



XEBRA BRANDS LTD.

Consolidated Financial Statements

For the Years Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Independent Auditor's Report

To the Shareholders of Xebra Brands Ltd.

Opinion

We have audited the consolidated financial statements of Xebra Brands Ltd.. (the "Company"), which comprise the consolidated statements of financial position as at February 28, 2023 and 2022, and the consolidated statements of comprehensive loss, shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that the Company incurred a net loss of \$4,124,296 during the year ended February 28, 2023 and, as of that date the Company had working capital deficit of \$76,308 and had an accumulated deficit of \$14,815,164. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
<p>Valuation of intangible assets – brands, trademarks, product development and other intangibles</p> <p>The Company’s intangible assets are described in Note 6 to the consolidated financial statements.</p> <p>The brands, trademarks and product development relate to cannabis infused beverages sold and to be sold in Canada.</p> <p>Presented within product development is the Solutech license, which was an intangible asset with an indefinite useful life. This license had a carrying value of \$850,000 at February 28, 2022 and was impaired by \$850,000 at February 28, 2023.</p> <p>Management applied significant judgement in determining whether there were impairment indicators for brands and trademarks and estimating the recoverable amount for the Solutech license.</p> <p>We considered this a key audit matter since auditing management’s accounting position required a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort.</p>	<p>Our approach to addressing the matter included the following audit procedures, among others:</p> <ul style="list-style-type: none"> • Evaluated management’s assessment of impairment indicators and assessed the asset’s carrying value and future benefits. • Assessed the appropriateness of management’s accounting position with respect to intangible assets given the stage of product development, launch and future outlook.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management’s Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's

report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Rakesh Patel.

DALE MATHESON CARR-HILTON LABONTE LLP

A handwritten signature in black ink, appearing to read 'DMCL.', is positioned below the firm name.

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

August 14, 2023

Xebra Brands Ltd.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	As at February 28,	
	2023	2022
	(\$)	(\$)
Assets		
Current Assets		
Cash	202,286	647,244
Receivables (note 4)	232,072	136,536
Prepaid expenses	106,903	367,439
Inventory (note 5)	154,596	-
	695,857	1,151,219
Non-current assets		
Intangible assets (note 6)	469,651	1,310,409
Property and equipment (note 8)	-	330,023
VAT receivable (note 4)	158,234	110,776
Total assets	1,323,742	2,902,427
Liabilities		
Current liabilities		
Accounts payable (note 13)	622,622	341,058
Accrued liabilities	149,543	87,568
	772,165	428,626
Non-current liabilities		
Lease liabilities (note 8)	-	28,794
Total liabilities	772,165	457,420
Shareholder's Equity		
Share capital (note 9)	13,521,784	12,168,621
Reserves (note 9)	1,887,300	1,204,709
Subscription received (note 9 and 18)	201,750	-
Deficit	(14,815,164)	(10,790,894)
Equity attributable to shareholders	795,670	2,582,436
Non-controlling interest (note 11)	(244,093)	(137,429)
	551,577	2,445,007
Total liabilities and shareholder's equity	1,323,742	2,902,427

Nature of operations and going concern (note 1)

Subsequent events (note 18)

Approved by the Board of Directors

"Jordi Chemonte"

Jordi Chemonte - Director

"Jay Garnett"

Jay Garnett - Director

The accompanying notes form an integral part of these consolidated financial statements

Xebra Brands Ltd.

Consolidated Statements of Comprehensive Loss

(Expressed in Canadian Dollars)

	Years ended February 28,	
	2023	2022
	(\$)	(\$)
Revenue (note 14)	158,949	-
Cost of sales	174,978	-
Gross loss	(16,029)	-
Operating expenses		
General and administration (note 13)	566,795	455,779
Investor relations	388,309	1,013,243
Management fees (note 13)	624,424	236,023
Marketing and business development	46,710	4,478
Professional fees	824,975	607,927
Share-based payments (note 9c and 13)	309,559	556,554
Travel	44,100	36,319
Amortization (note 6, 8 and 12)	108,437	537,298
Loss before other items	(2,929,338)	(3,447,621)
Other Items		
Finance expense, net of income	-	(6,536)
Other expense, net of income	(139,439)	(37,323)
Impairment (note 6, 8 and 12)	(1,114,530)	(1,037,024)
Foreign exchange gain	75,047	(7,821)
Net loss from continuing operations	(4,108,260)	(4,536,325)
Loss from discontinued operations (note 12)	(16,036)	(1,724,692)
Net loss	(4,124,296)	(6,261,017)
Other comprehensive loss		
Items that may subsequently be reclassified to net income or loss:		
Foreign currency translation	(33,834)	(22,907)
Comprehensive loss for the year	(4,158,130)	(6,283,924)
Net loss attributable to:		
Shareholders	(4,024,270)	(6,142,658)
Non-controlling interest (note 11)	(100,026)	(118,359)
	(4,124,296)	(6,261,017)
Comprehensive loss attributable to:		
Shareholders	(4,051,466)	(6,170,542)
Non-controlling interest (note 11)	(106,664)	(113,382)
	(4,158,130)	(6,283,924)
Weighted average number of outstanding common shares (note 10)	38,994,153	24,308,060
Net loss per share – basic and diluted (note 10)	(0.10)	(0.25)

The accompanying notes form an integral part of these consolidated financial statements

Xebra Brands Ltd.

Consolidated Statements of Shareholders' Equity
(Expressed in Canadian Dollars)

