

Aegis Brands Inc.

Unaudited Condensed Interim Consolidated Financial Statements
For the 13 and 39 weeks ended September 25, 2021 and September 26, 2020

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)

Melinda Lee
Chief Financial Officer, Aegis Brands Inc.

November 5, 2021

Aegis Brands Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited, expressed in thousands of Canadian dollars)

ASSETS	September 25, 2021	December 26, 2020
Current assets		
Cash and cash equivalents	\$ 3,120	\$ 1,069
Trade and other receivables	166	1,227
Notes and leases receivable	991	31
Inventories	621	819
Prepaid expenses and other assets	246	183
Assets of discontinued operations held for sale (note 4)	-	77,421
	<u>5,144</u>	<u>80,750</u>
Non-current assets		
Investments in equity securities (note 7)	5,353	122
Contingent consideration (note 14)	513	-
Notes and leases receivable	-	162
Right-of-use assets	4,140	10,347
Property and equipment	2,904	5,895
Intangible assets	3,919	4,028
Goodwill	1,352	1,352
	<u>13,171</u>	<u>22,606</u>
Total assets	<u>\$ 23,325</u>	<u>\$ 102,656</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,347	\$ 6,046
Short-term debt	-	661
Lease liabilities (note 11)	1,327	1,747
Deferred revenue	307	348
Liabilities of discontinued operations held for sale (note 4)	-	65,671
	<u>5,981</u>	<u>74,473</u>
Non-current liabilities		
Provisions	850	200
Lease liabilities (note 11)	5,576	11,569
Deferred income taxes	967	1,080
	<u>7,393</u>	<u>12,849</u>
Total liabilities	<u>13,374</u>	<u>87,322</u>
SHAREHOLDERS' EQUITY	<u>9,951</u>	<u>15,334</u>
Total liabilities and shareholders' equity	<u>\$ 23,325</u>	<u>\$ 102,656</u>

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

Approved by the Directors on November 5, 2021.

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	September	September	September
	25, 2021	26, 2020	25, 2021	26, 2020
Sales	\$ 2,864	\$ 2,287	\$ 7,480	\$ 6,756
Operating costs and expenses				
Cost of sales	1,068	1,029	2,768	3,678
General and administrative expenses	2,907	1,653	5,553	6,469
Depreciation of property and equipment	231	261	615	748
Amortization of right-of-use assets	362	244	1,083	1,017
Interest and financing expense (note 6)	106	108	330	322
Loss on disposal of property and equipment	-	-	27	-
Asset impairment (note 16)	-	-	-	364
Total operating costs and expenses	4,674	3,295	10,376	12,598
Loss from continuing operations, before income taxes	(1,810)	(1,008)	(2,896)	(5,842)
Provision for (recovery of) income taxes	-	44	(112)	(342)
Loss from continuing operations	(1,810)	(1,052)	(2,784)	(5,500)
Income (loss) from discontinued operations, net of tax	4,982	301	(1,923)	(79)
Total operating income (loss)	3,172	(751)	(4,707)	(5,579)
Other comprehensive loss (note 7)	(1,076)	-	(1,076)	-
Total comprehensive income (loss)	\$ 2,096	\$ (751)	\$ (5,783)	\$ (5,579)
Basic and diluted income (loss) per share (note 8)	\$ 0.09	\$ (0.03)	\$ (0.25)	\$ (0.24)

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)

	<u>Share Capital</u>	<u>Warrants</u>	<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total</u>
Balance, December 29, 2019	\$ 28,790	\$ 165	\$ 61,846	\$ (59,448)	\$ 31,353
Net loss	-	-	-	(19,622)	(19,622)
Expiry of warrants	-	(165)	-	-	(165)
Shares issued	3,733	-	-	-	3,733
Stock option expense	-	-	35	-	35
Balance, December 28, 2020	<u>\$ 32,523</u>	<u>\$ -</u>	<u>\$ 61,881</u>	<u>\$ (79,070)</u>	<u>\$ 15,334</u>
Total comprehensive loss	-	-	-	(5,783)	(5,783)
Shares issued	-	-	372	-	372
Stock option expense	-	-	28	-	28
Balance, September 25, 2021	<u>\$ 32,523</u>	<u>\$ -</u>	<u>\$ 62,281</u>	<u>\$ (84,853)</u>	<u>\$ 9,951</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)

