

# **Aegis Brands Inc.**

Unaudited Condensed Interim Consolidated Financial Statements  
**For the 13 and 39 weeks ended September 26, 2020 and September 28, 2019**

**Notice to Reader**

The management of Aegis Brands Inc. (“Aegis Brands” or the “Company”) is responsible for the preparation of the accompanying condensed interim consolidated financial statements. The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the financial position, financial performance and cash flows of the Company.

These condensed interim consolidated financial statements have not been reviewed by an auditor. These condensed interim consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items that management considers necessary for a fair presentation of the financial position, financial performance and cash flows.

(Signed)

Steven Pelton  
President and Chief Executive Officer, Aegis Brands Inc.

(Signed)

Ba Linh Le  
Chief Financial Officer, Aegis Brands Inc.

November 9, 2020

# Aegis Brands Inc.

## Condensed Interim Consolidated Statements of Financial Position

(Unaudited, expressed in thousands of Canadian dollars)

	September 26, 2020	December 28, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,627	\$ 11,458
Restricted cash (note 15)	631	565
Trade and other receivables	1,384	2,314
Notes and leases receivable	7,091	8,419
Inventories	848	529
Prepaid expenses and other assets	452	258
	<u>12,033</u>	<u>23,543</u>
<b>Non-current assets</b>		
Notes and leases receivable	35,736	42,658
Investments in equity securities (note 9)	-	450
Right-of-use assets (note 11)	21,829	12,635
Property and equipment	8,988	2,179
Intangible assets	35,623	31,887
Goodwill	1,563	-
	<u>115,772</u>	<u>113,352</u>
<b>Total assets</b>	<b>\$ 115,772</b>	<b>\$ 113,352</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 7,370	\$ 4,436
Provisions	186	359
Other liabilities	15	44
Gift card liability	2,075	2,106
Lease liabilities	14,761	11,290
Deposits from franchisees	227	705
Deferred income	673	483
	<u>25,307</u>	<u>19,423</u>
<b>Non-current liabilities</b>		
Provisions	200	200
Long-term debt (note 12)	44	-
Lease liabilities	57,764	56,830
Deferred income	1,808	2,178
Deferred income taxes	1,521	3,548
	<u>86,644</u>	<u>82,179</u>
<b>Total liabilities</b>	<b>86,644</b>	<b>82,179</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>29,128</b>	<b>31,173</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 115,772</b>	<b>\$ 113,352</b>

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Approved by the Directors on November 9, 2020

Michael Bregman, Director

Stephen Kelley, Director

# Aegis Brands Inc.

## Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

	13 weeks ended		39 weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<b>Revenue (note 6)</b>				
Company-owned cafés, stores and product sales	\$ 4,435	\$ 2,794	\$ 12,556	\$ 8,002
Franchise revenue	1,810	3,858	6,018	11,431
	<u>6,245</u>	<u>6,652</u>	<u>18,574</u>	<u>19,433</u>
<b>Operating costs and expenses (note 7)</b>				
Company-owned cafés, stores and cost of product sales	3,296	2,715	10,769	7,820
Franchise expenses	852	2,013	5,136	5,942
General and administrative expenses	1,338	1,757	4,155	4,916
Loss (gain) on disposal of assets	28	(12)	(57)	9
Depreciation and amortization	1,394	905	3,884	2,599
Asset impairment (note 19)	-	-	787	-
	<u>6,908</u>	<u>7,378</u>	<u>24,674</u>	<u>21,286</u>
<b>Loss from operations</b>	<u>(663)</u>	<u>(726)</u>	<u>(6,100)</u>	<u>(1,853)</u>
Other income (loss) (note 9)	-	(349)	(450)	818
Interest and financing expense (note 8)	<u>(362)</u>	<u>(197)</u>	<u>(1,062)</u>	<u>(429)</u>
<b>Loss before income taxes</b>	<u>(1,025)</u>	<u>(1,272)</u>	<u>(7,612)</u>	<u>(1,464)</u>
Income tax recovery	<u>274</u>	<u>339</u>	<u>2,033</u>	<u>391</u>
<b>Net loss and comprehensive loss for the period</b>	<u>\$ (751)</u>	<u>\$ (933)</u>	<u>\$ (5,579)</u>	<u>\$ (1,073)</u>
<b>Basic and diluted loss per share (note 13)</b>	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>	<u>\$ (0.24)</u>	<u>\$ (0.05)</u>

See accompanying notes to the unaudited condensed interim financial statements.