	Common shares*	Share Capital (\$)	Treasury shares (\$)	Subscriptions received (\$)	Reserves			Deficit (\$)	Non-Controlling Interest (\$)	Total (\$)
					Warrants (\$)	Share Options (\$)	Translation Adjustment (\$)			
Balance, February 28, 2021	20,714,675	7,623,034	(13,205)	3,750	-	-	36,366	(4,648,236)	(24,047)	2,977,662
May 2021 private placement, net of issuance cost (Note 9)	3,750	2,877	375	(3,750)	-	-	-	-	-	(498)
Shares for debt (Note 9)	36,493	23,720	9,123	-	-	-	-	-	-	32,843
Shares for services (Note 9)	39,260	33,436	1,875	-	-	-	-	-	-	35,311
Finders' fees (Note 9)	8,528	(1,832)	1,832	-	-	-	-	-	-	-
Shares issued to amend agreement (Note 9)	40,000	40,000	-	-	-	-	-	-	-	40,000
Shares issued for licensing water soluble IP (note 6 and 9)	1,240,000	850,000	-	-	-	-	-	-	-	850,000
August 2021 private placement, net of issuance cost (Note 9)	265,000	197,325	-	-	49,671	-	-	-	-	246,996
October 2021 private placement, net of issuance cost (Note 9)	2,807,952	2,060,061	-	-	578,328	-	-	-	-	2,638,389
October 2021 private placement finders' fees (Note 9)	38,536	-	-	-	11,674	-	-	-	-	11,674
Class B common shares cancellation	(0)	-	-	-	-	-	-	-	-	-
December 2021 private placement (Note 9)	1,340,000	1,340,000	-	-	-	-	-	-	-	1,340,000
December 2021 private placement finders' fees (Note 9)	107,200	-	-	-	-	-	-	-	-	-
Shares issued in connection to acquisition of Desart (Note 9)	9,600,000	-	-	-	-	-	-	-	-	-
Share-based payments (Note 9)	-	-	-	-	-	556,554	-	-	-	556,554
Comprehensive loss	-	-	-	-	-	-	(27,884)	(6,142,658)	(113,382)	(6,283,924)
Balance February 28, 2022	36,241,394	12,168,621	-	-	639,673	556,554	8,482	(10,790,894)	(137,429)	2,445,007
April 2022 private placement, net of issuance cost (Note 9)	3,000,000	1,302,926	-	-	400,228	-	-	-	-	1,703,154
Finders' fees paid in shares (Note 9)	51,413	30,848	-	-	-	-	-	-	-	30,848
Shares paid for services (Note 9)	46,774	19,389	-	-	-	-	-	-	-	19,389
Share-based payments (Note 9)	-	-	-	-	-	309,559	-	-	-	309,559
Subscriptions received (note 18)	-	-	-	201,750	-	-	-	-	-	201,750
Comprehensive loss	-	-	-	-	-	-	(27,196)	(4,024,270)	(106,664)	(4,158,130)
Balance February 28, 2023	39,339,581	13,521,784	-	201,750	1,039,901	866,113	(18,714)	(14,815,164)	(244,093)	551,577

* On February 28, 2023, the Company completed a share consolidation on the basis of one to five (Note 9)

Xebra Brands Ltd
Consolidated Statement of Cash Flows
(Expressed in Canadian Dollars)

	Years ended February 28,	
	2023	2022
	(\$)	(\$)
Cash provided by (used in):		
Operating Activities:		
Net loss	(4,124,296)	(6,261,017)
Items not involving cash		
Fair value of shares issued for services	19,389	35,311
Gain on shares for debt	-	32,844
Gain from disposition of Medicannabis (note 12)	(118,297)	-
Other expense	-	40,000
Amortization	108,437	603,374
Finance income	-	(1,422)
Finance expense	1,347	10,998
Share-based payments	309,559	556,554
Impairment of intangible assets	850,000	2,098,181
Impairment of property, plant and equipment	264,530	438,879
Unrealized foreign exchange (income) loss	(30,200)	13,830
Changes in non-cash working capital		
Receivables and prepaid expenses	117,542	(294,656)
Inventory	(154,596)	-
Accounts payable and accrued liabilities	431,696	19,655
Cash used in operating activities	(2,324,889)	(2,707,469)
Investing Activities:		
Intangible assets	(63,632)	(83,283)
Equipment	-	(686,845)
Cash used in investing activities	(63,632)	(770,128)
Financing Activities:		
Share offerings	1,734,002	4,236,186
Subscriptions received and treasury shares	201,750	375
Payment of lease liabilities	-	(40,934)
Related party loan	-	75,000
Loan repayment	-	(230,000)
Interest paid	-	(7,000)
Cash provided by financing activities	1,935,752	4,033,627
Effect of foreign exchange on cash	7,811	(2,120)
(Decrease) Increase in cash	(444,958)	553,910
Cash, beginning of year	647,244	93,334
Cash, end of year	202,286	647,244
See note 12		
Non-cash transactions		
Shares issued for services (Note 9)	19,389	35,311
Shares issued for debt (Note 9)	-	32,844
Organto amendment agreement (Note 9)	-	40,000
Shares issued for Solutech IP license (note 6 and 9)	-	850,000

The accompanying notes form an integral part of these consolidated financial statements

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

1. Nature of Operations and Going Concern

Xebra Brands Ltd. (the “Company” or “Xebra”) was incorporated on February 21, 2019 under the laws of the Province of British Columbia, Canada. On April 24, 2019, the Company changed its name from 1198365 B.C. LTD to Xebra Brands Ltd. The Company is listed on the Canadian Securities Exchange (“CSE”) under the ticker symbol “XBRA”, and also traded on the OTC Market under the symbol “XBRAF”. The common shares of the Company are also cross-listed on the Frankfurt Stock Exchange under the symbol “9YC”. The Company’s head office and principal address is located at 1090 Hamilton Street, Vancouver, British Columbia, V6B 2R9, Canada.

The Company’s principal business activities are the processing, manufacturing, design and delivery of cannabis products in areas ranging from wellness to leisure.

These consolidated financial statements have been prepared on a going concern basis which implies that the Company will continue realizing assets and discharging liabilities in the normal course of business for the foreseeable future. Should the going concern assumption not continue to be appropriate, further adjustments to the carrying values of assets and liabilities may be required. As at February 28, 2023, the Company had working capital deficit of \$76,308 and deficit of \$14,815,164. Accordingly, the ability of the Company to realize the carrying value of its assets and continue operations as a going concern is dependent upon its ability to raise additional debt or equity to fund ongoing costs of operations. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments relating to the recovery of assets and classification of assets and liabilities that may arise should the Company be unable to continue as a going concern. If the going concern assumption was not appropriate for these financial statements, adjustments would be necessary in the carrying values of assets, liabilities, reported income and expenses and the statement of financial position classifications used. Such adjustments could be material.

2. Basis of Presentation

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved by the Board of Directors and authorized for issue on August 14, 2023.

(b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Basis of Consolidation

These consolidated financial statements include the accounts of Xebra and its subsidiaries as follows:

Entity	Country of incorporation	% Ownership
Xebra Brands Mexico SA de CV	Mexico	100%
Elements Bioscience SAPI de CV	Mexico	100%
Sativa Group Biosciences SAPI de CV	Mexico	100%
Desart MX, SA de CV	Mexico	100%
Bleuflor Logistics Ltd.	Canada	100%
Bleuflor Logistica SAS	Colombia	100%
Xebra Brands Europe BV	The Netherlands	75%

On October 19, 2022, the Company disposed of 100% of its shares in Medicannabis.

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

2. Basis of Presentation - *continued*

All inter-company transactions and balances have been eliminated upon consolidation.

Control exists where the parent entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

(d) Use of Estimates and Judgments

Significant Estimates and Assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the 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's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions used by management where there is risk of material adjustments to assets and liabilities in future accounting periods include the estimated useful lives of depreciated and amortized assets, the recoverability of the carrying value of intangible assets and assumptions used in determination of the recoverability and measurement of deferred tax assets and the fair value of share-based payments.