	39 weeks ended	
	September 25, 2021	September 26, 2020
CASH PROVIDED BY (USED IN)		
Operating activities		
Net loss for the period	\$ (5,783)	\$ (5,579)
Adjusted for net loss from discontinued operations	1,923	3,485
Items not involving cash		
Depreciation of property and equipment	615	898
Amortization of intangible assets	-	243
Amortization of right-of-use assets	1,083	1,935
Share-based compensation	372	(138)
Loss on sale of assets	3,299	-
(Gain) on disposal of subsidiary (note 14)	(5,295)	-
Deferred income tax (recovery)	(113)	(2,033)
(Gain)/Loss on disposal of capital items	72	26
Interest income - leases receivable	-	(2,357)
Interest income – other	-	(19)
Interest expense - lease liabilities	330	2,355
(Gain)/Loss on disposal of leases	-	(300)
Asset impairment charges	-	787
Loss on equity investments for fair value remeasurement	1,076	-
Loss allowance on notes/leases receivable	-	944
Changes in non-cash working capital and other (note 9)	(1,866)	(556)
Cash provided by (used in) operating activities – continuing operations	(4,287)	(309)
Cash provided by (used in) operating activities - discontinued operations	(1,936)	(1,591)
Cash used in operating activities	(6,223)	(1,900)
Investing activities		
Cash payments for capital expenditures	(10)	(515)
Cash received on sale of assets	11,776	-
Cash payments for intangible assets	-	(87)
Changes in fair value of investments in securities	-	450
Notes receivable repayment	106	8
Cash provided by (used in) investing activities – continuing operations	11,872	(144)
Cash provided by (used in) investing activities – discontinued operations	(1,035)	(1,426)
Cash provided by (used in) investing activities	10,837	(1,570)
Financing activities		
Capital lease payments	(1,142)	(950)
Payment for acquisition	-	(5,993)
Net repayment of long-term debt	(9)	(25)
Financing costs	-	(10)
Proceeds from issuance of shares	-	176
Cash used in financing activities – continuing operations	(1,151)	(6,802)
Cash used in financing activities – discontinued operations	(1,412)	(873)
Cash used in financing activities	(2,563)	(7,675)
Net Increase (Decrease) in cash and cash equivalents during the period	2,051	(11,145)
Cash and cash equivalents - Beginning of period	1,069	12,772
Cash and cash equivalents - End of period	\$ 3,120	\$ 1,627

See accompanying notes to the unaudited condensed interim consolidated financial statements

Aegis Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2021 and September 26, 2020

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

1. Organization and nature of business

Aegis Brands Inc. (the “Company” or “Aegis Brands”) currently owns and operates Bridgehead Coffee. Bridgehead Coffee is operated by the Company’s wholly-owned subsidiary Bridgehead (2000) Inc. (“Bridgehead”).

The Company is a Canadian public company incorporated under the Business Corporations Act (Ontario) in 2011. The Company’s registered office is at 210 Shields Court, Markham, Ontario L3R 8V2. The Company’s website is www.aegisbrands.ca. The Company’s common shares trade on the Toronto Stock Exchange under the new ticker symbol “AEG”. Each existing certificate reflecting the Company’s prior name The Second Cup Ltd. continues to represent a valid certificate until such certificate is transferred, re-registered or otherwise exchanged.

As of September 25, 2021, the Company has 21 Company-owned coffeehouses including its flagship roastery, all of which continue to operate under the Bridgehead brand.