# Aegis Brands Inc.

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited, expressed in thousands of Canadian dollars)

	Share Capital	Warrants	Contributed Surplus	Retained Earnings (Deficit)	Total
<b>Balance - December 29, 2018</b>	\$ <u>28,590</u>	\$ <u>165</u>	\$ <u>61,775</u>	\$ <u>(54,084)</u>	\$ <u>36,446</u>
Adoption of new accounting policy - net of tax (note 5)	-	-	-	(870)	(870)
Net loss for the period	-	-	-	(1,073)	(1,073)
Stock option plan expense	-	-	58	-	58
Shares issued net of tax	845	-	31	-	876
<b>Balance – September 28, 2019</b>	\$ <u>29,435</u>	\$ <u>165</u>	\$ <u>61,864</u>	\$ <u>(56,027)</u>	\$ <u>35,437</u>
<b>Balance - December 28, 2019</b>	\$ <u>28,790</u>	\$ <u>165</u>	\$ <u>61,846</u>	\$ <u>(59,628)</u>	\$ <u>31,173</u>
Net loss for the period	-	-	-	(5,579)	(5,579)
Shares issued net of tax	3,511	-	-	-	3,511
Stock option plan expense	-	-	23	-	23
<b>Balance – September 26, 2020</b>	\$ <u>32,301</u>	\$ <u>165</u>	\$ <u>61,869</u>	\$ <u>(65,207)</u>	\$ <u>29,128</u>

See accompanying notes to the unaudited condensed interim consolidated financial statements.

# Aegis Brands Inc.

## Condensed Interim Consolidated Statements of Cash Flows

(Unaudited, expressed in thousands of Canadian dollars)

	13 weeks ended		39 weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating activities</b>				
Net loss for the period	\$ (751)	\$ (933)	\$ (5,579)	\$ (1,073)
Items not involving cash				
Depreciation of property and equipment	434	221	1,168	567
Amortization of intangible assets	68	103	243	359
Amortization of ROU assets (note 11)	892	581	2,473	1,674
Share-based compensation	41	(61)	(138)	(2)
Deferred income taxes recovery	(274)	(339)	(2,033)	(391)
(Gain)/Loss on disposal of assets	28	(12)	26	9
Interest income – financial lease	(743)	(881)	(2,357)	(2,414)
Interest income – other	(5)	-	(19)	-
Interest expense – lease liabilities	1,095	1,114	3,441	3,020
(Gain)/Loss on disposal of leases	45	(56)	(300)	(95)
Other income	-	(436)	-	(1,308)
Change in fair value of investments in securities (note 9)	-	785	450	490
Asset impairment charges	-	-	787	-
Loss allowance on notes/leases receivable	122	4	944	(3)
Changes in non-cash working capital & other (note 14)	212	(398)	(556)	(111)
Cash provided (used in) operating activities	1,164	(308)	(1,450)	722
<b>Investing activities</b>				
Proceeds from disposal of assets	-	45	-	133
Cash payments for capital expenditures	(505)	(408)	(1,941)	(1,097)
Cash payments for intangible assets	(37)	(197)	(87)	(204)
Notes receivable repayment	3	6	8	13
Cash used in investing activities	(539)	(554)	(2,020)	(1,155)
<b>Financing activities</b>				
Operating lease payments	(407)	(784)	(1,823)	(2,204)
Payment for acquisition	-	-	(5,993)	-
Repayment of long-term debt	(4)	-	(25)	-
Financing costs	(10)	-	(10)	-
Payment for repurchased shares	-	-	-	(115)
Proceeds from issuance of shares	176	200	176	200
Cash used in financing activities	(245)	(584)	(7,675)	(2,119)
<b>Net Increase (Decrease) in cash and cash equivalents during the period</b>	380	(1,446)	(11,145)	(2,552)
<b>Cash and cash equivalents - Beginning of the period</b>	1,247	13,782	12,772	14,888
<b>Cash and cash equivalents - End of the period</b>	\$ 1,627	\$ 12,336	\$ 1,627	\$ 12,336

See accompanying notes to the unaudited condensed interim financial statements.  
Supplemental cash flow information is provided in note 14.

