

**GROUNDPEOPLE APPAREL INC.**  
(Formerly Grounded Clothing Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended February 28, 2023

(Expressed in Canadian Dollars)

## Independent Auditor's Report

To the Shareholders of Grounded People Apparel Inc.

### Opinion

We have audited the consolidated financial statements of Grounded People Apparel Inc. (the "Group"), which comprise the consolidated statements of financial position as at February 28, 2023 and February 28, 2022 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at February 28, 2023 and February 28, 2022, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated 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 2 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt on the Group'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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Other than the matter described in the Material Uncertainty Related to Going Concern section, we have determined there are no key audit matters to be communicated in our report.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated 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 consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

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

**"Crowe MacKay LLP"**

**Chartered Professional Accountants  
Vancouver, Canada  
August 4, 2023**

**GROUNDPEOPLE APPAREL INC.**  
(Formerly Grounded Clothing Inc.)  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
As at February 28, 2023 and 2022  
(Expressed in Canadian Dollars)

	February 28, 2023	February 28, 2022
<b>ASSETS</b>		
Cash	\$ 1,153,119	\$ 21,422
Amounts receivable (Note 5)	70,289	14,657
Prepaid expense (Notes 6 and 10)	785,510	136,707
Inventory (Note 7)	139,689	103,344
	<b>\$ 2,148,607</b>	<b>\$ 276,130</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Notes 9 and 10)	\$ 227,360	\$ 77,557
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	4,469,000	719,000
Reserves (Note 9)	351,728	414,000
Deficit	(2,899,481)	(934,427)
	1,921,247	198,573
	<b>\$ 2,148,607</b>	<b>\$ 276,130</b>

Going concern (Note 2)

APPROVED ON BEHALF OF THE BOARD:

"Maximilian Justus" Director  
Maximilian Justus

"Geoff Balderson" Director  
Geoff Balderson

**GROUNDING PEOPLE APPAREL INC.**

(Formerly Grounded Clothing Inc.)

**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the years ended February 28, 2023 and 2022

(Expressed in Canadian Dollars)

	<b>Year ended February 28, 2023</b>	<b>Year ended February 28, 2022</b>
Sales	\$ 121,251	\$ 17,582
Cost of goods sold (Note 7)	298,351	5,344
Gross Profit	(177,100)	12,238
<b>EXPENSES</b>		
Advertising and marketing (Note 7)	849,535	273,537
Consulting fees	195,053	17,500
General and administrative	380,235	96,020
Product samples	-	6,763
Professional fees	216,900	106,628
Selling expense	103,406	7,025
Share-based compensation (Note 9)	109,000	379,000
Wages and salaries (Note 10)	70,097	-
	(1,924,226)	(886,473)
Net loss and comprehensive loss for the year	\$ (2,101,326)	\$ (874,235)
<b>Basic and diluted loss per share</b>	<b>\$ (0.11)</b>	<b>\$ (0.06)</b>
<b>Weighted average number of common shares outstanding</b>	<b>18,974,244</b>	<b>14,499,726</b>

**GROUNDING PEOPLE APPAREL INC.**

(Formerly Grounded Clothing Inc.)

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the years ended February 28, 2023 and 2022