On February 7, 2021, the Company entered into a definitive purchase agreement to sell substantially all of the assets comprising its Second Cup retail operating brand. This transaction was completed on April 23, 2021.

On July 12, 2021, the Company entered into a strategic transaction to sell its Hemisphere subsidiary. This transaction was completed on September 24, 2021.

In these condensed interim consolidated financial statements, the operations of Second Cup and Hemisphere have been presented as discontinued operations.

Aegis Brands Inc.

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

2. Statement on COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, (“COVID-19”), a global pandemic. 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. The case count continues to be a cause of concern, along with the additional questions and uncertainty as a result of the emergence of the COVID-19 variants. Due to these reasons, government and business-enforced restrictions continue to be in effect to varying degrees across parts of Canada.

Since the declaration of the pandemic, a majority of the Company-operated and franchise locations continued to be negatively impacted by the decline in consumer foot traffic especially notable in downtown city areas, scaled down nature of store operations due to closure of dining space for periods of time, and the general shift in consumer spending patterns in the retail industry. As of September 25, 2021, three out of 21 Bridgehead coffeehouses were temporarily suspended for business operations.

The temporary and permanent store closures, and restricted store operations as a result of the circumstances described above, has significantly reduced sales and impacted the Company’s cash flows. In an effort to mitigate the risks associated with the pandemic and in response to the reduction of sales, the Company actively reduced its operating costs by halting discretionary capital expenditures and significantly lowering its staff compensation costs through measures including: the temporary and permanent layoffs of staff, temporary pay reduction for employees at the corporate office, and the temporary suspension of compensation for the Company’s Board members.

The Company continued to evaluate all available, applicable government relief programs, including the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy (CERS) program, which are financial relief measures initiated by the Government of Canada in response to the economic impacts of the COVID-19 pandemic. The Company determined that it was eligible to qualify for the above relief financial programs.

For the 13-week and 39-week periods ended September 25, 2021, the Company applied for \$253,000 and \$2,007,000 of wage subsidies in connection with the CEWS financial relief program. Of the \$2,007,000, \$1,363,000 was claimed by Bridgehead with \$72,000 included in trade and other receivables and \$644,000 was claimed by Second Cup. The Company has recorded the wage subsidy as a reduction to the eligible remuneration expense incurred by the Company for this period.

For the 13-week and 39-week periods ended September 25, 2021, the Company applied for \$126,000 and \$1,176,000 of rent subsidies in connection with the CERS financial relief program. Of the \$1,176,000, \$999,000 was claimed by Bridgehead with \$16,000 included in receivables and \$177,000 was claimed by Second Cup. The Company has recorded the rent subsidy as a reduction to the eligible rent expense incurred by the Company for this period.

Aegis Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2021 and September 26, 2020

(Unaudited, tabulated amounts 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 Bridgehead (2000) Inc., which is based in Ottawa. The base purchase price consisted of cash consideration of \$6.0 million, stock consideration of \$3.3 million, which represented 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. No earn out payments have been made or are expected to be made.

Since this acquisition closed in early 2020, the Bridgehead operations were almost immediately negatively impacted by the effects of the COVID-19 global pandemic and almost two years later, the operations continue to try to work their way back. Bridgehead was only able to survive the pandemic because of the rent and wage subsidies provided to eligible businesses by the government of Canada. In Q4 2020, an impairment charge of \$3 million was recorded against the Bridgehead assets. The brand's 2020 profitability was far below the threshold for the potential earn out payment for that year and as a result, that portion of the potential earn out was reversed. It is management's assessment that again no earn out will be paid since the profitability of Bridgehead before government subsidies is likely to be far below the level required for the earn out to be paid. This calculation will be finalized with the year end results and the expected reversal of the earn out payable will be booked at that time.

