	-
(Gain) loss on sale of assets	(250,880)	101,486	37,004
Impairment of property, plant and equipment	-	-	3,604,711
Stock based compensation (Note 9)	306,773	278,175	644,763
Future income taxes (recovery)	287,887	41,938	(1,633,852)
Changes in non-cash operating working capital items (Note 14)	1,008,044	660,951	(1,024,910)
	(207,918)	(3,850,742)	(1,357,495)
Investing activities			
Purchase of property, plant and equipment	(780,957)	(2,599,255)	(1,803,098)
Proceeds on sale of assets	484,263	438,943	168,362
	(296,694)	(2,160,312)	(1,634,736)
Financing activities			
Increase (decrease) in bank indebtedness	(571,799)	(1,841,978)	951,875
Issuance of common shares	-	9,670,674	1,761,437
Proceeds from issuance of long-term debt	72,478	1,584,937	1,000,405
Repayment of long-term debt	(1,161,172)	(792,329)	(654,688)
	(1,660,493)	8,621,304	3,059,029
Increase (decrease) in cash and cash equivalents	(2,165,105)	2,610,250	66,798
Effect of exchange rates on cash	(21,773)	276,559	(66,798)
Cash and cash equivalents, beginning of year	2,886,809	-	-
Cash and cash equivalents, end of year	\$ 699,931	\$ 2,886,809	\$ -
Supplementary disclosure of cash flow information			
Cash paid(received) during the year			
Income tax payments (recovery), net	\$ 1,398	\$ (994)	\$ 235
Interest received	\$ (33,868)	\$ (90,800)	\$ -
Interest paid	\$ 474,441	\$ 579,672	\$ 537,099

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)

For the years ended February 28, 2009, Feb. 29, 2008, and Feb. 28, 2007	Shares	Amount
	<u> </u>	<u> </u>
Common Stock		
Balance at March 1, 2006	15,084,068	\$ 37,948,105
Shares issued upon exercise of stock options	<u>1,316,777</u>	<u>1,761,437</u>
Balance at March 1, 2007	16,400,845	39,709,542
Shares issued upon exercise of stock options	257,278	318,696
Shares issued for private placement	<u>3,300,001</u>	<u>5,255,524</u>
Balance at February 29, 2008 and February 28, 2009	<u>19,958,124</u>	<u>\$ 45,283,762</u>
Contributed Surplus		
Balance at March 1, 2006		\$ 2,094,620
Stock based compensation on issued stock options (Note 9)		<u>644,763</u>
Balance at February 28, 2007		2,739,383
Stock based compensation on issued stock options (Note 9)		278,175
Contributed surplus on issue of warrants (Note 8)		<u>4,096,454</u>
Balance at February 29, 2008		7,114,012
Stock based compensation on issued stock options (Note 9)		<u>306,773</u>
Balance at February 28, 2009		<u>\$ 7,420,785</u>
Deficit		
Balance at March 1, 2006		\$ (27,575,748)
Net loss		<u>(4,043,808)</u>
Balance at February 28, 2007		(31,619,556)
Net loss		<u>(5,668,172)</u>
Balance at February 29, 2008		(37,287,728)
Net loss		<u>(2,313,695)</u>
Balance at February 28, 2009		<u>\$ (39,601,423)</u>
Accumulated other comprehensive income		
Balance at March 1, 2006		\$ 391,848
Foreign exchange translation adjustment		<u>(65,164)</u>
Balance at February 28, 2007		326,684
Foreign exchange translation adjustment		<u>266,591</u>
Balance at February 29, 2008		593,275
Foreign exchange translation adjustment		<u>(15,359)</u>
Balance at February 28, 2009		<u>\$ 577,916</u>

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

Leading Brands, Inc.
Summary of Significant Accounting Policies
(Expressed in Canadian Dollars)

February 28, 2009 and February 29, 2008

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which, in the case of the Company, differ in certain respects from generally accepted accounting principles in the United States ("US GAAP") as explained in Note 19. Details of the significant accounting policies are as follows:

Nature of Business

Leading Brands, Inc. and its subsidiaries are engaged in the bottling, distribution, sales, merchandising and brand management of beverages and food products across North America. The Company primarily operates in the following integrated activities: beverage packaging, food and beverage sales and distribution, as well as brand licensing and development.

Basis of Presentation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated. Certain comparative figures have been reclassified to conform to the current year's presentation.

Change in Reporting Currency

Effective for the year ended February 28, 2009, the Company changed its reporting currency from United States dollars ("U.S.") to Canadian dollars ("Cdn\$"). The Company believes that financial statements presented in Canadian dollars delivers more meaningful and relevant financial information to the shareholders as the majority of the Company's transactions are denominated in Canadian dollars. For the year ended February 29, 2008 and for all prior periods, the Company reported its financial statements in U.S. dollars. The comparative figures disclosed in these financial statements have been restated to the Canadian dollar as if the Canadian dollar had been used as the reporting currency for all periods.

