

Urban Barns Foods Inc.  
Form 10-Q  
June 14, 2013

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-Q**

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

For the quarterly period ended **April 30, 2013**

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

For the transition period from \_\_\_\_\_ To \_\_\_\_\_

Commission file number: **000-53942**

**URBAN BARNS FOODS INC.**

*(Exact name of registrant as specified in its charter)*

**Nevada**

*(State or other jurisdiction of incorporation or organization)*

**N/A**

*(I.R.S. Employer Identification No.)*

**7170 Glover Road**

**Milner, B.C., Canada V0X 1T0**

**604-888-0420**

*(Address of principal executive offices) (Zip Code)*

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ **Smaller reporting company ☒**

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE

PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

☐ Yes ☐ No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of June 12, 2013 the registrant's outstanding common stock consisted of 153,546,396 shares.

---

**Table of Contents**

<b><u>PART I - FINANCIAL INFORMATION</u></b>	<b><u>3</u></b>
<b><u>Item 1. Financial Statements</u></b>	<b><u>3</u></b>
<b><u>Results of Operations</u></b>	<b><u>17</u></b>
<b><u>Plan of Operation</u></b>	<b><u>18</u></b>
<b><u>ITEM 1. LEGAL PROCEEDINGS</u></b>	<b><u>20</u></b>
<b><u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	<b><u>20</u></b>
<b><u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u></b>	<b><u>20</u></b>
<b><u>ITEM 5. OTHER INFORMATION</u></b>	<b><u>20</u></b>

---

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

The unaudited interim financial statements of Urban Barns Foods Inc. (the Company, Urban Barns, we, our, follow. All currency references in this report are to U.S. dollars unless otherwise noted.

**URBAN BARNS FOODS INC.**  
(A Development Stage Company)  
Consolidated Financial Statements  
For the period ended April 30, 2013  
(Expressed in U.S. dollars)

**Financial Statement Index**

<u>Consolidated Balance Sheets</u>	<u>4</u>
<u>Consolidated Statements of Operations</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>7</u>

---

**URBAN BARNs FOODS INC.**  
(A Development Stage Company)  
Consolidated Balance Sheets  
(expressed in U.S. dollars)

	April 30, 2013 \$ (unaudited)	July 31, 2012 \$
<b>ASSETS</b>		
Current assets		
Cash	36,267	24,051
Accounts receivable	2,558	
Amounts receivable	8,567	
Inventory	1,049	
Prepaid expenses and deposits	13,965	12,208
Total current assets	62,406	36,259
Deferred financing costs		4,438
Property and equipment (Note 3)	245,438	117,420
Intangible assets (Note 4)	34,419	33,211
Total assets	342,263	191,328
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	165,202	175,898
Convertible debentures, net of unamortized discount of \$nil and \$23,522 (Note 5)	5,062	117,702
Derivative liabilities (Note 6)	6,341	21,249
Due to related parties (Note 7)	270,450	81,360
Total liabilities	447,055	396,209
Nature of operations and continuance of business (Note 1)		
Subsequent events (Note 11)		
Stockholders' deficit		
Preferred stock		
Authorized: 100,000,000 common shares, par value \$0.001		
Issued and outstanding: nil shares		
Common stock, Class A		
Authorized: 500,000,000 common shares, par value \$0.001		
Issued and outstanding: 150,071,396 and 58,823,618 shares, respectively	150,071	58,824
Common stock, Class B		
Authorized: 25,000,000 common shares, value of \$0.001		
Issued and outstanding: nil		
Additional paid-in capital	2,007,407	258,394
Deferred compensation (Note 7)	(268,630)	
Common stock issuable	163,750	4,200
Share issuance costs	(15,500)	
Deficit accumulated during the development stage	(2,141,890)	(526,299)
Total stockholders' deficit	(104,792)	(204,881)
Total liabilities and stockholders' deficit	342,263	191,328

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



**URBAN BARNs FOODS INC.**

(A Development Stage Company)

## Consolidated Statements of Operations

(expressed in U.S. dollars)

(unaudited)