4. Held for Sale and Discontinued Operations

On February 7, 2021, the Company entered into a definitive agreement to sell substantially all of the assets comprising Second Cup to an affiliate of Quebec-based Foodtastic Inc. ("Foodtastic"). The sale price was \$14 million in cash received on closing (subject to customary closing adjustments) plus a post-closing earn-out based on royalties earned from certain Second Cup cafés opened following completion of the sale. The sale was approved by 99.62% of the votes cast by the Company's common shareholders at a special meeting of common shareholders on April 7, 2021, and was completed on April 23, 2021. In accordance with International Financial Reporting Standards ("IFRS") *Non-Current Assets Held for Sale and Discontinued Operations*, the Company has classified this disposal group of assets as held for sale in the comparative financial statements.

On September 27, 2021, the Company announced that it completed the strategic transaction with Kiaro Holdings Corp. ("Kiaro"), a TSX-V-listed cannabis retailer and wholesale distributor, on September 24, 2021, pursuant to which it sold its Hemisphere subsidiary to Kiaro. In consideration for 100% of Hemisphere's common shares, Kiaro issued 61,300,000 common shares to Aegis, plus 6,700,000 Kiaro common share purchase warrants at a strike price of \$0.16 with an expiry of September 24, 2024. Kiaro is to issue an additional 6,700,000 shares to Aegis upon the achievement of certain commercial milestones during the first year following closing, which is expected to take place early in Q4 2021. In accordance with International Financial Reporting Standards ("IFRS") *Non-Current Assets Held for Sale and Discontinued Operations*, the Company has classified this disposal group of assets as held for sale in the comparative financial statements.

In accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, the Company has classified these disposal groups of assets as held for sale on the comparative condensed interim consolidated statement of financial position and has presented the after-tax loss from discontinued operations as a single amount in the condensed interim consolidated statement of operations and comprehensive loss.

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Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2021 and September 26, 2020

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

5. 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 25, 2021 and September 26, 2020 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 financial reporting (“IAS 34”), and should be read in conjunction with the Company’s audited annual consolidated 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 8, 2021, the date the Board of Directors approved the unaudited condensed interim consolidated financial statements.

The Company’s fiscal year is such that each quarter consists of 13-weeks and ends 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 2021 and 2020 are both 52-week periods.

b. Segmented information and reporting

The Company’s retail brands operate as independent brands. Financial results and business performance indicators are provided to the Chief Executive Officer for each brand, and hence each brand represents its own reportable segment. The financial results of the brands are reported on a consolidated basis on these financial statements, with Second Cup and Hemisphere presented as discontinued operations.

The Company’s consolidated operating revenues, including discontinued operations, comprise royalties from franchised cafés (Second Cup only), the sale of goods from Company-operated cafés and retail cannabis dispensaries, 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.

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%
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.

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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, 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.

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.

The Company accounts for business combinations 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 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 accounts for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

Contingent consideration classified as equity is 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.

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Notes to the Condensed Interim Consolidated Financial Statements September 25, 2021 and September 26, 2020

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

6. Interest and financing costs

	13 weeks ended		39 weeks ended	
	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020
Interest Expense - on leases	\$ 106	\$ 100	\$ 328	\$ 317
Interest Expense	3	1	12	3
Interest Income - on leases	(3)	(3)	(10)	(9)
Financing Costs		10		10
	<u>\$ 106</u>	<u>\$ 108</u>	<u>\$ 330</u>	<u>\$ 322</u>

7. Investments in equity securities

On September 27, 2021, the Company announced that it completed the strategic transaction with Kiaro Holdings Corp. ("Kiaro"), a TSX-V-listed cannabis retailer and wholesale distributor, on September 24, 2021, pursuant to which it sold its Hemisphere subsidiary to Kiaro. In consideration for 100% of Hemisphere's common shares, Kiaro issued 61,300,000 common shares to Aegis, plus 6,700,000 warrants to purchase common shares of Kiaro at a strike price of \$0.16 with an expiry of September 24, 2024. The Kiaro warrants are recorded at fair value as of the quarter end date, using the Black Scholes model based on a volatility adjusted for industry specific factors and other considerations.

