



Aegis Brands Inc.

Consolidated Financial Statements



Baker Tilly WM LLP
900 – 400 Burrard Street
Vancouver, British Columbia
Canada V6C 3B7
T: +1 604.684.6212
F: +1 604.688.3497

vancouver@bakertilly.ca
www.bakertilly.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Aegis Brands Inc.:

Opinion

We have audited the consolidated financial statements of Aegis Brands Inc. and its subsidiaries (together the "Company"), which comprise the consolidated statements of financial position as at December 25, 2022, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flow for the 52-week period then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 25, 2022, and its consolidated financial performance and its consolidated cash flows for the 52-week period then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Company for the 52-week period ended December 26, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on March 28, 2022.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the 52-weeks period ended December 25, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

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Key audit matter	How our audit addressed the key audit matter
Valuation of intangible assets acquired in the business combination of St. Louis Franchise Business	
Refer to Notes 3 and 14	Our approach to addressing the matter included the following procedures, among others:
<p>On November 17, 2022, the Company acquired substantially all of the assets of the St. Louis Franchise Business pursuant to the terms and conditions set forth in the asset purchase agreement for a cash consideration of \$50 million. The preliminary fair value of the assets acquired included \$42.4 million of intangible assets consisting of contracts and trademarks.</p> <p>We considered this a key audit matter due to the significant judgment applied by management in estimating the fair value of intangible assets, including the development of key assumptions. This, in turn, led to a high degree of auditor judgment and subjectivity in performing procedures relating to the key assumptions applied by management. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.</p>	<p>Evaluated how management estimated the provisional fair values of acquired intangible assets, which included the following procedures:</p> <ul style="list-style-type: none"> • Read the asset purchase agreement to understand the key terms and conditions to identify the assets and liabilities acquired. • Evaluated the reasonableness of management's identification of intangible assets. • Assessed the competence and objectivity of management's third party specialist. • Tested the underlying data used by management and the reasonableness of significant assumptions used in the discounted cash flow models including revenue and gross margin forecasts, and customer retention rates considering the past performance of St. Louis Franchise Business. • Evaluated, with the assistance of professionals with specialized skill and knowledge in the field of valuation, the appropriateness of management's selected valuation models as well as certain significant assumptions such as royalty rates and discount rates.
Impairment assessment of property and equipment, right-of-use assets, intangible assets and goodwill allocated to the Bridgehead CGU	
Refer to Notes 13 and 14	Our approach to addressing the matter included the following procedures, among others:
<p>As at December 25, 2022, the Company had property and equipment of \$2.1 million, right-of-use assets of \$3.1 million and trademarks of \$3.9 million and goodwill of \$1.4 million allocated to the Bridgehead CGU.</p> <p>Property and equipment and right-of-use assets are assessed for any indications of impairment at the end of each reporting period. Trademarks and goodwill are assessed for impairment annually, or more frequently if events or circumstances indicate that the carrying amount may be impaired. Management has performed its annual</p>	<p>Evaluated how management determined the recoverable amounts of the CGU groupings, which included the following procedures:</p> <ul style="list-style-type: none"> • Tested the appropriateness of the value in use method used and the mathematical accuracy of the discounted cash flow model. • Tested the reasonableness of the estimated cash flows by considering data of comparable entities, historical performance of the Company and the budget approved by management. • Tested the reasonableness of the terminal growth rate and forecasted growth rate of

<p>impairment test for the Bridgehead CGU as at December 25, 2022.</p> <p>Management determined that the CGUs for the purpose of testing impairment for property and equipment and right-of-use assets are the Company operated coffeehouses. The recoverable amount for these CGUs was based on value in use using discounted cash flow models. The significant assumptions applied by management in determining the value in use included revenue projections, a revenue growth rate and discount rate. Management recognized an impairment of \$66 thousand on property and equipment and \$265 thousand on right-of-use assets for 2022.</p> <p>Management determined that the CGU for the purpose of testing impairment of goodwill and trademarks is the Bridgehead CGU. The recoverable amount for the Bridgehead CGU was based on value in use using a discounted cash flow model. The significant assumptions applied by management in determining value in use included the revenue projections, a revenue growth rate and a discount rate. The recoverable amount of the Bridgehead CGU exceeded its carrying amount and accordingly, no impairment was recognized.</p> <p>We considered this a key audit matter due to the judgement by management in determining the recoverable amounts, including the use of significant assumptions. This, in turn, led to a high degree of subjectivity and audit effort in performing procedures to test the significant assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.</p>	<p>sales applied by management in the discounted cash flow model by comparing to past performance and external market data.</p> <ul style="list-style-type: none"> • Tested the underlying data used in the discounted cash flow models. • Professionals with specialized skill and knowledge in the field of valuation assisted in testing the reasonableness of the discount rate applied by management based on available data for comparable companies.
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Other Information

Management is responsible for the other information. The other information comprises the information included in the Management’s Discussion & Analysis filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated. If, based on the work we have performed, we





conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Anna C. Moreton.

Baker Tilly WM LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, B.C.
March 19, 2023

Aegis Brands Inc.

Consolidated Statements of Financial Position

As at December 25, 2022, and December 26, 2021

(Expressed in thousands of Canadian dollars)

ASSETS	2022	2021
Current assets		
Cash and cash equivalents (Note 9)	\$ 6,508	\$ 1,765
Trade and other receivables (Note 10)	808	255
Notes and leases receivable (Note 10)	1,640	136
Inventories (Note 11)	919	670
Prepaid expenses and other assets	217	167
	<u>10,092</u>	<u>2,993</u>
Non-current assets		
Investments in equity securities (Note 12)	66	4,995
Notes and leases receivable (Note 10)	3,596	387
Property and equipment (Note 13)	2,080	2,714
Right-of-use assets (Note 13)	3,062	3,968
Intangible assets (Note 14)	46,202	3,911
Goodwill (Note 14)	8,782	1,352
	<u>73,880</u>	<u>20,320</u>
Total assets	<u>\$ 73,880</u>	<u>\$ 20,320</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 15)	\$ 5,621	\$ 3,316
Lease liabilities (Note 17)	2,374	1,395
Current portion of long-term debt (Note 19)	1,079	-
Deferred revenue (Note 16)	1,795	268
	<u>10,869</u>	<u>4,979</u>
Non-current liabilities		
Provisions (Note 17)	1,047	1,217
Lease liabilities (Note 17)	7,717	5,545
Long-term debt (Note 19)	28,795	-
Convertible debentures (Note 20)	18,407	-
Deferred income taxes (Note 26)	-	676
	<u>66,835</u>	<u>12,417</u>
Total liabilities	<u>66,835</u>	<u>12,417</u>
SHAREHOLDERS' EQUITY	<u>7,045</u>	<u>7,903</u>
Total liabilities and shareholders' equity	<u>\$ 73,880</u>	<u>\$ 20,320</u>

See accompanying notes to the consolidated financial statements.
Contingencies, commitments and guarantees (Note 29).
Subsequent events (Note 34).

Approved by the Directors on March 17, 2023.

Michael Bregman, Director

Stephen Kelley, Director

Aegis Brands Inc.

Consolidated Statements of Operations and Comprehensive Loss

For the 52 weeks ended December 25, 2022, and December 26, 2021

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

	<u>2022</u>	<u>2021</u>
Revenue (Note 21)	\$ 15,159	\$ 10,876
Operating costs and expenses (Note 22)		
Cost of sales	11,123	8,217
General and administrative expenses	6,065	4,151
Depreciation of property and equipment	642	761
Amortization of right-of-use assets	973	1,084
Amortization of intangible assets	109	-
Loss (gain) on disposal of property and equipment	(19)	84
Revaluation of securities, warrants, and other (Note 25)	4,930	735
Asset impairment (Note 24)	331	617
Acquisition related costs (Note 3)	571	-
Total operating costs and expenses	<u>24,725</u>	<u>15,649</u>
Loss from continuing operations, before income taxes	(9,566)	(4,773)
Interest and financing expense (Note 23)	(1,239)	(493)
Other income	97	-
Loss before income taxes	(10,708)	(5,266)
Recovery of income taxes (Note 26)	1,460	404
Loss from continuing operations	(9,248)	(4,862)
Loss from discontinued operations, net of tax	-	(3,052)
Net and comprehensive loss for the period	<u>\$ (9,248)</u>	<u>\$ (7,914)</u>
Basic and diluted loss per share (Note 27)	\$ (0.38)	\$ (0.34)

See accompanying notes to the consolidated financial statements.

