

# **Aegis Brands Inc.**

## **Management's Discussion and Analysis**

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### **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this Management's Discussion and Analysis ("MD&A") may constitute forward-looking statements within the meaning of applicable securities legislation. The terms the "Company", "we", "us", "our", or "Aegis Brands" refer to Aegis Brands Inc. Forward-looking statements often include words such as "may", "will", "should", "expect", "anticipate", "believe", "plan", "intend" and other similar words. These statements reflect current expectations regarding future events and financial performance and speak only as of the date of this MD&A. The MD&A should not be read as a guarantee of future performance or results and will not necessarily be an accurate indication of whether or not those results will be achieved. These forward-looking statements include, but are not limited to, statements related to (i) the Company's growth through strategic acquisitions in the foodservice industry, and (ii) the seasonal trends in the Company's future income.

Forward-looking statements are based on a number of assumptions and are subject to known and unknown risks, uncertainties and other factors, many of which are beyond the Company's control that may cause the Company's actual results, performance or achievements, or those of the Company's coffeehouses or restaurants, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following are some of the factors that could cause actual results to differ materially from those expressed in the underlying forward-looking statements: competition; availability of premium quality coffee beans; the location of the Company's coffeehouses or restaurants; the closure of coffeehouses or restaurants; loss of key personnel; compliance with government regulations; potential litigation; the ability to exploit and protect the Company's trademarks; changing consumer preferences and discretionary spending patterns including, but not restricted to, the impact of weather and economic conditions on such patterns; and the financial performance and financial condition of the Company. The foregoing list of factors is not exhaustive, and investors should refer to the risks described under "Risks and Uncertainties" below and in the Company's annual information form dated March 20, 2023, which is available at [www.sedar.com](http://www.sedar.com).

Although the forward-looking statements contained in this MD&A are based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements and, as a result, the forward-looking statements may prove to be incorrect.

As these forward-looking statements are made as of the date of this MD&A, the Company does not undertake to update any such forward-looking statements whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is contained in the Company's filings with securities regulators. These filings are also available on the Company's website at [www.aegisbrands.ca](http://www.aegisbrands.ca).

### **INTRODUCTION**

The following MD&A has been prepared as of October 27, 2023 and is intended to assist in understanding the financial performance and financial condition of the Company for the 13 weeks (the "Quarter") and 39 weeks (the "period") ended September 24, 2023, and should be read in conjunction with the Unaudited Condensed Interim Consolidated Financial Statements of the Company for the 13 weeks and 39 weeks ended September 24, 2023 and September 25, 2022 and the Audited Consolidated Financial Statements of the Company for the 52 weeks ended December 25, 2022, and the Annual Information Form, which are available at [www.sedar.com](http://www.sedar.com). Past performance may not be indicative of future performance. All amounts are presented in thousands of Canadian dollars, except number of coffeehouses or franchises, per share amounts or unless otherwise indicated and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company also reports certain non-IFRS measures such as system sales of coffeehouses, system sales, same coffeehouse sales, same store sales, operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share that are discussed in the "Definitions and Discussion of Certain non-IFRS Financial Measures" in this MD&A.

Additional information relating to the Company, including the Company's annual information form dated March 20, 2023, can be found at [www.sedar.com](http://www.sedar.com).

# **Aegis Brands Inc.**

## **Management's Discussion and Analysis**

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<b>TABLE OF CONTENTS</b>	
<b>CAUTION REGARDING FORWARD-LOOKING STATEMENTS .....</b>	<b>1</b>
<b>INTRODUCTION .....</b>	<b>1</b>
<b>CORE BUSINESS, STRATEGIC IMPERATIVES, AND KEY PERFORMANCE DRIVERS .....</b>	<b>3</b>
<b>HIGHLIGHTS OF SIGNIFICANT EVENTS .....</b>	<b>4</b>
<b>CAPABILITIES.....</b>	<b>4</b>
<b>SEGMENTED INFORMATION AND REPORTING .....</b>	<b>6</b>
<b>SELECTED ANNUAL INFORMATION .....</b>	<b>7</b>
<b>SUMMARY OF QUARTERLY RESULTS.....</b>	<b>8</b>
<b>CONSOLIDATED HIGHLIGHTS: CONTINUING OPERATIONS OF BRIDGEHEAD, ST. LOUIS AND AEGIS BRANDS .....</b>	<b>9</b>
<b>OPERATIONAL REVIEW .....</b>	<b>10</b>
<b>LIQUIDITY AND CAPITAL RESOURCES.....</b>	<b>15</b>
<b>EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES .....</b>	<b>19</b>
<b>CRITICAL ACCOUNTING ESTIMATES.....</b>	<b>20</b>
<b>RISKS AND UNCERTAINTIES .....</b>	<b>21</b>
<b>DEFINITIONS AND DISCUSSION ON CERTAIN NON-IFRS FINANCIAL MEASURES .....</b>	<b>23</b>

# **Aegis Brands Inc.**

## **Management's Discussion and Analysis**

---

### **CORE BUSINESS, STRATEGIC IMPERATIVES, AND KEY PERFORMANCE DRIVERS**

#### ***Core Business***

Aegis Brands currently owns and operates the Bridgehead Coffee® and St. Louis Bar & Grill® brands, “Bridgehead” and “St. Louis”. The Company, directly and through its subsidiaries, owns the trademarks, trade names, operating procedures and systems and other intellectual property used in connection with the operation of these brands in Canada. A third brand, Wing City by St. Louis “Wing City”, has been created as a fast casual spin-off of St. Louis Bar & Grill. Construction on the first two corporately owned restaurants began during the quarter and both are expected to open in Toronto, Ontario in the last quarter of this year.

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 November 2022 located at 2040 Yonge St., Suite 200B, Toronto, Ontario, M4S 1Z9. The Company's website is [www.aegisbrands.ca](http://www.aegisbrands.ca). The Company's common shares trade on the Toronto Stock Exchange under the ticker symbol “AEG”.

The Company's fiscal year is made up of 52 weeks or 53 weeks ending on the last Sunday of December. Fiscal year 2023 consists of 53 weeks.

#### ***Operating Brands***

As of the end of the first quarter, the Company owned and operated two retail operating brands, Bridgehead and St. Louis. Bridgehead has 20 Company-owned coffeeshouses in Ottawa, Ontario, including its flagship roastery, and 1 licensed location, all of which operate under the Bridgehead brand. St. Louis has 73 franchised locations across Canada and 3 corporately owned restaurants.

#### ***Strategic Imperatives and Key Performance Drivers***

Aegis Brands was created with the vision of building a portfolio of brands that can grow and flourish by leveraging expertise developed over 40 years in the Canadian retail and foodservice industry. Aegis will continue to focus on its key strategies which include: the growth and expansion of its retail operating brands through retail and ancillary channels and the pursuit of strategic acquisitions in retail and foodservice. The last two years have been transformative ones for Aegis with the disposition of two business units, but with the acquisition of St. Louis late in fiscal 2022, the Company is now well positioned to continue its vision.