Significant Judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in preparing the Company's financial statements include the assumption that the Company will continue as a going concern, assumptions used to determine if a business combination is an asset or business acquisition, classification of expenditures as intangible assets or operating expenses and the classification of financial instruments.

3. Significant Accounting Policies

(a) Functional and presentation currency

The presentation currency of the Company's financial statements is the Canadian dollar; therefore, references to \$ means Canadian dollars, US\$ are to United States dollars.

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currencies are as follows:

<u>Entity</u>	<u>Functional Currency</u>
Xebra Brands Ltd	Canadian Dollar
Xebra Brands Mexico, S.A. de C.V.	Mexican Peso
Elements Bioscience, SAPI de C.V.	Mexican Peso
Sativa Group Biosciences, SAPI de C.V.	Mexican Peso
Desart MX, S.A. de C.V.	Mexican Peso
Bleuflor Logistics Ltd	Canadian Dollar
Bleuflor Logistica SAS	Colombian Peso
Xebra Brands Europe BV	European Euro

At the end of each reporting period, assets and liabilities of the entities whose functional currency is not the Canadian dollar are translated at the rate of exchange at the statement of financial position date. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising from translation are reflected in other comprehensive income or loss for the year.

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

3. Significant Accounting Policies - *continued*

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the year.

(b) Business Combinations

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed to profit or loss.

(c) Cash

Cash consists of cash on hand and demand deposits.

(d) Inventory

The Company's inventory consists of raw materials, work-in-process ("WIP") and finished goods. The costing method the Company uses is weighted average. Inventories are measured at the lower of cost and net realizable value. The cost of WIP and finished goods includes the cost of raw materials, direct labor, and overhead. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. At each reporting period, management evaluates the provision for obsolete and slow-moving inventory which may be reversed in subsequent periods, should the value subsequently be recovered.

(e) Property and Equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated based on the estimated residual value and estimated economic life of the specific assets using the straight-line method over the period indicated below:

Office furniture and equipment	3 to 20 years
Dutch growing facility	3 years
Leasehold improvements	Term of lease
Right of use assets	Term of lease

(f) Intangible Assets

Intangible assets are recorded at cost less accumulated amortization. Rights are amortized on a straight-line basis in accordance with the substance of the agreements. Amortization methods, useful lives and residual values are assessed at least annually. If the Company identifies events or changes in circumstances which may indicate that their carrying amount is less than the recoverable amount, the intangible assets would be reviewed for impairment.

Licenses (excluding Solutech IP license)	5 years
Formulations	5 years
Brands and Trademarks	10 years
Solutech IP license	Indefinite life

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

3. Significant Accounting Policies - *continued*

(g) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

(h) Leases

The Company elected to not apply IFRS 16 to leases with a term of less than 12 months, which election is made by the underlying class of assets to which the right of use asset relates, or leases where the underlying asset is of low value, which election is made on an asset by asset basis.

At inception of a contract, an assessment is made to determine whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An assessment is made to determine whether the contract involves the use of an identified asset, whether there is the right to obtain substantially all of the economic benefits from the use of the asset during the term of the arrangement and if the right to direct the use of the asset is present. At inception or on reassessment of a contract that contains a lease component, the consideration in the contract is allocated to each lease component on the basis of their relative standalone prices.

As a lessee, a right-of-use asset is recognized and included in property, plant and equipment, and a corresponding lease liability is recorded at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or the incremental borrowing rate if the interest rate cannot be readily determined. Subsequently, the lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option.

(i) Impairment of Long-Lived Assets

At each reporting date, the Company reviews the carrying amounts of its long-lived assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets (the “cash-generating unit” or “CGU”).

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized as an expense in the statement of comprehensive loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reduced if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

3. Significant Accounting Policies - *continued*

(j) Share Capital

Common shares are classified as equity. Transactions costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effect.

(k) Shares-Based Payments

The Company grants share-based awards, including options, as an element of compensation to directors, officers, employees and service providers.

The Company uses the Black-Scholes Option Pricing Model to measure the fair value for all share options and warrants granted, modified or settled during the period. Compensation expense is recorded based on the fair value of the award at the grant date, amortized over the vesting period. Each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. No expense is recognized for awards that do not ultimately vest. When options or warrants are exercised, the proceeds received, together with any related amount in share-based payments reserve, are credited to share capital. The value of options or warrants that expire unexercised remains in reserves.

(l) Treasury Shares

In accordance with IAS 32, the Company has deducted the cost of the treasury shares from equity. The Company does not recognize gains or losses from the purchase, sale, issue or cancellation of its treasury shares.

(m) Earnings (loss) per Share

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. The calculation of diluted loss per share assumes that outstanding options and warrants are exercised, and the proceeds are used to repurchase shares of the Company at the average market price of the shares for the period. The effect is to increase the number of shares used to calculate diluted earnings per share and is only recognized when the effect is dilutive.

(n) Revenue Recognition

Revenue from the direct sale of cannabis beverage products for a fixed price is recognized when the Company transfers control of the good to the customer, which is at point of delivery. Revenue includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Revenue also includes the net consideration to which the Company expects to be entitled. Revenue is recognized to the extent that it is highly probable that a significant reversal will not occur. Therefore, revenue is stated net of expected price discounts, allowances for customer returns and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing. Net revenue is revenue less excise taxes. Excise taxes are effectively a production tax which becomes payable when the product is removed from the Company's control and may or may not be directly related to the revenue depending on the province of sale. It is generally not included as a separate item on external invoices; increases in excise tax are not always passed on to the customer and where a customer fails to pay for product received the Company cannot reclaim the excise tax.

(o) Finance Income and Expenses

Finance income comprises interest income on funds invested (including changes in the fair value of financial assets at fair value through profit or loss). Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance expense comprises interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

3. Significant Accounting Policies - *continued*

(p) Income Taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred income taxes are accounted for using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are recognized for the tax consequences of temporary differences by applying substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

The effect on deferred taxes for a change in tax rates is generally recognized in income in the period that includes the substantive enactment.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Current and deferred taxes relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive loss.

(q) Financial Instruments

The Company's financial instruments consist of cash, receivables, accounts payable and lease liabilities.

The Company's classification of its financial instruments under IFRS 9 – *Financial Instruments* ("IFRS 9") is as follows:

Asset or Liability	IFRS 9 Classification
Cash	FVTPL ¹
Receivables	Amortized cost
Accounts payable	Amortized cost
Lease liabilities	Amortized cost

¹ Fair value through profit and loss ("FVTPL")

Classification

On initial recognition, the Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVTOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

An equity investment that is held for trading is measured at FVTPL. For other equity investments that are not held for trading, the Company may irrevocably elect to designate them as FVTOCI. This election is made on an investment-by-investment basis.