	Three Months Ended April 30, 2013 \$	Three Months Ended April 30, 2012 \$	Nine Months Ended April 30, 2013 \$	Nine Months Ended April 30, 2012 \$	Accumulated from February 10, 2010 (date of inception) to April 30, 2013 \$
Revenue	3,612		4,390		4,390
Cost of sales	(740)		(1,132)		(1,132)
Gross Margin	2,872		3,258		3,258
Operating expenses					
Depreciation	6,427	2,181	16,768	8,454	40,207
Foreign exchange loss	2,019	1,355	2,181	(10,692)	(14,173)
(gain)					
General and administrative	164,730	32,962	907,840	142,368	1,105,334
(Note 7)					
Professional fees (Note 7)	24,472	39,714	111,412	127,087	273,815
Research and development	(298)	731	25,952	3,294	29,239
Write-down of property					3,463
and equipment					
Total operating expenses	197,350	76,943	1,064,153	270,511	1,437,885
Loss from operations	(194,478)	(76,943)	(1,060,895)	(270,511)	(1,434,627)
Other income (expense)					
Accretion of discount on			(132,798)		(145,000)
convertible debentures (Note					
5)					
Amortization of deferred			(4,438)		(10,750)
financing costs					
Gain on change in fair	2,276		132,408		138,659
value of derivative liabilities					
(Note 6)					
Interest expense	(3,251)	(2,435)	(7,123)	(2,435)	(12,442)
Loss on conversion of			(540,788)		(540,788)
convertible debenture					
Loss on settlement of	(1,957)		(1,957)		(1,957)
accounts payable					
Total other income (expense)	(2,932)	(2,435)	(554,696)	(2,435)	(572,278)
Net loss	(197,410)	(79,378)	(1,615,591)	(272,946)	(2,006,905)
Net loss per share, basic and			(0.01)		
diluted					

Edgar Filing: Urban Barns Foods Inc. - Form 10-Q

Weighted average shares outstanding	149,010,546	57,517,227	129,598,244	56,814,956
--	-------------	------------	-------------	------------

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



**URBAN BARNs FOODS INC.**

(A Development Stage Company)

## Consolidated Statements of Cash Flows

(expressed in U.S. dollars)

(unaudited)

	Nine Months Ended April 30, 2013 \$	Nine Months Ended April 30, 2012 \$	Accumulated from February 10, 2010 (date of inception) to April 30, 2013 \$
<b>Operating Activities</b>			
Net loss for the period	(1,615,591)	(272,946)	(2,006,905)
Adjustments to reconcile net loss to net cash used in operating activities:			
Accretion of discount on convertible debentures	132,798		145,000
Amortization of deferred financing costs	4,438		10,750
Depreciation	16,768	8,454	40,207
Deferred compensation	(268,630)		(268,630)
Gain on change in fair value of derivative liabilities	(132,408)		(138,659)
Loss on conversion of convertible debenture	540,788		540,788
Loss on settlement of accounts payable	1,957		1,957
Shares issued for consulting fees	435,403	67,200	502,603
Stock-based compensation	398,211	11,575	409,786
Write-down of property and equipment			3,463
Changes in operating assets and liabilities:			
Accounts receivable	(2,558)		(2,558)
Amounts receivable	(8,567)		(8,567)
Inventory	(1,049)		(1,049)
Prepaid expenses and deposits	(1,757)	(19,731)	(3,715)
Deferred financing costs		2,756	
Accounts payable and accrued liabilities	9,859	671	91,267
Due to related parties	181,140	(21,815)	196,872
Net cash used in operating activities	(309,198)	(223,836)	(487,390)
<b>Investing Activities</b>			
Purchase of intangible assets			(33,211)
Purchase of property and equipment	(144,786)	(2,020)	(277,249)
Cash acquired on recapitalization			1,774
Net cash used in investing activities	(144,786)	(2,020)	(308,686)
<b>Financing Activities</b>			
Proceeds from issuance of convertible debentures		145,000	145,000
Finders' fees paid	(7,550)	(9,500)	(17,050)
Proceeds from issuance of common shares	473,750	125,462	704,393
Repayment to due to related parties		(1,012)	
Net cash provided by financing activities	466,200	259,950	832,343
Increase in cash	12,216	34,094	36,267
Cash, beginning of period	24,051	32,907	
Cash, end of period	36,267	67,001	36,267
<b>Non-cash investing and financing activities</b>			
Shares issued for settlement of debt	22,620		22,620

Edgar Filing: Urban Barns Foods Inc. - Form 10-Q

Shares issued upon conversion of debentures	129,038	141,038
Conversion of Class B shares to Class A shares		50,000
Supplemental disclosures		
Interest paid		
Income tax paid		

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

**URBAN BARNS FOODS INC.**

(A Development Stage Company)

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**1. Nature of Operations and Continuance of Business**

Urban Barns Foods Inc. (the Company) was incorporated under the laws of the State of Nevada on May 21, 2007 as HL Ventures Inc.

On December 4, 2009, the Company closed a reverse takeover transaction with Urban Barns Foods Inc., a privately-held company incorporated on July 3, 2009 under the laws of the province of Alberta. In accordance with the transaction, the Company issued 125,000 shares of common stock to the shareholders of Urban Barns in exchange for 100% of the issued and outstanding shares of common stock of Urban Barns. As part of the acquisition, the Company also cancelled 102,500 shares of common stock held by management.