On November 17, 2022, Aegis successfully completed the acquisition of substantially all of the assets and intellectual property of the “St. Louis Bar & Grill”® brand and trademark. The fair value of consideration on closing was \$50,000,000 in cash. The cash consideration was financed with the proceeds of \$30,000,000 from the Company's existing Development Line of Credit (“DLOC”) facility with Canadian Western Bank Franchise Finance (“CWB”), \$25,045,000 from issuing 11% convertible unsecured subordinated debentures (“the Debentures”), and \$3,375,000 from issuing common shares, with the excess fundraising going towards working capital and general corporate purposes.

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

The Debentures bore interest of 11.0% per annum and had a maturity date of sixty (60) months from the closing of the Offering (the “Maturity Date”). The Debentures were 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. On December 23, 2022, Aegis announced that it would exercise its right to force the conversion of the entire outstanding principal amount the Debentures into common shares of the Company. In connection with this forced conversion, the Company issued an aggregate of 51,639,175 common shares effective January 23, 2023.

# **Aegis Brands Inc.**

## **Management's Discussion and Analysis**

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### HIGHLIGHTS OF SIGNIFICANT EVENTS

#### *Acquisition of St. Louis*

On September 29, 2022, Aegis announced that it had entered into a definitive agreement to acquire substantially all of the assets and the intellectual property of the St. Louis Bar & Grill® (“St. Louis”) brand and trademark for \$50,000,000, subject to certain closing adjustments. The acquisition was funded through a combination of debt and equity, including \$30,000,000 from a senior debt facility with CWB and a private placement offering of \$25,045,000 of convertible debentures, and \$3,375,000 of equity. On November 17, 2022, the Company announced that it had completed the St. Louis transaction. Aegis’ Business Acquisition Report, dated January 31, 2023, Form 51-102F4, in respect of the acquisition, can be found on Aegis’ profile at [www.sedar.com](http://www.sedar.com).

### **CAPABILITIES**

This section documents factors that affect the Company’s capabilities to execute strategies, manage key performance drivers and deliver results. This section is qualified in its entirety by the section “Caution Regarding Forward-Looking Statements” at the beginning of this MD&A.

#### **The Bridgehead Brand**

The brand - Bridgehead® – reflects a commitment to deliver original and premium Fairtrade coffee, with 100% of its coffee certified Fairtrade and made from organic certified green coffee. A proud Canadian company, Bridgehead has 20 company-owned coffeehouses in Ottawa, including its flagship roastery, and 1 licensed location, which all operate under the Bridgehead name.

Bridgehead believes in the power of the local and global community. It sources and supports small-scale, sustainable farmers building inclusive communities through their coffees. It is dedicated to creating exceptional coffee, while consciously connecting people and minimizing the impact to the planet. Founded over 20 years ago, the Bridgehead team is dedicated to their craft and is committed to doing so in a socially responsible way. They conscientiously select the best ingredients for their products: their coffee is sustainably grown, and they maintain Fairtrade certification as a founding principle of their business.

There is a total of 266 Bridgehead team members including baristas, wholesale and facilities staff, coffeehouse managers, and corporate personnel employed at the Company’s home office. All Bridgehead coffeehouses serve their premium coffee, baked goods and fresh foods made daily, using local and seasonal ingredients. Bridgehead products are also available for purchase online through their website as well as at an increasing number of grocery retailers throughout Ontario.

During the quarter, Bridgehead opened its first licensed location in the Ottawa Macdonald-Cartier International Airport. This is a new and exciting opportunity for Bridgehead and is anticipated to be the first of many of its kind. Early results from this first licensed location are very promising.

Due to the concentration of its coffeehouse locations in downtown Ottawa, where the return to on-premise work has lagged compared to other cities, the Company had to get creative in their post-pandemic recovery. Bridgehead’s customers still want the heritage, values, and high quality of Bridgehead coffee – but they just aren’t downtown in Ottawa the way they used to be. Opening the Ottawa airport location and expanding its grocery presence are two ways the Company has created more ways to get their coffee into their customers’ cups, wherever they are – and the results are now beginning to show.

#### **The St. Louis Brand**

St. Louis Bar & Grill first opened its doors in Toronto in 1992. Famous for its “Devilishly Good!” service, signature wings, fries, and garlic dill sauce, their local neighbourhood restaurants offer exceptionally friendly service in a casual sports bar and grill setting. In 18 plus years of franchising, they’ve expanded to over 70

# **Aegis Brands Inc.**

## **Management's Discussion and Analysis**

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franchised locations across Canada, with an aggressive national expansion now underway.

There is a total of 42 St. Louis team members at the Company's home office which includes personnel employed in marketing, training and operations, development, procurement, business intelligence and corporate.

During the first quarter of 2023, 1 franchised location was taken back by the Company and is now run as a corporate restaurant. In the third quarter of 2023, two locations were acquired by the Company from a franchisee and are now corporate restaurants. These 3 corporate restaurants employ 59 team members.

St. Louis' goal is to provide great tasting food, and fantastic service, in a casual, local neighbourhood bar and grill setting. St. Louis wings are best in class thanks to their proprietary marinade and a very selective choice of sauces and dry rubs. Certain of St. Louis' products are now available for purchase at selected grocery retailers in Canada and online through their App and Amazon.

During the quarter, St. Louis partnered with [Sweet Jesus](#) ice cream and launched a test at five locations. To date, the test has increased dessert sales in those stores significantly, without adding material capital investment to the franchisees. Due to the early success, the brand will be expanding the Sweet Jesus test to an additional ten locations.

In the third quarter, St. Louis also entered into an agreement with [Sports Interaction](#), an online sports betting company. This partnership creates a new revenue stream for Ontario franchisees while creating an even more exciting atmosphere at St. Louis locations while the big games are on. With this partnership, St. Louis aims to be the preferred place to catch the game. Ontario St. Louis guests gained access to this new feature on October 8, 2023.

Aegis undertook construction on two Wing City by St. Louis ("Wing City") fast-casual locations in Toronto during the third quarter. Both locations of this new brand are set to open in Q4 of this year. Wing City will offer a lower investment option for franchisees while expanding their reach to guests in a hurry or in areas that wouldn't support a full service St. Louis. Wing City will offer their famous St. Louis wings, boneless, plant-based wings and their signature fries and dill sauce. The menu will also include many unique items such as chicken fried ribs, and a signature chicken thigh sandwich.

### **Liquidity, capital resources and management of capital**

The Company continues to proactively manage its cash flow position and liquidity requirements in the face of various uncertainties. In December 2020, the Company entered into a loan agreement with CWB pursuant to which a revolving credit facility (the "Credit Facility") was made available to the Company at the financing rate of prime + 3.20%. This \$3,000,000 Credit Facility is secured by the assets of Bridgehead and was renewed on November 16, 2022.

The Company entered into a Development Line of Credit with CWB in fiscal 2021 in anticipation of acquiring more businesses in the food and beverage space. On November 17, 2022, the Company drew \$30,000,000 from its DLOC with CWB to partially fund the acquisition of St. Louis. The loan is non-revolving, with an interest rate of prime + 2.75% and is interest-only for the first six months after disbursement. The term of the loan is 60 months, and consists of 59 monthly, consecutive and equal blended payments with one final balloon payment based on a 120-month amortization.