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 26, 2020 and September 28, 2019

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

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# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 1. Organization and nature of business

Aegis Brands Inc. (the “Company”, “Aegis Brands”, formerly “The Second Cup Ltd.”) is a consolidator of brands in the food, beverage and cannabis spaces with the mission to allow for independent entrepreneurial spirit while providing shared services that encourage unlimited growth. The Company owns and operates the Second Cup Coffee Co.<sup>TM</sup> specialty coffee business as part of a portfolio of brands that also includes Bridgehead Coffee (Bridgehead<sup>®</sup>), and Hemisphere Cannabis Co.<sup>TM</sup>. The Company owns the trademarks, trade names, operating procedures and systems and other intellectual property used in connection with the operation of these brands in Canada. The retail operating brands hereinafter will be referred to as Second Cup, Bridgehead, and Hemisphere, respectively.

Following shareholder and regulatory approval, the Company changed its name during the third fiscal quarter of 2020 from “The Second Cup Ltd.” to “Aegis Brands Inc.”. As a result of this change, the parent company is now officially “Aegis Brands Inc.”, while its retail brands continue to operate as Second Cup Coffee Co.<sup>TM</sup>, Bridgehead Coffee<sup>®</sup>, and Hemisphere Cannabis Co.<sup>TM</sup>.

Aegis Brands Inc. is a Canadian public company incorporated under the Business Corporations Act (Ontario) in 2011. The Company relocated to a new registered office in September 2020 located at 5915 Airport Road, Suite 630, Mississauga, ON, L4V 1T1. The Company’s website is [www.aegisbrands.ca](http://www.aegisbrands.ca). The Company’s common shares trade under the new name and the new Toronto Stock Exchange ticker symbol “AEG” (previously “SCU”). Each existing certificate reflecting the Company’s prior name will continue to represent a valid certificate until such certificate is transferred, re-registered or otherwise exchanged.

The Company owns and operates three retail operating brands. There are 231 cafés operating under the trade name Second Cup Coffee Co., out of which 31 are Company-owned and the balance are operated by franchisees. Bridgehead has 19 Company-owned coffeehouses including its flagship roastery, all of which continue to operate under the Bridgehead brand. During the quarter, the Company opened two retail cannabis dispensaries which operate under the brand Hemisphere Cannabis Co.

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

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### 2. Statement on COVID-19

In December 2019, the novel COVID-19 coronavirus (“COVID-19”) surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020 with respect to the outbreak then characterized it as a pandemic on March 11, 2020. Since then, the outbreak has spread on a global scale, causing companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. While some of these restrictions were lifted to varying degrees across provinces in Canada (particularly during the summer), the case count is now going up on a national scale, and restrictions are being enforced and applied by governments and businesses in certain parts of Canada.

There continues to be uncertainty around how long the pandemic and the associated economic and business consequences will last. There is also uncertainty on how long it will take for a vaccine to be ready for the Canadian public to use, and how long it will take to administer on a national scale.

The Company continues to closely monitor the situation around the pandemic, including the impacts on the business. Management has assessed the estimates and assumptions used in the preparation of its condensed interim consolidated financial statements, including the assessment of expected credit losses on accounts receivables and lease receivables, impairment testing on property, plant and equipment, right-of-use assets and on the Company’s trademarks, goodwill and other intangible assets.

During the Company’s third fiscal quarter, a total of 47 franchised and company-owned cafés, representing 19% of the Company’s café and store network, were temporarily suspended for operations as a result of the ongoing COVID-19 pandemic. There were 203 operating cafés and 2 retail cannabis dispensaries which reported sales during the quarter, representing 81% of the Company’s franchise and company-owned store network. A majority of cafés continue to be impacted by the COVID-19 pandemic, including the drop in consumer spending at retail locations, the decline in foot traffic especially notable in downtown city areas, and the scaled down nature of store operations due to closure of dining space for some time in Canada.

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 26, 2020 and September 28, 2019

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

### 3. Acquisition of Bridgehead

On January 9, 2020, the Company completed the acquisition of 100% of the issued and outstanding shares of Ottawa-based Bridgehead Coffee (“Bridgehead”). The base purchase price consisted of cash consideration of \$6.0 million, stock consideration of \$3.3 million, which represents the fair value of the stock as at the valuation date of January 8, 2020, and additional earn out payments of up to \$1.5 million based on the profitability of Bridgehead’s existing coffeehouses over the next two years.