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

3. Significant Accounting Policies - *continued*

All financial assets not classified or measured at amortized cost or FVTOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has elected to measure them at FVTPL.

Measurement

Financial Assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial Assets and Liabilities at Amortized Cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial Assets and Liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are recognized in profit or loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

Impairment of Financial Assets at Amortized Cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk of the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statement of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial Assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial Liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

3. Significant Accounting Policies - *continued*

Changes in accounting standards

The following are new standards and amendments to standards and interpretations, which become effective for future periods.

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current. The amendment clarified the guidance on whether a liability should be classified as either current or non-current. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024
- Amendments to IFRS 16 – Lease liability in a Sale and Leaseback. The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendment is effective for annual periods beginning on or after January 1, 2024

The Company does not expect these amendments to have a significant impact on its consolidated financial statements.

4. Receivables

	February 28, 2023	February 28, 2022
Current		
Trade receivables	\$ 127,842	\$ -
GST receivable - Canada	30,800	17,037
VAT receivable - Europe	73,645	115,307
Related party receivable (note 13)	60,000	-
Other	3,706	4,192
Allowance for doubtful accounts	(63,921)	-
	232,072	136,536
Non-Current		
VAT receivable - Mexico	158,234	110,776
	\$ 390,305	\$ 247,312

5. Inventory

	February 28, 2023	February 28, 2022
Finished goods	\$ 84,263	\$ -
Packaging and supplies	70,333	-
	\$ 154,596	\$ -

The cost of inventories recognized as cost of sales during the year ended February 28, 2023, was \$23,444 (February 28, 2022 - \$nil).

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

6. Intangible Assets

	Colombian Cannabis Licenses	Product Applications and Authorizations	Brands and Trademarks	Product Development	Total
At February 28, 2021	\$ 1,804,167	\$ 745,058	\$ 406,153	\$ 15,000	\$ 2,970,378
Additions	-	-	19,036	914,247	933,283
Amortization	(451,042)	-	(44,029)	-	(495,071)
Impairment (note 12)	(1,353,124)	(745,057)	-	-	(2,098,181)
At February 28, 2022	1	1	381,160	929,247	1,310,409
Additions	-	-	6,185	57,447	63,632
Amortization	-	-	(45,275)	(9,113)	(54,388)
Impairment	(1)	-	-	(850,000)	(850,001)
At February 28, 2023	\$ -	\$ 1	\$ 342,070	\$ 127,581	\$ 469,651

During the year ended February 28, 2022, the Company was in the process of divesting its Colombian operations due to the saturation of cannabis licenses in Colombia. Consequently, during the year ended February 28, 2022, the Company impaired its Colombian Cannabis Licenses by \$1,353,124. Subsequently, on October 19, 2022 the Company disposed of Medicannabis losing control of these licenses (note 12).

Product Applications and Authorizations relate to 13 pending applications with the Mexican governmental agencies, which, when approved, will allow the Company to commence certain advanced stage cannabis-related operations in Mexico. These advanced stage cannabis-related operations include authorizations for the import, distribution and commercialization of various products with CBD content which have a limit of 1% THC. As at February 28, 2022 due to delays and possible changes to the regulatory landscape in Mexico, the Company impaired Product Applications and Authorizations to a value of \$1.

Solutech IP license

On August 18, 2021, The Company entered into a licensing agreement with New Age Nanotech to license its clinically backed, patent pending delivery technology for cannabinoids (Solutech). In exchange, on August 31, 2021, Xebra issued 1,240,000 common shares with a fair value of \$850,000 and no further payment required. The license is exclusive in Mexico and Colombia, and non-exclusive in Europe and the rest of the Americas but limited to only California in the United States.

As of February 28, 2023, the Company made the decision to recognize an impairment on Solutech, as it was determined that the technology is unlikely to be used in the future. Consequently, there are no expected future economic benefits associated with this asset.

7. Desart MX, S.A. de C.V. (“Desart”)

In 2018, Desart MX, SA de CV (“Desart”), identified an opportunity to challenge the constitution of Mexico for an injunction to commercialize hemp derived cannabinoids such as CBD and CBG. The constitutional claim was filed in January 2019, and the injunction (the “Amparo”) requested included the right for the importation of seeds, cultivation, harvesting, processing, and the creation of cannabis products with less than 1% THC, and the right to sell those products domestically or via export.

On January 10, 2020, the Company acquired Desart through a share exchange agreement (the “Desart SEA”). Pursuant to the Desart SEA, the Company received 100% of the outstanding shares of Desart (the “Desart Shares”) in exchange for a combination of 400,000 common shares of Xebra (the “Desart Consideration Shares”) and cash payments of US\$125,000 (the “Desart Cash Consideration”), plus 9,600,000 common shares of Xebra to be issued under certain conditions (the “Desart Bonus Shares”). The primary requirement for the issuance of the Desart Bonus Shares is when the Supreme Court of Mexico has granted Desart the Amparo.

On December 1, 2021, Desart was granted the Amparo, and on January 11, 2022, a corresponding 9,600,000 shares were issued to former shareholders of Desart. Official licenses are expected to be granted by the Mexican Health Regulatory Agency (COFEPRIS) in due course. The Desart Bonus Shares were determined to have a fair value of \$nil based on management’s initial expectations of receiving the Amparo upon acquisition of Desart (note 9).

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

8. Property and Equipment

	Office Furniture and Equipment	Dutch Growing Facility	Leasehold Improvements	Right of Use Assets	Total
Cost					
At February 28, 2021	\$ 2,229	\$ -	\$ 136,980	\$ 159,943	\$ 299,152
Additions	1,398	672,045	11,492	1,910	686,845
Impairment	(2,091)	(291,967)	(140,021)	(151,987)	(586,066)
Foreign exchange movement	(127)	(10,378)	(8,450)	(9,865)	(28,820)
At February 28, 2022	1,409	369,700	1	1	371,111
Impairment	(1,470)	(354,308)	(1)	(1)	(355,780)
Foreign exchange movement	61	(15,392)	-	-	(15,331)
At February 28, 2023	\$ -	\$ -	\$ -	\$ -	\$ -
Accumulated Amortization					
At February 28, 2021	\$ (456)	\$ -	\$ (24,414)	\$ (61,573)	\$ (86,443)
Amortization	(698)	(41,808)	(32,611)	(33,186)	(108,303)
Impairment	706	-	55,520	90,961	147,187
Foreign exchange movement	25	1,143	1,505	3,798	6,471
At February 28, 2022	(423)	(40,665)	-	-	(41,088)
Amortization	-	(54,049)	-	-	(54,049)
Impairment	588	90,662	-	-	91,250
Foreign exchange movement	(165)	4,052	-	-	3,887
At February 28, 2023	\$ -	\$ -	\$ -	\$ -	\$ -

The Company intends to divest its Dutch operations due to the high cultivation costs in the Netherlands (note 4). Consequently, during the year ended February 28, 2022, the Company impaired its Dutch Facility by \$291,967, to a net book value of \$329,035. During the year ended February 28, 2023, the Company further impaired the Dutch Facility by writing off the remaining balance.