At September 24, 2023 and at October 27, 2023 there were 85,287,167 common shares issued and outstanding.

### **Competition**

#### ***Bridgehead***

The specialty coffee industry is characterized by intense competition with respect to price, location, coffee and food quality, and numerous factors affecting discretionary consumer spending. Competitors include national and

# **Aegis Brands Inc.**

## **Management's Discussion and Analysis**

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regional chains, independent coffeehouses, all restaurants and food service outlets that serve coffee, and supermarkets that compete in the whole bean and roast and ground segments.

### ***St. Louis***

St. Louis operates in a very competitive environment, with many direct competitors in both the casual restaurant space and the wing and bar space.

### **Technology**

The Company relies heavily on information technology network infrastructure including point of sale system ("POS") hardware and software in coffeehouses, gift and loyalty card transactions, and home office financial and administrative functions. The ability to manage operations effectively and efficiently depends on the reliability and capacity of these technology systems, most of which are administered by third party suppliers. The Company has made significant investments in POS systems across its store network as it relies on the POS system to help analysis for both marketing initiatives and royalty calculations.

## **SEGMENTED INFORMATION AND REPORTING**

The Company's retail brands operate as independent brands and management is organized based on the Company's operating brands rather than the specific revenue streams. 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 in the financial statements, with Second Cup and Hemisphere presented as discontinued operations.

Included in Bridgehead revenue is revenue from coffeehouses as well as other sales relating to the Bridgehead business including sales of products sold online through the Company's website, as well as products sold in grocery stores through wholesale distribution channels and third-party licensing agreements. During the third quarter, Bridgehead opened its first licensed coffeehouse, located in the Ottawa airport which generated royalties and licensing revenue during the quarter.

Included in St. Louis revenue is franchise fees and royalties from franchisees, revenue from the corporate restaurants, supplier contributions, advertising fund revenue, and other service fees.

# Aegis Brands Inc.

## Management's Discussion and Analysis

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### SELECTED ANNUAL INFORMATION

The following table details specific financial information of the Company and should be read in conjunction with the Audited Financial Statements of the Company for the three most recently completed financial years:

(In thousands of Canadian dollars, except per share amounts)	<b>52 weeks ended December 25, 2022</b>	<b>52 weeks ended December 26, 2021</b>	<b>52 weeks ended December 26, 2020</b>
Total revenue – Bridgehead	\$13,207	\$10,876	\$9,428
Total revenue - St. Louis	\$1,952	N/A	N/A
Loss from continuing operations as reported	(\$9,248)	(\$4,862)	(\$5,860)
Basic and diluted loss per share from continuing operations as reported	(\$0.38)	(\$0.21)	(\$0.26)
Total loss from continuing and discontinued operations as reported	(\$9,248)	(\$7,914)	(\$19,622)
Basic and diluted loss per share from continuing and discontinued operations as reported	(\$0.38)	(\$0.34)	(\$0.86)
Total assets – end of period	\$73,880	\$20,320	\$102,657
Total non-current financial liabilities – end of period	\$55,966	\$7,438	\$7,853

On September 29, 2022, Aegis announced that it had entered into a definitive agreement to acquire substantially all of the assets and the intellectual property of the St. Louis Bar & Grill® (“St. Louis”) brand and trademark for \$50,000,000. On November 17, 2022, the Company completed the St. Louis transaction. The results of St. Louis in the 52 week period ended December 25, 2022 are for 39 days only.

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, 2734524 Ontario Inc, o/a Hemisphere Cannabis Co. This transaction was completed on September 24, 2021.

In the financial statements for the 52 weeks ended December 26, 2020 and the 52 weeks ended December 26, 2021, the operations of Second Cup have been presented as discontinued operations.

In the financial statements for the 52 weeks ended December 26, 2021, the operations of Hemisphere have been presented as discontinued operations.

# Aegis Brands Inc.

## Management's Discussion and Analysis

### SUMMARY OF QUARTERLY RESULTS

The following table is a summary of selected financial information from the Company's unaudited interim condensed consolidated financial statements for each of the eight most recently completed quarters:

(In thousands of Canadian dollars, except per share amounts and number of shares.)	Q3 Sept. 24, 2023	Q2 June 25, 2023	Q1 Mar. 26, 2023	Q4 Dec. 25, 2022	Q3 Sept. 25, 2022	Q2 June 26, 2022	Q1 Mar. 27, 2022	Q4 Dec. 26, 2021
Total Revenue-Bridgehead	\$4,097	\$4,074	\$3,530	\$4,052	\$3,373	\$3,240	\$2,542	\$3,396
Total Revenue-St. Louis	\$4,285	\$4,812	\$3,523	\$1,952	N/A	N/A	N/A	N/A
Net income (loss) from continuing operations	\$467	(\$145)	(\$973)	(\$2,373)	(\$2,403)	(\$2,816)	(\$1,656)	(\$2,078)
Net income (loss) from discontinued operations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(\$1,129)
Net income (loss)	\$467	(\$145)	(\$973)	(\$2,373)	(\$2,403)	(\$2,816)	(\$1,656)	(\$3,207)
Basic earnings (loss) per share from continuing operations	\$0.01	(\$0.00)	(\$0.02)	(\$0.09)	(\$0.10)	(\$0.12)	(\$0.07)	(\$0.09)
Basic earnings (loss) per share from discontinued operations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(\$0.05)
Total basic and diluted earnings (loss) per share	\$0.01	(\$0.00)	(\$0.02)	(\$0.09)	(\$0.10)	(\$0.12)	(\$0.07)	(\$0.14)
Number of weighted average common shares issued and outstanding, in thousands	85,287	85,287	61,843	27,745	23,230	23,230	23,230	23,066

Aegis turned a corner in Q3 2023, reporting net income from continuing operations for the first time since 2018. The addition of the St. Louis business has been the main contributor to this milestone.

Revenue for both brands increased in Q2 2023 from Q1 2023 for an overall average of 26.0%. This is due to the seasonality of both businesses, the increase in royalty revenue associated with the increase in St. Louis sales partly due to the Wingsanity promotion in Q2 as well as other franchise revenue generated from the St. Louis brand.

As of November 17, 2022, upon completion of the St. Louis transaction, the Company began generating revenue through franchise fees and royalties from franchisees, supplier contributions, and other service fees related to the St. Louis business. The St. Louis revenue in Q1 2023 was 80% greater than the revenue in Q4 2022 as a result of Aegis owning St. Louis for the full quarter versus 39 days.

Revenue decreased in Q1 2022 by 25% over Q4 2021 as a result of the negative effects on the Bridgehead business caused by the Omicron wave of the COVID-19 pandemic. In connection with the lifting of all COVID-19 pandemic related restrictions in late Q1 2022, revenue recovered in Q2 and increased again in Q3. Q4 2022 followed the seasonal trend of being the highest revenue generating quarter.