On June 2, 2011, the Company closed a reverse takeover transaction with Non Industrial Manufacture Inc. ( NIM ), a privately-held company incorporated on February 10, 2010, under the laws of the province of Alberta. In accordance with the transaction, the Company issued 2,500,000 shares of Class B common stock to the shareholders of Non Industrial in exchange for 100% of the issued and outstanding shares of common stock of Non Industrial.

The Company is a development stage company and is an urban produce production company that aims to be the supplier of choice for fresh and high-quality organic and conventional fruits and vegetables for urban consumers.

These financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at April 30, 2013, the Company has a working capital deficit of \$384,649 an accumulated deficit of \$2,141,890. The continued operations of the Company are dependent on its ability to generate future cash flows from operations or obtain additional financing. These factors raise substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recorded assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

**2. Significant Accounting Policies**

**(a) Basis of Presentation and Principles of Consolidation**

The consolidated financial statements and the related notes of the Company are prepared in accordance with generally accepted accounting principles in the United States and are expressed in United States dollars. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Urban Barns Foods (Alberta) Inc., and Non-Industrial Manufacture Inc. All inter-company accounts and transactions have been eliminated. The Company's fiscal year-end is July 31.

**(b) Use of Estimates**

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles in the United States 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the useful life

and recoverability of long-lived assets, valuation of convertible debentures, assumptions used to determine the fair value of stock-based compensation and derivative liabilities, and deferred income tax valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

**URBAN BARNs FOODS INC.**

(A Development Stage Company)

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**2. Significant Accounting Policies** (continued)

(c) Interim Financial Statements

These interim unaudited financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for a full year or for any future period.

(d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

(e) Property and Equipment

Property and equipment consists of production equipment and is stated at cost and amortized straight-line over five years.

(f) Intangible assets

Intangible assets consist of patent development costs. Intangible assets acquired are initially recognized and measured at cost and amortized over its expected useful life once the patents are in use. Impairment tests are conducted annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any. The amortization methods and estimated useful lives of intangible assets are reviewed annually.

(g) Long-Lived Assets

In accordance with ASC 360, *Property, Plant and Equipment*, the Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and current expectation that the asset will more likely than not be sold or disposed significantly before the end of its estimated useful life. Recoverability is assessed based on the carrying amount of the asset and its fair value which is generally determined based on the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset, as well as specific appraisal in certain instances. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair

value.

(h) Revenue Recognition

The Company derives revenue from the sale of agricultural products. In accordance with ASC 605, *Revenue Recognition*, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the amount is fixed and determinable, risk of ownership has passed to the customer and collection is reasonably assured.

(i) Inventory

Inventory is comprised of seeds for growing agricultural products and is recorded at the lower of cost or net realizable value on a first-in first-out basis. The Company establishes inventory reserves for estimated obsolete or unsaleable inventory equal to the difference between the cost of inventory and the estimated realizable value based upon assumptions about future and market conditions.

**URBAN BARNs FOODS INC.**

(A Development Stage Company)

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**2. Significant Accounting Policies (continued)**

(j) Comprehensive Loss

ASC 220, *Comprehensive Income*, establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. As at April 30, 2013 and July 31, 2012, the Company had no items that affected comprehensive loss.

(k) Foreign Currency Translation

The Company's functional and reporting currency is the U.S. dollar. Monetary assets and liabilities of integrated operations and other monetary assets and liabilities denominated in foreign currencies are translated to U.S. dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. The resulting exchange gains or losses are recognized in income.

(l) Loss Per Share

The Company computes net loss per share in accordance with ASC 260, *Earnings Per Share*, which requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive. As of April 30, 2013, the Company had 16,230,707 (July 31, 2012 1,722,222) potentially dilutive shares.

(m) Financial Instruments and Fair Value Measures

ASC 820, *Fair Value Measurements and Disclosures* requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value:

*Level 1*

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

*Level 2*

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

*Level 3*

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.