(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Reserves	Subscriptions receivable	Deficit	Total Shareholders' Equity
<b>Balance, February 28, 2021</b>	<b>13,800,001</b>	<b>\$ 219,000</b>	<b>\$ 64,900</b>	<b>\$ (40,400)</b>	<b>\$ (60,192)</b>	<b>\$ 183,308</b>
Issuance of special warrants	-	-	435,100	40,400	-	475,500
Issuance of warrants	-	-	35,000	-	-	35,000
Grant of stock options	-	-	379,000	-	-	379,000
Conversion of special warrants	1,666,668	500,000	(500,000)	-	-	-
Net loss for the year	-	-	-	-	(874,235)	(874,235)
<b>Balance, February 28, 2022</b>	<b>15,466,669</b>	<b>719,000</b>	<b>414,000</b>	<b>-</b>	<b>(934,427)</b>	<b>198,573</b>
Private placement, net of share issue costs	7,745,337	3,750,000	-	-	-	3,750,000
Forfeiture of stock options	-	-	(136,272)	-	136,272	-
Cancellation of warrants	-	-	(35,000)	-	-	(35,000)
Share-based compensation	-	-	109,000	-	-	109,000
Net loss for the year	-	-	-	-	(2,101,326)	(2,101,326)
<b>Balance, February 28, 2023</b>	<b>23,212,006</b>	<b>\$ 4,469,000</b>	<b>\$ 351,728</b>	<b>\$ -</b>	<b>\$ (2,899,481)</b>	<b>\$ 1,921,247</b>

See accompanying notes to the consolidated financial statements

**GROUNDING PEOPLE APPAREL INC.**  
(Formerly Grounded Clothing Inc.)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the years ended February 28, 2023 and 2022  
(Expressed in Canadian Dollars)

	Year ended February 28,	
	2023	2022
Operating Activities		
Net loss for the year	\$ (2,101,326)	\$ (874,235)
Items not involving cash:		
Impairment of inventory	256,758	-
Share-based compensation	109,000	379,000
Changes in non-cash working capital items related to operations:		
Amounts receivable	(55,632)	(13,490)
Prepaid expense	(648,803)	(131,457)
Inventory	(293,103)	(103,344)
Accounts payable and accrued liabilities	114,803	61,680
Cash used in operating activities	(2,618,303)	(681,846)
Financing Activities		
Proceeds from private placement	3,750,000	-
Special warrants issued for cash	-	475,500
Warrants issued for cash	-	35,000
Cash provided by financing activities	3,750,000	510,500
Change in cash during the year	1,131,697	(171,346)
Cash, beginning of year	21,422	192,768
Cash, end of year	\$ 1,153,119	\$ 21,422
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -



# GROUNDING PEOPLE APPAREL INC.

(Formerly Grounded Clothing Inc.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended February 28, 2023

(Expressed in Canadian Dollars)

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### 1. CORPORATE INFORMATION

Grounded People Apparel Inc. (formerly Grounded Clothing Inc.) (the “Company”) was incorporated on April 20, 2020 in British Columbia under the Business Corporations Act. The head office of the Company is located at 800 – 1199 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3T5. The registered and records office of the Company is located at 2200 HSBC Building – 885 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3E8. On June 15, 2021, the Company changed its name from Grounded Clothing Inc. to Grounded People Apparel Inc. On October 5, 2022, the Company commenced trading under the trading symbol “SHOE” on the Canadian Securities Exchange (“CSE”).

The Company is primarily engaged in the business of fair trade, sustainable and earth-conscious fashion. The Company’s initial focus is on the design and production of shoes, and more specifically, high-top and low-cut canvassed sneakers.

### 2. BASIS OF PREPARATION

#### (a) Statement of Compliance

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on August 4, 2023.

#### (b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

#### (c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary at the end of the reporting period:

	<b>Incorporated</b>	<b>Nature</b>	<b>Ownership February 28, 2023</b>	<b>Ownership February 28, 2022</b>
Grounded People Apparel (US) SPC	Washington, USA	Social Purpose Apparel	100%	100%

The results of the wholly owned subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company’s control over the subsidiary ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated upon consolidation. During the years ended February 28, 2023 and 2022, Grounded People Apparel (US) SPC remained inactive with minimal operations.

**GROUNDPEOPLE APPAREL INC.**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the year ended February 28, 2023  
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**2. BASIS OF PREPARATION** (continued)

**(d) Functional and Presentation Currency**

These consolidated financial statements are presented in Canadian dollars, which is the parent company's functional currency. The functional currency of Grounded People Apparel (US) SPC is the US dollar, which is determined by the currency of the primary economic environment in which it operates.