# Aegis Brands Inc.

## Management's Discussion and Analysis

### CONSOLIDATED HIGHLIGHTS: CONTINUING OPERATIONS OF BRIDGEHEAD, ST. LOUIS AND AEGIS BRANDS

The following table sets out selected IFRS and certain non-IFRS financial measures of the Company and should be read in conjunction with the Unaudited Condensed Interim Consolidated Financial Statements of the Company.

(In thousands of Canadian dollars, except same coffeehouse sales, same store sales, number of coffeehouses and restaurants, per share amounts, and number of common shares.)	13 weeks ended September 24, 2023	13 weeks ended September 25, 2022	39 weeks ended September 24, 2023	39 weeks ended September 25, 2022
System sales of coffeehouses and other sales	\$ 4,097	\$ 3,373	\$ 11,701	\$ 9,155
Same coffeehouse sales <sup>1,2</sup>	17.4%	16.9%	25.6%	22.8%
Number of Bridgehead locations - end of period	21	21	21	21
System sales of restaurants <sup>4</sup>	\$ 32,734	\$ 30,906	\$ 92,412	\$ 84,124
St. Louis Revenue	\$ 4,285	\$ -	\$ 12,619	\$ -
Number of restaurants - end of period	76	-	76	-
Same store sales - St. Louis <sup>3</sup>	2.4%	2.9%	7.4%	37.9%
Total revenue	\$ 8,382	\$ 3,373	\$ 24,320	\$ 9,155
Operating costs and expenses	\$ 7,193	\$ 5,917	\$ 22,469	\$ 16,454
Operating income (loss) <sup>1</sup>	\$ 1,189	\$ (2,544)	\$ 1,851	\$ (7,299)
EBITDA <sup>1</sup>	\$ 1,845	\$ (2,132)	\$ 3,826	\$ (6,066)
Adjusted EBITDA <sup>1</sup>	\$ 1,908	\$ (805)	\$ 3,993	\$ (1,401)
Net income (loss)	\$ 467	\$ (2,403)	\$ (654)	\$ (6,874)
Adjusted net income (loss) <sup>1</sup>	\$ 524	\$ (1,076)	\$ (493)	\$ (2,249)
Basic and diluted income (loss) per share as reported	\$ 0.01	\$ (0.10)	\$ (0.01)	\$ (0.30)
Adjusted basic and diluted income (loss) per share <sup>1</sup>	\$ 0.01	\$ (0.04)	\$ (0.01)	\$ (0.10)
Total assets - end of period	\$ 69,400	\$ 13,704	\$ 69,400	\$ 13,704
Number of weighted average common shares issued and outstanding	85,287,167	23,230,227	77,530,050	23,230,227

<sup>1</sup>See the section "Definitions and Discussion on Certain non-IFRS Financial Measures" for further analysis.

<sup>2</sup>Same coffeehouse sales represent the percentage change, on average, in sales at Bridgehead coffeehouses operating system-wide that have been open for more than 12 months.

<sup>3</sup>Same store sales represent the percentage change, on average, in sales at St. Louis Bar & Grill restaurants operating system-wide that have been open for more than 12 months. For the comparative periods ended September 25, 2022, Aegis did not own the St. Louis Brand.

<sup>4</sup>System sales represents the top-line sales of St. Louis restaurants both corporate and franchised, including off-premise sales. For the comparative periods ended September 25, 2022, Aegis did not own the St. Louis Brand.

# Aegis Brands Inc.

## Management's Discussion and Analysis

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### OPERATIONAL REVIEW

#### *Seasonality of system sales of coffeehouses*

Due to the nature of the retail foodservice industry, and the Company's extensive experience in this industry, the Company expects there to be an associated seasonality to its sales, specifically the notion that the last fiscal quarter will generate higher revenue than other quarters due to the holiday and festive season.

The below table shows the percentage of annual system sales generated from Bridgehead coffeehouses.

% of Annual system sales of coffeehouses	
First Quarter 2023	22.2
Second Quarter 2023	26.4
Third Quarter 2023	25.6
Fourth Quarter 2022	25.8
	100.0

#### *Location network*

	<b>39 weeks ended September 24, 2023</b>	<b>39 weeks ended September 25, 2022</b>
Number of locations – beginning of period	95	21
Locations opened/added	3	-
Locations closed	(1)	-
Number of locations - end of period	97	21

The Company ended the 39 weeks ended September 24, 2023 with 20 company-owned Bridgehead coffeehouses, 1 licensed Bridgehead location, 73 St. Louis franchised locations and 3 St. Louis corporate locations. The 3 locations added were the licensed Bridgehead location at the Ottawa airport and 2 St. Louis locations that were acquired from a franchisee. The 1 closed location was a Bridgehead coffeehouse on expiration of the lease. All of the staff from this coffeehouse and some of the assets were able to be transferred to a nearby location that was at the same time just re-opening after being temporarily closed due to the pandemic.

# Aegis Brands Inc.

## Management's Discussion and Analysis

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### Third Quarter

#### *System sales of coffeehouses*

System sales of coffeehouses for the 13 weeks ended September 24, 2023 were \$3,495,000 compared to \$2,952,000 in the prior year period, representing an increase of \$543,000 (18.4%). This increase is due to 1 additional coffeehouse being closed for the majority of Q3 2022 versus Q3 2023 as well as increased foot traffic overall.

#### *Same coffeehouse sales*

During the 13 weeks ended September 24, 2023, same coffeehouse sales at Bridgehead locations increased by 17.4% over 2022, mainly related to increased foot traffic.

#### *System sales of restaurants*

System sales of St. Louis restaurants for the 13 weeks ended September 24, 2023, for both corporate and franchised locations were \$32,734,000 versus \$30,906,000 in the prior year period, an increase of \$1,828,000 or 5.9%. This increase is due the number of restaurants increasing from 72 in Q3 2022 to 76 in Q3 2023.

#### *Same store sales*

During the 13 weeks ended September 24, 2023, same store sales at St. Louis locations increased by 2.4% over 2022 due to the addition of the Uber platform boosting off-premise sales, the re-introduction of daily deals, and increased on-premise foot traffic versus 2022.

#### *Analysis of revenue*

The Bridgehead brand generated revenue for the Quarter of \$4,097,000 (2022 - \$3,373,000), an increase of \$724,000 or 21.5%. The breakdown of sales by revenue channel is as follows:

	13 weeks ended September 24, 2023	13 weeks ended September 25, 2022
Coffeehouses	\$ 3,495	\$ 2,952
Wholesale	426	287
E-commerce	118	134
Licensing	58	-
	\$ 4,097	\$ 3,373

The St. Louis brand generated revenue for the Quarter of \$4,285,000. The breakdown of sales by revenue channel is as follows:

	13 weeks ended September 24, 2023
Royalties	\$ 1,508
Advertising fund contributions	382
Other franchise revenue	1,887
Corporate stores revenue	508
	\$ 4,285

#### *Operating costs and expenses*

Operating costs and expenses include the costs of coffeehouse sales, general and administrative expenses, loss on disposal of assets, depreciation and amortization, other income or expenses, and asset impairment charges.