Aegis Brands Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Expressed in thousands of Canadian dollars, except for share amounts)

	Common Shares #	Share Capital	Reserves	Equity component of Convertible Debentures	Deficit	Total
Balance, December 26, 2020	22,916,028	\$ 32,523	\$ 61,881	\$ -	\$ (78,995)	\$ 15,409
Net and comprehensive loss	-	-	-	-	(7,914)	(7,914)
Common shares issued	314,199	372	-	-	-	372
Stock option expense (Note 32)	-	-	36	-	-	36
Balance, December 26, 2021	23,230,227	\$ 32,895	\$ 61,917	\$ -	\$ (86,909)	\$ 7,903
Net and comprehensive loss	-	-	-	-	(9,248)	(9,248)
Common shares issued	10,417,765	3,075	-	-	-	3,075
Conversion component of convertible debentures (Note 20)	-	-	-	4,927	-	4,927
Stock option expense (Note 32)	-	-	388	-	-	388
Balance, December 25, 2022	33,647,992	\$ 35,970	\$ 62,305	\$ 4,927	\$ (96,157)	\$ 7,045

See accompanying notes to the consolidated financial statements.

Aegis Brands Inc.

Consolidated Statements of Cash Flow

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Expressed in thousands of Canadian dollars)

CASH PROVIDED BY (USED IN)	2022	2021
Operating activities		
Net loss for the period	\$ (9,248)	\$ (7,914)
<i>Adjusted for:</i>		
Net loss from discontinued operations	-	3,052
<i>Items not involving cash</i>		
Depreciation of property and equipment (Note 13)	642	761
Amortization of right-of-use assets (Note 13)	973	1,084
Amortization of intangible assets (Note 14)	109	-
Share-based compensation and stock option expense	388	408
Deferred taxes (Note 26)	(1,460)	(404)
Gain on disposal of a subsidiary (Note 4)	-	(4,769)
Loss on sale of business unit (Note 4)	-	3,930
Interest expense – lease liabilities (Note 23)	388	425
Interest income – lease receivable (Note 23)	(47)	(12)
Loss (gain) on disposal of property and equipment	(19)	84
Change in fair value of investments in equity securities	4,930	1,738
Asset impairment charges (Note 24)	331	617
Revaluation of contingent consideration	-	(1,003)
Expenses settled with marketable securities	-	191
Share of equity investment loss	-	84
Changes in non-cash working capital and other (Note 28)	2,279	1,043
Cash used in operating activities – discontinued operations	-	(3,291)
Cash used in operating activities	<u>(734)</u>	<u>(3,976)</u>
Investing activities		
Acquisition of property and equipment	(65)	(81)
Proceeds received on sale of property and equipment	196	-
Cash payment for acquisition of St. Louis (Note 3)	(50,000)	-
Proceeds on sale of business unit (Note 4)	-	11,776
Cash used in investing activities – discontinued operations	-	(3,454)
Cash provided by (used in) investing activities	<u>(49,869)</u>	<u>8,241</u>
Financing activities		
Proceeds of long-term debt (Note 19)	30,000	-
Net repayment of short-term debt (Note 18)	-	(501)
Lease payments (Note 17)	(1,655)	(1,696)
Proceeds from convertible debentures issued (Note 20)	25,045	-
Proceeds from common shares issued	3,375	-
Financing costs	(1,419)	-
Cash used in financing activities – discontinued operations	-	(1,252)
Cash provided by (used in) financing activities	<u>55,346</u>	<u>(3,449)</u>
Increase in cash and cash equivalents during the period	4,743	816
Cash and cash equivalents - Beginning of the period	1,765	949
Cash and cash equivalents - End of the period (Note 9)	\$ 6,508	\$ 1,765
Supplementary information		
Interest paid	\$ 1,059	\$ 27

See accompanying notes to the consolidated financial statements.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

1. Organization and nature of business

Aegis Brands Inc. (the “Corporation” or “Aegis”) (together with its subsidiaries, the “Company”) currently owns and operates Bridgehead Coffee and St. Louis Bar & Grill. Bridgehead Coffee is operated by the Company’s wholly-owned subsidiary Bridgehead (2000) Inc. (“Bridgehead”). St. Louis Bar & Grill franchise business is operated by the Company’s wholly-owned subsidiary SLF Operations LP (“St. Louis”).

Aegis is a Canadian public company incorporated under the Business Corporations Act (Ontario) in 2011. The Company’s registered office is at 2040 Yonge Street, Suite 200B Toronto, Ontario M4S 1Z9. The Company’s website is www.aegisbrands.ca. The Company’s common shares trade on the Toronto Stock Exchange under the ticker symbol “AEG”. Each existing certificate reflecting the Company’s prior name The Second Cup Ltd. continues to represent a valid certificate until such certificate is transferred, re-registered or otherwise exchanged.

As of December 25, 2022, the Company has 21 Company-owned coffeehouses including its flagship roastery, all of which operate under the Bridgehead brand and 74 franchised St. Louis locations, all which operate under the St. Louis Bar & Grill brand.

On September 29, 2022, the Company entered into a definitive purchase agreement to purchase substantially all of the assets of the St. Louis Bar & Grill franchise business. This transaction was completed on November 17, 2022.

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. (“Hemisphere”). This transaction was completed on September 24, 2021.

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

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.

Since the declaration of the pandemic, a majority of the Bridgehead coffeehouse locations continued to be negatively impacted by the decline in consumer foot traffic especially notable in downtown Ottawa, scaled down nature of store operations due to closure of dining space for periods of time, and the general shift in consumer spending patterns in the retail industry. As of December 25, 2022, 1 out of the 21 Bridgehead coffeehouses remained temporarily suspended for business operations due to COVID-19.

The temporary and permanent store closures, and restricted store operations as a result of the circumstances described above, has significantly reduced sales and impacted the Company’s cash flows in fiscal 2021 and 2022, resulting in a third straight year with negative cash flow from operations. 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 has recognized an impairment charge against its assets during the 52-week period.

In an effort to mitigate the risks associated with the pandemic and in response to the reduction of sales, in fiscal 2020 and 2021 the Company actively reduced its operating costs by halting discretionary capital expenditures and lowering its staff compensation costs. Through fiscal 2021 and 2022, the Company continued to evaluate all available, applicable government relief programs, including the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy (CERS)

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

program, which are financial relief measures initiated by the Government of Canada in response to the economic impacts of the COVID-19 pandemic. The Company determined that it was eligible to qualify for the above relief financial programs.

For the 52-week period ended December 25, 2022, the Company applied for \$720,550 (2021-\$2,032,000) of wage subsidies in connection with the CEWS financial relief program. The Company has recorded the wage subsidy as a reduction to the eligible remuneration expense incurred by the Company for this period.

For the 52-week period ended December 25, 2022, the Company applied for \$381,080 (2021-\$1,213,000) of rent subsidies in connection with the CERS financial relief program. The Company has recorded the rent subsidy as a reduction to the eligible rent expense incurred by the Company for this period.

3. Business Combinations

Acquisition of Bridgehead

On January 9, 2020, the Company completed the acquisition of 100% of the issued and outstanding shares of Bridgehead (2000) Inc., which is based in Ottawa. The base purchase price consisted of cash consideration of \$6,000,000, stock consideration of \$3,300,000, which represented the fair value of the stock as at the valuation date of January 8, 2020, and additional earn out payments of up to \$1,500,000 based on the profitability of Bridgehead's existing coffeeshouses over the next two years.