The share consideration received from the sale is recorded on the Balance Sheet at fair market value. Although Aegis owns approximately 25% of Kiaro after the transaction, and Aegis has a representative on Kiaro's Board of Directors, it was determined that the threshold to assert significant influence was not met. Given the Company has yet to make a determination on the long-term strategy for this investment, and that management will not be actively involved in the operational activities of the business, the Company has concluded that it does not exert significant influence and accordingly, the investment is being held at fair market value, subject to the assessment below.

Management assessed the fair market value of the proceeds and contingent consideration as at September 25, 2021 and determined that a discount of 15% was considered prudent and reasonable due to the illiquid nature of the Kiaro shares held by Aegis. Management has recorded a fair value write-down of \$920,000 for the Kiaro shares and \$90,000 for the contingent consideration for a total of \$1,010,000 recorded in other comprehensive loss.

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.

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

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 High Tide Inc. (as a result of subsequent acquisition activity, NAC is now High Tide Inc.) Based on the model, a fair value write-down of \$66,000 was recorded in other comprehensive loss.

Total losses from fair value remeasurement of equity securities is \$1,076,000, all of which is recorded in other comprehensive loss.

The final balance of investments in equity securities is comprised of:

	September 25, 2021	September 26, 2020
Kiaro shares	\$ 5,210	\$ -
Kiaro warrants	87	-
High Tide warrants	56	122
	<u>\$ 5,353</u>	<u>\$ 122</u>

8. Basic and diluted loss per share

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

	13 weeks ended		39 weeks ended	
	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020
Net income (loss) from operations	<u>\$ 3,172</u>	<u>\$ (751)</u>	<u>\$ (4,707)</u>	<u>\$ (5,579)</u>
Weighted average shares issued and outstanding	<u>23,198,807</u>	<u>22,916,028</u>	<u>23,009,940</u>	<u>22,814,446</u>
Basic and diluted operating income (loss) per share	<u>\$ 0.14</u>	<u>\$ (0.03)</u>	<u>\$ (0.20)</u>	<u>\$ (0.24)</u>
Other comprehensive loss	(1,076)	-	(1,076)	-
Basic and diluted comprehensive loss per share	<u>\$ (0.05)</u>	<u>\$ 0.00</u>	<u>\$ (0.05)</u>	<u>\$ 0.00</u>
Total basic and diluted income (loss) per share	<u>\$ 0.09</u>	<u>\$ (0.03)</u>	<u>\$ (0.25)</u>	<u>\$ (0.24)</u>

Aegis Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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

9. Supplemental cash flow information

	39 weeks ended	
	September 25, 2021	September 26, 2020
Changes in non-cash working capital & other		
Trade, other and lease receivables	\$ 1,061	\$ 1,116
Inventories	198	223
Prepaid expenses and other assets	(63)	114
Notes Receivable	(798)	-
Accounts payable and accruals	(1,699)	(1,310)
Provisions and lease liabilities	650	742
Other liabilities	(661)	(148)
Gift card liability	(41)	(34)
Deferred income	-	(722)
Other deposits and restricted cash	-	(545)
Contingent consideration	(513)	-
Income taxes	-	8
	<u>\$ (1,866)</u>	<u>\$ (556)</u>

10. 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 coffeehouses. In terms of these supply agreements, there is a guaranteed minimum volume of coffee purchases of \$558,000 (September 26, 2020 - \$776,000) for the subsequent 12 months. The coffee purchase commitment is comprised of two components: unapplied futures commitment contracts and fixed price physical contracts.

Aegis Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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

11. Lease liabilities

The following table outlines the total contractual undiscounted lease liabilities as at September 25, 2021:

2022	\$	1,706
2023		1,673
2024		1,574
2025		1,398
2026		1,146
Thereafter		523
Less: interest expense		<u>(1,117)</u>
Total lease liabilities	\$	<u>6,903</u>

12. Segmented reporting

The Company's reportable operating segments are organized in a manner that reflects how management views those business activities, and the manner that reflect how internal financial results and key performance indicators are reported to the Chief Executive Officer.