	As Previously Reported <sup>2</sup>	Adjustment <sup>1</sup>	Adjusted Consideration
Consideration paid:			
Cash consideration	\$ 6,000	\$ (7)	\$ 5,993
Stock consideration	3,500	(165)	3,335
Contingent consideration	1,500	(11)	1,489
Net consideration paid	<u>\$ 11,000</u>	<u>\$ (183)</u>	<u>\$ 10,817</u>

<sup>1</sup> Adjusted for the fair value assessment performed as of the valuation date, and other adjustments. As the earn out payments will not be paid until December 31, 2020 and December 31, 2021, respectively, they have been discounted using a risk-adjusted discount rate.

<sup>2</sup> Previously reported on the Consolidated Financial Statements as of December 28, 2019, and other acquisition announcements.

The purchase price allocation as of the valuation date, January 8, 2020, is as follows:

#### Net assets acquired

##### Current assets

Cash	\$ 1,314
Prepaid expenses	302
Inventory	541
Accounts receivable	27

##### Non-current assets

Property and equipment	5,409
Trade name	3,911
Goodwill	1,563

##### Current liabilities

Accounts payable and accrued liabilities	2,033
Deferred revenue	148

##### Non-current liabilities

Other liabilities	69
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<b>Net purchase price</b>	<b>\$ <u>10,817</u></b>
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The purchase price allocation has not been finalized, and as such, further adjustments may be needed.

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

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### 4. Summary of significant accounting policies

#### a. Basis of preparation

These unaudited condensed interim consolidated financial statements for the 13 weeks and 39 weeks ended September 26, 2020 and September 28, 2019 have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as applicable to condensed interim consolidated financial reports including International Accounting Standard (IAS) 34, Interim consolidated financial reporting (“IAS 34”), and should be read in conjunction with the Company’s audited annual financial statements for the year ended December 28, 2019, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”).

The accounting policies applied in these unaudited condensed interim consolidated financial statements are consistent with those of the previous financial year. The accounting policies are based on IFRS issued and outstanding as at November 9, 2020, the date the Board of Directors approved the unaudited condensed interim consolidated financial statements.

The Company’s fiscal year is such that each quarter will consist of 13 weeks and will end on the Saturday closest to the calendar quarter-end. The fiscal year is made up of 52 or 53-week periods ending on the last Saturday of December. Fiscal 2020 is a 52-week period (2019 – 52-week period).

These unaudited condensed interim consolidated financial statements include the advertising and co-operative fund (the “Co-op Fund”), specific to the Second Cup brand. The Company manages the Co-op Fund established to collect and administer funds contributed for use in advertising and promotional programs, and initiatives designed to increase sales and enhance the reputation of the Second Cup brand. Contributions to the Co-op Fund are required to be made from both franchised and Company-operated Second Cup cafés and are based on a percentage of café sales. In accordance with the guidance of IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), the revenue, expenses and cash flows of the Co-op Fund are consolidated in the Condensed Interim Consolidated Statements of Financial Position. The assets and liabilities of the Co-op Fund are included in the assets and liabilities of the Company’s Consolidated Statements of Financial Position.

The Company’s interim results in fiscal 2020 reflect the consolidated financial statements of its operating brands including Second Cup, Bridgehead, and Hemisphere. The Company’s comparative, prior year results reflect the consolidated financial results of its Second Cup brand.

#### b. Segmented information and reporting

The Company’s brands, Second Cup, Bridgehead, and Hemisphere operate as independent brands and as separate reportable segments for the Company’s internal reporting provided to the Chief Executive Officer. The financial results of the brands are reported on a consolidated basis on these unaudited condensed interim financial statements.

The Company’s consolidated operating revenues comprise royalties, the sale of goods from Company-operated cafés and stores, the sale of goods through retail and other ancillary channels, and other service fees.

Management is organized based on the Company’s operating brands rather than the specific revenue streams.

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

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### c. Basis of consolidation

The unaudited condensed interim consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries as summarized below.