In accordance with Emerging Issue Committee Abstract 130, *Translation Method When the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency*, the financial statements for all years presented are translated into the reporting currency using the current rate method. Under this method, the income statement and the cash flow statement items for each year are translated into the reporting currency using the rates in effect at the date of the transactions, and assets and liabilities are translated using the exchange rate at the end of that year.

Leading Brands, Inc.
Summary of Significant Accounting Policies
(Expressed in Canadian Dollars)

February 28, 2009 and February 29, 2008

**Change in Reporting
Currency - continued**

All resulting exchange differences are reported as a separate component of other comprehensive income, which is included as part of shareholders' equity. Results in the consolidated statements of loss and comprehensive loss of prior years were translated using the weighted average exchange rate in effect for the applicable periods, and the results of prior year consolidated balance sheets were translated using applicable period end exchange rate. The effect of the change in reporting currency was substantially to eliminate the Accumulated Other Comprehensive Income created upon the conversion to a U.S. dollar reporting currency. The Company believes that financial statements presented in Canadian dollars delivers more meaningful and relevant financial information to the shareholders as the majority of the Company's transactions are denominated in Canadian dollars.

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. The calculations for an allowance for uncollectible amounts require management judgment regarding the ability to collect the amounts due.

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 net realizable 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 net realizable value.

**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:

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

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

Management periodically performs a review of undiscounted future operating cash flows to assess the recoverability of the property, plant and equipment. Property, plant and equipment are written down when their carrying value is not recoverable.

Leading Brands, Inc.
Summary of Significant Accounting Policies
(Expressed in Canadian Dollars)

February 28, 2009 and February 29, 2008

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

Commencing with the fiscal year ended February 28, 2006, slotting fees paid to various customers are recorded in prepaid expenses and amortized into sales discounts over 12 months from the date of the first sale to those customers.

Foreign Currency Translation and Transactions

The functional currency of the Company is the Canadian dollar. Transactions denominated in US dollars have been translated into Canadian dollars at the approximate 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 directly in earnings with the exception of gains and losses on intercompany balances owing to the parent, which is deferred as a separate component of shareholders' equity.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may materially differ from those estimates. The financial statement accounts which required management to make estimates and assumptions in determining carrying value include accounts receivable, inventory, property, plant and equipment, goodwill, future income taxes and stock-based compensation.

Stock-Based Compensation

The Company has adopted the recommendations of CICA Handbook Section 3870, "Stock-Based Compensation and Other-Stock-Based Payments". Section 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

Compensation costs are charged to the Consolidated Statements of Loss and Comprehensive Loss.

Leading Brands, Inc.
Summary of Significant Accounting Policies
(Expressed in Canadian Dollars)

February 28, 2009 and February 29, 2008

**Goodwill and Other
Intangible Assets**

Goodwill is tested for impairment annually or if an event occurs that will more likely than not reduce the fair value of the reporting unit below its carrying value. The significant assumptions are as follows:

- a. Expected cash flows from operations of the related entity, over the next five fiscal years.
- b. Forecasted operating results based on current economic conditions and expected future events.

Trademarks and rights including the acquisition of domain names which are expected to provide future benefits are recorded at cost and amortized over their expected useful life. No impairment was recognized during the years ended February 28, 2009, 2008 or 2007.

Income Taxes

Future 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. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future 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 future 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 future income tax assets will not be realized. Although the Company has tax loss carry-forwards and other future income tax assets, management has determined certain of these future tax assets do not meet the more likely than not criteria, and accordingly, these future income tax asset amounts have been partially offset by a valuation allowance (Note 13).

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.

Leading Brands, Inc.
Summary of Significant Accounting Policies
(Expressed in Canadian Dollars)

February 28, 2009 and February 29, 2008

Comprehensive Income

Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available-for-sale investments, gains and losses on certain derivative financial instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized. The effect of the change in reporting currency was substantially to eliminate the Accumulated Other Comprehensive Income created upon the conversion to a U.S. dollar reporting currency.

Information pertaining to comprehensive income items are presented in the Company's Consolidated Statement of Loss and Comprehensive Loss.

Financial Instruments

This standard sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial instruments within its scope, including derivatives, to be included on the balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in either the statements of operations or the statement of comprehensive income.

All financial assets and liabilities are recognized when the Company becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to March 1, 2007 would be recognized by adjusting opening accumulated other comprehensive income.

