



## **Aegis Brands Inc.**

Unaudited Condensed Interim Consolidated Financial Statements  
**For the 13 and 39 weeks ended September 25, 2022, and September 25,  
2021**

## **Notice to Reader**

The management of Aegis Brands Inc. (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 4, 2022

# Aegis Brands Inc.

## Condensed Interim Consolidated Statements of Financial Position

(Unaudited, expressed in thousands of Canadian dollars)

	September 25, 2022	December 26, 2021
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 968	\$ 1,765
Trade and other receivables	297	255
Notes and leases receivable	140	136
Inventories	709	670
Prepaid expenses and other assets	354	167
	<u>2,468</u>	<u>2,993</u>
<b>Non-current assets</b>		
Notes and leases receivable	284	387
Investments in equity securities (note 5)	330	4,995
Right-of-use assets	3,214	3,968
Property and equipment	2,145	2,714
Intangible assets	3,911	3,911
Goodwill	1,352	1,352
	<u>13,704</u>	<u>20,320</u>
<b>Total assets</b>	<b>\$ 13,704</b>	<b>\$ 20,320</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,557	\$ 3,316
Short-term debt (note 6)	1,650	-
Lease liabilities (note 13)	1,737	1,395
Deferred revenue	296	268
	<u>7,240</u>	<u>4,979</u>
<b>Non-current liabilities</b>		
Provisions (note 12)	1,217	1,217
Lease liabilities (note 13)	4,164	5,545
Deferred income taxes	40	676
	<u>12,661</u>	<u>12,417</u>
<b>Total liabilities</b>	<b>12,661</b>	<b>12,417</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>1,043</b>	<b>7,903</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 13,704</b>	<b>\$ 20,320</b>

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

Approved by the Directors on November 4, 2022

Michael Bregman, Director

Stephen Kelley, Director

# Aegis Brands Inc.

## Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

(Unaudited, expressed in thousands of Canadian dollars)

	13 weeks ended		39 weeks ended	
	September 25, 2022	September 25, 2021	September 25, 2022	September 25, 2021
<b>Sales (note 7)</b>	\$ 3,373	\$ 2,864	\$ 9,155	\$ 7,480
<b>Operating costs and expenses (Note 8)</b>				
Cost of sales	3,134	2,082	7,415	4,876
General and administrative expenses	886	1,893	2,776	3,445
Depreciation of property and equipment	161	231	479	615
Amortization of right-of-use assets	251	362	754	1,083
Loss on disposal of capital items	-	-	30	27
Acquisition related costs	163	-	385	-
Revaluation of securities, warrants, and other	1,322	1,076	4,615	1,076
	<u>5,917</u>	<u>5,644</u>	<u>16,454</u>	<u>11,122</u>
<b>Loss from continuing operations</b>	(2,544)	(2,780)	(7,299)	(3,642)
Interest and financing expense (note 9)	(102)	(106)	(283)	(330)
Other income	-	-	40	-
	<u>-</u>	<u>-</u>	<u>40</u>	<u>-</u>
<b>Loss before income taxes</b>	(2,646)	(2,886)	(7,542)	(3,972)
Income tax recovery	243	-	668	112
	<u>243</u>	<u>-</u>	<u>668</u>	<u>112</u>
<b>Loss from continuing operations Income (loss) from discontinued operations, net of tax (note 3)</b>	(2,403)	(2,886)	(6,874)	(3,860)
	<u>-</u>	<u>4,982</u>	<u>-</u>	<u>(1,923)</u>
<b>Total comprehensive income (loss)</b>	\$ (2,403)	\$ 2,096	\$ (6,874)	\$ (5,783)
Basic and diluted loss per share – continuing operations	(0.10)	(0.12)	(0.30)	(0.17)
Basic and diluted income (loss) per share – discontinued operations	-	0.21	-	(0.08)
	<u>-</u>	<u>0.21</u>	<u>-</u>	<u>(0.08)</u>
<b>Basic and diluted income (loss) per share (note 10)</b>	\$ (0.10)	\$ 0.09	\$ (0.30)	\$ (0.25)