Subsidiaries	Percentage of equity interest
Bridgehead (2000) Inc.	100%
2734524 Ontario Inc. (Hemisphere Cannabis Co.)	100%
2707048 Ontario Corporation (inactive)	100%

IFRS 10, Consolidated Financial Statements, outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls.

Consolidation of a subsidiary begins on the date that control is acquired by a Company over the subsidiary and ceases when the Company loses control of the subsidiary. The income and expenses of new subsidiaries acquired or disposed during the year, as well as new subsidiaries incorporated during the year under Aegis Brands Inc., are included in the statements of income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Adjustments were made to the financial statements of Bridgehead to bring its accounting policies into line with the Company's accounting policies, including the adoption of IFRS starting from the date of acquisition on January 9, 2020.

Adjustments were also made to the financial statements of Bridgehead to align its fiscal reporting calendar with the parent company, Aegis Brands Inc.

All intercompany transactions, revenue and expenses were eliminated on preparation of these unaudited condensed interim consolidated financial statements.

### d. Business Combinations

IFRS 3, Business Combinations, establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the assets and liabilities acquired; recognizes and measures the goodwill acquired in the business combination; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

An entity shall account for each business combination by applying the acquisition method.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Contingent consideration must be measured at fair value at the time of the business combination and is taken into account in the determination of goodwill. Some changes in the fair value of contingent consideration that the

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## Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

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acquirer recognizes after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity

If the additional consideration is classified as an asset or liability that is a financial instrument, the contingent consideration is measured at fair value and gains and losses are recognized in either profit or loss.

### 5. Changes in accounting policies

These unaudited condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 28, 2019.

IFRS 16, Leases (“IFRS 16”), sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (“lessee”) and the supplier (“lessor”). This has replaced IAS 17, Leases, and related interpretations. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all leases and requires a lessee to recognize (i) right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value; and (ii) depreciation of lease assets separately from interest on lease liabilities on the Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15. The guidance allows for either a full retrospective or modified retrospective transition method. The Company has selected to apply the modified retrospective transition method. Further, the Company has selected to apply the practical expedients to (i) grandfather the assessment of which transactions are leases; (ii) recognize the exemption of short-term leases; and (iii) recognize the exemption leases of low-value items.

The Company transitioned to IFRS 16 in accordance with the modified retrospective approach from December 30, 2018.

The Company acquired Bridgehead on January 9, 2020. All leases were recognized on the balance sheet at the acquisition date as identified lease assets acquired and lease liabilities assumed and measured using the model in IFRS 16 as if they were new leases on the acquisition date in accordance with IFRS 3. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

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## Notes to the Condensed Interim Consolidated Financial Statements

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- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

### **Adjustments recognized on adoption of IFRS 16 for Bridgehead**

IFRS 16 was adopted for the acquiree, Bridgehead, from the date of its acquisition on January 9, 2020. All leases were recognized on the balance sheet at the acquisition date as identified lease assets acquired, and lease liabilities assumed, and measured using IFRS 16 as if they were new leases on the acquisition date in accordance with IFRS 3. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 9, 2020.

For Company-operated cafés and the head office, right-of-use assets were measured at the amount equal to the lease liability.

For a couple of its franchise cafés, Bridgehead enters into the head lease for those café locations and, in turn, enters into a sublease on the same terms with its franchisees. IFRS 16 requires the Company, as an intermediate lessor, to classify a sublease as a finance lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying property. Leases receivable for the subleases were measured at the amount equal to the lease liability.

The change in accounting policy affected the following items in the Consolidated Statements of Financial Position on January 9, 2020:

- right-of-use assets – increase by \$8,835
- leases receivable – increase by \$245
- lease liabilities – increase by \$9,080

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

### 6. Revenue

	13 weeks ended		39 weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<b>Franchise Revenue</b>				
Royalties	\$ 996	\$ 2,182	\$ 3,328	\$ 6,601
Advertising fund contributions	312	599	1,053	1,862
Franchise fees, services and other	502	1,077	1,637	2,968
	<u>1,810</u>	<u>3,858</u>	<u>6,018</u>	<u>11,431</u>
<b>Company-owned cafés, stores and product sales</b>				
	4,435	2,794	12,556	8,002
	<u>\$ 6,245</u>	<u>\$ 6,652</u>	<u>\$ 18,574</u>	<u>\$ 19,433</u>

#### *Royalties*

Royalty revenue from franchised cafés is based on agreed percentage royalty rates of the franchise location sales. Revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

#### *Advertising fund contributions*

Contributions to the Co-op Fund are required to be made from both franchised and Company-operated cafés and are based on a percentage of café sales. In 2018, the Company adopted IFRS 15 accounting as it relates to the Co-op Fund using the modified retrospective transition method. The transition to IFRS 15 requires the presentation of the Co-op Fund contributions and related expenses on a gross basis.