All financial instruments are classified into one of the following five categories: held-for-trading, held to maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

Leading Brands, Inc.
Summary of Significant Accounting Policies
(Expressed in Canadian Dollars)

February 28, 2009 and February 29, 2008

**Financial Instruments -
continued**

- Held to maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and transaction costs are amortized into net earnings, using the effective interest method. As at February 28, 2009, the Company has classified its accounts receivable as loans and receivables and its long term debt as other financial liabilities. The fair value of these financial instruments approximates their carrying value.

- Available-for-sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized, at which time they will be recorded in net earnings.

Held-for-trading financial instruments are measured at fair value. All gains and losses resulting from changes in their fair value are included in net earnings in the period in which they arise. As at February 28, 2009, the Company has classified its cash and cash equivalents, bank indebtedness accounts payable and accrued liabilities as held-for-trading. The fair value of these financial instruments approximates their carrying value.

All derivative financial instruments are classified as held-for-trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses resulting from changes in their fair value are included in net earnings in the period in which they arise.

The Company has chosen to include transaction costs in the carrying value of financial liabilities that have been designated as other than held for trading in accordance with S3855.57(a).

**Adoption of New Canadian
accounting standards**

There are three new CICA accounting standards that have been adopted by the Company effective March 1, 2008.

- i. The CICA has issued new accounting standards Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" which replace Section 3861 "Financial Instruments–Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the existing presentation requirements (Note 16).

Leading Brands, Inc.
Summary of Significant Accounting Policies
(Expressed in Canadian Dollars)

February 28, 2009 and February 29, 2008

**Adoption of New Canadian
accounting standards -
continued**

- ii. Effective March 1, 2008, the Company adopted the impact of the new accounting standard Section 1535, "Capital Disclosures", which requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements and, if not in compliance, the consequences of such non-compliance (Note 17).

CICA Handbook Section 3031 "Inventories" prescribes the accounting treatment for inventories and provides guidance on the determination of inventory costs and their subsequent recognition as an expense, including any write-down to net realizable value. There was no impact on the Company's financial position or results of operations as a result of adopting this new standard.

**Recently Released Canadian
Accounting Standards**

International Financial Reporting Standards ("IFRS") In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after March 1, 2011. The transition date of March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Goodwill and Intangible Assets – Section 3064 In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standard provides guidance on the recognition measure, presentation and disclosure of goodwill and intangible assets and is effective for fiscal years beginning on or after October 1, 2008. Concurrent with the adoption of this standard, EIC-27, "Revenues and Expenditures in the Pre-Operating Period", will be withdrawn. The Company is currently assessing the impact of this standard on its consolidated financial statements.

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

February 28, 2009 and February 29, 2008

1. Inventory

	2009		2008	
Finished goods	\$	1,677,621	\$	2,307,431
Raw materials		1,418,782		2,281,402
	\$	3,096,403	\$	4,588,833

The ending balance above includes a total inventory obsolescence provision of \$342,803 as at February 28, 2009 (2008 - \$259,474).

2. Property, Plant and Equipment

	2009		2008	
Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Plant and equipment	\$ 13,628,390	\$ 6,093,966	\$ 7,534,424	\$ 7,343,103
Buildings	1,931,944	1,035,753	896,191	943,359
Automotive equipment	39,476	35,468	4,008	72,003
Land	433,613	-	433,613	433,613
Land improvements	1,861	976	885	145,419
Leasehold improvements	229,482	114,108	115,374	14,827
Furniture and fixtures	616,607	511,587	105,020	112,947
Computer hardware and software	2,583,475	2,057,663	525,812	648,849
	\$ 19,464,848	\$ 9,849,521	\$ 9,615,327	\$ 9,714,120

Property plant and equipment includes equipment acquired under outstanding capital leases of \$2,687,820 (2008 – \$2,656,788). Accumulated amortization of assets acquired under capital leases is \$300,943 (2008 – \$124,593). In the 2007 fiscal year, the Company recorded an impairment of property plant and equipment values in the amount of \$3,604,711 related to the closure of the Richmond bottling plant.

3. Lease Inducement

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 will be amortized over the remainder of the lease term. The amortization for the fiscal year ended February 28, 2009 was \$13,845 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
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4. Goodwill

	<u>2009</u>	<u>2008</u>
Goodwill	\$ 4,396,000	\$ 4,396,000
Less accumulated amortization	(1,042,457)	(1,042,457)
	<u>\$ 3,353,543</u>	<u>\$ 3,353,543</u>

Since the fiscal year ended February 28, 2002, goodwill is not subject to amortization but is subject to an annual assessment for impairment by applying a fair value test. Any impairment in the value of goodwill would be charged to income.