Since this acquisition closed in early 2020, the Bridgehead operations were almost immediately negatively impacted by the effects of the COVID-19 global pandemic and almost three years later, the operations continue to try to work their way back. Bridgehead was only able to survive the pandemic because of the rent and wage subsidies provided to eligible businesses by the government of Canada. In 2020, an impairment charge of \$3,000,000 was recorded against the Bridgehead assets. The brand's 2020 profitability was far below the threshold for the potential earn out payment for that year and as a result, that portion of the potential earn out was reversed. In 2021 and 2022, further impairment charges of \$617,000 and \$331,000 respectively were recorded against the Bridgehead assets. In 2021, it was management's assessment that no earn out would be paid since the profitability of Bridgehead in that year before government subsidies was below the level required for the earn out to be paid, and as a result, at December 31, 2022 and 2021 the earn out liability "contingent consideration" was measured at \$nil. No earnout has been paid.

Acquisition of St. Louis

On November 17, 2022, Aegis completed the acquisition of substantially all of the assets of the St. Louis Franchise business pursuant to the terms and conditions set forth in the asset purchase agreement. The fair value of consideration on closing was \$50,000,000 in cash. The cash consideration was financed (before financing fees) 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. Acquisition related costs totaled \$2,007,000, of which \$571,000 was expensed and \$1,436,000 was recognized against the related debt or equity.

The St. Louis business acquisition aligns with the Company's growth strategy, and has an existing franchise and development platform which can be leveraged.

Goodwill acquired is primarily attributable to expected earnings growth and potential synergies.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

The Company has completed a preliminary fair value determination of the identifiable assets acquired and liabilities assumed in connection with the acquisition of St. Louis and the \$50,000,000 cash purchase price has been allocated as follows:

Working capital (see below)	\$	-
Property and equipment		170
Contracts		20,400
Trademarks		22,000
Goodwill		7,430
Total	\$	50,000

Working capital upon closing was calculated as follows:

Assets		
Segregated cash (Note 9)	\$	1,107
Accounts receivable		318
Prepaid expenses		19
Inventory		122
Total Assets		1,566
Liabilities		
Accounts payable and accruals		47
Deferred revenue		1,451
Other current liabilities		68
Total Liabilities		1,566
Working Capital	\$	-

For the period from acquisition to December 25, 2022 the revenue and profit or loss included in the statement of operations and comprehensive loss attributed to the acquisition of St. Louis are \$1,952,000 and \$251,000 respectively. The amount of revenue and profit or loss attributable to St. Louis acquisition had it been completed on December 27, 2021 is not readily determinable. The goodwill is not expected to be deductible for tax purposes.

4. Discontinued Operations

Disposal of Second Cup

On February 7, 2021, the Company entered into a definitive agreement to sell substantially all the assets comprising 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. No earnout has been accrued or paid to date. The sale was completed on April 23, 2021.

The following table summarizes the loss recorded on the sale of the Second Cup assets:

Proceeds received on sale	\$	11,776
Net assets disposed		(14,738)
Adjustments post-closing		(968)
Loss on sale	\$	(3,930)

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

The following table summarizes the net assets of the Second Cup business unit as at April 23, 2021:

Current assets	
Accounts receivable	\$ 480
Prepaid expenses	322
Inventory	272
Non-current assets	
Property, plant, and equipment	2,801
Lease receivables	39,673
Right-of-use assets	7,953
Intangible assets	20,007
Assets of Second Cup	71,508
Current liabilities	
Accounts payable and accruals	2,950
Deferred revenue	2,145
Non-current liabilities	
Lease liabilities	51,675
Liabilities of Second Cup	56,770
Net Assets of Second Cup	\$ 14,738

Disposal of Hemisphere

The Company completed a transaction with Kiaro Holdings Corp. ("Kiaro"), a TSX-V-listed cannabis retailer and wholesale distributor, on September 24, 2021, pursuant to which it sold its Hemisphere subsidiary to Kiaro. In consideration for 100% of Hemisphere's common shares, Aegis received 61,300,000 Kiaro common shares plus 6,700,000 Kiaro common share purchase warrants at a strike price of \$0.16 with an expiry of September 24, 2024. The Company received an additional 4,790,000 Kiaro shares (net of transaction expenses) on November 12, 2021 upon the achievement of certain commercial milestones.

On September 23, 2022, Kiaro announced that it would effect a consolidation of its common shares on the basis of 1 share for every 10 common shares and issued an additional 10,000,000 common shares, resulting in Aegis' ownership position decreasing below 20%.

The following table summarizes the gain recorded on the sale of Hemisphere Cannabis Co.:

Proceeds received on sale	\$ 6,820
Net assets disposed	(2,138)
Adjustments pre and post-closing	87
Gain on sale	\$ 4,769

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

The following table summarizes the net assets of Hemisphere Cannabis Co. as at September 24, 2021:

Current assets	
Cash	\$ 42
Accounts receivable	29
Prepaid expenses	81
Inventory	551
Non-current assets	
Property, plant, and equipment	2,489
Right-of-use assets	5,181
Intangible assets	22
Assets of Hemisphere Cannabis Co.	8,395
Current liabilities	
Accounts payable and accruals	428
Non-current liabilities	
Lease liabilities	5,829
Liabilities of Hemisphere Cannabis Co.	6,257
Net Assets of Hemisphere Cannabis Co.	\$ 2,138

In accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, the Company has presented the after-tax loss from discontinued operations as a single amount in the Consolidated Statement of Operations.

5. Summary of significant accounting policies

a. Basis of preparation

The consolidated financial statements (the “financial statements”) have been prepared in accordance with and comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”). The financial statements were approved and authorized for issue by the Board of Directors on March 17, 2023. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period. The functional currency of the Company and its subsidiaries is the Canadian dollar.

The Company’s fiscal year (the “period”, “fiscal year”, or “year”) follows the method implemented by many retail entities, such that each quarter consists of 13-weeks and ends on the Sunday (formerly Saturday) closest to the calendar quarter-end.

The fiscal year is made up of 52 or 53-week periods ending on the last Sunday of December. Fiscal 2022 and 2021 are both 52-week periods. The Company’s results in fiscal 2022 reflect the consolidated financial statements of Aegis, the Bridgehead brand, and the St. Louis brand.

The Company’s results in fiscal 2021 reflect the consolidated financial statements of Aegis and the Bridgehead brand, with Second Cup and Hemisphere presented as discontinued operations.

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period:

- 1) in the current period, certain figures have been included on the Cost of Sales which were included in General and Administrative expenses in the prior year.
- 2) in the current period, certain amounts that were included as other liabilities in the prior year are now included in accounts payable and accruals.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

b. Segmented information and reporting

The Company's retail brands operate as independent brands. Financial results and business performance indicators are provided to the Chief Executive Officer for each brand, and hence each brand represents its own reportable segment. The financial results of the brands are reported on a consolidated basis on these financial statements, with Second Cup and Hemisphere presented as discontinued operations in 2021.

The Company's consolidated operating revenues from continuing operations are comprised of the sale of goods from Company-operated coffeeshops, the sale of goods through retail and other ancillary channels, royalties from the St. Louis franchisees, supplier contributions, and other service fees. The Company's consolidated operating revenues from discontinued operations are comprised of royalties from franchised cafés (Second Cup), the sale of goods from Company-operated cafés (Second Cup) and retail cannabis dispensaries (Hemisphere).

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

c. Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries:

- Bridgehead (2000) Inc.
- 2707048 Ontario Corporation (inactive)
- SLF Operations GP Inc.
- SLF Operations Limited Partnership
- SLF IP Operations Inc.