#### *Franchise fees, services and other*

Franchise fees, services and other consist of initial franchise fees, renewal fees, transfer fees earned on the sale of cafés from one franchisee to another, construction administration fees, purchasing coordination fees, licensing fees and other ancillary fees (such as IT support and training fees).

		<b>Deferred income</b>
Balance at December 28, 2019	\$	2,661
Franchise fees added year to date		95
Franchise fees recognized as income year to date		<u>(423)</u>
Balance at September 26, 2020	\$	<u>2,333</u>

#### *Company-owned cafés, stores and product sales*

Company-owned cafés, stores and product sales revenue includes the sale of goods from Company-owned cafés and retail cannabis stores, as well as products sold in grocery stores through wholesale distribution channels, products sold through the Company's website and fulfilled at the Company's offices, and third party licensing agreements.

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 26, 2020 and September 28, 2019

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

### 7. Operating costs and expenses

	13 weeks ended		39 weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<b>Company-owned cafés &amp; stores and cost of product sales</b>				
Cost of product sales	\$ 1,704	\$ 1,037	\$ 4,733	\$ 2,976
Labour and related expenses	731	1,083	3,425	3,177
Occupancy and other	861	595	2,611	1,667
Depreciation of property and equipment	169	161	338	366
Amortization of right-of-use- assets	828	523	2,285	1,499
Loss (gain) on disposal of assets	28	(12)	(57)	9
	<u>4,321</u>	<u>3,387</u>	<u>13,335</u>	<u>9,694</u>
<b>Franchise</b>				
Labour and related expenses	311	935	1,376	2,924
Advertising fund expense	158	613	995	1,870
Travel and franchisee meetings	30	90	93	238
Professional fees and other	353	375	2,672	910
	<u>852</u>	<u>2,013</u>	<u>5,136</u>	<u>5,942</u>
<b>General and administrative</b>				
Labour and related expenses	281	937	1,511	2,361
Professional fees and other	1,117	764	2,571	2,387
Occupancy	(60)	56	73	168
	<u>1,338</u>	<u>1,757</u>	<u>4,155</u>	<u>4,916</u>
<b>Other</b>				
Depreciation and amortization	332	163	1,072	559
Amortization of right-of-use asset	65	58	189	175
Asset impairment charges	-	-	787	-
	<u>397</u>	<u>221</u>	<u>2,048</u>	<u>734</u>
	<u>\$ 6,908</u>	<u>\$ 7,378</u>	<u>\$ 24,674</u>	<u>\$ 21,286</u>

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

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### 8. Interest and financing costs

	13 weeks ended		39 weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Interest expense – lease liabilities	\$ 1,095	\$ 1,138	\$ 3,441	\$ 3,044
Interest expense	-	-	3	18
Interest income – finance leases	(743)	(881)	(2,357)	(2,414)
Interest income	-	(60)	(35)	(219)
Financing costs	10	-	10	-
	<u>\$ 362</u>	<u>\$ 197</u>	<u>\$ 1,062</u>	<u>\$ 429</u>

### 9. Warrants

On April 12, 2018, Aegis Brands Inc. and National Access Cannabis Corp. (“NAC”) established a strategic alliance to develop and operate a network of NAC-branded recreational cannabis dispensaries. The purpose of the alliance was for NAC to apply for licenses to dispense cannabis products and upon receipt, work with Aegis Brands Inc. and applicable franchisees to leverage the Company’s extensive Canadian retail footprint to construct retail stores carrying leading cannabis products. As consideration, the Company received 5,000,000 warrants to purchase common shares of NAC at a strike price of \$0.91 at any time during the period of five years following the issuance date. The strategic alliance started on April 12, 2018, and expired on October 17, 2019, in accordance with the agreement signed in April 2018.