5. Prepaid Expenses and Deposits

	<u>2009</u>	<u>2008</u>
Slotting fees	\$ 437	\$ 192,683
Insurance premiums	65,541	72,449
Rental deposits and other	111,660	135,207
	<u>\$ 177,638</u>	<u>\$ 400,339</u>

6. Bank Indebtedness

	<u>2009</u>	<u>2008</u>
Bank indebtedness	\$ 1,512,915	\$ 2,084,714

The Company has a demand revolving operating bank loan with a credit limit of \$5,500,000 (2008 - \$5,500,000) subject to the availability of eligible collateral. Interest is charged on the drawn-down amounts at the bank prime rate plus 1.75% - 2.25% (2008 - 0.75 - 1.25%). The bank prime rate at February 28, 2009 was 3.00% (2008 - 5.75%). 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.

Bank indebtedness includes the demand revolving operating bank loan of \$1,118,594 (2008 - \$1,538,781) and un-presented cheques of \$396,493 (2008 - \$637,207) and is net of cash of \$2,172 (2008 - \$91,274).

The agreement with respect to the bank indebtedness contains three restrictive covenants. They are a tangible net worth covenant, a current ratio covenant and a capital acquisition covenant. The Company was not in compliance with the current ratio covenant at February 28, 2009. The Company regained compliance in March 2009.

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7. Long-term Debt

	2009	2008
a) Bank loan, principal and interest repayable at \$74,901 per month, collateralized similar to the operating bank loan, as described in Note 6, with interest at a rate of bank prime plus 1.75%, renewable on February 1, 2011. Portions of this loan amortize until June 2019 and April 2021.	\$ 2,881,666	\$ 3,649,147
b) Capital lease, principal and interest repayable at \$6,907 per month including interest at a five-year fixed rate of 6.35% per annum, collateralized by certain pieces of manufacturing equipment until October, 2011.	287,481	349,377
c) Capital lease, principal and interest repayable at \$8,601 per month including interest at a three-year fixed rate of 6.61% per annum, collateralized by certain pieces of manufacturing equipment until February, 2011.	214,867	311,751
d) Capital lease, principal and interest repayable at \$15,024 per month including interest at a seven-year fixed rate of 6.575% per annum, collateralized by certain pieces of manufacturing equipment until September, 2014.	905,298	1,021,866
e) 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.	711,695	757,560
f) Other	108,960	108,960
	5,109,967	6,198,661
Less: current portion	1,300,981	1,251,243
	\$ 3,808,986	\$ 4,947,418

Principal due over the remaining terms of the long-term debt is as follows:

2010	\$ 1,300,981
2011	1,210,042
2012	537,526
2013	409,186
2014	433,418
2015 and thereafter	1,218,814
	\$ 5,109,967

The agreement with respect to the bank loan (Note 7(a)) contains a demand feature whereby the bank can demand repayment at any time. The bank has indicated that it does not expect repayment of the loan other than as scheduled, accordingly, the principal payments are classified in accordance with the bank loan repayment schedule.

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8. Share Capital

- a) Authorized share capital

	Number of Shares	
	2009	2008
Common shares without par value	500,000,000	500,000,000
Preferred shares without par value	9,999,900	9,999,900
Series "A" preferred shares	1,000,000	1,000,000
Series "B" preferred shares	100	100
Series "C" preferred shares	1,000,000	1,000,000
Series "D" preferred shares	4,000,000	4,000,000
Series "E" preferred shares	4,000,000	4,000,000
	20,000,000	20,000,000

There are no preferred shares outstanding as at February 28, 2009 and February 29, 2008.

- b) On August 9, 2007, the Company issued 3,300,001 common shares and 1,650,001 common share purchase warrants for net proceeds of \$9,342,959 (after deducting share issuance expenses of \$1,121,617). Of this amount, \$4,096,454 was allocated to the warrants issued and recorded in Contributed Surplus while the balance of \$5,255,524 was allocated to common shares. The warrant value was calculated using the Black-Scholes option-pricing model using a risk free rate of 4.5%, a volatility factor of 77% and 66 months as the term of the warrants.

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8. Share Capital – continued

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 generally begin vesting after 7 months at 7/60th of the total grant and continue to vest at 1/60th per month for a total of 60 months. The options generally have a life of 10 years. The Company does not have a formal stock option plan.

d) Stock Option Information

	Issued and Outstanding Options	Weighted Average Exercise Price (USD)
Outstanding at March 1, 2006	2,945,520	\$1.13
Granted	175,000	4.58
Exercised	(1,316,777)	1.19
Forfeited	(32,666)	1.10
Outstanding at February 28, 2007	1,771,077	1.43
Granted	460,000	2.23
Exercised	(257,278)	1.15
Forfeited	(434,634)	2.73
Expired	(28,166)	1.77
Outstanding at February 29, 2008	1,510,999	1.34
Granted	1,105,000	0.67
Forfeited	(342,500)	1.22
Expired	(182,667)	1.18
Outstanding at February 28, 2009	2,090,832	\$1.02

The weighted average date-of-grant fair value of the options granted during 2009 was \$0.61 US (2008 - \$2.03 US; 2007 - \$4.22 US) per share based on the Black-Scholes option pricing model using weighted average assumptions as described in Note 9.