IFRS 10, Consolidated Financial Statements, outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

All intercompany transactions, including revenue and expenses were eliminated on preparation of these annual consolidated financial statements.

d. Business combinations

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

The Company accounts for business combinations by applying the acquisition method.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value. Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

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

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

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

Contingent consideration classified as equity is not remeasured and its subsequent settlement shall be accounted for within equity. The additional consideration is classified as a financial instrument, with the contingent consideration being measured at fair value and gains and losses recognized in profit or loss.

e. Discontinued operations

A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished from the rest of the Company and which: represents a separate major line of business or geographical area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or is a subsidiary acquired exclusively with a view to resale. Classification as discontinued operations occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale or distribution.

When an operation is classified as a discontinued operation, the comparative statements of operations and comprehensive loss are re-presented as if the operation had been discontinued from the start of the comparative year. The Company's discontinued operations are excluded from the results of continuing operations and are presented as a single amount, after income taxes, as net earnings from discontinued operations in the consolidated statements of operations and comprehensive loss.

f. Financial statement line items

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when obligations are discharged, cancelled or they expire.

Financial assets and liabilities are offset, and the net amount reported in the Consolidated Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Hedge accounting is not used.

Financial assets classified as fair value through profit or loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as fair value through other comprehensive income ("FVTOCI") are measured at fair value with any subsequent remeasurement recognized in other comprehensive income. When FVTOCI financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets held in order to collect contractual cash flows and where the contractual cash flows are solely payments of principal and interest are classified as measured at amortized cost. Transaction costs associated with FVTPL financial instruments are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are classified as other financial liabilities and are subsequently measured at amortized cost using the effective interest rate method which calculates the amortized cost of a financial asset or financial liability and in the allocation and recognition of the interest revenue or expense in profit or loss over the relevant period. The Company has classified its financial instruments as follows:

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

Financial instrument	Recognition method
<i>Financial assets</i>	
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Notes receivable	Amortized cost
Investments in equity securities	Fair value through profit or loss
<i>Financial liabilities</i>	
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Convertible debentures	Amortized cost

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of 30 days, which are subject to an insignificant risk of changes in value.

Leases receivable

The leases receivable balance primarily relates to leases that the Company has entered into with the landlord and has subsequently entered into a sublease agreement with the tenant. IFRS 16 requires the Company, as an intermediate lessor, to classify a sublease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying property. The lease receivable for the sublease was measured at the amount equal to the lease liability and includes the underlying interest income resulting from the sublease agreement.

Government grants

Government grants are recognized as they are received or if there is reasonable assurance that the grant will be received, and the Company will comply with all underlying terms and conditions of the grant. Government grants relating to costs are recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Inventories

Inventories are stated at the lower of cost and net realizable value, with cost being determined on a first-in first-out basis for items that are interchangeable. Net realizable value is the estimated recoverable amount less applicable selling expenses. If the carrying value exceeds the net realizable amount, a write-down is recognized. Write-downs are reversed if the circumstances that caused the initial write-down no longer exist.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation net of any impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying value of a replaced asset is removed when replaced. Repairs and maintenance costs are charged to the consolidated statements of profit or loss during the period in which they are incurred. Where property and equipment construction projects are of a sufficient size and duration, an amount is capitalized for the costs used to finance construction.

Depreciation is calculated using the straight-line basis as this approach best reflects consumption and benefit patterns pertaining to the asset's use. Depreciation is charged commencing when the asset is available for use. The following rates are based on the expected useful lives of the assets:

Leasehold improvements	lesser of 10 years and the remaining term of the lease
Equipment, furniture, fixtures, and other	3 to 7 years
Computer hardware	3 years

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

Investments in associates

Investments in associates are accounted for using the equity method. Investments of this nature are recorded at original cost. The investment is adjusted at each reporting date for the Company's share of the profit or loss of the investment after the date of acquisition. The investor's share of the profit or loss of the investee is also recognized in the Company's profit or loss. Distributions received reduce the carrying amount of the investment.

The Company assess investments in associates for impairment whenever changes in circumstance or events indicate that the carrying value may not be recoverable. If such impairment indicators exist, the carrying amount of the investment is compared to its recoverable amount. The recoverable amount is the higher of the investment's fair value less costs of disposal and its value in use. The investment is written down to its recoverable amount when its carrying amount exceeds the recoverable amount.

Right-of-use assets

IFRS 16 requires the Company, as a lessee for company-operated coffeehouses as well as the Home Office lease to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value; and recognize depreciation for lease assets separately from interest on lease liabilities within the consolidated statements of profit or loss. Right-of-use assets are measured at cost comprising the following:

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

The balance of the Company's right-of-use assets is presented net of impairment recorded on the consolidated statements of financial position.

Intangible assets

Intangible assets consist of trademarks and software, which are recorded at cost and subsequently amortized or assessed for impairment as follows:

(i) Trademarks

Trademarks consist of trade names, operating procedures and systems and other intellectual property used in connection with the operation of the Bridgehead coffeehouses and St. Louis Bar and Grill in Canada are recorded at the historical cost less impairment write-downs. Both trademarks are tested annually for impairment or at any time an indicator of impairment exists. The trademark assets do not have continual renewal requirements nor is there any deterioration incurred due to usage.

(ii) Contracts

Contract assets consist of franchise agreements as well as supplier contracts and are recorded at cost less accumulated amortization. Contract assets are considered to have a life of 20 years and are amortized on a straight-line basis. Contracts are tested for impairment at any time an indicator of impairment exists.

(iii) Software

Purchased software is recorded at cost and amortized commencing when the asset is available for use. Amortization is calculated using the straight-line basis as management believes this approach best reflects consumption and benefit patterns pertaining to the asset's use. The following rate is based on the expected useful life of the asset: 3-7 years.

(iv) Goodwill

The Company has recorded Goodwill on its consolidated statements of financial position, which is carried at cost net of impairment losses.

Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in profit or loss except to the extent

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

that they relate to items recognized directly in equity, in which case the income tax is also recognized directly in equity. Current income taxes are the expected taxes payable on the taxable income for the period, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted as at the reporting date. Deferred tax assets and liabilities are offset to the extent that they relate to income taxes levied on the same taxable entity by the same taxation authority.

A deferred tax asset is recognized for unused tax losses and tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Deferred revenue

Gift card and loyalty program liability

The gift card program allows customers to prepay for future purchases by loading a dollar value onto their gift cards through cash or credit/debit cards in the coffeehouses or restaurants or online through credit cards, when and as needed. The gift card liability represents liabilities related to unused balances on the card net of estimated breakage. These balances are included as revenue at the time the customer redeems the amount in a coffeehouse or restaurant for products. Gift cards do not have an expiration date and outstanding unused balances are not depleted for the Company's guests and will be honoured regardless of activation date.

The determination of the gift card breakage rate is based upon Company-specific historical load and redemption patterns. The Company has calculated a breakage rate of 3.19% in fiscal 2022 based on historical redemption patterns for Bridgehead, the nature of the gift card program and data of gift card transactions. Gift card breakage is recognized on a pro rata basis based on historical gift card redemption patterns. St. Louis administers the gift card program for its franchisees with collecting the funds from gift cards purchased and repaying franchisees when gift cards are redeemed. St. Louis holds these funds in a separate bank account and funds are collected or repaid monthly from and to the franchisees.

Other Franchise revenue

Other franchise revenue consists of franchise fees, renewal fees, supplier contributions, construction administration fees, decor fees and other ancillary fees (such as training fees) and are recognized on the basis of the underlying contract on a straight-line basis over the contract's term.

Lease liabilities

The Company enters into leases for its coffeehouse locations, its Home Office, as well as equipment in the normal course of business operations. The Company has measured its lease liabilities at the net present value of its future lease payments, including fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees,

the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

Convertible debentures

Convertible debentures issued by the Company are compound financial instruments under IAS 32 Financial Instruments Presentation (“IAS 32”). Under IAS 32, the Company must recognize separately the components that create a financial liability (the “liability component”) and grant an option to the holder of the debentures to convert them into an equity instrument of the Company (the “equity component”).