Segmented Operations - 13 weeks ended September 25, 2021

	<u>Second Cup</u>	<u>Hemisphere</u>	<u>Bridgehead</u>	<u>Corporate</u>	<u>Total</u>
Sales	\$ -	\$ -	\$ 2,864	\$ -	\$ 2,864
Cost of sales	-	-	(1,068)	-	(1,068)
Other amounts in loss	-	-	(2,000)	(1,606)	(3,606)
Net loss before income taxes	-	-	(204)	(1,606)	(1,810)
Income taxes	-	-	-	-	-
Net loss from continuing operations	-	-	(204)	(1,606)	(1,810)
Net income (loss) from discontinued operations	-	(313)	-	5,295	4,982
Total operating income (loss)	-	(313)	(204)	3,689	3,172
Other comprehensive loss	-	-	-	(1,076)	(1,076)
Net income (loss)	\$ -	\$ (313)	\$ (204)	\$ 2,613	\$ 2,096

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Notes to the Condensed Interim Consolidated Financial Statements

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

Segmented Operations - 13 weeks ended September 26, 2020

	<u>Second Cup</u>	<u>Hemisphere</u>	<u>Bridgehead</u>	<u>Corporate</u>	<u>Total</u>
Sales	\$ -	\$ -	\$ 2,287	\$ -	\$ 2,287
Cost of sales	-	-	(1,367)	-	(1,367)
Other amounts in loss	-	-	(753)	(1,175)	(1,928)
Net loss before income taxes	-	-	167	(1,175)	(1,008)
Income taxes	-	-	(44)	-	(44)
Net loss from continuing operations	-	-	123	(1,175)	(1,052)
Net income (loss) from discontinued operations	673	(372)	-	-	301
Net income (loss)	<u>\$ 673</u>	<u>\$ (372)</u>	<u>\$ 123</u>	<u>\$ (1,175)</u>	<u>\$ (751)</u>

Segmented Operations - 39 weeks ended September 25, 2021

	<u>Second Cup</u>	<u>Hemisphere</u>	<u>Bridgehead</u>	<u>Corporate</u>	<u>Total</u>
Sales	\$ -	\$ -	\$ 7,480	\$ -	\$ 7,480
Cost of sales	-	-	(2,768)	-	(2,768)
Other amounts in loss	-	-	(4,921)	(2,687)	(7,608)
Net loss before income taxes	-	-	(209)	(2,687)	(2,896)
Income taxes recovery	-	-	-	112	112
Net loss from continuing operations	-	-	(209)	(2,575)	(2,784)
Net income (loss) from discontinued operations	(2,769)	(1,150)	-	1,996	(1,923)
Total operating loss	(2,769)	(1,150)	(209)	(579)	(4,707)
Other comprehensive loss	-	-	-	(1,076)	(1,076)
Net loss	<u>\$ (2,769)</u>	<u>\$ (1,150)</u>	<u>\$ (209)</u>	<u>\$ (1,655)</u>	<u>\$ (5,783)</u>

Aegis Brands Inc.

Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2021 and September 26, 2020

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

Segmented Operations - 39 weeks ended September 26, 2020

	<u>Second Cup</u>	<u>Hemisphere</u>	<u>Bridgehead</u>	<u>Corporate</u>	<u>Total</u>
Sales	\$ -	\$ -	\$ 6,756	\$ -	\$ 6,756
Cost of sales	-	-	(4,990)	-	(4,990)
Other amounts in loss	-	-	(3,045)	(4,563)	(7,608)
Net loss before income taxes	-	-	(1,279)	(4,563)	(5,842)
Income taxes recovery	-	-	342	-	342
Net loss from continuing operations	-	-	(937)	(4,563)	(5,500)
Net income (loss) from discontinued operations	642	(721)	-	-	(79)
Net income (loss)	\$ 642	\$ (721)	\$ (937)	\$ (4,563)	\$ (5,579)