Total operating costs and expenses for the Quarter totaled \$7,193,000 (2022 - \$5,917,000). Included in this amount was coffeehouse and restaurant cost of sales: cost of sales, direct labour, occupancy and other which totaled \$3,884,000 (2022 - \$3,134,000), representing an increase of \$750,000 or 23.9%. This increase is directly related to having 1 St. Louis corporate restaurant for the full quarter and 2 St. Louis corporate restaurants for the

## **Aegis Brands Inc.**

### **Management's Discussion and Analysis**

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last 18 days of the quarter this year.

General and administrative: labour and related expenses of Aegis employees, St. Louis employees and Bridgehead office staff and other overhead items such as professional fees and office expenses were \$2,633,000 (2022 - \$886,000), an increase of \$1,747,000. The increase relates to the St. Louis expenses such as office personnel, and general and administrative costs associated with the brand that were not in the 2022 results.

Other expenses of \$676,000 (2022 - \$1,897,000), represents a decrease of \$1,221,000. This decrease is due to the fair value revaluation of the investment in Kiaro in the second Quarter of 2022 of \$1,322,000 and is offset slightly by the amortization of the St. Louis intangible assets in 2023 of \$255,000 (\$0 in 2022).

#### ***EBITDA***

EBITDA for the third quarter was \$1,845,000 compared to an EBITDA loss of \$2,132,000 in the comparable quarter in 2022. Adjusted for asset impairment charges, revaluation of securities, restructuring costs, and lease payments, EBITDA for the third quarter was \$1,471,000 compared to an EBITDA loss of \$1,223,000 in the comparable quarter in 2022. The improvement in EBITDA is primarily attributed to the addition of the St. Louis business.

#### ***Interest and Financing Costs***

The Company reported net interest and financing costs of \$726,000 in the third quarter (2022- \$2,511,000), a decrease of \$1,785,000 due to the large interest payment made on the convertible debentures in Q3 2022. This balance represents the interest charged on the CWB senior facility and the Company's lease payments for right-of-use assets recognized in accordance with IFRS 16, Leases ("IFRS 16").

#### ***Net income (loss)***

The Company reported net income of \$467,000 for the third quarter or \$0.01 per share compared to a net loss of \$2,403,000 or \$0.10 per share in the same quarter last year. Adjusted for the revaluation of securities and restructuring costs, the net income was \$524,000 or \$0.01 per share compared to a net loss of \$1,076,000 or \$0.04 per share in the same quarter last year.

Reconciliations of net income (loss) to EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provided in the section "Definitions and Discussion of Certain non-IFRS Financial Measures."

# Aegis Brands Inc.

## Management's Discussion and Analysis

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### Year to Date

#### *System sales of coffeehouses*

System sales of coffeehouses for the 39 weeks ended September 24, 2023 were \$10,185,000 compared to \$7,748,000 in the prior year period, representing an increase of \$2,437,000, or 31.5%. This increase is directly tied to the COVID-19 restrictions present in the first quarter of 2022 due to the Omicron variant as well as the overall easing of restrictions and increased foot traffic since Omicron.

#### *Same coffeehouse sales*

During the 39 weeks ended September 24, 2023, same coffeehouse sales at Bridgehead locations increased by 25.6% over 2022, due to the COVID-19 restrictions present in the first quarter of 2022 as a result of the Omicron variant and the overall easing of restrictions and increase in foot traffic.

#### *System sales of restaurants*

System sales of St. Louis restaurants for the 39 weeks ended September 24, 2023, for both corporate and franchised locations were \$92,412,000 compared to \$84,124,000 in the prior year period, an increase of \$8,288,000 or 9.9%. The beginning of 2022 saw closures and reduced capacity due to COVID-19. There were also 4 more locations at the end of the third quarter in 2023 versus the third quarter in 2022.

#### *Same store sales*

During the 39 weeks ended September 24, 2023, same store sales at St. Louis locations increased by 7.4% over 2022 due to various factors such as the addition of the Uber platform which increased off premise sales and new daily deals. Also, there were store closures and reduced capacity for most of January through the middle of February 2022.

#### *Analysis of revenue*

The Bridgehead brand generated revenue for period of \$11,701,000 (2022 - \$9,155,000), an increase of \$2,546,000 or 27.8%. The breakdown of sales by revenue channel is as follows:

	39 weeks ended September 24, 2023	39 weeks ended September 25, 2022
Coffeehouses	\$ 10,185	\$ 7,748
Wholesale	1,075	937
E-commerce	381	470
Licensing	58	-
	<u>\$ 11,701</u>	<u>\$ 5,782</u>

The St. Louis brand generated revenue for the period of \$12,619,000. The breakdown of sales by revenue channel is as follows:

	39 weeks ended September 24, 2023
Royalties	\$ 4,296
Advertising fund contributions	2,218
Other franchise revenue	5,597
Corporate restaurant revenue	508
	<u>\$ 12,619</u>

#### *Operating costs and expenses*

Operating costs and expenses include the costs of coffeehouse sales, general and administrative expenses, loss on disposal of assets, depreciation and amortization, other income or expenses, and asset impairment charges.

Total operating costs and expenses for the period totaled \$22,469,000 (2022 - \$16,454,000). Included in this amount was coffeehouse and restaurant cost of sales: cost of sales, direct labour, occupancy and other which

## **Aegis Brands Inc.**

### **Management's Discussion and Analysis**

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totaled \$11,017,000 (2022 - \$7,415,000), representing an increase of \$3,602,000 or 48.6%. This increase is directly related to the increase in sales in Bridgehead as well as the addition of the St. Louis corporate restaurants.

General and administrative: labour and related expenses of Aegis, St. Louis, and Bridgehead office staff and other overhead items such as professional fees and office expenses were \$9,473,000 (2022 - \$2,276,000), an increase of \$7,197,000. The majority of the increase relates to the St. Louis expenses such as office personnel, and general and administrative costs associated with the brand that were not in the 2022 results.

Other expenses of \$1,979,000 (2022 - \$6,263,000), represents a decrease of \$4,284,000. This decrease is mostly due to the fair value revaluation of the investment in Kiaro in 2022 of \$4,615,000 and is slightly offset by the amortization of the St. Louis intangible assets in 2023 of \$765,000 versus \$nil in 2022.

#### ***EBITDA***

EBITDA for the period was \$3,826,000 compared to an EBITDA loss of \$6,066,000 in the comparable period in 2022. Adjusted for asset impairment charges, revaluation of securities, restructuring costs and lease payments, EBITDA for the period was \$2,670,000 compared to an EBITDA loss of \$2,636,000 in the comparable period in 2022. The improvement in EBITDA is primarily attributed to the addition of the St. Louis business.

#### ***Interest and Financing Costs***

The Company reported net interest and financing costs of \$2,511,000 in the period (2022 - \$283,000). This balance represents the interest expense on the convertible debentures, interest charged on the CWB senior facility, and the Company's lease payments for right-of-use assets recognized in accordance with IFRS 16, Leases ("IFRS 16").