Proceeds received by the Company upon issuance of debentures are allocated between the liability and equity components. The fair value of the liability component is the present value of the stream of future cash flows discounted by a market rate of interest applicable to a similar non-convertible instrument. The Company initially recognizes a financial liability as the fair value of the liability component, reduced by the proportionate share of transaction costs. The financial liability is subsequently accreted to the face value of the liability component over the term of the debentures at the effective interest rate. The equity component is allocated the residual value being the difference between the proceeds received and the fair value of the liability component.

Under IAS 12 Income Taxes, for a compound financial instrument, the Company must account for the deferred tax effects upon recognition of an equity instrument. This assumes the tax basis of the financial liability recognized is equal to the sum of the liability and equity components. A resulting taxable temporary difference arises from the initial recognition of the equity component separately from the liability component. Upon initial recognition of an equity instrument, a deferred tax charge is accounted for directly in equity and a deferred tax liability is recognized.

Revenue recognition

Revenue recognition is based on a five-step approach which includes identifying the contract with the customer, identifying the performance obligations, determining the individual transaction price, allocating the transaction price to the performance obligations in the contract and recognizing revenue when the relevant performance obligations are satisfied. Revenue is reduced for estimated customer returns, rebates, and other revenue related concessions.

Included in revenue related to continuing operations is revenue from company-owned coffeehouses, supplier contributions, franchise and royalty fees, as well as other sales relating to the Bridgehead and St. Louis businesses including products sold online through the Company websites, as well as products sold in grocery stores through wholesale distribution channels and third-party licensing agreements.

Coffeehouse and wholesale revenue is recognized at a point in time when the services are rendered, and the product is sold to the end consumer. Payment is collected at the time of sale and the consideration received is unconditional. For coffeehouse sales, the end customer is considered to be the guest whereas for wholesale, the end customer is the distributor.

Royalty and Advertising Fund revenue from franchised locations is based on agreed percentage rates of the franchise location sales. Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. For Advertising Fund revenue, the revenue is recognized when corresponding expenses are made in accordance with the matching principle.

The Company generates supplier contributions on agreed upon terms made with vendors based on multiple factors. Signing bonuses are received at the time of signing of the contract and are recognized on a straight-line basis over the term of the contract. Other revenue includes franchise fees, services and other fees consist of initial franchise fees, renewal fees, construction administration fees, decor fees and other ancillary fees (such as training fees). This revenue is recognized on an accrual basis in accordance with the relevant agreement, provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

g. Directors’ deferred share unit plan

Units granted under the Directors’ deferred share unit (“DSU”) plan have graded vesting for each month of service completed over the course of one year. Units are paid out in cash upon the termination of the director. Units are granted based on a weighted average price of the Company’s shares on the five most recent days preceding the grant date. The fair value of the grants is amortized over the respective vesting period using the graded amortization method. Compensation expense is adjusted for changes in fair value of the Company’s share price thereafter. Any dividends paid during the vesting period are accrued based

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

on the total number of units granted. Amounts recognized are recorded in general and administrative expenses. Recorded values of the plan are presented as accounts payable and accrued liabilities in the consolidated statements of financial position. All Directors currently receive their Directors' fees in cash. The balance in the Directors' deferred share unit plan relates to the balance owing to Directors who haven't had their DSU balance settled. This DSU balance will be revalued every quarter based on the current market price of Aegis shares until it is paid out in accordance with the terms of the plan.

h. Impairment of financial assets and leases receivable

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit loss (ECL) if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset's credit risk has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve-month ECL. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of the ECL (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

i. Impairment of non-financial assets

Property and equipment, intangible assets without indefinite lives, and right-of-use assets (resulting from the Company-owned coffeehouses and lease commitments) are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Assets with indefinite lives, and goodwill are subject to an annual impairment test or any time an impairment indicator exists. The year-end date has been selected as the mandatory annual test date.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from their assets or group of assets, which represent a cash generating unit (CGU). The recoverable amount of each particular CGU is the higher of its fair value less costs of disposal and value in use.

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

j. Related parties

For the purposes of these consolidated financial statements, a party is considered related to the Company if such party or the Company has the ability to, directly or indirectly, control or exercise significant influence over the other entity's financial and operating decisions, or if the Company and such party are subject to common influence. Related parties may be individuals or other entities and include members of key management of the Company.

k. Share-based compensation

For share option awards granted as part of the stock option plan, a fair value is determined at the date of grant and that fair value is recognized in the consolidated financial statements over the vesting period. Proceeds arising from the exercise of share option awards are credited to share capital, as are the recognized grant-date fair values of the exercised share option awards. Share option awards that are determined to be settled on a net-equity basis are accounted for as equity instruments. Share option awards that are determined to be settled on a net-cash settlement basis are accounted as liability instruments. The stock option plan was introduced in May 2014, and was since Amended and Restated and approved at the Annual and Special Meeting of Shareholders in fiscal 2020. The Amended and Restated Stock Option Plan ("the Plan") is substantially the same as the original Stock Option Plan, except for amendments, including: the replacement of the fixed limit of 990,304 Shares issuable under the Stock Option Plan with a new limit consisting of 10% of the total issued and outstanding Shares of

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

the Company, effectively converting the Amended and Restated Stock Option Plan into an “evergreen” plan.

1. Accounting standards issued but not yet applied

The following are the standards, amendments, and interpretations that the Company expects may be applicable at a future date and, if so, intends to adopt when they become effective. Certain accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company’s financial statements.

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted.

Critical accounting estimates, assumptions, and use of judgement

The preparation of 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 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, contracts, and goodwill. Management has assessed the recoverable amounts after noting indicators of impairment as a direct result of the COVID-19 pandemic;
- the derivation of deferred income tax assets and liabilities;
- the estimated useful lives of assets;
- the allowance for credit losses;
- the purchase price allocation in business combinations;
- the fair value of intangible assets acquired in business combinations; and
- the ability of the Company to remain a going concern.

(i) Impairment charges

Impairment analysis is an area involving management judgement in determining the recoverable amount of an asset. The recoverable amount of a 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 cashflows 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
- estimating the impact of the COVID-19 pandemic on the future business operations of the Company, including the impact on the ability to grow revenue and cash flow.

Changing the assumptions selected by management, in particular the revenue projections, discount rates and the growth rates

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

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.

(iii) Estimated useful lives

The useful lives of property and equipment and contracts 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 and contract assets 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 and contracts in the future.

(iv) Fair value of intangible assets acquired in a business combination

Management applied significant judgement in estimating the fair value of the intangible assets. To estimate the fair value of the trademarks, and contract assets 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.

6. Share capital

The Company is authorized to issue an unlimited number of common shares. Common shares are classified as equity and have no par value. Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds.

On July 3, 2019, in accordance with the terms of the employment agreement with the Company's President and CEO, the Company issued Mr. Steven Pelton 515,241 common shares in the capital of the Company at \$1.70 per share. Mr. Pelton paid \$200,000 in cash for 117,641 shares and 397,600 shares were paid with the proceeds of two loans advanced to Mr. Pelton by the Company – a five-year loan of \$500,000 repayable in June 2024 and a one-year loan of \$176,000 repayable in June 2020, both loans accruing interest at 4.0% per annum. The loan of \$176,000 plus accrued interest was repaid by Mr. Pelton on June 30, 2020, in accordance with the terms of the employment and loan agreement.

On July 5, 2021, the Company issued 314,199 shares to Directors and certain members of management valued at \$372,000 as compensation for services that were not paid for during the pandemic. Fair value of the shares was determined using a 5 day Volume-Weighted Average Price (VWAP).

In November 2022, the Company completed the acquisition of the St. Louis franchise business. To partially fund the acquisition, the Company issued 10,417,765 common shares for gross proceeds of \$3,375,000 through a Private Placement.