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8. Share Capital – continued

e) Options Outstanding and Exercisable

The following table summarizes the options outstanding and exercisable at February 28, 2009.

	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Exercise Price (USD)	Number of Options Exercisable
	840,000	9.33	\$ 0.60	112,000
	500,000	1.00	\$ 1.00	500,000
	276,499	5.42	\$ 1.04	255,251
	200,000	8.92	\$ 1.42	43,334
	110,000	9.17	\$ 1.24	18,336
	50,000	8.58	\$ 3.15	13,333
	34,167	5.92	\$ 0.81	22,166
	30,000	8.33	\$ 4.16	10,000
	20,000	0.08	\$ 1.10	19,334
	10,000	7.33	\$ 4.93	5,334
	8,833	6.92	\$ 1.07	4,233
	7,833	7.25	\$ 2.57	3,333
	3,500	0.25	\$ 1.49	2,833
February 28, 2009	2,090,832			1,009,487
February 29, 2008	1,510,999			987,040
February 28, 2007	1,771,077			1,120,986

Subsequent to February 28, 2009, 20,000 options with an exercise price of \$1.10 USD expired unexercised.

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8. Share Capital – continued

f) Share Purchase Warrants Information

	Number of Warrants	Weighted Average Exercise Price (USD)
Outstanding at March 1, 2006	350,000	\$ 1.14
Expired	(350,000)	1.14
Outstanding at February 28, 2007	-	-
Issued in connection with private placement	1,817,001	3.95
Outstanding at February 29, 2008 and February 28, 2009	1,817,001	\$ 3.95

The company issued 1,650,001 common share purchase warrants related to the private placement and 167,000 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 expire on February 9, 2013. Subject to certain exclusions, the exercise price of the warrants is adjustable downwards to a minimum of \$3.29 U.S. per share in the event that the Company issues new shares at a price lower than the exercise price.

g) 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 28, 2006 the Shareholder Protection Rights Plan was updated to reflect current industry standards and changes in legislation, and was extended for five years.

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8. Share Capital – continued

h) Loss Per Common Share

The Company uses the “Treasury Stock Method” to calculate earnings (loss) per common share. Under this method basic earnings (loss) per share is based on the weighted average aggregate number of common and non-voting shares outstanding during each period. The diluted earnings per share assumes that the outstanding stock options and share purchase warrants had been exercised at the beginning of the period.

For the year ended February 28, 2009, February 29, 2008, and February 28, 2007, common equivalent shares (consisting of shares issuable on exercise of stock options and warrants) totaling 3,907,833, 3,328,000 and 1,771,077, respectively, were not included in the computation of diluted earnings per share because the effect was anti-dilutive.

9. Stock-Based Compensation

- a) The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants:

	2009	2008	2007
Risk-free rate	3.68% to 3.80%	3.82% to 4.64%	3.98% to 4.63%
Dividend yield	Nil%	Nil%	Nil%
Volatility factor of the expected market price of the Company's common shares	100%	101%	104%
Weighted average expected life of the options (months)	120	120	120

- b) In connection with the vesting of certain employees, officers and directors stock options for the year ended February 28, 2009, the Company has recorded stock option compensation of \$306,773 (2008 - \$278,175; 2007 - \$644,763) which was credited to contributed surplus and expensed in the year.

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10. Commitments

- a) The Company is committed to annual operating leases for premises and equipment. The minimum annual lease payments over the remaining terms of the leases are as follows:

2010	\$	659,991
2011		583,342
2012		603,168
2013		420,796
Total future minimum lease payments	<u>\$</u>	<u>2,267,297</u>

- b) The Company has commitments with various suppliers to purchase certain volumes of materials. It is not anticipated that losses will be incurred on these contracts.

11. 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 or results of operations of the Company.

12. Gain/Loss on Sale of Assets and Contract Settlements

The Company recorded a net gain on sale of assets in the amount of \$250,880, resulting from a gain on the sale of its spring site in the amount of \$304,210, to a company with a director in common with the Company, which was partially offset by a loss on disposal of vehicles and office equipment in the amount of \$53,330.

In the fiscal year ended February 29, 2008, the Company recorded a loss on sale of assets of \$101,486 (2007 - \$37,004).

The Company recorded a loss in the fiscal year ended February 28, 2009 of \$308,280 (2008 - \$Nil; 2007 - \$Nil) from the early termination of a warehouse lease at a substantial net discount.

In the fiscal year ended February 28, 2009, the Company recorded income of \$Nil (2008 - 1,389,263; 2007 - \$250,000) from the termination of a distribution agreement.