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

# Aegis Brands Inc.

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

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

	<b>Common Shares</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total</b>
<b>Balance - December 26, 2020</b>	<u>22,916,028</u>	<u>\$ 32,361</u>	<u>\$ 62,046</u>	<u>\$ (79,250)</u>	<u>\$ 15,157</u>
Net loss, continuing operations	-	-	-	(3,860)	(3,860)
Net loss, discontinued operations	-	-	-	(1,923)	(1,923)
Stock option expense	<u>-</u>	<u>-</u>	<u>11</u>	<u>-</u>	<u>11</u>
<b>Balance – September 25, 2021</b>	<u>23,916,028</u>	<u>\$ 32,361</u>	<u>\$ 62,057</u>	<u>\$ (85,033)</u>	<u>\$ 9,385</u>
<b>Balance - December 26, 2021</b>	<u>23,230,227</u>	<u>\$ 32,895</u>	<u>\$ 61,917</u>	<u>\$ (86,909)</u>	<u>\$ 7,903</u>
Net loss	-	-	-	(6,874)	(6,874)
Stock option expense	<u>-</u>	<u>-</u>	<u>14</u>	<u>-</u>	<u>14</u>
<b>Balance – September 25, 2022</b>	<u>23,230,227</u>	<u>\$ 32,895</u>	<u>\$ 61,931</u>	<u>\$ (93,783)</u>	<u>\$ 1,043</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, 2022	September 25, 2021
<b>CASH PROVIDED BY (USED IN)</b>		
<b>Operating activities</b>		
Net loss for the period	\$ (6,874)	\$ (5,783)
Adjusted for net loss from discontinued operations	-	1,923
Items not involving cash		
Depreciation of property and equipment	479	615
Amortization of right-of-use assets	754	1,083
Share-based compensation	-	361
Loss on sale of assets	-	3,299
(Gain) on disposal of subsidiary		(5,295)
Deferred income taxes recovery	(636)	(113)
Loss on disposal of capital items	30	72
Stock option expense	14	11
Interest income – leases receivable	(9)	(10)
Interest expense – lease liabilities	271	328
Revaluation of warrants and equity securities	4,665	1,076
Changes in non-cash working capital & other (note 11)	110	(1,856)
Cash used in operating activities – continuing operations	(1,196)	(4,289)
Cash used in operating activities – discontinued operations	-	(1,936)
Cash used in operating activities	(1,196)	(6,225)
<b>Investing activities</b>		
Payments for capital expenditures	(62)	(10)
Proceeds received on the sale of capital items	120	-
Notes receivable repayment	-	106
Receipt from divestiture	-	11,776
Cash provided by investing activities – continuing operations	58	11,872
Cash used in investing activities – discontinued operations	-	(1,035)
Cash provided by investing activities	58	10,837
<b>Financing activities</b>		
Lease payments	(1,309)	(1,140)
Repayment of short-term debt	-	(9)
Advances of short-term debt	1,650	-
Cash provided by (used in) financing activities – continuing operations	341	(1,149)
Cash used in financing activities – discontinued operations	-	(1,412)
Cash provided by (used) in financing activities	341	(2,561)
<b>Increase (decrease) in cash and cash equivalents during the period</b>	(797)	2,051
<b>Cash and cash equivalents – Beginning of the period</b>	1,765	1,069
<b>Cash and cash equivalents – End of the period</b>	\$ 968	\$ 3,120

Cash is comprised of cash deposits at financial institutions.

Supplemental cash flow information (note 11).