13. Discontinued Operations

	<u>Hemisphere</u>		<u>Second Cup</u>	
	<u>13 weeks September 25, 2021</u>	<u>39 weeks September 25, 2021</u>	<u>13 weeks September 25, 2021</u>	<u>39 weeks September 25, 2021</u>
Sales	\$ 1,879	\$ 4,135	\$ -	\$ 2,305
Other amounts in loss	(1,884)	(4,384)	-	(4,475)
EBITDA	(5)	(248)	-	(2,170)
Amortization and depreciation	(304)	(763)	-	(390)
Interest	(4)	(150)	-	(209)
Net loss	\$ (313)	\$ (1,150)	\$ -	\$ (2,769)

The above the table does not have any information for the 13-week period ended September 25, 2021 for the Second Cup segment as it was disposed of on April 23, 2021.

Aegis Brands Inc.

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

14. Gain on sale of Hemisphere

The Hemisphere disposition to Kiaro closed on September 24, 2021. As of that date, management performed the following calculation to determine the gain on sale:

Proceeds	\$ 6,130
Contingent proceeds	603
Warrants	87
Working Capital	647
Net Assets	<u>(2,172)</u>
Gain on Sale	<u>\$ 5,295</u>

As noted in the table above, a portion of the proceeds are contingent, which have been recorded on the Balance Sheet as other receivables. As noted in the Company's significant accounting policies, management will account for contingent consideration as financial assets valued at fair value through profit and loss, depending on the level of certainty. Given that the milestones that needed to be achieved to receive the contingent consideration will be met as of Nov 9, 2021, management has evaluated that the likelihood of receiving the consideration is high. Fair market value was determined by the price of Kiaro shares on the TSX-V as of the measurement date.

The share proceeds and contingent consideration received were remeasured with an ending fair value of \$5,210,000 and \$513,000 respectively. Refer to note 4 and note 7 for management discussion on equity investment write-down.

Measurement uncertainty for the contingent consideration is a financial statements risk given the share price of Kiaro is subject to variability, as all investments in marketable securities are.

15. 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.

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 \$200,000 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 \$500,000 repayable in June 2024 and a one-year loan of \$176,000 repayable in June 2020, both loans accruing interest at 4.0% per annum. The loan of \$176,000 plus accrued interest was repaid by Mr. Pelton on June 30, 2020, in accordance with the terms of the employment and loan agreement.

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Notes to the Condensed Interim Consolidated Financial Statements

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16. Impairment of assets

Impairment indicators include when an individual Company-operated café/coffeehouse experiences poor performance directly impacting cash flows. Since early 2020 through the second quarter of fiscal 2021, the Company's cafés experienced poor performance as a direct impact of the temporary closures of cafés, and the scaled down nature of operations of open cafés to take out and delivery as a result of COVID-19. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from their assets or group of assets, which represent a CGU. The recoverable amount of each particular CGU is the higher of its fair value less costs of disposal and value in use.

The impairment analysis involves comparing the carrying value of the CGUs with their estimated recoverable amounts. An impairment loss is recognized for the amount by which the CGU's carrying value exceeds its recoverable amount. Impairment losses for a CGU reduce first the carrying value of any goodwill allocated to that CGU. Any remaining impairment loss is charged pro rata to the other assets in the CGU. Impairment losses, other than goodwill impairment, are evaluated for potential reversals when events or circumstances warrant such consideration.

Impairment indicators were identified during the 13-week period ended September 26, 2020, as a result of the economic impacts of the COVID-19 pandemic, which resulted in temporary café closures and reduction in sales across the Company's franchised and corporately-owned network of cafés. The Company performed impairment testing which resulted in the recognition of \$364,000 of year-to-date non-cash asset impairment charges from continuing operations in that period.

No impairment indicators were identified for the period ended September 25, 2021.

17. Comparative Information

Management has restated comparative figures for informational purposes.