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13. Income Taxes (recovery)

	<u>2009</u>		2008		2007
Current	\$ 1,398	\$	(994)	\$	235
Future	287,887		41,938		(1,633,852)
	\$ 289,285	\$	40,944	\$	(1,633,618)

The difference in income tax expense (recovery) due to differences between the Canadian statutory federal income tax rate and the Company's effective income tax rate applied to loss before income taxes was as follows for each of the years in the three-year period ended February 28, 2009:

	<u>2009</u>		2008		2007
Income tax recovery computed					
at basic Canadian statutory rates	(30.8)%		(33.7)%		(34.1)%
Foreign income (loss) taxes at other than					
Canadian statutory rates	(3.8)%		0.0%		0.0%
Effect of non-deductible amounts	1.8%		1.1%		3.9%
Recognized tax expenses (benefits)	0.0%		0.3%		(4.2)%
Change in statutory rate	14.5%		18.3%		0.0%
Changes in valuation allowance	32.5%		14.7%		5.6%
	14.2%		0.7%		(28.8)%

The change in statutory rates represents rate changes enacted by the Canadian federal government through January 1, 2012.

The effects of each type of temporary difference that gives rise to the future income tax assets and liabilities are as follows:

	<u>2009</u>		2008
Operating and other losses carried forward	\$ 5,777,971	\$	5,219,765
Property, plant and equipment	2,012,311		1,922,806
Trademark and deferred costs	339,203		124,216
Un-realized foreign exchange loss	36,800		44,077
Financing costs	168,243		253,836
Total future income tax assets	8,334,528		7,564,700
Valuation allowance	(4,110,786)		(3,053,071)
Net future income tax assets	\$ 4,223,742	\$	4,511,629

The Company's future tax assets also include approximately \$673,000 (2008 - \$897,000) related to future deductions of share issue costs for tax purposes in excess of amounts deducted for financial reporting purposes. If and when the valuation allowance related to these amounts is reversed, the Company will recognize the benefit as an adjustment to share capital as opposed to income tax expense in the Consolidated Statements of Loss and Comprehensive Loss.

The Company has provided a valuation allowance against a portion of the future income tax assets. As at February 28, 2009, the Company and its subsidiaries have accumulated net operating losses in the amount of approximately \$17.0 million which can be applied against future earnings of the subsidiaries. The net operating loss carry forward amounts commence to expire in 2010 through 2028.

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14. Changes in Non-Cash Operating Working Capital Items

	2009	2008	2007
Non cash working capital related to operations:			
Accounts receivable	\$ 851,287	\$ 1,648,742	\$ (276,884)
Inventory	1,492,429	2,107,017	(2,004,475)
Prepaid expenses and deposits	222,701	552,275	(114,008)
Accounts payable and accrued liabilities	(1,558,373)	(3,647,083)	1,370,457
	\$ 1,008,044	\$ 660,951	\$ (1,024,910)

15. Related Party Transactions

Related party transactions not disclosed elsewhere are as follows:

	2009	2008	2007
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	\$ 510,400	\$ 528,000	\$ 512,000
iii) Incurred marketing consulting services with a company related by a director in Common	\$ 69,300	\$ 59,625	\$ -
iv) Incurred services from a company related by a director in common	\$ 693	\$ 11,647	\$ 12,044
v) Sold water to a company with a director in common	\$ 14,280	\$ 19,320	\$ 17,850
vi) Sold assets to a company with a director in common (Note 12)	\$ 450,500	\$ -	\$ -
vii) Incurred consulting fees with a company related by an officer in common	\$ 199,616	\$ 203,219	\$ 212,726
viii) Incurred services from a company related by a director in common	\$ 5,283	\$ 17,730	\$ 25,176
ix) Incurred placement agent fees and expenses from a company related by a director in common, see Note 8(b)	\$ -	\$ 760,366	\$ -

The above-noted transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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16. Financial Risk Management

a) Credit Risk

The Company's credit risk is primarily attributable to its accounts receivable. The risk arises from customers' potential inability to meet their obligations as agreed. The accounts receivable are presented on the balance sheet net of the provision for bad debts, which is estimated by the Company's management based on past experience and its assessment of current economic conditions.

The Company's cash equivalents are held in government treasury bills.

As at February 28, 2009, the Company is exposed to credit risk through the following assets:

	February 28, 2009	February 29, 2008
Trade Receivables	\$ 1,558,904	\$ 2,350,573
Other Receivables	75,654	189,872
Allowance for Doubtful Accounts	(156,125)	(210,725)
	\$ 1,478,433	\$ 2,329,720

The Company's customers consist mainly of wholesale and retail grocery suppliers and food distributors principally located in North America. During the year ended February 28, 2009, the Company's ten largest customers comprised approximately 82% (2008 - 64%; 2007 - 67%) and no one customer comprised more than 47% (2008 - 33%; 2007 - 18%). In addition, to cover credit risk, the Company performs ongoing credit evaluations of its customers' financial condition and applies rigorous procedures to assess the credit worthiness of new clients. It sets a specific credit limit per client and regularly reviews this limit.