**(e) Going Concern**

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. At February 28, 2023, the Company has not achieved profitable operations, has an accumulated deficit of \$2,899,481 (February 28, 2022 - \$934,427) since inception and expects to incur further losses in the development of its business.

The Company's business financial condition and results of operations may be further negatively affected by economic and other consequences from Russia's military action against Ukraine and the sanctions imposed in response to that action in late February 2022. While the Company expects any direct impacts of the conflict in the Ukraine to the business to be limited, the indirect impacts on the economy and industries in general could negatively affect the business and may make it more difficult for it to raise equity or debt financing. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about on its business, results of operations, financial position and cash flows in the future.

The above material uncertainties cast significant doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon successful results from its operations, its ability to attain profitable operations to generate funds and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amount on its consolidated statement of financial position.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies have been applied consistently throughout by the Company for purposes of these consolidated financial statements.

a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with financial institutions, and other short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. As at February 28, 2023 and 2022, the Company held no cash equivalents.

b) Prepaid expense

Prepaid expense represents payments made in advance for goods and services that the Company expects to receive from third-party vendors in the future. Prepaid inventory includes prepayments for inventory before the Company has taken delivery of goods. Once the Company has assumed ownership, the costs of prepaid inventory is reclassified to inventory.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

c) Financial instruments

*Financial Assets*

All financial assets not classified at amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss (“FVTPL”). On initial recognition, the Company can irrevocably designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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

- It is held within a business model whose objective is to hold the financial asset to collect the contractual cash flows associated with the financial asset instead of selling the financial asset for a profit or loss; and
- Its contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets that meet the following conditions are measured at fair value through other comprehensive income (“FVTOCI”):

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

All financial instruments are initially recognized at fair value on the statement of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified at FVTPL are measured at fair value with changes in those fair values recognized in net income (loss) for the period. Financial assets classified at amortized cost and financial liabilities are measured at amortized cost using the effective interest method. The Company’s financial instruments are classified as follows:

<b>Financial Assets / Liabilities</b>	<b>Classification and Measurement</b>
Cash	FVTPL
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

c) Financial instruments (continued)

*Fair value hierarchy*

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for assets or liabilities that are not based on observable market data.

*Financial liabilities*

Financial liabilities are designated as either: (i) FVTPL; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities are classified under other financial liabilities and carried on the consolidated statement of financial position at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss. The Company does not have any derivative financial assets and liabilities.

*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 on 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 profit or 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

d) Foreign currency translation

Transactions in foreign currencies are translated using the exchange rate prevailing at the date of the transaction. At each reporting date, foreign currency denominated monetary assets and liabilities are translated at year-end exchange rates. Exchange differences arising from the transactions are recorded in profit or loss for the period.

Exchange differences arising from operating transactions are recorded in operating profit for the period; exchange differences related to financing transactions are recognized as finance costs or income, or in other comprehensive income.

The assets and liabilities of a foreign operation, including goodwill and fair value adjustments arising from the acquisition, are translated into Canadian dollars at year-end exchange rates. Income and expenses, and cash flows of a foreign operation are translated in Canadian dollars using average exchange rates. Differences resulting from translating foreign operations are reported as translation differences in equity. When a foreign operation is disposed of, the translation differences previously recognized in other comprehensive income are reclassified to profit or loss.

e) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity in which case the related income tax is recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that such assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

f) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

g) Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, stock options, and warrants are classified as equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

*Valuation of equity units issued in private placements*

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the share-based payments reserve. The fair value of the common shares is based on the closing quoted bid price on the announcement date once the shares of the Company are listed.