The fair value of the warrants is calculated using the Black Scholes model based on a volatility adjusted for industry specific factors and other considerations, including the business performance of the NAC brand (NAC is now renamed to Meta Growth Corp.).

# Aegis Brands Inc.

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### 10. Lease receivable

The Company is considered an intermediate lessor on certain franchise café locations. The following table outlines the contractual undiscounted lease payments towards real estate leases receivable as at September 26, 2020.

	<u>September 26, 2020</u>
Year 1	\$ 10,816
Year 2	9,942
Year 3	8,644
Year 4	7,613
Year 5	6,509
Thereafter	10,741
Less: unearned interest income	(9,275)
Less: expected credit loss allowance	(2,176)
Add: other lease receivable net of loss allowance	34
	<hr/>
Total leases receivable	\$ <u>42,848</u>

Lease and other occupancy costs paid by the Company as a result of the head lease agreements, which are due from franchise cafés, have been recorded in fiscal 2020 as part of the lease receivables balance, net of loss allowances, for a total of \$34.

### 11. Right-of-use assets

	<u>Right-of-use assets</u>
Balance, December 28, 2019	\$ 12,635
Amortization	(2,082)
Net additions <sup>1</sup>	12,063
Less: asset impairment charges	(787)
	<hr/>
As at September 26, 2020	\$ <u>21,829</u>

<sup>1</sup> Net additions includes corporate café leases acquired under the Bridgehead brand. On adoption of IFRS 16, the Company recognized right-of-use assets and lease liabilities in relation to leases, which had previously been classified under the principles of IAS 17, Leases.

### 12. Long-term debt

	<u>September 26, 2020</u>
Other liabilities <sup>1</sup>	\$ <u>44</u>

<sup>1</sup>In October of 2019, Bridgehead entered into an agreement to finance the purchase of a commercial cargo van. The van is primarily used to transport products in a temperature-controlled environment from the roastery and Scratch Kitchen to Bridgehead's corporately-owned cafés. The maturity date is in August of 2024.

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 13. Basic and diluted income (loss) per share

Income (loss) per share is based on the weighted average number of shares outstanding during the period. Basic and diluted income (loss) per share is determined as follows:

	13 weeks ended		39 weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net income (loss)	\$ (751)	\$ (933)	\$ (5,579)	\$ (1,073)
Weighted average number of shares issued and outstanding	22,916,028	20,366,649	22,814,446	20,049,103
Basic and diluted earnings (loss) per share	\$ (0.03)	\$ (0.04)	\$ (0.24)	\$ (0.05)

### 14. Supplemental cash flow information

	13 weeks ended		39 weeks ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<b>Changes in non-cash working capital &amp; other: inflow (outflow)</b>				
Trade, other and lease receivables	\$ 201	\$ 171	\$ 1,116	\$ 1,076
Inventories	95	23	223	13
Prepaid expenses and other assets	167	217	114	(157)
Accounts payable and accrued liabilities	(978)	(1,486)	(1,310)	(1,259)
Provisions and lease liabilities	1,502	416	742	320
Other liabilities	(5)	11	(148)	(85)
Gift card liability	(40)	(148)	(34)	(683)
Deferred income	(90)	(73)	(722)	(269)
Deposits from franchisees and restricted cash	(640)	397	(545)	859
Income taxes	-	74	8	74
	\$ 212	\$ (398)	\$ (556)	\$ (111)

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

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### 15. Restricted cash

The Company has established certain accounts that have been classified as restricted cash primarily representing: a) deposits from franchisees for the cost of constructing a new café or the renovation of an existing café, b) funds contributed for use in advertising and promotional programs where the Company is acting as an agent on behalf of the Co-op Fund, and c) a deposit held by the Company's bank as security for cash management services.

	September 26, 2020	December 28, 2019
Development Fund	\$ 157	\$ 84
Co-op Fund	231	238
Security Deposit held by bank	243	243
	<hr/>	<hr/>
Total Restricted Cash	\$ 631	\$ 565

### 16. Contingencies, commitments and guarantees

The Company is involved in litigation and other claims arising in the normal course of business. Judgment must be used to determine whether or not a claim has any merit, the amount of the claim and whether to record a provision, which is dependent on the potential success of the claim. It is believed that no significant losses or expenses will be incurred with such claims. However, there can be no assurance that unforeseen circumstances will not result in significant costs. The outcome of these actions is not determinable at this time, and adjustments, if any, will be recorded in the period of settlement.