**URBAN BARNS FOODS INC.**

(A Development Stage Company)

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**2. Significant Accounting Policies (continued)****(m) Financial Instruments and Fair Value Measures (continued)**

The Company's financial instruments consist principally of cash, accounts payable and accrued liabilities, convertible debentures, derivative liabilities, and amount due to related parties. Pursuant to ASC 820, the fair value of cash is determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. The recorded values of all other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

**(n) Stock-based Compensation**

The Company records stock-based compensation in accordance with ASC 718, *Compensation - Stock Compensation*, using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

**(o) Recent Accounting Pronouncements**

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the consolidated financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

	Cost	Accumulated Depreciation	April 30, 2013 Net Carrying Value \$ (unaudited)	July 31, 2012 Net Carrying Value \$
Production equipment	\$ 289,717	\$ 44,279	245,438	117,420

**4. Intangible Assets**

	Cost	Accumulated Depreciation	April 30, 2013 Net Carrying Value \$ (unaudited)	July 31, 2012 Net Carrying Value \$
Patent development costs	\$ 34,419	\$	34,419	33,211



**URBAN BARNS FOODS INC.**

(A Development Stage Company)

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**5. Convertible Debentures**

- (a) On January 4, 2012, the Company entered into a convertible promissory note agreement for \$27,500, less deferred financing charges of \$3,750 and common shares with a fair value of \$1,250. Pursuant to the agreement, the loan is unsecured, bears interest at 8% per annum, and is due on October 6, 2012. The note is also convertible into common shares at a conversion price equal to 45% of the average of the three lowest closing prices for the Company's common shares in the ten trading days prior to conversion, at the option of the note holder, commencing on July 2, 2012.

In accordance with ASC 470-20, Debt with Conversion and Other Options, the Company recognized the intrinsic value of the embedded beneficial conversion feature of \$27,500. On July 16, 2012, the Company issued 1,061,947 common shares pursuant to the conversion of \$12,000. On October 16, 2012, the Company issued 2,804,878 common shares pursuant to the conversion of \$11,500. On November 8, 2012, the Company issued 554,348 common shares pursuant to the conversion of \$4,000 and accrued interest of \$1,100. During the period ended April 30, 2013, the Company recorded accretion expense of \$15,298 (2012 - \$nil).

- (b) On February 9, 2012, the Company entered into four convertible promissory note agreements for \$85,000. Pursuant to the agreement, the loans are unsecured, bear interest at 8% per annum, and are due on November 9, 2012. The loans are convertible into common shares at a conversion price equal to 45% of the average of the three lowest closing prices for the Company's common shares in the ten trading days prior to conversion, at the option of the note holders, commencing on August 5, 2012.

In accordance with ASC 470-20, Debt with Conversion and Other Options, the Company recognized the intrinsic value of the embedded beneficial conversion feature of \$85,000. On August 28, 2012, the Company issued 18,826,134 common shares pursuant to the conversion of \$85,000. During the period ended April 30, 2013, the Company recorded accretion expense of \$85,000 (2012 - \$nil).

- (c) On March 30, 2012, the Company entered into a convertible promissory note agreement for \$32,500, less deferred financing charges of \$5,750. Pursuant to the agreement, the loan is unsecured, bears interest at 8% per annum, and is due on January 4, 2013. The loan is convertible into common shares at a conversion price equal to 45% of the average of the three lowest closing prices for the Company's common shares in the ten trading days prior to conversion, at the option of the note holder, commencing on September 26, 2012.

In accordance with ASC 470-20, Debt with Conversion and Other Options, the Company recognized the intrinsic value of the embedded beneficial conversion feature of \$4,338. On October 16, 2012, the Company issued 6,692,158 common shares pursuant to the conversion of \$27,438. During the period ended April 30, 2013, the Company recorded accretion expense of \$32,500 (2012 - \$nil). As at April 30, 2013, the carrying value of the convertible note was \$5,062 (July 31, 2012 - \$32,500).

April 30, 2013	July 31, 2012
\$	\$

Derivative liabilities:

Edgar Filing: Urban Barns Foods Inc. - Form 10-Q

January 2012 convertible debenture		21,249
March 2012 convertible debenture	6,341	
	6,341	21,249
	11	

---

**URBAN BARNs FOODS INC.**

(A Development Stage Company)

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**6. Derivative Liabilities (continued)**

The fair value of the derivative financial liabilities was determined using the Black-Scholes option pricing model using the following assumptions:

	Expected Volatility	Risk- free Interest Rate	Expected Dividend Yield	Expected Life (in years)
At the issuance date:				
January 2012 convertible debenture	213%	0.10%	0%	0.26
March 2012 convertible debenture	161%	0.11%	0%	0.27
As at April 30, 2013:				
March 2012 convertible debenture	114%	0.05%	0%	0.25