As a result of the Company intention to divest from its Colombian operations due to the saturation of cannabis licenses in Colombia, during the year ended February 28, 2022, the Company impaired its property, plant and equipment located in Colombia, to a carrying value of \$1 for each of Office Furniture and Equipment, Leasehold Improvements and Right of Use assets. During the year ended February 28, 2023 all of these were fully disposed of upon disposition of Medicannabis (note 12).

Lease liability

As at February 28, 2023 the Company does not hold any leases, as a result the lease liabilities on the Consolidated Statements of Financial Position is \$nil (February 28, 2022 \$63,809).

As at February 28, 2022, the lease liability consisted of a property leased located in Colombia. However, the Company holding the leased (Medicannabis) was disposed on October 19, 2022 (note 12).

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

8. Property and Equipment - *continued*

Maturity Analysis

As at February 28, 2023 the Company's undiscounted and discounted lease liabilities are \$nil.

	Amount
Contractual undiscounted cash flows:	
Less than one year	\$ 36,869
Two to three years	29,278
Total undiscounted lease liabilities as at February 28, 2022	66,147
Interest	(2,338)
Total discounted lease liabilities as at February 28, 2022	\$ 63,809
Lease liabilities on the Consolidated Statements of Financial Position as at February 28, 2022	
Current (included in accounts payable)	\$ 35,015
Non-current (included in lease liabilities)	28,794
	\$ 63,809

Amounts Recognized in the Consolidated Statements of Comprehensive Loss

	February 28,	February 28,
	2023	2022
Interest expense on lease liabilities	\$ 1,347	\$ 3,040
Expenses relating to short-term leases	18,183	17,485
	\$ 19,530	\$ 20,525

9. Share Capital

On February 28, 2023, the Company completed a consolidation of its common shares on the basis of one new common share for five old common shares (1:5). All share and per share numbers in these consolidated financial statements are presented on a post consolidation basis.

(a) Common shares

As of February 28, 2023, a total of 15,095,672 common shares of the Company were subject to trading restrictions (the "Restricted Shares"), which will be released from such restrictions in stages, with the final release being March 12, 2025. The Restricted Shares include 1,620,000 common shares issued to insiders of the Company and held in escrow by the transfer agent in accordance with the Canadian Securities Exchange ("CSE") listing policies. The Company also has 2,772,170 common shares held in escrow.

Common share transactions for the year ended February 28, 2023

On October 11 and August 23, 2022, the Company issued 39,632 and 7,143 shares respectively to a consultant as consideration for investor relation services with a total fair value of \$19,389.

On April 8, 2022, the Company closed a non-brokered private placement of 3,000,000 units at a price of \$0.60 per unit, for gross proceeds of \$1,800,000. Each unit is comprised of one common share of the Company, and a half warrant. Each full warrant entitles the holder to purchase one share of the Company at a price of \$1.25 for a period of 12 months from the closing date of the private placement. The investor warrants had a fair value of \$380,046 which has been recorded in warrants reserves. An aggregate of 51,413 shares, 100,912 warrants and \$60,547 was paid in finders' fees, where such shares and warrants have a fair value of \$30,848 and \$20,182, respectively. The Company paid legal and other share issuance costs of \$5,451.

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

9. Share Capital - *continued*

(a) Common shares - *continued*

Common share transactions for the year ended February 28, 2022

On January 21, 2022, the Company issued 16,760 class A common shares with a fair value of \$18,436 to a third party, to settle consulting services.

On January 11, 2022, the Company issued 9,600,000 shares in connection with the acquisition of Desart. Desart was acquired on January 10, 2020, and at the time of acquisition the estimated fair value of the 9,600,000 shares potentially to be issued was \$nil as it was uncertain when, or if ever, such shares would be issued. Consequently, the 9,600,000 issued on January 11, 2022 had a \$nil value (note 7).

On December 2, 2021 the Company closed a non-brokered private placement of 1,340,000 common shares at a price of \$1.00 per common share, for gross proceeds of \$1,340,000. On December 23, 2021, the Company issued 107,200 common shares with a fair value of \$107,200 as finder's fees in connection with this non-brokered private placement.

On November 29, 2021 the Company issued 15,000 shares to a consultant as partial consideration for investor relation services with a fair value of \$15,000.

On October 6, 2021 a total of 65,500 units were issued in connection with a unit private placement at \$1.00 per unit for gross proceeds of \$65,500. Each unit is comprised of one common share and one-half of one common share purchase warrant at an exercise price of \$1.75 per warrant and such warrants expire on October 6, 2022. The 32,750 units warrants had a fair value of \$11,674 which has been recorded in warrant reserve.

On October 4, 2021, a total of 2,742,452 Subscription Receipts were converted into 2,748,452 common shares, and a total of 1,371,226 warrants which had a fair value of \$483,152 and is recorded in warrant reserves. The Company incurred share issuance costs of \$253,065. On November 30, 2021, the Company issued 38,536 common shares with a fair value of \$38,536 as finder's fees in connection with the Subscription Receipts.

On August 31, 2021, the Company issued 1,200,000 class A common shares with a fair value of \$822,581 to a third party to license its clinically-backed, patent pending delivery technology for cannabinoids ("Solutech"). On August 4, 2021, the Company issued 40,000 common shares with a fair value of \$27,419 as finder's fees for Solutech.

On August 20, 2021, the Company issued 265,000 common shares in connection with a private placement of units for \$1.00 per share, for gross proceeds of \$265,000. Each unit entitles its holder to receive one common share and one-half of one common share purchase warrant at an exercise price of \$1.75 per warrant, and such warrants expired on August 20, 2022. A total of 132,500 warrants were issued with a fair value of \$49,671 which has been recorded in warrant reserve. The Company paid share issuance costs of \$18,004.

On June 22, 2021, the Company and Organto Foods Inc. ("Organto") amended an existing share purchase agreement to eliminate all distribution rights previously granted to Organto in exchange for 40,000 common shares of the Company at a fair value of \$40,000.

On May 3, 2021, the Company issued 2,250 common shares in connection with the private placement of its common shares for \$1.50 per share, for gross proceeds of \$3,375. The Company incurred share issuance costs of \$498.

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

9. Share Capital - *continued*

(b) Subscription Receipts

On April 12, 2021, the Company issued 820,000 subscription receipts (each a "Subscription Receipt") in connection with a private placement (the "Subscription Receipt Agreement") for \$1.00 per Subscription Receipt, for gross proceeds of \$820,000. Each Subscription Receipt entitled its holder to receive one common share and one-half of one common share purchase warrant at an exercise price of \$1.75 per warrant upon the satisfaction or waiver of the Escrow Release Conditions on or before October 12, 2021. Seventy five percent of all proceeds from Subscription Receipts were held in escrow and were to be released to the Company when the Escrow Release Conditions were met on or before October 12, 2021, and if not, then would be returned to the subscriber.