Consideration received for the exercise of warrants is recorded in share capital and the related residual value in warrants reserve is transferred to share capital. For those warrants that expired, the recorded value is transferred to deficit.

h) Earnings (loss) per share

The Company presents basic earnings (loss) per share data for its common shares, calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

i) Share-based payments

The Company grants share options to acquire common shares of the Company to directors, officers, employees, and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded method. Fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

i) Share-based payments (continued)

For both employees and non-employees, the fair value of share-based payments is recognized as an expense with a corresponding increase in share-based payments reserve. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in share capital and the related share-based compensation in share-based payments reserve is transferred to share capital.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period. Where a grant of options is cancelled and settled during the vesting period, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Where a grant of options is forfeited during the vesting period, the Company immediately accounts for the forfeiture as a reversal of vesting and derecognizes the amount that has been previously recognized for services received. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense. The amounts recorded in reserves for unexercised share options are transferred from share-based payments reserve to deficit upon their expiry or cancellation/forfeiture.

j) Inventory and cost of sales

Inventory consists of third-party manufactured finished goods that are available for sale. Inventories are valued at the lower of cost or net realizable value. Cost is determined using the weighted average cost method and includes the cost of purchase, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The costs of purchase include the purchase price, non-recoverable taxes, transport and other costs directly attributable to the acquisition of finished goods. Cost of sales includes the expenses incurred to acquire inventory for sale, as well as provisions for reserves related to obsolete inventory or lower of cost and net realizable value adjustments as required.

k) Revenue recognition

To determine whether to recognize revenue, the Company follows a 5-step process:

- a. Identifying the contract with a customer.
- b. Identifying the performance obligations.
- c. Determining the transaction price.
- d. Allocating the transaction price to the performance obligations.
- e. Recognizing revenue when/as performance obligation(s) are satisfied.

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognized at a point in time when the Company satisfies performance obligations by transferring the promised goods or services to its customers.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

k) Revenue recognition (continued)

The Company generates its revenue primarily from the sale of shoes, recognized net of discounts. The Company recognizes revenues from its product sales when delivery has occurred and there is no unfulfilled obligation that could affect the customer's acceptance. These criteria are generally met at the time the products are provided or delivered and the customer takes possession of the goods, at which time control has passed to the customer.

The Company measured its revenue based on the price specified in the invoice provided to the customer, adjusted for expected returns, which are estimated based on historical data by specific products and adjusted as needed to estimate returns. The Company collects payment upon a customer placing an order and funds are received from the sales platform following the order, which typically occurs within 30 days following a purchase.

The Company offers a 30-day return policy for unworn and unused products in its original packaging. No product warranties are provided for footwear.

l) Revenue royalty

Pursuant to a gross revenue royalty agreement, the Company has a 0.5% royalty each with the CEO and a business advisor, in perpetuity, on the gross revenue generated by the Company. The royalty is calculated and accrued on a quarterly basis and payable within sixty days after the quarter-end.

m) New accounting standards adopted

Effective March 1, 2022, the Company adopted certain miscellaneous new and amended standards that had no impact on the Company's consolidated financial statements.

n) New accounting standards issued but not yet effective

A number of new standards, and amendments to standards and interpretations, are not effective for the year ended February 28, 2023, and have not been early adopted in preparing these consolidated financial statements. The following accounting standards and amendments are effective for future periods:

i. Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2023.

ii. Amendments to IAS 8 – Definition of Accounting Estimates

These amendments clarify how companies distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The distinction between the two is important because changes in accounting policies are applied retrospectively, whereas changes in accounting estimates are applied prospectively. Further, the amendments clarify that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. These amendments are effective for reporting periods beginning on or after January 1, 2023.



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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

n) New accounting standards issued but not yet effective (continued)

iii. Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

These amendments continue the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures. These amendments are effective for reporting periods beginning on or after January 1, 2023.

Management is undergoing the continual assessment of the impact of these amendments on the Company's future consolidated financial statements.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Significant judgments*

Management has made critical judgments in the process of applying accounting policies. The one has the most significant effect on the amounts recognized in the consolidated financial statements include:

- i. The assessment of the Company's ability to continue as a going concern and its ability to execute its strategy by funding future working capital requirements requires judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances. The factors considered by management are disclosed in Note 2(e).