See accompanying notes to the unaudited condensed interim consolidated financial statements

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

---

### Table of Contents

	Page
<b>GENERAL APPLICATION</b>	
1. Organization and nature of business	6
2. Statement on COVID-19	6
3. Discontinued operations	7
4. Summary of significant accounting policies	7
<b>STATEMENTS OF LOSS AND COMPREHENSIVE LOSS</b>	
5. Investment in equity securities	9
6. Short-term debt	10
7. Sales	10
8. Operating costs and expenses	11
9. Interest and financing costs	11
<b>OTHER</b>	
10. Basic and diluted loss per share	12
11. Supplemental cash flow information	12
12. Contingencies, commitments and guarantees	13
13. Lease liabilities	13
14. Segmented reporting	14
15. Subsequent events	15

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

---

### 1. Organization and nature of business

Aegis Brands Inc. (the “Company”, “Aegis” or “Aegis Brands”) is a consolidator of brands in the hospitality industry with the mission to allow for independent entrepreneurial spirit while providing shared services that encourage unlimited growth. The Company currently owns and operates Bridgehead Coffee “Bridgehead”. The Company owns the trademarks, trade names, operating procedures and systems and other intellectual property used in connection with the operation of this brand in Canada.

The Company is a Canadian public company incorporated under the Business Corporations Act (Ontario) in 2011. The Company relocated to a new registered office in September 2021 at 210 Shields Court, Markham, Ontario L3R 8V2. The Company’s website is [www.aegisbrands.ca](http://www.aegisbrands.ca). The Company’s common shares trade under the Toronto Stock Exchange ticker symbol “AEG”.

As of September 25, 2022, Bridgehead has 21 Company-owned coffeehouses including its flagship roastery, all of which continue to operate under the Bridgehead brand.

### 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. Although government and business enforced restrictions have mostly been lifted across Canada, business have yet to fully recover from the effects of this pandemic.

Since the declaration of the pandemic, a majority of the Bridgehead coffeehouse locations have been negatively impacted by the decline in consumer foot traffic - especially notable in downtown Ottawa, the scaled down nature of in-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, 2022, and as of November 4, 2022, 1 out of 21 coffeehouses was temporarily suspended for business operations.

The temporary and permanent store closures, and restricted store operations as a result of the circumstances described above, continue to significantly reduce sales and impact the Company’s cash flows. The decrease in sales and accumulating losses is considered an indicator of impairment by the Company. As the negative impacts outlined above are considered an indicator of impairment by management, the Company has performed an assessment of the recoverability of its assets, including its trademarks, right-of-use assets, property and equipment. Following this assessment, the Company recognized an impairment charge against its assets during the 52-week period ended December 26, 2021. The Company did not record any additional impairment for the 39-week period ended September 25, 2022.

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. The Company continued to evaluate all available, applicable government relief programs, including the Canada Emergency Wage Subsidy (“CEWS”) and the 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

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

---

qualify for the above and other related relief financial programs and during the 39-week period ended September 25, 2022, the Company received \$1,271,973 (2021: \$2,362,000) of wage and rent subsidies.

### 3. Discontinued Operations

On February 7, 2021, the Company entered into a definitive agreement to sell all or substantially all of the assets comprising the Second Cup brand ("Second Cup") to an affiliate of Quebec-based Foodtastic Inc. ("Foodtastic"). The sale price was \$14,000,000 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. On April 26, 2021, the Company announced that it had completed the sale of the Second Cup assets. No receivable has been recorded for the earn-out as the amount is not determinable and as of November 4, 2022, no earn-out payments have been received.

On July 12, 2021, the Company entered into a strategic transaction with Kiaro Holdings Corp. ("Kiaro"), a TSX-V-listed cannabis retailer and wholesale distributor, pursuant to which it has agreed to sell its subsidiary 2734524 Ontario Inc. ("Hemisphere") in exchange for an equity stake in Kiaro. On September 24, 2021, the Company announced that it had completed the transaction with Kiaro. In consideration for 100% of Hemisphere's common shares, Kiaro issued 61,300,000 common shares to Aegis, having an aggregate value of approximately \$6,130,000 and representing approximately 25% of the issued and outstanding Kiaro common shares on the date of issue. The Company was also issued 6,700,000 Kiaro common share purchase warrants with an exercise price of \$0.16 and an expiry of September 24, 2024, on closing. Kiaro issued an additional 4,790,000 shares to Aegis, net of professional fees settled with 1,910,000 Kiaro shares, upon the achievement of certain commercial milestones during Q4 2021.

In accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, the Company has presented the after-tax loss from these two business segments as discontinued operations in a single amount in the comparative condensed interim consolidated statement of operations and comprehensive loss.

### 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 25, 2022 and September 25, 2021 have been prepared in accordance with 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 financial statements for the 52 weeks ended December 26, 2021, also prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

The accounting policies applied in these condensed interim consolidated financial statements are consistent with those of the previous financial year. Certain comparative figures have been reclassified to conform to the presentation adopted in the current period. The accounting policies are based on IFRS issued and outstanding as at November 4, 2022, the date the Board of Directors approved the condensed interim consolidated financial statements.

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

---

The Company's fiscal year is made up of 52 weeks or 53 weeks ending on the last Sunday of December. The Company changed its fiscal year end in 2021 from the last Saturday in December, to align with the fiscal year end of Bridgehead and other peers in the industry. Fiscal year 2022 consists of 52 weeks.

### **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 retail brand, and hence each brand represents its own reportable segment. The financial results of the brands are reported on a consolidated basis in these financial statements, with Second Cup and Hemisphere presented as discontinued operations.

The Company's consolidated operating revenues comprise the sale of goods from Company-operated coffeeshouses, 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 condensed interim consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries as follows:

Bridgehead (2000) Inc.  
2707048 Ontario Corporation (inactive)  
SLF Operations GP Inc. (newly formed General Partner)  
SLF Operations Limited Partnership (newly formed Limited Partnership for the St. Louis operations)  
SLF IP Operations Inc. (newly formed company to hold the St. Louis intellectual property)

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, are included in the consolidated statements of operations and comprehensive loss 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 during preparation of these 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.

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

---

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 is 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 is to account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

Contingent consideration classified as equity is not remeasured and its subsequent settlement is 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 profit or loss.

### 5. Investments in Equity Securities

#### (i) Warrants

The Company has investments in warrants of High Tide and Kiaro. The fair value of the warrants is calculated using the Black Scholes option pricing model based on a volatility adjusted for industry specific factors and other considerations, including the business performance of the High Tide and Kiaro brands.

The following table summarizes the Company's warrants measured at fair value.

	<b>September 25, 2022</b>	
Fair value, December 26, 2021	\$	38
Change in fair value		(38)
Fair value, September 25, 2022	\$	<u>-</u>

#### (ii) Investment in equity of Kiaro Holdings Corp.

On September 24, 2021, the Company completed a strategic transaction whereby it sold its Hemisphere subsidiary to Kiaro. In consideration for 100% of Hemisphere's common shares, Kiaro issued to Aegis common shares and warrants to purchase common shares of Kiaro. The share consideration received from the sale was recorded on the Statement of Financial Position at cost and measured using equity accounting as it was determined according to IAS 28 that the threshold to assert significant influence was met. Aegis recorded the proceeds of the Hemisphere sale at cost with adjustments made for the Company's share of the profit and losses of Kiaro. As at September 25, 2022, the fair value of the investment in Kiaro was less than the value determined by equity accounting, therefore the investment was written down to fair value.

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

	September 25, 2022	
Fair value, December 26, 2021	\$	4,957
Change in fair value		(4,627)
Investments in equity securities	\$	<u>330</u>

The following table summarizes the Company's total investment in equity securities, including both warrants measured at fair value and the investment in Kiaro's equity.

	September 25, 2022	
Warrants	\$	-
Investment in Kiaro's equity		330
Investments in equity securities	\$	<u>330</u>

### 6. Short-term debt

The Company has a secured credit agreement with CWB Franchise Finance (CWB) pursuant to which a revolving credit facility ("Credit Facility") of \$3,000,000 was made available to the Company, secured by the assets of Bridgehead. The credit facility matures on December 7, 2022, and bears interest on amounts drawn at the prime lending rate plus 3.2% per annum.

	September 25, 2022	
Short-term debt, December 26, 2021	\$	-
Proceeds of Credit Facility		1,650
Short-term debt, September 25, 2022	\$	<u>1,650</u>

The Company has begun the renewal process with CWB and expects to renew the Credit Facility on same or similar terms prior to maturity.