The Escrow Release Conditions were:

- i. The common shares of the Company being conditionally approved for listing on the Canadian Securities Exchange and the completion, satisfaction or waiver of all conditions precedent to such listing, other than the release of escrowed funds; and
- ii. The issuance of a final receipt for the non-offering prospectus of the Company

On May 27, 2021, the Company issued 1,302,452 Subscription Receipts for \$1.00 per subscription receipt, for gross proceeds of \$1,302,452.

On July 27, 2021, the Company issued 420,000 Subscription Receipts for \$1.00 per Subscription Receipt, for gross proceeds of \$420,000.

On August 24, 2021, the Company issued 200,000 Subscription Receipts for \$1.00 per subscription receipt, for gross proceeds of \$200,000.

Finders' fees of \$27,340 were paid in connection with the Subscription Receipt Agreement.

The Escrow Release Conditions were met on October 1, 2021, and the funds held in escrow under the Subscription Receipt Agreement were released to the Company on October 4, 2021.

Upon satisfaction of the escrow release conditions, the total 2,742,452 subscriptions were converted into common shares, and a total of 1,371,226 warrants were issued on October 4, 2021, in connection with such conversion. All warrants issued in connection with such conversion expired on October 4, 2022.

(c) Options

The Company has an omnibus equity incentive compensation plan to issue share options, and certain other equity incentives, whereby the total share options outstanding may be up to 10% of its issued capital at the time of an applicable option grant, and certain other equity incentives subject to a maximum of 1,040,547 shares in aggregate. The Board of Directors may from time to time, grant options or certain other equity incentives to directors, officers, employees or consultants. The exercise price of an option is not less than the closing price on the CSE on the last trading day preceding the grant date.

The continuity of the Company's share options is as follows:

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

9. Share Capital - continued

(c) Options - continued

	Number of options	Weighted average exercise price
Outstanding, February 28, 2021	-	\$ -
Granted	1,630,000	1.00
Outstanding, February 28, 2022	1,630,000	1.00
Granted	400,000	1.00
Forfeited	(40,000)	1.00
Outstanding, February 28, 2023	1,990,000	\$ 1.00

A summary of the Company's options at February 28, 2023 and 2022 is as follows:

Expiry date	Outstanding		Remaining contractual life (years)	Exercisable
	Number of stock options	Exercise price		Number of stock options
January 19, 2027	10,000	\$ 1.15	3.89	10,000
October 18, 2026	1,580,000	1.00	3.64	1,580,000
April 26, 2027	400,000	1.00	4.16	50,000
Outstanding, February 28, 2023	1,990,000	1.00		1,640,000

Expiry date	Outstanding		Remaining contractual life (years)	Exercisable
	Number of stock options	Exercise price		Number of stock options
January 19, 2027	10,000	\$ 1.15	4.89	10,000
October 18, 2026	1,620,000	1.00	4.64	1,242,222
Outstanding, February 28, 2022	1,630,000	\$ 1.00		1,252,222

The fair value of vested share options recognized as an expense during the year ended February 28, 2023, was \$309,559 (February 28, 2022 - \$556,554).

The fair value of each share option is estimated on the date of grant using the Black-Scholes Option Pricing Model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatility of the Company's shares or an applicable comparable company, and other factors. The expected term of share options granted represents the period of time that share options granted are expected to be outstanding. The risk-free rate of periods within the contractual life of the share option is based on the Canadian government bond rate.

The weighted average assumptions used for share options granted during year ended February 28, 2023 and 2022 are as follows:

	February 28, 2023	February 28, 2022
Risk-free interest rate	2.56%	0.73%
Expected dividend yield	Nil	Nil
Stock price volatility	132%	122%
Expected life (in years)	3.75	3.3 years
Weighted average fair value per option	\$ 0.74	\$ 0.45

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

9. Share Capital - *continued*

(d) Warrants

On April 8, 2022, 1,500,000 warrants were issued in connection with a unit private placement. Each warrant is exercisable at a price of \$1.25 and expires on April 8, 2023.

On April 8, 2022, 100,912 warrants were issued as finders' fees in connection with a unit private placement. Each warrant is exercisable at a price of \$1.25 and expires on April 8, 2023.

On October 6, 2021, a total of 32,750 warrants were issued in connection with a unit private placement. Each warrant is exercisable at a price of \$1.75 per warrant and expires on October 6, 2022.

On October 4, 2021, a total of 2,742,454 subscription receipts were converted into 2,742,454 common shares, and a total of 1,371,226 warrants were issued in connection with such conversion. All warrants issued expire on October 4, 2022 and are exercisable at a price of \$1.75 per warrant.

On August 20, 2021, the Company issued 132,500 warrants exercisable at \$1.75 per share for a period of 12 months from the date of issuance.

On May 27, 2021, the Company issued 102,260 broker warrants. Each broker warrant entitles the holder to acquire one common share of the Company at \$1.00 per share for a period of 24 months.

On May 27, 2021, the Company issued 22,600 broker warrants to acquire 22,600 units at a price of \$1.00 per unit until May 27, 2023. Each unit is comprised of one common share and one half of one common share purchase warrant. Each full warrant will entitle the holder to acquire one common share of the Company at \$1.75 per share for a period of 12 months from the date of issuance.

On April 12, 2021, the Company issued 4,740 broker warrants. Each broker warrant entitles the holder to acquire one common share of the Company at \$1.00 per share for a period of 24 months.

The continuity of the number of warrants outstanding is as follows:

	Warrants Outstanding	Weighted Average Exercise Price
Outstanding, February 28, 2021	-	\$ -
Issued	1,666,076	1.40
Outstanding, February 28, 2022	1,666,076	1.40
Issued	1,600,912	1.25
Expired	(1,536,476)	1.75
Outstanding, February 28, 2023	1,730,512	\$ 1.23

Expiry date	Outstanding		
	Number of warrants	Exercise price	Remaining contractual life (years)
April 12, 2023	4,740	\$ 1.00	0.12
May 27, 2023	124,860	1.00	0.24
April 8, 2023	1,600,912	1.25	0.11
Outstanding, February 28, 2023	1,730,512		

Xebra Brands Ltd.

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For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

9. Share Capital - *continued*

The fair value of warrants is estimated on the date of grant using the Black-Scholes Option Pricing Model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatility of shares of a comparable company, and other factors. The expected term of warrants issued represents the period of time which those warrants are expected to be outstanding.