#### ***Net loss***

The Company reported a net loss of \$654,000 for the period, or \$0.01 per share, compared to a net loss of \$6,874,000 or \$0.30 per share in the prior period. Adjusted for the revaluation of securities and restructuring costs, the net loss was \$493,000, or \$0.01 per share compared to a net loss of \$2,249,000, or \$0.10 per share.

Reconciliations of net income (loss) to EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provided in the section "Definitions and Discussion of Certain non-IFRS Financial Measures."

# Aegis Brands Inc.

## Management's Discussion and Analysis

### LIQUIDITY AND CAPITAL RESOURCES

The Company primarily generates revenue from the sale of products at its coffeehouses, through ancillary channels including grocery, wholesale and e-commerce, and through franchise and royalty fees, and supplier contributions. For a more detailed discussion of the risks and uncertainties affecting the Company's liquidity, see the general risks outlined below and the "Capabilities" section above.

#### Summary of cash flows

	39 weeks ended	
	September 24, 2023	September 25, 2022
Cash used in operating activities	\$ (1,528)	\$ (1,196)
Cash provided by (used in) investing activities	(862)	58
Cash provided by (used in) financing activities	(1,897)	341
Net decrease in cash and cash equivalents during the period	\$ (4,287)	\$ (797)

The Company used cash of \$1,528,000 in its operating activities in the period. The net loss for the quarter and period as well as the changes in non-cash working capital contributed to the use of cash. Aegis paid a significant amount of its payables and provisions during the period.

Cash used in investing activities for the period was \$862,000 of which the majority related to fixed assets and intangible assets purchased for the Wing City by St. Louis Brand.

The Company used cash of \$1,897,000 in its financing activities in the period which consisted of lease payments and long-term debt repayments.

#### Working capital as at:

	September 24, 2023	December 25, 2022
Current assets	\$ 6,776	\$ 10,092
Current liabilities	8,703	10,869
Working capital	\$ (1,927)	\$ (777)

The Company has a net working capital deficiency of \$1,927,000 at September 24, 2023 compared to a working capital deficiency of \$777,000 at December 25, 2022. The change in the working capital deficiency relates to the cash position decreasing by \$4,287,000 offset partially by the increase in trade receivables of 1,218,000 and the decrease of accounts payable and accrued liabilities. The short-term portion of long-term debt also increased by \$658,000 as the first six months of the DLOC facility were interest-only payments. A significant portion of the decrease in cash is outside of the normal course of business and related to amounts that were accrued on the sale of the Second Cup business. These payments were made to satisfy obligations due to the purchaser of the business as well as to former landlords to settle litigation claims.

The Company has unrestricted cash and cash equivalents of \$1,950,000 as at September 24, 2023 (December 25, 2022 - \$5,109,000). Included in this balance at September 24, 2023, is cash held in short-term deposits of \$1,022,000 (December 25, 2022 - \$3,022,000). The Company has segregated cash of \$271,000 (December 25, 2022 - \$1,399,000) for the settlement of liabilities including the St. Louis gift card program administered by the Company, a charity in which funds are held on their behalf, and the Advertising Fund in St. Louis.

The Company also has a \$3,000,000 revolving line of credit, which is undrawn.

# Aegis Brands Inc.

## Management's Discussion and Analysis

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### *Financial instruments*

The following table summarizes the nature of certain risks applicable to the Company's financial instruments. The risks are discussed below.

<b>Financial instrument</b>	<b>Risks</b>
<b><i>Financial assets</i></b>	
Cash and cash equivalents	Credit and interest rate
Trade and other receivables	Credit and interest rate
Notes receivable	Credit and interest rate
Investments in equity securities	Liquidity and market risk
<b><i>Financial liabilities</i></b>	
Accounts payable and accrued liabilities	Liquidity
Short-term debt	Liquidity
Long-term debt	Credit, liquidity, and interest rate

### *Fair value of financial instruments*

The carrying values of cash and cash equivalents, trade and other receivables, notes receivable, accounts payable and accrued liabilities, and convertible debentures (liability portion) approximate their fair values due to their short-term maturity or market rate of interest and are carried at amortized cost.

The carrying values of long-term debt and lease obligations approximate fair values because the instruments bear interest at either floating rates or effective interest rates, which approximate current market rates for similar debt instruments.

The carrying value of leases receivable approximate their fair value as the implicit interest used to discount the base value is considered to be based on an appropriate credit and risk rate pertaining to the debtor.

Financial instruments that are measured subsequent to initial recognition at fair value are to be categorized in Levels 1 to 3 of the fair value hierarchy, based on the degree to which the fair value is observable. The three levels of the fair value hierarchy are:

- Level 1 - inputs derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - fair value derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has not transferred any financial instruments between Levels 1, 2 or 3 of the fair value hierarchy during the 13 weeks or 39 weeks ended September 24, 2023.

### *Financial risk management*

The Company's activities result in exposure to a variety of financial risks, including credit, liquidity, and market risk. The Company's approach to financial risk management has not changed during the current fiscal year.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

##### a. Cash and cash equivalents

Credit risk associated with cash and cash equivalents is managed by ensuring these assets are placed with Canadian financial institutions that have been assigned high credit ratings.

# **Aegis Brands Inc.**

## **Management's Discussion and Analysis**

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### **b. Trade and other receivables, notes and leases receivable**

Trade and other receivables and notes and lease receivable primarily comprise amounts due from lessees of Bridgehead. Credit risk associated with these receivables is determined during the initial stages of lease negotiations and by monitoring account balances beyond a particular age. The overall credit risk is mitigated due to coffeehouses receiving payment for goods sold as they are selling them, and therefore, receivable balances are minimal.

The Company has applied the simplified approach contained in IFRS 9, *Financial Instruments* ("IFRS 9") and has calculated expected credit losses ("ECL") based on lifetime expected credit losses. Consistent with the prior fiscal year, the Company has leveraged a provision matrix that is based on the historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### ***Liquidity risk***

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Liquidity risk is managed through regular monitoring of forecast and actual cash flows, monitoring maturity dates of financial assets and liabilities, and also the management of the Company's capital structure and debt leverage.

The Company secured a credit agreement with CWB Franchise Finance (CWB) pursuant to which a revolving credit facility ("Credit Facility") was made available to the Company, which is secured by the assets of Bridgehead. The Credit Facility is currently undrawn, leaving Aegis with \$3,000,000 of available credit for short-term needs.

### ***Market risk***

Market risk is the risk to the Company that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk. Market risk arises as a result of the Company holding assets and liabilities with variable interest rates, and investments in equity securities. Management believes the Company is not significantly exposed to currency or other price risk.

### ***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk on the variable rate of interest incurred on the amounts due under the credit facility and on interest earned on bank deposits. The cash flow required to service the interest on these facilities will fluctuate as a result of changes to market rate. As at September 24, 2023 an increase or decrease of 1% in the bank prime rate would have an impact of \$293,000 on annual interest expense using the balance of the long-term debt at September 24, 2023 and expected loan payments.