Contracts are in place with third party companies to purchase the coffee that is sold in all cafés. In terms of these supply agreements, there is a guaranteed minimum volume of coffee purchases of \$1,504 (September 28, 2019 - \$1,604) for the subsequent 12 months. The coffee purchase commitment is comprised of two components: unapplied futures commitment contracts and fixed price physical contracts.

Due to the Company acting as the primary coordinator of café construction costs on behalf of its franchisees and for Company-operated cafés, there are \$127 (September 28, 2019 - \$456) of contractual commitments pertaining to construction costs for new locations and renovations as at the end of the quarter. Construction costs financed for franchise projects are from deposits received from franchisees and for corporate projects from the Company's cash flows.

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 17. Lease liabilities

The following table outlines the total contractual undiscounted real estate lease liabilities as at September 26, 2020:

	<u>September 26, 2020</u>
Year 1	\$ 15,515
Year 2	14,507
Year 3	13,118
Year 4	11,924
Year 5	10,563
Thereafter	19,927
Less: future interest expense – franchise cafés	(9,275)
Less: future interest expense – corporate cafés	(6,039)
Add: other occupancy liabilities	16
	<hr/>
Total lease liabilities	\$ <u>70,256</u>

Lease and other occupancy costs not expected to be fully paid by the franchisee are recorded as part of the lease liabilities balance as a result of the adoption of IFRS 16 during the 2019 fiscal year.

### 18. Related parties

Related parties are identified as key management, members of the Board of Directors and shareholders that effectively exercise significant influence over the Company. Such related parties include any entities acting with or on behalf of the aforementioned parties. In 2017, the Company signed a category exclusive licensing agreement with Pinkberry Canada Inc. for the Pinkberry Frozen Yogurt program. The Pinkberry brand is owned by the Serruya family who are significant shareholders in the Company. Michael Serruya and Aaron Serruya are members of the Board of Directors.

On July 3, 2019, in accordance with the terms of the employment agreement with the Company's President and CEO, the Company issued Mr. Steven Pelton 515,241 common shares in the capital of the Company at \$1.70 per share. Mr. Pelton paid \$200 in cash for 117,641 shares and 397,600 shares were paid with the proceeds of two loans advanced to Mr. Pelton by the Company – a five-year loan of \$500 repayable in June 2024 and a one-year loan of \$176 repayable in June 2020, both loans accruing interest at 4.0% per annum. The loan of \$176 plus accrued interest was repaid by Mr. Pelton on June 30, 2020 in accordance with the terms of the employment and loan agreement.

### 19. Impairment of assets

Impairment indicators were identified during the period ended September 26, 2020 as a result of the economic impacts of the COVID-19 pandemic, which has resulted in temporary café closures and reduction in sales across the Company's franchised and corporately-owned network of cafés. The Company has performed impairment testing which resulted in the recognition of \$787 of year-to-date non-cash asset impairment charges.

# **Aegis Brands Inc.**

## Notes to the Condensed Interim Consolidated Financial Statements

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### **20. Subsequent events**

#### **COVID-19**

The Company continues to be engaged in discussions with landlords, both on its own behalf and on behalf of its franchisees, to request abatements and/or deferrals of rent, and, where appropriate, to discuss potential amendments to or the termination of lease agreements for certain underperforming café locations. The Company continues to assist its franchisees to access applicable relief programs that the Canadian Government has introduced in response to COVID-19, including the Canada Emergency Commercial Rent Assistance (CECRA) program for small businesses and the recently-announced Canada Emergency Rent Subsidy (CERS) program.

The Company continues to take advantage of the Canada Emergency Wage Subsidy (CEWS) program, a financial relief measure supported by the Federal Government of Canada as a result of the economic impacts of the COVID-19 pandemic. The CEWS is comprised of a financial subsidy of eligible earnings for eligible employees, up to a specified monetary threshold as determined by the Federal Government.

The Company is working with the full network of suppliers to arrange deferred payment terms to provide franchisees with additional flexibility to manage cash and payroll.

The Company continues to actively monitor all aspects of its business and operations and to work closely with its franchisees and other business partners.