Of the trade receivables outstanding at February 28, 2009, 80.5% were not due at February 28, 2009, 7.5% were between 30 and 60 days overdue but are not impaired and 12.0% are over 90 days but fully provided for in the allowance for doubtful accounts.

b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 17. The Company maintains detailed forecasts as well as long-term operating and strategic plans. Managing liquidity requires monitoring of projected cash inflows and outflows using forecasts of the Company's financial position to ensure adequate and efficient use of cash resources. The appropriate liquidity level is established based on historical volatility and seasonal requirements, as well as planned investments and the debt maturity requirements.

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 find an alternative source of financing.

Accounts payable and accrued liabilities are generally due within 30 days.

The agreement with respect to the bank indebtedness contains three restrictive covenants. They are a tangible net worth covenant, a current ratio covenant and a capital acquisition covenant. The Company was not in compliance with the current ratio covenant at February 28, 2009. The Company regained compliance in March 2009.

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16. Financial Risk Management – continued

c) Market Risk

i) Currency risk –The Company concludes sales in U.S. dollars to customers in the US 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 US dollars. The Company has not hedged its exposure to currency fluctuations.

At February 28, 2009, the Company's accounts receivable balances included \$352,000 denominated in U.S. dollars (2008 - \$670,000), the Company's accounts payable and accrued liabilities balance included \$226,000 denominated in U.S. dollars (2008 - \$659,000) and the Company's bank indebtedness balance included \$222,000 denominated in U.S. dollars (2008 - \$378,000).

As at February 28, 2009, all other factors being equal, a 5% U.S. dollar rise per Canadian dollar would have an unfavourable impact of approximately \$267,000 on net earnings for the year. A 5% US/Canadian dollar decrease would have a positive impact of similar magnitude.

ii) Interest rate risk – The Company is exposed to interest rate risk arising from its variable rate interest-bearing financial obligations which are the Company's operating line of credit and the long-term loan with the Company's primary lender. A negative impact on cash flows could occur if there was an increase in prime rates. A decrease in these same rates would have a positive impact of similar magnitude.

The Company maintains a combination of fixed rate and variable rate debts. Fixed rate debt is used mainly in relation to the business's long-term obligations arising from acquisitions of long-term assets. Bank indebtedness is used to finance the Company's working capital and fluctuates according to seasonal factors specific to the Company. As at February 28, 2009 the Company has long term debt with its primary lender and bank indebtedness relating to the Company's operating line of credit at variable interest rates which are the Company's main source of interest rate risk. The Company also has certain long-term capital leases at fixed rates.

As at February 28, 2009, the Company had short and long-term debt with variable interest rates in the amount of \$4,395,000. A 1.0% increase in the interest rate on average borrowing levels for the fiscal year ending February 28, 2009 would have an unfavourable impact of approximately \$58,000 on net earnings for the year. A 1.0% decrease in the interest rate would have a positive impact of similar magnitude.

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17. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide opportunities for growth to shareholders and benefits for other stakeholders, and to maintain financial flexibility in, or to take advantage of, opportunities as they arise.

In the management of capital, the Company includes shareholder's equity, cash equivalents, lease financing and bank financing in the definition of capital. The Company manages its capital structure and can adjust it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, or issue new debt to replace existing debt with different characteristics.

The Company uses its operating line of credit during the year to finance cash flows related to seasonal changes in non-cash working capital items, and funds large capital expenditure projects through long-term debt. The Company has a demand revolving operating bank loan with a credit limit of \$5,500,000 subject to the availability of eligible collateral. The actual limit based on eligible collateral at February 28, 2009 was \$2.468 million. The agreement with respect to the bank indebtedness contains three financial covenants. They are a tangible net worth covenant, a current ratio covenant and a capital acquisition covenant. The Company was in not in compliance with the current ratio covenant at February 28, 2009. The Company regained compliance in March 2009.

18. Segmented Information

The Company operates in one industry segment being the production and distribution of beverages and food products. The Company's principal operations are comprised of an integrated bottling and distribution system for beverages, water and snack foods. 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%.

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19. Differences Between Canadian and United States Generally Accepted Accounting Principles

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which, in the case of the Company, differs in certain respects from US GAAP.