**7. Related Party Transactions**

- (a) As at April 30, 2013, the Company owed \$77,427 (July 31, 2012 - \$52,809) to directors and officers of the Company. The amounts owing are unsecured, non-interest bearing, and due on demand.
- (b) As at April 30, 2013, the Company owed \$49,630 (July 31, 2012 - \$nil) to directors and officers of the Company. The amounts owing are unsecured, bears interest expense at 8% and due on May 1, 2014. During the period ended April 30, 2013, the Company incurred interest expense of \$1,654 (April 30, 2012 - \$nil), which has been recorded in accounts payable and accrued liabilities.
- (c) As at April 30, 2013, the Company owed \$nil (July 31, 2012 - \$3,351) to a company controlled by an officer of the Company. The amounts owing are unsecured, non-interest bearing, and due on demand.
- (d) As at April 30, 2013, the Company owed \$103,793 (July 31, 2012 - \$nil) to a company controlled by an officer of the Company. The amounts owing are unsecured, bears interest expense at 8% and due on May 1, 2014. During the period ended April 30, 2013, the Company incurred interest expense of \$4,144 (April 30, 2012 - \$nil), which has been recorded in accounts payable and accrued liabilities.
- (e) As at April 30, 2013, the Company owed \$39,600 (July 31, 2012 - \$25,200) for amounts owing to the spouse of the President of the Company. The amounts owing are unsecured, non-interest bearing, and due on demand.
- (f) As at April 30, 2013, the Company owed \$65,940 (July 31, 2012 - \$98,162) to companies controlled by directors and officers of the Company, which has been recorded in accounts payable and accrued liabilities. The amounts owing are unsecured, non-interest bearing, and due on demand.
- (g) As at April 30, 2013, the Company had deferred compensation of \$268,630 (July 31, 2012 - \$nil) incurred to directors and officers of the Company.
- (h)

Edgar Filing: Urban Barns Foods Inc. - Form 10-Q

During the nine months ended April 30, 2013, the Company incurred professional fees of \$16,200 (April 30, 2012 - \$18,060) to a person related to the President of the Company.

- (i) During the nine months ended April 30, 2013, the Company incurred travel expenses fees of \$76,735 (April 30, 2012 - \$32,849) to directors and officers of the Company.
- (j) During the nine months ended April 30, 2013, the Company incurred consulting fees of \$121,370 (April 30, 2012 - \$19,020) to directors and officers of the Company.
- (k) During the nine months ended April 30, 2013, the Company incurred rental fees of \$20,736 (April 30, 2012 - \$11,224) to a company controlled by an officer of the Company.

**URBAN BARNS FOODS INC.**

(A Development Stage Company)

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**8. Common Stock**

- (a) On August 6, 2012, the Company issued 120,000 shares of Class A common stock for consulting services with a fair value of \$4,200, which was recorded in common stock issuable as of July 31, 2012.
- (b) On August 28, 2012, the Company issued 18,826,134 shares of Class A common stock pursuant to the conversion of \$85,000 of convertible debentures, as described in Note 5(b).
- (c) On September 13, 2012, the Company issued 30,000,000 shares of Class A common stock for consulting services with a fair value of \$300,000 to directors of the Company. As of April 30, 2013, \$268,630 (July 31, 2012 - \$nil) of the amount was recorded in deferred compensation.
- (d) On October 16, 2012, the Company issued 2,804,878 shares of Class A common stock pursuant to the conversion of \$11,500 of the convertible debenture, as described in Note 5(a).
- (e) On October 16, 2012, the Company issued 6,692,158 shares of Class A common stock pursuant to the conversion of \$27,438 of the convertible debenture, as described in Note 5(c).
- (f) On October 22, 2012, the Company issued 26,000,000 shares of Class A common stock at \$0.01 per share for proceeds of \$260,000. The Company paid a finders fee of \$13,000 in conjunction with the private placement.
- (g) On October 23, 2012, the Company issued 2,000,000 shares of its Class A common stock at \$0.025 per share for proceeds of \$50,000. The Company incurred a finders fee of \$2,500 in conjunction with the private placement.
- (h) On November 8, 2012, the Company issued 554,348 shares of Class A common stock pursuant to the conversion of \$4,000 of the convertible debenture and \$1,100 of accrued interest, as described in Note 5(a).
- (i) On November 21, 2012, the Company issued of 3,000,000 shares of Class A common stock for consulting services with a fair value of \$120,000.
- (j) On March 6, 2013, the Company issued 128,500 shares of Class A common stock to settle accounts payable of \$6,425.
- (k) On March 20, 2013, the Company issued 851,815 shares of Class A common stock for consulting services with a fair value of \$15,403.
- (l) On March 25, 2013, the Company issued 269,916 shares of Class A common stock with a fair value of \$16,195 to settle accounts payable of \$14,238. The transaction resulted in a loss on settlement of debt of \$1,957.