7. Management of capital

The Company's objectives, which have not changed during the current fiscal year, relating to the management of its capital structure are to:

- safeguard its ability to continue as a going concern;
- maintain financial flexibility in order to preserve its ability to meet financial obligations; and
- deploy capital to provide an adequate return to its shareholders.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

The Company's capital is comprised of its share capital, long-term debt, and convertible debentures:

	2022	2021
Share capital	\$ 35,970	\$ 32,895
Long-term debt	29,874	-
Liability portion of convertible debentures	18,407	-
Equity portion of convertible debentures	4,927	-
	<u>\$ 89,178</u>	<u>\$ 32,895</u>

The Company's primary uses of capital are to finance growth in the Bridgehead and St. Louis brands, growth by acquisition, and other corporate purposes. The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay financial liabilities, issue shares, repurchase shares, or undertake any activities as deemed appropriate under the specific circumstances.

On December 7, 2020, the Company entered into a loan agreement with CWB Franchise Finance ("CWB"), a division of the Canadian Western Bank Financial Group, consisting of a revolving credit facility ("Credit Facility"), which is now \$3,000,000. Refer to note 18 for more information.

On December 7, 2021, the Company finalized a development line of credit ("DLOC") with CWB, which is now \$30,000,000, to continue the Company's growth in the foodservice industry through acquisition. Refer to note 18 for more information.

On November 17, 2022, the Company drew \$30,000,000 under the Company's DLOC with CWB to partially fund the St. Louis acquisition.

8. Financial instruments and financial risk management

Financial instruments

The following summarizes the nature of certain risks applicable to the Company's financial instruments:

Financial instrument

Risks

Financial assets

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

Financial liabilities

Accounts payable and accrued liabilities

Liquidity

Short-term debt

Liquidity

Long-term debt

Credit, liquidity, and interest rate

Convertible debentures

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.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

The fair value of warrants was determined using the Black-Scholes pricing model. This valuation model requires five input variables and is level 3 in the hierarchy: the exercise price of the warrants, the current price of the underlying stock, the time to expiration, the risk-free interest rate, and the stock's volatility. The stock's volatility was adjusted at year end for industry specific factors and other considerations to determine the fair value of the warrants. In some cases, the warrants are marketable securities, and in that case the fair value is determined by its trading value.

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 52 weeks ended December 25, 2022.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

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.

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

Trade and other receivables and notes and lease receivable are primarily comprised of amounts due from lessees of Bridgehead and St. Louis. 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 of other receivables is mitigated due to Company-owned coffeehouses receiving payment for goods sold as they are selling them, and therefore, receivable balances are minimal.

The Company has applied IFRS 9's simplified approach and has calculated ECLs 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.

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 December 25, 2022 an increase or decrease of 1% in the bank prime rate would have an impact of \$295,000 on annual interest expense using the balance of the long-term debt at December 25, 2022 and expected loan payments.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

9. Cash and cash equivalents

Cash and cash equivalents is comprised of the following:

	2022		2021	
Cash	\$	2,087	\$	1,515
Term deposits		3,022		250
Segregated cash		1,399		-
	\$	6,508	\$	1,765

Segregated cash is cash held on behalf of the St. Louis Advertising Fund, gift card account bank balances, and cash that has been collected for charity.

10. Trade and other receivables, notes, and leases receivable

a. Trade and other receivables

An analysis of aging of trade and other receivables from the billing date net of loss allowances are as follows:

	0-30 Days	31-60 Days	61-90 Days	>90 Days	Total
Trade receivables – gross amount as at December 26, 2021	\$ 60	\$ 14	\$ 181	-	\$ 255
Trade receivables – gross amount as at December 25, 2022	\$ 679	\$ 29	\$ 3	\$ 134	\$ 845
Loss allowance	(37)	-	-	-	(37)
Net	\$ 642	\$ 29	\$ 3	\$ 134	\$ 808

Trade receivables include a combined loss allowance of \$37,434 (December 26, 2021 - \$nil). Credit terms vary by customer in the range of 30 to 90 days.

b. Notes and leases receivable

	2022		2021	
Notes and other lease receivables	\$	747	\$	186
Leases receivable		4,489		337
	\$	5,236	\$	523
Notes and leases receivable – current	\$	1,640	\$	136
Notes and leases receivable – long-term		3,596		387
Notes and leases receivable	\$	5,236	\$	523

The notes and other leases receivable balance for December 25, 2022 is made up of lease receivables related to Bridgehead coffeehouse locations that have been subleased as well as franchised St. Louis Bar & Grill locations in which the Company is named on the head lease with the franchisee being the sublessor.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

The following table outlines the total contractual undiscounted real estate lease receivables as at December 25, 2022 and December 26, 2021:

	2022	2021
Year 1	\$ 1,343	\$ 83
Year 2	1,273	83
Year 3	989	83
Year 4	737	83
Year 5	411	35
Thereafter	961	-
Less: future interest expense	(1,225)	(30)
Total lease liabilities	\$ 4,489	\$ 337

11. Inventories

Inventories relate to raw materials, WIP, finished goods and goods held for resale, and are comprised of the following:

	2022	2021
Raw materials	\$ 447	\$ 367
WIP	50	25
Finished goods	163	172
Merchandise held for resale	219	64
Supplies	40	42
	\$ 919	\$ 670

Inventory recognized as an expense in the 52 week period ended December 25, 2022 was \$4,530,000 (2021 - \$4,070,000).

12. Investment in equity securities

(i) Warrants

On April 12, 2018, the Company and National Access Cannabis Corp. (“NAC”) established a strategic alliance to develop and operate a network of NAC-branded recreational cannabis dispensaries. As consideration, the Company received 5,000,000 warrants to purchase common shares of NAC at a strike price of \$0.91 at any time until April 12, 2023. Since the alliance, as a result of reorganizations, the warrants are now of High Tide Inc. 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 brand. At year end, the value of the warrants was \$nil (2021 - \$nil). The following table summarizes the Company’s warrants measured at fair value, including both the High Tide warrants and the Kiaro warrants as detailed in (ii):

	2022	2021
Opening fair value	\$ 38	\$ 122
Fair value of warrants received	-	87
Change in fair value	(38)	(171)
	\$ -	\$ 38

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

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

On September 24, 2021, the Company completed the strategic transaction with Kiaro. In consideration for 100% of Hemisphere's common shares, Kiaro issued 61,300,000 common shares to Aegis, plus 6,700,000 warrants to purchase common shares of Kiaro at a strike price of \$0.16 with an expiry of September 24, 2024. The Company received an additional 4,790,000 Kiaro shares (net of transaction expenses) on November 12, 2021 upon the achievement of certain commercial milestones.

The Kiaro warrants are recorded at fair value as of the year-end date, using the Black Scholes option pricing model based on a volatility adjusted for industry specific factors and other considerations. At year end, the value of the warrants was \$nil (2021 - \$38,000).

The share consideration received from the sale was recorded on the Consolidated Statement of Financial Position at cost and measured using equity accounting. As Aegis owned approximately 23.5% of Kiaro after the transaction, and Aegis had a representative on Kiaro's Board of Directors, it was determined according to IAS 28 that the threshold to assert significant influence was met and the equity method of accounting was applicable. 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.

On July 15, 2022, the Aegis representative resigned from Kiaro's board of directors. On September 23, 2022, Kiaro announced that it would effect a consolidation of its common shares on the basis of 1 share for every 10 common shares and issued an additional 10,000,000 common shares, resulting in Aegis' ownership position decreasing below 20% and no longer being subject to equity accounting and therefore measured at fair value. At the date of transfer from equity accounting, the fair value of the investment in Kiaro was \$462,630. The following table summarizes the Company's total investment in equity securities, including both warrants as well as the investment in Kiaro measured at fair value.