The risk-free rate of periods within the contractual life of the warrants is based on the Canadian government bond rate. Assumptions used for certain warrants issued during the year ended February 28, 2023 and 2022 are as follows:

	February 28, 2023	February 28, 2022
Risk-free interest rate	2.12%	0.49%
Expected dividend yield	Nil	Nil
Stock price volatility	128%	133%
Expected life (in years)	1.00	1.07
Weighted average fair value per option	\$ 0.25	\$ 0.35

10. Loss per Share

Basic loss per share amounts is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share adjusts basic net loss per share for the effects of potential dilutive common shares.

	February 28, 2023	February 28, 2022
Loss attributable to common shareholders	\$ (4,024,270)	\$ (6,142,658)
Weighted average number of shares basic	38,994,153	24,308,060
Weighted average number of shares diluted	38,994,153	24,308,060
Basic loss per share	\$ (0.10)	\$ (0.25)
Diluted loss per share	\$ (0.10)	\$ (0.25)

For the year ended February 28, 2023 and 2022, the Company incurred a net loss, therefore all outstanding stock options and share purchase warrants have been excluded from the diluted weighted average number of shares since the effect would be anti-dilutive.

11. Non-Controlling Interest

On February 19, 2020, the Company entered into an agreement with Organto to acquire 75% of the issued and outstanding shares of its subsidiary, Organto Foods Europe BV, which was subsequently renamed to Xebra Brands Europe BV.

The movement in non-controlling interest is as follows:

	Xebra Brands Europe BV
Balance, February 28, 2021	\$ (24,047)
Results for the year	(118,359)
Currency translation difference	4,977
Balance, February 28, 2022	(137,429)
Results for the year	(100,026)
Currency translation difference	(6,638)
Balance, February 28, 2023	\$ (244,093)

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

11. Non-Controlling Interest - *continued*

Financial information for Xebra Brands Europe BV is as follow:

	February 28, 2023	February 28, 2022
Current assets	\$ 73,645	\$ 116,394
Non-current assets	1	329,035
Current liabilities	(127)	(995,135)
Net loss	426,655	473,435
Other comprehensive loss (income)	26,552	(19,909)

12. Discontinued Operations

Following the corporate focus review announced in June 2022, management committed to focusing its resources in jurisdictions where it could add the most shareholder value. As a result, Xebra's management resolved to exit Colombia and the Netherlands with the objective to prioritize activities in Mexico and Canada.

Disposal of Medicannabis, SAS (Colombia)

On October 19, 2022, the Company completed the transfer of 100% of its shares in Medicannabis, a wholly-owned subsidiary in Colombia, to an independent third party for nil proceeds. This transfer was executed as part of an agreement that grants Xebra full access rights to Medicannabis' valuable seed library and intellectual property ("IP") for any seed variety that underwent agronomic evaluations prior to December 31, 2022, and subsequently obtains international IP rights protection under the UPOV Convention (UPOV 91).

In addition to retaining the access rights, Xebra is entitle to 5% and 25% of the proceeds generated by Medicannabis' sale of seeds or genetics until December 31, 2030 as per agreement. The Company did not record any value for the access rights.

As a result of the disposition of Medicannabis, the Company recorded \$118,297 as a gain since Medicannabis had greater liabilities than assets as at October 19, 2022.

	February 28, 2023	February 28, 2022
Operating expenses	\$ 133,014	\$ 150,200
Amortization (note 6 and 8)	-	66,076
Impairment (note 6 and 8)	-	1,500,036
Foreign exchange and other	1,319	8,380
Gain on disposition of Medicannabis	(118,297)	-
Loss from discontinued operations, net of tax	\$ 16,036	\$ 1,724,692

The breakdown of cash flows from discontinued operations is as follows:

	February 28, 2023	February 28, 2022
Net cash (used in) provided by operating activities	\$ (11,250)	\$ 193,603
Net cash provided by (used in) financing activities	11,250	(193,603)
Change in cash during the year	\$ -	\$ -

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

13. Related Party Transactions

The Company entered into an administration service agreement with Orea Mining Corp. (“Orea”) a company related by a former common director, effective January 1, 2021 (the “Services Agreement”) for \$2,000 per month. The Services Agreement was amended effective June 1, 2021 under which the monthly payments were increased to \$30,000, and was further amended effective January 1, 2022 whereby the monthly is increased to \$40,000. Subsequently, on January 20, 2023 the Service Agreement was terminated. As at February 28, 2023, the Company and Orea have no directors or officers in common.

On April 11, 2022, the Company provided a short-term loan of \$60,000 to Jay Garnett, a director & CEO of the Company. The loan is interest free and repayable in installments of \$10,000 per month commencing on October 1, 2022. The outstanding receivable balance as at February 28, 2023 is \$60,000 (February 28, 2022 – \$nil) (note 4).

On August 9, 2021, Columbus Capital Corp., a company controlled by Robert Giustra, a former director of the Company, provided a short-term loan for \$75,000 to the Company. The loan was interest free and repayable on demand and was fully repaid on October 5, 2021.

The following is a summary of related party transactions:

	February 28, 2023	February 28, 2022
Management and administration services paid to Orea	\$ 368,000	\$ 296,000
Management fees paid to Columbus Capital Corporation, a company controlled by Robert Giustra, a former director of the Company	197,903	62,500
Finders' fees paid to Columbus Capital Corporation, a company controlled by Robert Giustra, a former director of the Company	55,548	-
Management fees paid to Garnett Canada Holdings, a company controlled by Jay Garnett, director & CEO of the Company	210,000	-
Management and consulting fees paid to Todd Dalotto, a director of the Company	75,864	12,916
Management fees paid to Accounting Group ADR and Associates SC., a company controlled by Rodrigo Gallardo, President of the Company	133,000	83,040
Consulting services from Maverick Brands Ltd, a company controlled by Keith Dolo a director of the Company	33,000	-
Share-based payments to certain directors and officers of the Company	303,970	479,111
	\$ 1,377,285	\$ 933,567

The following summarizes amounts that remain payable to each related party, which are included in account payable:

	February 28, 2023	February 28, 2022
Finders' fees or other payable to Robert Giustra, a former director of the Company	\$ -	\$ (8,800)
Finders' fees payable to Rodrigo Gallardo, President of the Company	-	(8,000)
Finders' fees payable to Andrew Yau, former CFO of the Company	-	(360)
Fees payable to Columbus Capital Corporation, a company controlled by Robert Giustra, a former director of the Company	(55,548)	-
Fees payable to Garnett Canada Holdings., a company controlled by Jay Garnett, director & CEO of the Company	(72,600)	-
Management fees payable to Accounting Group ADR and Associates SC., a company controlled by Rodrigo Gallardo, President of the Company	(18,600)	-
Fees payable to Todd Dalotto, a director of the Company	(33,213)	(6,597)
Fees payable to Maverick Brands Ltd, a company controlled by Keith Dolo a director of the Company	(288,926)	-
	\$ (468,887)	\$ (23,757)