**URBAN BARNS FOODS INC.**

(A Development Stage Company)

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**9. Stock Options (continued)**

On February 1, 2013, the Company granted 50,000 stock options to a consultant for services. The stock options have an exercise price of \$0.10 per share, vests immediately, and expire on July 31, 2013. The fair value for these stock options was \$1,450, and was estimated at the date of grant using the Black-Scholes option-pricing model assuming a weighted average expected life of 0.5 years, a risk-free rate of 0.11%, an expected volatility of 291%, and a 0% dividend yield. The weighted average fair value of stock options granted was \$0.10 per share.

On February 1, 2013, the Company granted 200,000 stock options to a consultant for services. The stock options have an exercise price of \$0.10 per share, vests immediately, and expire on January 31, 2014. The fair value for these stock options was \$7,302, and was estimated at the date of grant using the Black-Scholes option-pricing model assuming a weighted average expected life of 1 year, a risk-free rate of 0.15%, an expected volatility of 259%, and a 0% dividend yield. The weighted average fair value of stock options granted was \$0.10 per share.

On February 18, 2013, the Company granted 200,000 stock options to a consultant for services. The stock options have an exercise price of \$0.10 per share, vests immediately, and expire on August 17, 2013. The fair value for these stock options was \$5,799, and was estimated at the date of grant using the Black-Scholes option-pricing model assuming a weighted average expected life of 0.5 years, a risk-free rate of 0.13%, an expected volatility of 291%, and a 0% dividend yield. The weighted average fair value of stock options granted was \$0.10 per share.

On April 24, 2013, the Company granted 400,000 stock options to a consultant for services. The stock options have an exercise price of \$0.10 per share, vests immediately, and expire on April 23, 2014. The fair value for these stock options was \$10,608, and was estimated at the date of grant using the Black-Scholes option-pricing model assuming a weighted average expected life of 1 year, a risk-free rate of 0.13%, an expected volatility of 244%, and a 0% dividend yield. The weighted average fair value of stock options granted was \$0.10 per share.

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price \$	Weighted average remaining contractual life (years)	Aggregate intrinsic value \$
Outstanding and exercisable, July 31, 2012				
Granted	15,850,000	0.10	9.5	
Outstanding and exercisable, April 30, 2013	15,850,000	0.10	9.04	

Additional information regarding stock options as of April 30, 2013, is as follows:

Number of Options	Exercise Price \$	Expiry Date
15,000,000	0.10	November 1, 2022
50,000	0.10	July 31, 2013
200,000	0.10	January 31, 2014



Edgar Filing: Urban Barns Foods Inc. - Form 10-Q

200,000	0.10	August 17, 2013
400,000	0.10	April 23, 2014
15,850,000		

As of April 30, 2013, the Company had no unrecognized compensation expense relating to unvested options.

**URBAN BARNS FOODS INC.**

(A Development Stage Company)

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**10. Commitments**

- (a) On June 25, 2012, the Company entered into an agreement with a director of the Company. In accordance with the terms and provisions of the agreement, the director agreed to aid with introductions to management of the Company with respect to the current round of financing of a minimum of \$1,000,000 on a best efforts basis through various sources of capital.

Pursuant to the agreement, the Company agreed to the following terms and provisions:

- i. The Company agreed to pay a finders' fee of 5% on actual funds raised or 2% via third parties with regards to private placements.
- ii. The Company agreed to pay a finders' fee in the amount of 3% on actual funds loaned or 1.5% via third parties with regards to debt financings.
- iii. The Company agreed to pay a scalable finders' fee of 5% on the first \$2,000,000, 4% of the next \$2,000,000 and 3% on the remaining amount of \$4,000,000 if the Company is merged with any other private or public entity with regards to an introduction to a third party who wishes to acquire, merger or perform a business combination; and
- iv. The Company agreed to pay a scalable finders' fee of 5% on the first \$2,000,000, 4% of the next \$2,000,000 and 3% on the remaining amount of \$4,000,000 if the Company is merged with any other private or public entity with regards to an introduction to a third party who wishes to acquire, merger or perform a business combination; and
- v. The Company agreed to pay a monthly fee of \$4,000 as compensation for his role as a member of the Board of Directors for a twelve-month term upon the closing of a minimum of \$1,000,000 raised.

As of April 30, 2013, \$7,500 of the finder's fee was paid and \$7,950 of the finder's fee was recorded in due to related party loan.