	2022		2021	
Warrants	\$	-	\$	38
Investment in Kiaro's equity		66		4,957
Investment in equity securities	\$	66	\$	4,995

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

13. Property, equipment, and right-of-use assets

a. Property and Equipment

	Leasehold improvements	Equipment, furniture, fixtures, vehicles	Computer hardware	Total
<i>As at December 26, 2020</i>	\$ 2,078	\$ 1,426	\$ 103	\$ 3,607
Additions	21	5	6	32
Disposals - original cost	-	(53)	(40)	(93)
Disposals - accumulated depreciation	-	10	13	23
Impairment charge	(105)	-	-	(105)
Depreciation	(466)	(252)	(32)	(750)
<i>As at December 26, 2021</i>	\$ 1,528	\$ 1,136	\$ 50	\$ 2,714
Cost	\$ 2,479	\$ 1,621	\$ 98	\$ 4,198
Impairment charge	(105)	-	-	(105)
Accumulated depreciation	(846)	(485)	(48)	(1,379)
<i>As at December 26, 2021</i>	\$ 1,528	\$ 1,136	\$ 50	\$ 2,714
Additions	68	111	41	220
Disposals - original cost	(76)	(213)	-	(289)
Disposals - accumulated depreciation	76	67	-	143
Impairment charge	(21)	(45)	-	(66)
Depreciation	(370)	(237)	(35)	(642)
<i>As at December 25, 2022</i>	\$ 1,205	\$ 819	\$ 56	\$ 2,080
Cost	\$ 2,472	\$ 1,519	\$ 138	\$ 4,129
Impairment charge	(126)	(45)	-	(171)
Accumulated depreciation	(1,141)	(655)	(82)	(1,878)
<i>As at December 25, 2022</i>	\$ 1,205	\$ 819	\$ 56	\$ 2,080

b. Right-of-use assets

	2022	2021
Opening balance	\$ 3,968	\$ 5,179
Additions	354	397
Disposals -cost	(180)	-
Disposals - accumulated amortization	158	-
Amortization	(973)	(1,097)
Less: asset impairment charges (Note 24)	(265)	(511)
Closing balance	\$ 3,062	\$ 3,968

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

14. Intangible assets and goodwill

	Trademarks	Contracts	Goodwill	Total
As at December 26, 2020	\$ 3,911	-	\$ 1,352	\$ 5,263
Additions	-	-	-	-
Amortization	-	-	-	-
As at December 26, 2021	\$ 3,911	-	\$ 1,352	\$ 5,263
Cost	\$ 3,911	-	\$ 1,352	\$ 5,263
Disposals	-	-	-	-
Accumulated amortization	-	-	-	-
As at December 26, 2021	\$ 3,911	-	\$ 1,352	\$ 5,263
Additions	-	-	-	-
Additions from acquisition of St. Louis	22,000	20,400	7,430	49,830
Disposals - original costs	-	-	-	-
Disposals - accumulated amortization	-	-	-	-
Impairment charge	-	-	-	-
Amortization	-	(109)	-	(109)
As at December 25, 2022	\$ 25,911	\$ 20,291	\$ 8,782	\$ 54,984
Cost	\$ 25,911	\$ 20,400	\$ 8,782	\$ 55,093
Accumulated amortization	-	(109)	-	(109)
As at December 25, 2022	\$ 25,911	\$ 20,291	\$ 8,782	\$ 54,984

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

15. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consists of:

	2022	2021
Accounts payable – trade ⁽¹⁾	\$ 2,572	\$ 1,524
Accrued liabilities	2,305	1,621
Deferred share unit plan liabilities	107	106
Accrued salaries, wages, benefits, and incentives	479	65
Other payables	158	-
	<u>\$ 5,621</u>	<u>\$ 3,316</u>

⁽¹⁾This amount includes short term provisions.

16. Deferred revenue

The movement of deferred revenue for the 52 week period ended December 25, 2022 is presented in the table below:

	Gift cards and loyalty program	Other franchise revenue	Advertising fund	Total
As at December 26, 2021	\$ 268	\$ -	\$ -	\$ 268
Additions	781	377	240	1,398
Additions from acquisition of St. Louis	225	1,162	830	2,217
Recognition into revenue	(668)	(604)	(816)	(2,088)
As at December 25, 2022	<u>\$ 606</u>	<u>\$ 935</u>	<u>\$ 254</u>	<u>\$ 1,795</u>

17. Provisions and lease liabilities

a. Provisions

	Store leases	Other	Total
As at December 26, 2020	\$ 212	\$ 143	\$ 355
Provisions charged during the period	-	1,217	1,217
Provisions utilized during the period	(212)	(143)	(355)
Net provisions during the period	-	1,074	862
As at December 26, 2021	\$ -	\$ 1,217	\$ 1,217
Current portion (in accounts payable)	\$ -	\$ 630	\$ 630
Long-term portion	-	1,217	1,217
As at December 26, 2021	<u>\$ -</u>	<u>\$ 1,847</u>	<u>\$ 1,847</u>
Provisions charged during the period	\$ -	\$ -	\$ -
Provisions utilized during the period	-	(416)	(416)
Net provisions during the period	-	(416)	(416)
As at December 25, 2022	<u>\$ -</u>	<u>\$ 1,431</u>	<u>\$ 1,431</u>
Current portion (in accounts payable)	\$ -	\$ 384	\$ 384
Long-term portion	-	1,047	1,047
As at December 25, 2022	<u>\$ -</u>	<u>\$ 1,431</u>	<u>\$ 1,431</u>

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

b. Lease Liabilities

The following table outlines the total contractual undiscounted real estate lease liabilities as at December 25, 2022 and December 26, 2021:

	2022		2021
Year 1	\$ 3,043	\$	1,746
Year 2	2,888		1,709
Year 3	2,439		1,617
Year 4	1,868		1,425
Year 5	652		1,054
Thereafter	1,116		363
Less: future interest expense	(1,915)		(974)
Less: lease liabilities - current	(2,374)		(1,395)
Total lease liabilities	<u>\$ 7,717</u>	<u>\$</u>	<u>5,545</u>

The following table outlines the movement in lease liabilities for the 52 week periods ended December 25, 2022 and December 26, 2021:

	2022		2021
Lease liabilities, beginning of period	\$ 6,940	\$	7,629
Lease additions	4,647		638
Lease disposals	(29)		-
Cash lease payments	(1,655)		(1,696)
Lease payments from subleases	(200)		(56)
Add back interest included in payments	388		425
Lease liabilities, end of period	<u>\$ 10,091</u>	<u>\$</u>	<u>6,940</u>
Less current portion	<u>(2,374)</u>		<u>(1,395)</u>
	<u>\$ 7,717</u>	<u>\$</u>	<u>5,545</u>

18. Short-term debt

The Company has a credit agreement with CWB Franchise Finance (CWB) pursuant to which a revolving credit facility ("Credit Facility") of \$4,000,000 was made available to the Company, initially secured by the assets of Second Cup and Bridgehead. In connection with the sale of the Second Cup assets in 2021 and associated decrease in security, the credit facility was reduced to \$2,000,000 then subsequently increased to \$3,000,000 in March 2022. The balance outstanding on the Credit Facility was repaid in full on November 17, 2022, leaving Aegis with \$3,000,000 of available credit for short-term needs.

	2022		2021
Short-term debt, beginning of period	\$ -	\$	501
Proceeds of Credit Facility	1,650		1,560
Repayment of Credit Facility	(1,650)		(2,061)
Short-term debt, end of period	<u>\$ -</u>	<u>\$</u>	<u>-</u>

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

19. Long-term debt

The Company entered into a Development Line of Credit (“DLOC”) with CWB Franchise Finance (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.

The loan is secured by a General Security Agreement creating a first priority lien on all present and after acquired personal property including any and all intellectual property, equipment used at used at or in connection with the Bridgehead locations, as well as all improvements, additions, replacements and substitutions of the Bridgehead equipment, and all proceeds thereof (including insurance proceeds), from Aegis and Bridgehead (the Corporate Guarantors) (and any control agreement with third party bank as required to perfect cash collateral security).