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

14. Segmented Information

The Company has one reportable business segment, being the processing, manufacturing, design and delivery of cannabis products. Assets by geographical area are as follows:

	February 28, 2023	February 28, 2022
Current Assets		
Canada	\$ 581,751	\$ 910,155
Colombia	2,948	74,316
Europe	73,645	116,394
Mexico	37,512	50,354
Total	\$ 695,856	\$ 1,151,219
Non-Current Assets		
Canada	\$ 469,651	\$ 1,310,407
Colombia	-	3
Europe	1	329,035
Mexico	158,234	111,763
Total	\$ 627,886	\$ 1,751,208
Total Asset		
Canada	\$ 1,051,402	\$ 2,220,562
Colombia	2,948	74,319
Europe	73,646	445,429
Mexico	195,746	162,117
Total	\$ 1,323,742	\$ 2,902,427

During the year ended February 28, 2023, the Company derived all of its revenues from selling its cannabis infused lemonade to mainly two customers, Ontario Cannabis Store and Alberta Gaming, Liquor and Cannabis which accounted for 57% and 38% of revenues respectively. As at February 28, 2023, trade receivables of \$150,525 (February 28, 2022 – \$nil) were receivable entirely from one customer and all of its revenues were earned within Canada.

15. Commitments

As at February 28, 2023, the Company had no commitments.

As at February 28, 2022, the Company had lease commitments within one year of \$36,869, and from two to three years of \$29,278.

16. Financial Risk and Capital Management

Financial risk

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments at February 28, 2023 are summarized below. The Board of Directors periodically reviews with management the principal risks affecting the Company and the systems that have been put in place to manage these risks.

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

16. Financial Risk and Capital Management - *continued*

(a) Credit Risk

The credit risk exposure on cash is limited to its carrying amount at the date of the statements of financial position. Cash is held as cash deposits with reputable banks or financial institutions. The Company has receivables consisting of goods and services tax due from the Federal Government of Canada, VAT receivable from the Government of Mexico and the Netherlands, and other receivables. Management believes that the credit risk with respect to its cash and receivables is low.

(b) Liquidity Risk

Liquidity risk arises from the Company's general and capital financing needs. The Company manages liquidity risk by attempting to maintain sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term obligations. As at February 28, 2023, the Company had a working capital deficit of \$76,308. Management believes that liquidity risk is high.

(c) Market Risk

(i) Foreign Currency Risk

The Company's functional currency is the Canadian dollar. The Company is exposed to the currency risk related to the fluctuation of foreign exchange rates in its Mexican, Colombian and European subsidiaries. The Company also has assets and liabilities denominated in US dollars, Mexican Peso, Colombian Peso and the European Euro. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollars, Mexican Peso, Colombian Peso and the European Euro could have an effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

(ii) Interest Rate Risk

The Company is not exposed to interest rate risk.

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 pursue the cultivation, processing, manufacturing, design and delivery of cannabis products and to maintain a flexible capital structure for the benefit of its stakeholders. As the Company is in the start-up stage, its principal source of funds are, and will be, financing through the issuance of equity securities.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash and investments. There were no changes to the management of capital from the previous year.

Fair Value

The fair value of the Company's financial instruments, including cash, approximates their carrying value due to the immediate or short-term maturity of these financial instruments.

IFRS 7, Financial Instruments: Disclosure establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

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

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

For the Year Ended February 28, 2023 and 2022

(Expressed in Canadian Dollars, unless otherwise stated)

16. Financial Risk and Capital Management - *continued*

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies. At February 28, 2023, there were no financial assets or liabilities measured and recognized in the statement of position that would be categorized as Level 2 or Level 3 in the fair value hierarchy above.

Financial Instrument	Measurement Method	Associated Risk	Fair Value as at February 28, 2023
Cash	FVTPL	Credit and currency	\$ 202,286
Receivables	Amortized cost	Credit	232,072
Accounts payable	Amortized cost	Liquidity	622,622
			\$ 1,056,980

17. Deferred Income Tax

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is:

	February 28, 2023	February 28, 2022
Loss before taxes	\$ (4,124,296)	\$ (6,261,017)
Canadian federal and provincial income tax rates	27%	27%
Expected income tax recovery	(1,113,560)	(1,690,475)
Foreign tax differences, rate changes and foreign exchange	(70,087)	(33,565)
Non-taxable items	17,173	80,296
Non deductible	(3,714)	885,541
Impact on disposition of a subsidiary	242,523	-
Adjustments to prior years provision	153,385	-
Change in valuation of deferred tax assets	774,280	758,203
Income tax expense	\$ -	\$ -

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

	February 28, 2023	February 28, 2022
Equipment and other	\$ 17,936	\$ 101,463
Share issue costs	96,013	107,671
Capital losses carried forward	2,649,049	1,762,404
Intangible assets	5,222	22,402
Valuation allowance	(2,768,220)	(1,993,940)
Income tax expense	\$ -	\$ -

As at February 28, 2023, the Company has deductible temporary differences for which deferred tax assets have not been recognized because it is currently not probable that future profit will be available against which the Company can utilize the benefits.

As of February 28, 2023, the Company has the following tax loss carryforwards available to reduce future years' taxable income. The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income in the relevant jurisdictions.

Xebra Brands Ltd.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars, unless otherwise stated)

17. Deferred Income Tax - *continued*

The Company's tax loss carryforwards will expire, if not utilized, as follows:

	Canada	Colombia Colombian Peso	Mexico Mexican Peso	Europe Euro
February 29, 2040	\$ 1,039,424	96,039,000	5,909,260	7,438
February 28, 2041	841,771	47,439,000	785,590	296,871
February 28, 2042	2,003,613	53,010,920	6,269,088	323,120
February 28, 2043	3,334,395	42,923,322	2,546,562	291,807
Total	\$ 7,219,203	239,412,242	15,510,500	919,235

Canadian dollar equivalent	\$	68,863	\$	1,149,752	\$	1,324,709
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18. Subsequent Events

- a) On March 7, 2023, the Company closed a non-brokered private placement of 15,186,731 units at a price of \$0.06 per unit, for gross proceeds of \$905,204 of which \$201,750 were received before February 28, 2023 and \$286,204 were part of debt settlements. Each unit is comprised of one common share of the Company, and a warrant. Each warrant entitles the holder to purchase one share of the Company at a price of \$0.10 for a period of eighteen months from the closing date of the private placement. An aggregate of 100,000 common shares were paid in finders' fees. All securities issued are subject to a four-month hold period from the date of closing.
- b) On April 8, 12 and May 27, 2023 a total of 1,730,512 share purchase warrants expired without being exercised.