- (b) On November 1, 2012, the Company entered into three consulting agreements with directors and officers of the Company. Each agreement pays each director and officer a consulting fee of \$5,000 per month until November 1, 2017.
- (c) On December 1, 2012, the Company entered into a research agreement with McGill University ( McGill ), where McGill will perform testing, research and development towards improvements and efficiency gains on the Company's patent-pending growing machines. Under the terms of the agreement, the Company will pay \$500,000, where \$25,000 is due upon the signing of the agreement (paid), \$75,000 is due when the Company either completes financing or four growing machines, and \$100,000 annually on January 1, 2014, 2015, 2016, and 2017. The agreement expires on January 1, 2018.
- (d) On February 4, 2013, the Company entered into a consulting agreement for consulting and financing services. Under the terms of the agreement, the consultant will provide assistance with consulting and obtaining additional financing for the Company in exchange for a finders' fee of 8% in cash and 2% in

common shares for all successful financing with a minimum funding of \$500,000, and 3% in cash of total face value for successful closing of convertible debentures.

- (e) On February 15, 2013, the Company entered into a consulting agreement for consulting and financing services. Under the terms of the agreement, the consultant will provide assistance with consulting and obtaining additional financing for the Company in exchange for a finders fee of 5% in cash and 2.5% in share purchase warrants, exercisable at \$0.10 per share and expiring twelve months from the grant date, for all funds raised, 3% in cash for closing of convertible debentures, and 1% in cash on the successful closing of a revolving credit facility.

**URBAN BARNS FOODS INC.**

(A Development Stage Company)

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**11. Subsequent Events**

On May 29, 2013, the Company entered into a memorandum of understanding with a non-related party for the purchase of cubic farming growing machines from the Company. Under the terms of the agreement, the non-related party will purchase a minimum of four cubic farming growing machines from the Company at a cost of Cdn\$35,000 for the first ten machines, and Cdn\$30,000 for the next twenty-five machines, as well as an exclusive license of Cdn\$1,000 per machine subject to a maximum of Cdn\$100,000 over a five year period. The agreement expires on August 30, 2013 and can be extended for a five-year period by mutual consent.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.****Forward Looking Statements**

This report on Form 10-Q contains certain forward-looking statements. All statements other than statements of historical fact are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues, or other financial items; any statements of the plans, strategies, and objectives of management for future operation; any statements concerning proposed new products, services, or developments; any statements regarding future economic conditions or performance; statements of belief; and any statement of assumptions underlying any of the foregoing. Such forward-looking statements are subject to inherent risks and uncertainties, and actual results could differ materially from those anticipated by the forward-looking statements.

These forward-looking statements involve significant risks and uncertainties, including, but not limited to, the following: competition, promotional costs and the risk of declining revenues. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of a number of factors. These forward-looking statements are made as of the date of this filing, and we assume no obligation to update such forward-looking statements. The following discusses our financial condition and results of operations based upon our consolidated financial statements which have been prepared in conformity with accounting principles generally accepted in the United States. It should be read in conjunction with our financial statements and the notes thereto included elsewhere herein.

**Results of Operations**

We are still in our development stage and have generated \$4,390 of revenue to date.

We incurred operating expenses of \$1,064,153 for the nine months ended April 30, 2013. These expenses consisted of \$907,840 in general operating expenses, \$25,952 in research and development expenses, and \$111,412 in professional fees. For the same period ended April 30, 2012 we incurred operating expenses of \$270,511. The increase in operating expenses was due to issuance of common shares and stock options for consulting fees. As of April 30, 2013, our net loss was \$1,615,591 and net loss per share was \$0.01 compared with \$272,946 and loss per share of \$nil for the period ended April 30, 2012.

The following table provides selected financial data about our company for the quarter ended April 30, 2013.

	April 30, 2013	July 31, 2012
	\$	\$
Cash	36,267	24,051
Current Assets	62,406	36,259
Total Assets	342,263	191,328
Current Liabilities	447,055	396,209
Shareholders' Equity (Deficit)	(104,792)	(204,881)

**Liquidity and Capital Resources**

As of April 30, 2013, we had cash of \$36,267, total current assets of \$62,406, total current liabilities of \$447,055 and a working capital deficit of \$384,649 compared to cash of \$24,051, total current assets of \$36,259, total current liabilities of \$396,209, and working capital deficit of \$359,950 as of July 31, 2012. The increase in working capital deficit is due to the fact that our day-to-day expenditures are increasing at a higher rate than our proceeds received from operating and financing activities.

During the period ended April 30, 2013, we received net cash of \$466,200 from financing activities, compared to net cash received of \$259,950 from financing activities during the period ended April 30, 2012. The increase is due to proceeds received from the issuance of common shares.

## Edgar Filing: Urban Barns Foods Inc. - Form 10-Q

During the period ended April 30, 2013, we used net cash of \$309,198 on operating activities compared to \$223,836 net cash used on operating activities during the period ended April 30, 2012. The increase in cash used was due to increase in proceeds from financing activities which allowed us to incur more operating activity.