### 7. Sales

The breakdown of Bridgehead's sales by revenue channel is as follows:

	13 weeks ended		39 weeks ended	
	September 25, 2022	September 25, 2021	September 25, 2022	September 25, 2021
Coffeehouses	\$ 2,952	\$ 2,457	\$ 7,748	\$ 6,029
Wholesale	287	243	937	767
E-commerce	134	164	470	684
	<u>\$ 3,373</u>	<u>\$ 2,864</u>	<u>\$ 9,155</u>	<u>\$ 7,480</u>

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

### 8. Operating costs and expenses

	13 weeks ended		39 weeks ended	
	September 25, 2022	September 25, 2021	September 25, 2022	September 25, 2021
<b>Company-owned coffeehouses and cost of product sales</b>				
Cost of product sales	\$ 1,257	\$ 1,041	\$ 3,502	\$ 2,690
Labour and related expenses	1,206	716	2,717	1,608
Professional fees and other	671	325	1,196	578
	<u>3,134</u>	<u>2,082</u>	<u>7,415</u>	<u>4,876</u>
<b>General and administrative</b>				
Labour and related expenses	612	1,063	1,757	1,967
Professional fees and other	274	830	1,019	1,478
	<u>886</u>	<u>1,893</u>	<u>2,776</u>	<u>3,445</u>
<b>Other</b>				
Depreciation of property and equipment	161	231	479	615
Amortization of right-of-use assets	251	362	754	1,083
Revaluation of securities, warrants, and other	1,322	1,076	4,615	1,076
Acquisition related costs	163	-	385	-
Loss on disposal of capital items	-	-	30	27
	<u>1,897</u>	<u>1,669</u>	<u>6,263</u>	<u>2,801</u>
	<u>\$ 5,917</u>	<u>\$ 5,644</u>	<u>\$ 16,454</u>	<u>\$ 11,122</u>

### 9. Interest and financing costs

	13 weeks ended		39 weeks ended	
	September 25, 2022	September 25, 2021	September 25, 2022	September 25, 2021
Interest expense – lease liabilities	\$ 85	\$ 106	\$ 271	\$ 328
Interest expense	26	3	38	12
Interest income – leases receivable	(3)	(3)	(9)	(10)
Interest income	(6)	-	(17)	-
	<u>\$ 102</u>	<u>\$ 106</u>	<u>\$ 283</u>	<u>\$ 330</u>

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

### 10. Basic and diluted loss per share

Income (loss) per share is based on the weighted average number of shares outstanding during the period. Share option awards to purchase shares are excluded due to anti-dilutive impact. Basic and diluted income (loss) per share is determined as follows:

	13 weeks ended		39 weeks ended	
	September 25, 2022	September 25, 2021	September 25, 2022	September 25, 2021
Net loss from continuing operations	\$ (2,403)	\$ (2,886)	\$ (6,874)	\$ (3,860)
Weighted average number of shares issued and outstanding	<u>23,230,227</u>	<u>23,198,807</u>	<u>23,230,227</u>	<u>23,009,940</u>
Basic and diluted loss per share from continuing operations	<u>\$ (0.10)</u>	<u>\$ (0.12)</u>	<u>\$ (0.30)</u>	<u>\$ (0.17)</u>
Net income (loss) from discontinued operations	\$ -	\$ 4,982	\$ -	\$ (1,923)
Weighted average number of shares issued and outstanding	<u>23,230,227</u>	<u>23,198,807</u>	<u>23,230,227</u>	<u>23,009,940</u>
Basic and diluted loss per share from discontinued operations	<u>\$ -</u>	<u>\$ 0.21</u>	<u>\$ -</u>	<u>\$ (0.08)</u>
Total basic and diluted earnings (loss) per share	<u>\$ (0.10)</u>	<u>\$ 0.09</u>	<u>\$ (0.30)</u>	<u>\$ (0.25)</u>