*Significant estimates*

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the current and next fiscal financial years:

- i. The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging, and current and future expectations with respect to product sales. Assumptions underlying the allowance for inventory obsolescence include future sales trends, marketing strategy and others. These estimates could materially change from period to period due to changes in various factors.

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**5. AMOUNTS RECEIVABLE**

	<b>February 28, 2023</b>	<b>February 28, 2022</b>
Accounts receivable	\$ 4,341	\$ 3,716
GST receivable	65,948	10,941
	<b>\$ 70,289</b>	<b>\$ 14,657</b>

**6. PREPAID EXPENSE**

	<b>February 28, 2023</b>	<b>February 28, 2022</b>
Prepaid expense	\$ 641,003	\$ 34,373
Prepaid inventory	144,507	102,334
	<b>\$ 785,510</b>	<b>\$ 136,707</b>

**7. INVENTORY**

Inventory is comprised of finished goods held on hand. During the year ended February 28, 2023, the Company recognized \$298,351 (year ended February 28, 2022 – \$5,344) of inventory as cost of goods sold, including an impairment of inventory of \$256,758 (year ended February 28, 2022 - \$Nil) for discontinued products. In addition, there was \$42,062 (year ended February 28, 2022 – \$8,863) of inventory given out for promotion, which is recognized as advertising and marketing expenditures.

**8. OPERATING SEGMENTS**

As at February 28, 2023, the Company is operating its business in one reportable segment: the sale of shoes.

During the years ended February 28, 2023 and 2022, the Company did not have any customers who accounted for more than 10% of revenues from operations. The Company's revenues allocated by geography for the year ended February 28, 2023 and 2022 is as follows:

	<b>Year ended February 28, 2023</b>	<b>Year ended February 28, 2022</b>
United States of America	\$ 65,473	\$ 11,735
Canada	55,692	5,624
Other	86	223
<b>Total</b>	<b>\$ 121,251</b>	<b>\$ 17,582</b>

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**9. SHARE CAPITAL**

**(a) Authorized**

Unlimited number of common shares without par value.

**(b) Issued**

During the year ended February 28, 2023:

On January 13, 2023, the Company closed a non-brokered private placement of 4,464,286 units of the Company at a price of \$0.56 per unit for gross proceeds of \$2,500,000. Each unit is comprised of one common share and one warrant with each warrant entitling the holder to purchase an additional share at a price of \$0.70 with an expiry date of January 13, 2025. The Company issued 44,643 common shares with a fair value of \$26,786 for administrative services in connection with the private placement, recognized as share issuance costs.

On November 4, 2022, the Company closed a non-brokered private placement of 347,222 units of the Company at a price of \$0.72 per unit for gross proceeds of \$250,000. Each unit is comprised of one common share and one warrant with each warrant entitling the holder to purchase an additional share at a price of \$0.90 with an expiry date of November 4, 2025. The Company issued 3,472 common shares with a fair value of \$3,125 for administrative services in connection with the private placement, recognized as share issuance costs.

On March 10, 2022, the Company closed a non-brokered private placement of 2,857,143 units of the Company at a price of \$0.35 per unit for gross proceeds of \$1,000,000. Each unit is comprised of one common share and one warrant with each warrant entitling the holder to purchase an additional share at a price of \$0.50 with an expiry date of October 5, 2024. The Company issued 28,571 common shares with a fair value of \$10,000 for administrative services in connection with the private placement, recognized as share issuance costs.

During the year ended February 28, 2022:

On October 12, 2021, the Company issued 1,450,335 common shares upon the automatic exercise of 1,450,335 special warrants granted on June 11, 2021.

On July 2, 2021, the Company issued 216,333 common shares upon the automatic exercise of 216,333 special warrants granted on February 28, 2021.