During the period ended April 30, 2013, we used net cash of \$144,786 on investing activities compared to \$2,020 net cash used on operating activities during the period ended April 30, 2012. The increase in cash used was due to the purchase of additional growing machines at our Langley, BC facility.

Since February 10, 2010 (inception) to April 30, 2013, our accumulated deficit was \$2,141,890. We are dependent on the funds raised through our equity or debt financing, investing activities, and revenue generated through the sales of our products to fund our operations.

We anticipate that we will meet our ongoing cash requirements by retaining income as well as through equity or debt financing. We plan to cooperate with various individuals and institutions to acquire the financing required to produce and distribute our products and anticipate this will continue until we accrue sufficient capital reserves to finance all of our productions independently.

### **Plan of Operation**

Our management has focused on acquiring or merging with one or more operating businesses. Our efforts to identify a target business resulted in the Share Exchange Agreement with Non Industrial Manufacture Inc. (NIM), a private company. On June 2, 2011 the share exchange with NIM closed. We are now an urban produce production company, with patents pending, that aims to be the supplier of choice of fresh, locally grown, high-quality organic and conventional fruits and vegetables for urban consumers.

We estimate that our expenses over the next 12 months will be approximately \$1,925,000 as summarized in the table below. These estimates may change significantly depending on the nature of our future business activities and our ability to raise capital from investors or other sources.

<b>Description</b>	<b>Potential Completion Date</b>	<b>Estimated Expenses (\$)</b>
Cost of sales	12 months	500,000
Sales & Marketing	12 months	550,000
Payroll	12 months	300,000
General and administrative expenses	12 months	575,000
<b>Total</b>		<b>1,925,000</b>

Our general and administrative expenses for the year will consist of professional fees, office maintenance, communication expenses (cellular, internet, fax and telephone), bank charges, courier and postage costs, office supply costs and fees related to our website. Our professional fees will include legal, accounting and auditing fees related to our regulatory filings throughout the year.

Based on our planned expenditures, we require additional funds of \$1,925,000 to proceed with our business plan over the next 12 months. If we are not able to obtain additional financing on a timely basis, we will be unable to conduct our operations as planned, and we will not be able to meet our obligations as they become due. In such event, we will be forced to scale down or perhaps even cease our operations.

### **Inflation**

The amounts presented in the financial statements do not provide for the effect of inflation on our operations or financial position. The net operating losses shown would be greater than reported if the effects of inflation were

reflected either by charging operations with amounts that represent replacement costs or by using other inflation adjustments.



### **Off-Balance Sheet Arrangements**

As of April 30, 2013 we had no off balance sheet transactions that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Critical Accounting Policies**

Our financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. A complete summary of these policies are included in note 2 of the Notes to our Financial Statements. We have identified below the accounting policies that are of particular importance in the presentation of our financial position, results of operations and cash flows, and which require the application of significant judgment by our management.

#### **a. Basis of Accounting**

The Company's financial statements are prepared using the accrual method of accounting. The Company has elected a July 31 year-end.

#### **b. Loss Per Share**

The Company computes net loss per share in accordance with ASC 260 *Earnings Per Share* which requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti dilutive.

#### **c. Use of Estimates and Assumptions**

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles in the United States 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the useful life and recoverability of long-lived assets, fair value of convertible debt and share-based payments, and deferred income tax valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

#### **d. Foreign Currency Translation**

Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Monetary balance sheet items expressed in foreign currencies are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in income.

The Company's integrated foreign subsidiary is financially or operationally dependent on the Company. The Company uses the temporal method to translate the accounts of its integrated operations into U.S. dollars. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. The resulting exchange gains or losses are recognized in income.

## ITEM 4. CONTROLS AND PROCEDURES.

### *Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2013. Based on the evaluation of these disclosure controls and procedures the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

### *Changes in Internal Controls*

During the quarter covered by this report there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. REMOVED AND RESERVED.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS.

The following exhibits are included with this quarterly filing:

#### Exhibit No. Description

<u>31.1</u>	<u>Sec. 302 Certification of Principal Executive Officer</u>
<u>31.2</u>	<u>Sec. 302 Certification of Principal Financial Officer</u>
<u>32.1</u>	<u>Sec. 906 Certification of Principal Executive Officer</u>
<u>32.2</u>	<u>Sec. 906 Certification of Principal Financial Officer</u>



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

June 12, 2013

Urban Barns Foods Inc.

/s/ Jacob Benne

By: Jacob Benne

(Chief Executive Officer, President, & Director)

/s/ Daniel Meikleham

By: Daniel Meikleham

(Chief Financial Officer, Principal Accounting Officer &  
Director)