### 11. Supplemental cash flow information

	39 weeks ended	
	September 25, 2022	September 25, 2021
<b>Changes in non-cash working capital &amp; other (inflows (outflows)):</b>		
Trade, and other receivables	\$ (42)	\$ 1,061
Notes and leases receivable	109	(788)
Inventories	(39)	198
Prepaid expenses and other assets	(187)	(63)
Accounts payable and accrued liabilities	241	(1,699)
Provisions and lease liabilities	-	650
Other liabilities	-	(661)
Contingent consideration	-	(513)
Deferred revenue	28	(41)
	<u>\$ 110</u>	<u>\$ (1,856)</u>

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

---

### 12. 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 above what has been accrued. 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. Amounts used in the period relate to payments made to settle outstanding claims or for legal fees relating to such claims.

	<b>September 25, 2022</b>
Provisions balance at December 26, 2021	\$ 1,846
Amounts used	(487)
Total provisions at September 25, 2022	<u>\$ 1,359</u>
Short-term balance included in accruals	\$ 142
Long-term balance	1,217
Total provisions at September 25, 2022	<u>\$ 1,359</u>

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 \$930,000 (September 25, 2021 - \$558,000) for the subsequent 12 months. The coffee purchase commitment is comprised of two components: unapplied futures commitment contracts and fixed price physical contracts.

### 13. Lease liabilities

The following table outlines the total contractual real estate lease liabilities as at September 25, 2022:

Year 1	\$ 1,737
Year 2	1,642
Year 3	1,470
Year 4	1,224
Year 5	363
Thereafter	166
Less: future interest expense	(701)
Less: lease liabilities – current	<u>(1,737)</u>
Total long-term lease liabilities	<u>\$ 4,164</u>

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

### 14. 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, 2022

	<u>Second Cup</u>	<u>Hemisphere</u>	<u>Bridgehead</u>	<u>Corporate</u>	<u>Total</u>
Sales	\$ -	\$ -	\$ 3,373	\$ -	\$ 3,373
Cost of sales	-	-	(3,134)	-	(3,134)
Other amounts in loss	-	-	(855)	(2,030)	(2,885)
Net income (loss) before income taxes	-	-	(616)	(2,030)	(2,646)
Income tax recovery	-	-	162	81	243
<b>Net income (loss)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (454)</b>	<b>\$ (1,949)</b>	<b>\$ (2,403)</b>

#### 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	-	-	(2,082)	-	(2,082)
Other amounts in loss	-	-	(986)	(2,682)	(3,668)
Net loss before income taxes	-	-	(204)	(2,682)	(2,886)
Income tax recovery	-	-	-	-	-
Loss from continuing operations after income taxes	-	-	(204)	(2,682)	(2,886)
Discontinued operations after income taxes	-	(313)	-	5,295	4,982
<b>Net loss</b>	<b>\$ -</b>	<b>\$ (313)</b>	<b>\$ (204)</b>	<b>\$ 2,613</b>	<b>\$ 2,096</b>

#### Segmented Operations – 39 weeks Ended September 25, 2022

	<u>Second Cup</u>	<u>Hemisphere</u>	<u>Bridgehead</u>	<u>Corporate</u>	<u>Total</u>
Sales	\$ -	\$ -	\$ 9,155	\$ -	\$ 9,155
Cost of sales	-	-	(7,415)	-	(7,415)
Other amounts in loss	-	-	(2,550)	(6,732)	(9,282)
Net loss before income taxes	-	-	(810)	(6,732)	(7,542)
Income tax recovery	-	-	216	452	668
<b>Net loss</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (594)</b>	<b>\$ (6,280)</b>	<b>\$ (6,874)</b>

# Aegis Brands Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

### Segmented Operations – 39 weeks Ended September 25, 2021

	Second Cup	Hemisphere	Bridgehead	Corporate	Total
Sales	\$ -	\$ -	\$ 7,480	\$ -	\$ 7,480
Cost of sales	-	-	(4,876)	-	(4,876)
Other amounts in loss	-	-	(2,813)	(3,763)	(6,576)
Net loss before income taxes	-	-	(209)	(3,763)	(3,972)
Income tax recovery	-	-	-	112	112
Loss from continuing operations after income taxes	-	-	(209)	(3,651)	(3,860)
Discontinued operations after income taxes	(2,769)	(1,150)	-	1,996	(1,923)
<b>Net loss</b>	<b>\$ (2,769)</b>	<b>\$ (1,150)</b>	<b>\$ (209)</b>	<b>\$ (1,655)</b>	<b>\$ (5,783)</b>