### ***Obligations from Operating Leases***

With the adoption of IFRS 16, leases are reported in the unaudited condensed interim consolidated statement of financial position as lease liabilities along with the associated right-of-use assets and leases receivable.

### ***Purchase Obligations***

Contracts are in place with third-party companies to purchase the coffee that is sold in coffeehouses. In terms of the supply agreements, there is a guaranteed minimum value of coffee purchases of \$903,000 (2022 - \$930,000) for the subsequent 12 months. The coffee purchase commitment is composed of two components: unapplied futures commitment contracts and fixed price physical contracts.

## **Aegis Brands Inc.**

### **Management's Discussion and Analysis**

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#### ***Other Obligations***

The Company is involved in certain litigation and other claims arising in the normal course of business. Judgment must be used to determine whether 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 in the consolidated financial statements. 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.

#### ***Related parties***

Related parties of the Company are identified as key management, members of its board of directors, and shareholders that effectively exercise significant influence on the Company. Such related parties include any entities acting with or on behalf of the aforementioned parties.

# **Aegis Brands Inc.**

## **Management's Discussion and Analysis**

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### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") must acknowledge they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting ("ICFR") for the Company. The control framework used by the CEO and CFO to design the Company's ICFR is Internal Control over Financial Reporting - Guidance for Smaller Public Companies as issued by the Committee of Sponsoring Organizations of the Treadway Commission. In addition, in respect of:

#### ***Disclosure controls and procedures***

The CEO and CFO must certify they have designed the disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner and that information required under securities legislation is recorded, processed, summarized and reported in a timely manner.

As at October 30, 2023, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that, as at September 24, 2023 the Company's disclosure controls and procedures were appropriately designed.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable, and not absolute, assurance that the objectives of such controls and procedures are met.

During the 39 weeks ended September 24, 2023 and up to the date of the approval of the Unaudited Condensed Interim Consolidated Financial Statements and MD&A, there has been no change that has materially affected, or is reasonably likely to materially affect the Company's disclosure controls and procedures.

#### ***Internal controls over financial reporting***

The CEO and CFO must certify they have designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Unaudited Condensed Interim Consolidated Financial Statements for external purposes in accordance with IFRS.

As at October 30, 2023, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the controls over financial reporting. No material weaknesses in the design of these controls over financial reporting were identified. Based on this evaluation, the CEO and CFO have concluded that, as at September 24, 2023, the Company's controls over financial reporting were appropriately designed and were operating effectively.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. As such, the Company's internal controls over financial reporting can only provide reasonable, and not absolute, assurance that the objectives of such controls are met.

During the 39 weeks ended September 24, 2023 and up to the date of the approval of the Unaudited Condensed Interim Consolidated Financial Statements and MD&A, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

# Aegis Brands Inc.

## Management's Discussion and Analysis

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### CRITICAL ACCOUNTING ESTIMATES

The preparation of unaudited condensed interim consolidated financial statements requires management to make estimates and assumptions and use judgement in applying its accounting policies and in determining estimates and assumptions about the future. Estimates and other judgements are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The accounting estimates will, by definition, seldom equal the related actual results.

The following are examples of areas of critical estimates, assumptions and judgements the Company makes in determining the amounts reported in the unaudited condensed interim consolidated financial statements:

- impairment charges and/or the determination of the recoverable amounts of tangible and intangible assets subject to depreciation, amortization, or with indefinite lives, including the Company's right-of-use assets, property, equipment, trademark and goodwill.
- the derivation of deferred income tax assets and liabilities;
- the estimated useful lives of assets;
- the allowance for credit losses;
- the fair value of intangible assets acquired in business combinations; and

#### *(i) Impairment charges*

Impairment analysis is an area involving management judgement in determining the recoverable amount of an asset. The recoverable amount of a cash generating unit ("CGU") is calculated as the higher of the fair value less costs of disposal, and its value in use. Value in use is determined by estimating the net present value of future cash flows derived from such assets using cash flow projections that have been discounted at an appropriate rate and based on a market participant's view. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including:

- growth in total revenue;
- change and timing of cash flows such as the increase or decrease of expenditures;
- selection of discount rates to reflect the risks involved;
- applying judgement in cash flows specific to CGUs; and

Changing the assumptions selected by management, in particular the revenue projections, discount rates and the growth rates used in the cash flow projections, could significantly affect the impairment evaluations and recoverable amounts.

The Company's impairment tests include significant assumptions related to the scenarios discussed above.

#### *(ii) Deferred income taxes*

The timing of reversal of temporary differences and the expected income allocation to various tax jurisdictions within Canada affects the effective income tax rate used to compute the deferred income taxes. Management estimates the reversals and income allocations based on historical and budgeted operating results and income tax laws existing at the reporting dates. In addition, management occasionally estimates the current or future deductibility of certain expenditures, affecting current or deferred income tax balances and expenses.

# **Aegis Brands Inc.**

## **Management's Discussion and Analysis**

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### ***(iii) Estimated useful lives***

The useful lives of property and equipment are based on the period during which the assets are expected to be available-for-use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. It is possible that changes in these factors may cause significant changes in the amount of depreciation recorded in respect of the Company's property and equipment in the future.

### ***(iv) Allowance for credit losses***

In accordance with IFRS 9, the Company has recorded an allowance for forward-looking ECL for all loans and other debt financial assets that are not held at fair value through profit and loss.

The Company notes that its cash equivalents and short-term investments are high-grade investments that are held with reputable financial institutions. As such, these assets are considered to be low credit risk investments.

For lease receivables, the Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### ***(v) Fair value of intangible assets acquired in business combinations***

Management applied significant judgement in estimating the fair value of the intangible assets. To estimate the fair value of the trademarks, management, with the assistance of external valuation experts, used the royalty relief method to value the trademarks using a discounted cash flow model. Management developed significant assumptions related to revenue projections and growth rates, royalty rate and the discount rate.

## **RISKS AND UNCERTAINTIES**

This section is qualified in its entirety by the section "Caution Regarding Forward-Looking Statements" at the beginning of this MD&A.

The performance of Aegis Brands is primarily dependent on its ability to maintain and increase the sales of existing coffeehouses and restaurants, add new profitable coffeehouses and restaurants to the network, redevelop and modernize locations as their leases come due, and grow new Bridgehead and St. Louis business lines. System sales of the coffeehouse and restaurant networks are affected by various external factors that can affect the Canadian commercial foodservice industry as a whole. Potential risks include the following:

- The specialty coffee and the casual dining industry are characterized by intense competition with respect to price, location, coffee and food quality, and numerous factors affecting discretionary consumer spending. Competitors include national and regional chains, independent coffeehouses, all restaurants and food service outlets, and supermarkets.
- Growth of the Bridgehead and St. Louis networks depend on Aegis Brands Inc.'s ability to secure and build desirable locations for its retail operating brands. There can be no assurance that current locations will continue to be attractive, or that additional sites can be located and secured as demographic and traffic patterns change. It is possible that the current locations or economic conditions where our coffeehouses or restaurants are located could decline in the future, resulting in reduced sales in those locations. There is no assurance that future sites will produce the same results as past sites.
- The Canadian specialty coffee and the casual dining industry are also affected by changes in discretionary spending patterns, which are in turn dependent on consumer confidence, disposable consumer income and general economic conditions. Factors such as changes in general economic conditions, recessionary or inflationary trends, job security and unemployment, equity market levels, consumer credit availability and overall consumer confidence levels may affect their business. These industries are also affected by demographic trends, traffic and weather patterns, as well competing coffeehouses and restaurants.