On June 11, 2021, the Company issued 1,450,335 special warrants at \$0.30 per special warrant for total proceeds of \$435,100. Each warrant will entitle the holder to receive, upon voluntary exercise prior to, or deemed exercise on, the automatic exercise date and without payment or additional consideration, one common share of the Company. The automatic exercise date is the earlier of the date upon which the receipt has been obtained for the filing of final long form prospectus and October 12, 2021. The 1,450,335 special warrants were exercised on October 12, 2021.

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**9. SHARE CAPITAL** (continued)

**(c) Warrants**

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Year ended February 28, 2023		Year Ended February 28, 2022	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	7,000,000	\$ 1.30	-	\$ -
Issued	7,668,651	0.63	7,000,000	1.30
Cancelled	(7,000,000)	1.30	-	-
Outstanding, end of year	7,668,651	\$ 0.63	7,000,000	\$ 1.30

The following warrants were outstanding and exercisable at February 28, 2023:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding	Exercisable
October 5, 2024	1.60	\$ 0.50	2,857,143	2,857,143
January 13, 2025	1.88	\$ 0.70	4,464,286	4,464,286
November 4, 2025	2.68	\$ 0.90	347,222	347,222
	1.81		7,668,651	7,668,651

On May 17, 2022, 7,000,000 warrants which were initially issued on June 28, 2021 for total proceeds of \$35,000 were cancelled and \$35,000 will be returned to the former warrant holders, which is included in accounts payable and accrued liabilities on the consolidated statement of financial position as at February 28, 2023.

**(d) Stock Options**

The Company has a stock option plan (the “Plan”) to grant incentive stock options to directors, officers, employees, and consultants. Under the Plan, the aggregate number of common shares that may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date. Options granted may not exceed a term of 10 years. All options vest when granted unless they are otherwise specified by the Board of Directors or if they are granted for investor relations activities. Options granted for investor relations activities vest over a twelve-month period with no more than 25% of the options vesting in any three-month period.

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**9. SHARE CAPITAL** (continued)

**(d) Stock Options** (continued)

Stock option transactions and the number of stock options outstanding are summarized as follows:

	<b>Year ended February 28, 2023</b>		<b>Year Ended February 28, 2022</b>	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,700,000	\$ 0.30	-	\$ -
Granted	413,000	0.35	1,700,000	0.30
Forfeited	(612,000)	0.30	-	-
Outstanding, end of year	1,501,000	\$ 0.31	1,700,000	\$ 0.30

The following stock options were outstanding and exercisable at February 28, 2023:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding	Exercisable
June 28, 2026	3.33	\$ 0.30	888,000	888,000
December 1, 2026	3.76	\$ 0.30	200,000	200,000
May 19, 2027	4.22	\$ 0.35	413,000	413,000
	3.63		1,501,000	1,501,000

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. During the year ended February 28, 2023, 413,000 (February 28, 2022 – 1,700,000) stock options were granted with a fair value of \$109,000 (February 28, 2022 - \$379,000).

During the year ended February 28, 2023, 612,000 (February 28, 2022 – NIL) stock options were forfeited with a fair value of \$136,272 (February 28, 2022 - \$NIL). The fair value of the options were transferred from reserves to deficit upon forfeiture.

The fair value of stock options issued was calculated using the following weighted average assumptions:

	<b>Year ended February 28, 2023</b>	<b>Year ended February 28, 2022</b>
Expected life (years)	5	5
Risk-free interest rate	2.75%	1.02%
Annualized volatility*	100%	100%
Dividend yield	0.00%	0.00%
Stock price at issue date	\$0.35	\$0.30
Exercise price	\$0.35	\$0.30
Weighted average issue date fair value	\$0.26	\$0.22

\* The annualized volatility was determined using the average of three comparable entities' historical volatility in share price.