### 15. Subsequent events

On September 29, 2022, the Company entered into a definitive agreement (the “Definitive Agreement”) to acquire St. Louis Bar & Grill® (“St. Louis”) for total consideration of \$50,000,000 (the “Purchase Price”), subject to certain closing adjustments (the “Transaction”). The Purchase Price will be satisfied entirely with cash. Pursuant to the Transaction, Aegis will acquire, indirectly, substantially all of the assets and intellectual property of “St. Louis Bar & Grill”® brand and trademark.

The Purchase Price and the related transaction expenses will be funded through a draw of \$30,000,000 under the Company’s existing Senior Facility with CWB and the balance will be financed through a private placement of Debenture Subscription Receipts and Common Share Subscription Receipts. The private placement was closed on September 29, 2022 for gross proceeds of \$28,400,000, representing \$3,400,000 of Common Share Subscription Receipts and \$25,000,000 Debenture Subscription Receipts.

The Senior Facility has a term of 59 months and is secured by first ranking security interest on all assets and subsidiaries of Aegis. The Senior Facility will bear an interest rate of prime plus an applicable margin of 2.75% and will amortize over a ten year period.

The Offering consisted of: (i) up to \$3,000,000 or 9,259,259 common share subscription receipts (each a “Common Share Subscription Receipt”) at a price of \$0.324 per Common Share Subscription Receipt and (ii) up to \$22,000,000 in principal amount of (or 22,000) convertible debenture subscription receipts (each a “Debenture Subscription Receipt”) at a price of \$1,000 per Debenture Subscription Receipt, for total gross proceeds of a total of \$25,000,000, subject to a 15% allotment granted to the Agents on each of the Common Share Subscription Receipt and Debenture Subscription Receipt private placements (the “Over-Allotment Option”), for total maximum aggregate proceeds of \$28,800,000.

Each Common Share Subscription Receipt will entitle the holder thereof to receive, upon the satisfaction of certain conditions, including the completion of the Transaction, and without payment of additional consideration or further action, one common share in the capital of the Company (each a “Common Share”).

Each Debenture Subscription Receipt will entitle the holder thereof to receive, upon the satisfaction of certain conditions, one \$1,000 principal amount, unsecured convertible debenture (the “Convertible Debentures”). The Convertible Debentures shall bear interest of 11.0% per annum and shall have a maturity date of sixty (60) months

# **Aegis Brands Inc.**

## Notes to the Condensed Interim Consolidated Financial Statements

September 25, 2022 and September 25, 2021

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

---

from the closing of the Offering (the “Maturity Date”). The Convertible Debentures will be convertible at the holder’s option into Common Shares at any time prior to the close of business on the Maturity Date at a conversion price of \$0.485.

The Common Shares, Convertible Debentures, and the Common Shares issued upon conversion of the Convertible Debentures will be subject to a statutory hold for a period of four months and one day from the closing date of the Offering.

The Company has received conditional approval to list the Common Shares, Convertible Debentures, and the Common Shares issuable upon conversion of the Convertible Debentures, on the Toronto Stock Exchange (“TSX”).

Upon completion of the Transaction, the Company expects to have approximately 33,600,000 Common Shares outstanding.

Certain directors, officers and holders of more than 10.0% of the issued and outstanding Common Shares of Aegis (“Insiders”) together with certain associates and affiliates of Insiders have acquired an aggregate of \$2,400,000 of Common Shares Subscription Receipts and Debenture Subscription Receipts under the Offering, representing approximately 9.6% of the Common Shares (assuming full exercise of the Over-allotment Option) to be issued under the Offering and 8.2% (assuming full exercise of the Over-allotment Option) of the Convertible Debentures to be issued under the Offering.