Material differences between Canadian and US GAAP are summarized below:

a) Adjustments to Consolidated Financial Statements

Adjustments to Consolidated Statements of Loss

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net loss for the year, Canadian GAAP	\$ (2,313,695)	\$ (5,668,172)	\$ (4,043,808)
Amortization of deferred costs (i)	-	6,563	75,277
Net loss for the year, US GAAP	<u>\$ (2,313,695)</u>	<u>\$ (5,661,609)</u>	<u>\$ (3,968,531)</u>
Basic and diluted loss per share, US GAAP	<u>\$ (0.12)</u>	<u>\$ (0.31)</u>	<u>\$ (0.25)</u>

Comprehensive Loss

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net loss, US GAAP	\$ (2,313,695)	\$ (5,661,609)	\$ (3,968,531)
Other comprehensive income:			
Foreign currency translation Adjustments	(15,359)	266,591	(65,164)
Comprehensive loss, US GAAP	<u>\$ (2,329,054)</u>	<u>\$ (5,395,018)</u>	<u>\$ (4,033,695)</u>

Adjustments to Assets, Liabilities and Shareholders' Equity

	<u>2009</u>	<u>2008</u>
Total assets, Canadian GAAP	\$ 22,753,977	\$ 27,893,953
Write-off website development costs (ii)	(108,960)	(108,960)
Total assets, US GAAP	<u>\$ 22,645,017</u>	<u>\$ 27,784,993</u>
Total liabilities, Canadian and US GAAP	<u>\$ 9,072,937</u>	<u>\$ 12,190,632</u>
Total shareholders' equity, Canadian GAAP	13,681,040	15,703,321
Change in deficit relating to:		
Application of EITF 00-2 (ii)	(108,960)	(108,960)
Total shareholders' equity, US GAAP	<u>13,572,080</u>	<u>15,594,361</u>
Total liabilities and shareholders' equity, US GAAP	<u>\$ 22,645,017</u>	<u>\$ 27,784,993</u>

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19. Differences Between Canadian and United States Generally Accepted Accounting Principles – continued

a) Adjustments to Consolidated Financial Statements – continued

i) Product Launch and Deferred Costs

Under US GAAP, according to Statement of Position (“SOP”) 98-5, *Reporting on the Costs of Start-Up Activities*, costs incurred prior to commercial production of a product, costs incurred to establish business in a new territory and costs incurred to initiate a new process in an existing facility are to be expensed as incurred. Under Canadian GAAP, these costs may be capitalized to the extent that they meet specified criteria for recoverability.

ii) Under Emerging Issues Task Force Issue No. 00-2 (“EITF 00-2”), *Accounting for Website Development Cost* in the U.S., certain general design and indirect costs related to website development are required to be expensed rather than capitalized. In Canada there is no similar restriction and certain of these costs were capitalized.

iii) New Accounting Pronouncements

In March 2008, FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* - an amendment of FASB Statement No. 133. This Statement requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting.

This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require comparative disclosures for earlier periods at initial adoption. The Company is assessing the impact of the new standard.

In December, 2007 FASB issued FASB Statement No. 141 (revised 2007), *Business Combinations* (“FASB 141R”). FASB 141R changes the accounting for the acquisition of a business in fiscal years beginning after December 15, 2008. When effective, FASB 141R will replace existing FASB 141 in its entirety. FASB 141R will apply to a broad range of transactions, provides for new measurement and recognition requirements and provides new disclosure requirements for certain elements of an acquisition. FASB 141R will apply prospectively to business combinations with an acquisition date on or after the first annual reporting period beginning after December 15, 2008. Both early adoption and retroactive application are prohibited. The Company is currently evaluating the impact of the provisions of FASB 141R.

In February 2007, FASB issued FASB Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”. FASB 159 is effective for fiscal years beginning after November 15, 2007. FASB 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. FASB 159 also establishes presentation and disclosure requirements designed to draw comparison between entities that elect different measurement attributes for similar assets and liabilities. The Company is currently evaluating the impact of the provisions of FASB 159.

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19. Differences Between Canadian and United States Generally Accepted Accounting Principles – continued

a) Adjustments to Consolidated Financial Statements – continued

iii) New Accounting Pronouncements – continued

In December 2007, FASB issued FASB statement No. 160 "Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No.51". This statement establishes accounting and reporting standards for the non-controlling interest in a subsidiary. The guidance is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of the provisions of FASB 160.

In June 2008, the FASB finalized EITF 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock". The EITF lays out a procedure to determine if an equity-linked financial instrument (or embedded feature) is indexed to its own common stock. The EITF is effective for fiscal years beginning after December 15, 2008. The adoption of EITF 07-5 is anticipated to result in a reclassification of certain of our warrants from equity to liability for US GAAP purposes, and will require re-measurement to current fair value at the end of every reporting period with the change in fair value reported in our consolidated statement of operations as a gain or loss on derivative financial instruments. The Company is currently evaluating the financial statement impact of adopting this standard.