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**10. RELATED PARTY TRANSACTIONS**

Key management personnel are those having authority and responsibility for planning, directing, and controlling the activities of the Company, directly or indirectly, and include the Company’s executive officers and members of the Board of Directors.

	For the year ended	
	2023	2022
Key Management Compensation		
Wages and salaries	\$ 65,000	\$ -
	\$ 65,000	\$ -

As at February 28, 2023 there are \$9,258 (February 28, 2022 - \$Nil) balances owing to related parties, which are unsecured, non-interest bearing, and due on demand, and the Company had \$Nil (February 28, 2022 - \$14,759) in prepayments to related parties.

**11. CAPITAL MANAGEMENT**

The Company’s objectives when managing capital are to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain credit worthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject to. Capital of the Company comprises of cash and shareholders’ equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.

The Company’s investment policy is to invest its cash in financial instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected timing of expenditures from continuing operations.

There were no changes to the Company’s approach to capital management during the year.

**12. FINANCIAL INSTRUMENTS AND RISKS**

The Company is exposed through its operations to the following financial risks:

- Liquidity risk
- Market risk
- Credit risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company’s objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

There have been no substantive changes in the Company’s exposure to financial instrument risks, its objectives, polices and processes for managing those risks or the methods used to measure them unless otherwise stated in the note.

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## **12. FINANCIAL INSTRUMENTS AND RISKS (continued)**

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections.

The Company monitors its cash flows to meet the Company's normal operating requirements on an ongoing basis and its planned capital expenditures. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. As at February 28, 2023, the Company had a working capital of \$1,921,247 (February 28, 2022 - \$198,573).

### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's operations, income, or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns. The Company is exposed to market risk as follows:

#### **(i) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is not exposed to significant interest rate risk due to the short-term to maturity of its financial instruments. As at February 28, 2023, the Company has no interest-bearing financial liabilities and considers interest rate risk to be negligible.

#### **(ii) Foreign currency risk**

Currency risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in foreign exchange rates. As at February 28, 2023, the Company had US \$3,555 in cash and US \$19,885 in accounts payable in US dollars, \$38,529 in accounts payable in European Euros and considers foreign currency risk to be negligible. A fluctuation in the exchange rates between the Canadian dollar, US dollars and European Euro of 10% would result in an approximately \$8,000 change in the Company's net assets. The Company does not use any techniques to mitigate currency risk.

### **Credit Risk**

Financial instruments that potentially expose the Company to credit risk include cash and accounts receivable. The carrying amount of these financial assets represent the maximum credit exposure. The Company holds cash at a major Canadian financial institution, and management believes the exposure to credit risk with respect to these institutions is not significant. Accounts receivable has been subsequently collected.

### **Fair Values**

The Company's financial instruments include cash, accounts receivable, and accounts payable and accrued liabilities. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature. It is impractical to determine the fair value of these financial instruments with sufficient reliability due to the nature of these financial instruments, the absence of secondary market and the significant cost of obtaining external appraisals. The fair value of the financial instruments, accounts receivable and accounts payable and accrued liabilities approximates their carrying value under the effective interest method.

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**13. INCOME TAXES**

The difference between tax expense for the period and the expected income taxes based on the statutory tax rates arises as follows:

	<b>2023</b>	<b>2022</b>
Income (Loss) before income tax	\$ (2,101,326)	\$ (874,235)
Statutory income tax rate	27%	27%
Income tax benefit computed at statutory tax rate	\$ (567,000)	\$ (236,000)
Non-deductible items	29,000	102,000
Change in unrecognized tax benefits not recognized	538,000	134,000
	\$ -	\$ -

The significant components of the Company's unrecognized temporary differences at February 28, 2023, and 2022 are presented below:

	<b>2023</b>	<b>Expiry</b>	<b>2022</b>	<b>Expiry</b>
Non-capital losses	\$ 2,540,000	2041 - 2043	\$ 555,000	2041 - 2042
Total	\$ 2,540,000		\$ 555,000	