## **Aegis Brands Inc.**

### **Management's Discussion and Analysis**

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- The Company is dependent upon the ability to maintain and grow the current system of St. Louis franchisees and to obtain new qualified operators to become franchisees. The Company's inability to successfully obtain qualified franchisees could adversely affect its business development. The Company's success is also dependent on its relationship with its franchisees, there can be no assurances that the Company will be able to maintain positive relationships with all of its franchisees.
- The Company relies heavily on information technology (IT) network infrastructure. The ability to manage operations effectively and efficiently depends on the reliability and capacity of these IT systems, most of which are administered by third party suppliers. The Company relies on POS for system sales for both marketing trends and analyzing of key performance indicators. The coffeehouses and restaurants rely on IT network infrastructure to order goods and process credit, debit and card transactions. Aegis' financial and administrative functions rely on IT infrastructure for accurate and reliable information. The failure of these systems to operate effectively, or problems with upgrading or replacing systems, could cause a material negative financial result. The Company is continually reviewing its systems and procedures to minimize risk.
- Reduced earnings could impact the Company's ability to comply with its credit facility covenants.
- The loss of key personnel and/or a shortage of experienced management and hourly employees could have an adverse impact on coffeehouse and restaurant operations.
- The Company does not currently have any agreement or commitment to acquire any new businesses, however Aegis continues to seek opportunities to acquire restaurant businesses that could complement its current operations.

A more detailed discussion of the risks and uncertainties is set out in the Company's annual information form dated March 20, 2023, which is available at [www.sedar.com](http://www.sedar.com).

# **Aegis Brands Inc.**

## **Management's Discussion and Analysis**

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### **DEFINITIONS AND DISCUSSION ON CERTAIN NON-IFRS FINANCIAL MEASURES**

In this MD&A, the Company reports certain non-IFRS financial measures such as system sales of coffeehouses, same coffeehouse sales, same stores sales, operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share. Non-IFRS measures are not defined under IFRS and are not necessarily comparable to similarly titled measures reported by other issuers.

#### ***System sales of coffeehouses***

System sales of coffeehouses are comprised of the gross revenue from coffeehouses.

#### ***System sales of restaurants***

System sales of restaurants represents the top-line sales from all restaurants both corporately owned and franchised.

#### ***Same coffeehouse sales/same store sales***

Same coffeehouse/store sales represent the percentage change, on average, in retail sales at coffeehouses or restaurants that have been open for more than 12 months. It is one of the key metrics the Company uses to assess its performance and provides a useful comparison between fiscal quarters. The two principal factors that affect this metric are changes in customer traffic and changes in average check (the average dollar amount on a single transaction at the coffeehouse/restaurant).

#### ***Operating income (loss)***

Operating income (loss) represents revenue, less cost of goods sold, less operating expenses, and less impairment charges. This measure is not defined under IFRS, although the measure is derived from input figures in accordance with IFRS. Management views this as an indicator of financial performance that excludes costs pertaining to interest and financing, and income taxes.

#### ***EBITDA and adjusted EBITDA***

EBITDA represents earnings before interest and financing, income taxes, and depreciation and amortization. Adjustments to EBITDA are for items that are not necessarily reflective of the Company's underlying operating performance. As there is no generally accepted method of calculating EBITDA, this measure is not necessarily comparable to similarly titled measures reported by other issuers. EBITDA is presented as management believes it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements and evaluate liquidity. Management interprets trends in EBITDA as an indicator of relative financial performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.

#### ***Adjusted net income (loss) and adjusted net income (loss) per share***

Adjustments to net earnings (loss) and net earnings (loss) per share are for items that are not necessarily reflective of the Company's underlying operating performance. These measures are not defined under IFRS, although the measures are derived from input figures in accordance with IFRS. Management views these as indicators of financial performance.

## Aegis Brands Inc.

### Management's Discussion and Analysis

Reconciliations of net income (loss), the most directly comparable IFRS financial measure, to operating income (loss), to EBITDA and adjusted EBITDA, to adjusted net income (loss) and adjusted net income (loss) per share are provided below.

Net income (loss) to operating income (loss):

(In thousands of Canadian dollars)	13 weeks ended		39 weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Net income (loss)	\$ 467	\$ (2,403)	\$ (654)	\$ (6,874)
Add (deduct):				
Income tax recovery	-	(243)		(668)
Interest and financing charges	726	102	2,511	283
Other income	(4)	-	(6)	(40)
Operating income (loss)	\$ 1,189	\$ (2,544)	\$ 1,851	\$ (7,299)

Net income (loss) to EBITDA and Adjusted EBITDA:

(In thousands of Canadian dollars)	13 weeks ended		39 weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Net income (loss)	\$ 467	\$ (2,403)	\$ (654)	\$ (6,874)
Add (deduct):				
Income tax recovery	-	(243)	-	(668)
Other income	(4)	-	(6)	(40)
Interest and financing charges	726	102	2,511	283
Depreciation of property and equipment	159	161	475	479
Amortization of intangible assets	259	-	769	-
Amortization of right-of-use assets	238	251	731	754
EBITDA	\$ 1,845	\$ (2,132)	\$ 3,826	\$ (6,066)
Add impact of the following:				
Revaluation of securities	20	1,322	4	4,615
Restructuring costs	43	5	163	50
Adjusted EBITDA	\$ 1,908	\$ (805)	\$ 3,993	\$ (1,401)

## Aegis Brands Inc.

### Management's Discussion and Analysis

Net income (loss) to adjusted net income (loss):

(In thousands of Canadian dollars)	13 weeks ended		39 weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Net income (loss)	\$ 467	\$ (2,403)	\$ (654)	\$ (6,874)
Add (deduct):				
Other income	(6)	-	(6)	(40)
Restructuring costs	43	5	163	50
Revaluation of securities	20	1,322	4	4,615
Adjusted net income (loss)	\$ 524	\$ (1,076)	\$ (493)	\$ (2,249)

Net income (loss) per share to adjusted net income (loss) per share:

(In Canadian dollars)	13 weeks ended		39 weeks ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Net income (loss) per share	\$ 0.01	\$ (0.10)	\$ (0.01)	\$ (0.30)
Add (deduct):				
Other income	\$ 0.00	\$ -	\$ (0.00)	\$ (0.00)
Restructuring costs per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Revaluation of securities per share	\$ 0.00	\$ 0.06	\$ (0.00)	\$ 0.20
Adjusted net income (loss) per share	\$ 0.01	\$ (0.04)	\$ (0.01)	\$ (0.10)