As of the end of the reporting period, the Company must have a Pre-Compensation Consolidated FCCR equal to or greater than 1.3:1 and a Post-Compensation Consolidated FCCR equal to or greater than 1.1:1. The loan also states a covenant of Consolidated funded debt to Consolidated EBITDA equal to or less than 4:1 for the first 12 months following a Permitted Acquisition, reducing to 3.5:1 thereafter. As the covenants are not measured until the end of the first reporting period, which is December 31, 2023, at December 25, 2022, the Company was not required to be in compliance with the above covenants.

The following table outlines the movement in long-term debt from December 27, 2021 to December 25, 2022:

	2022
Long-term debt, December 27, 2021	\$ -
Proceeds of DLOC	30,000
Deferred financing costs	(126)
Long-term debt, December 25, 2022	\$ 29,874
Less current portion	(1,079)
	<u>\$ 28,795</u>

The following table outlines the repayment schedule (does not reflect amortization of deferred financing fees or interest costs):

Year 1	\$ 1,083
Year 2	2,001
Year 3	2,199
Year 4	2,416
Year 5	2,653
Thereafter	19,648
Total	<u>\$ 30,000</u>

20. Convertible debentures

On November 17, 2022, the Company issued convertible unsecured subordinated debentures (the “Debentures”) for a total amount of \$25,045,000. The debentures bear 11% interest per annum and have a maturity date of sixty (60) months from the closing of the Offering.

Each Debenture Subscription Receipt will entitle the holder thereof to receive, upon the satisfaction of certain conditions, one \$1,000 principal amount, unsecured Debenture. The 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 Debentures cannot be redeemed at any date that is 2 years prior to the maturity date. The Company may exercise its right of Forced Conversion if

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

the weighted average trading price of the Common Shares on the Toronto Stock Exchange for 20 consecutive trading days, ending on and including the fifth trading day before the date of the notice to convert, exceeds 125% of the conversion price of CAD \$0.485.

The Company performed an assessment and determined that the Debentures are a compound financial instrument under IFRS as the Debentures contain both a liability and equity component. Using IAS 32, the fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate that would be used for a similar liability that does not have the conversion feature with the residual value being recognized as the equity conversion component. The market rate of interest was determined to be 15%.

The carrying amount of both liability and equity components of the convertible debentures, net of issuance costs are as follows:

Face value of convertible debentures issued on November 17, 2022	\$	25,045
Equity conversion component upon initial recognition		(5,680)
Issuance costs associated with convertible debentures		<u>(1,010)</u>
Face value of convertible debentures issued on November 17, 2022		18,355
Accumulated amortization of discount		36
Accumulated amortization of issuance costs		<u>16</u>
Liability component as of December 25, 2022	\$	<u>18,407</u>

At initial recognition the equity conversion component resulted in a taxable temporary difference. The Company recognized a deferred tax liability of \$753,000, which was charged directly to the carrying amount of the equity conversion component. Subsequent changes in the deferred tax liability were recognized in profit or loss as deferred tax recovery.

As detailed in Note 34 Subsequent Events, the Company forced conversion of all of these debentures on January 23, 2023.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

21. Revenue

	<u>2022</u>	<u>2021</u>
Franchise Revenue		
Royalties	\$ 532	\$ -
Advertising fund contributions	816	-
Other franchise revenue	604	-
	<u>\$ 1,952</u>	<u>\$ -</u>
	<u>2022</u>	<u>2021</u>
Company-owned coffeehouses and product sales		
Coffeehouses	\$ 11,259	\$ 8,976
Wholesale	1,316	1,016
E-commerce	632	884
	<u>\$ 13,207</u>	<u>\$ 10,876</u>
Total Revenue	<u>\$ 15,159</u>	<u>\$ 10,876</u>

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

22. Operating costs and expenses

<i>Cost of Sales</i>		<u>2022</u>		<u>2021</u>
Cost of product sales	\$	4,530	\$	4,070
Labour and related expenses (Note 2)		4,390		2,645
Overhead and other		2,203		1,502
		<u>11,123</u>		<u>8,217</u>
<i>General and administrative expenses</i>				
Labour and related expenses (Notes 2 and 30)		3,961		2,207
Overhead and other		2,104		1,944
		<u>6,065</u>		<u>4,151</u>
<i>Other</i>				
Depreciation and amortization		642		761
Asset impairment charges		331		2,184
Amortization of right-of-use assets		973		1,084
Amortization of intangible assets		109		-
Loss (gain) on disposal of assets		(19)		84
Acquisition related costs		571		-
Revaluation of securities, warrants and other		4,930		171
Revaluation of contingent consideration		-		(1,003)
		<u>7,537</u>		<u>3,281</u>
		<u>\$ 24,725</u>		<u>\$ 15,649</u>

23. Interest and financing expense

		<u>2022</u>		<u>2021</u>
Interest expense - lease liabilities	\$	388	\$	425
Interest expense		1,060		80
Interest income - finance leases		(47)		(12)
Interest income		(162)		-
		<u>\$ 1,239</u>		<u>\$ 493</u>

24. Impairment of assets

a. Impairment of corporate coffeehouses leasehold improvements, equipment, furniture fixtures, other assets, and right-of-use assets

The impairment analysis is based on historical and forecasted performance measures for each cash generating unit (CCU), which in this case refers to each Company-operated coffeehouses with impairment indicators. The recoverable amount for these CGUs has been determined as the value in use using discounted cash flow models.

The significant assumptions applied by management in determining the recoverable amount of each of these CGUs included: (i) a discount rate of 11% and (ii) revenue projections which were based on management's projections for 2023 and 2024 factoring

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

in the anticipated pace of recovery from COVID-19 related reductions in revenue, and a revenue growth rate of 2% thereafter. Management's projections around revenue, including the anticipated pace of economic recovery from the pandemic are sources of significant estimation uncertainty and changes to those assumptions may result in material changes to the recoverable amount of the CGUs. As a part of this assessment, management identified specific assets that were impaired as at December 25, 2022. During the 52 weeks ended December 25, 2022, the Company recorded on its right-of-use assets, property, leasehold improvements and equipment, impairment charges calculated under the value in use method for 4 Bridgehead locations. The impairment charges were \$331,000 (2021 - \$617,000), out of which \$66,000 relates to property, equipment, and leasehold improvements, and \$265,000 relates to the Company's right-of-use assets.

b. Impairment of trademarks and goodwill

As at December 25, 2022, the Company performed an impairment test of its trademarks and goodwill. Management determined that the CGUs for the purpose of testing impairment of goodwill and trademarks are the Bridgehead operating segment (the Bridgehead CGU) and the St. Louis operating segment (the St. Louis CGU). An impairment charge is recorded when the carrying value of the CGU exceeds its recoverable amount. The recoverable amount of each CGU was determined using the value in use method using a discounted cash flow model. The significant assumptions used by management in determining the recoverable amount of the Bridgehead CGU included: (i) a discount rate of 11% and (ii) revenue projections which were based on management's projections for 2023 and beyond and factoring in a revenue growth rate of 2%-20%, depending on source, which is detailed in the business plan. Management's projections around revenue are sources of significant estimation uncertainty and changes to those assumptions may result in material changes to the recoverable amount of the Bridgehead CGU.

No impairment of indefinite life assets and goodwill in the Bridgehead and St. Louis CGUs was identified as a result of the Company's most recent impairment test.

25. Revaluation of securities, warrants, and other

	<u>2022</u>	<u>2021</u>
Revaluation of investment in Kiaro	\$ 4,891	\$ 1,567
Revaluation of High Tide warrants	6	171
Revaluation of Kiaro warrants	32	-
Revaluation of Directors' deferred share option plan	1	-
Revaluation of contingent consideration	-	(1,003)
	<u>\$ 4,930</u>	<u>\$ 735</u>

In fiscal 2021, the Company received shares of Kiaro in connection with the strategic transaction in which the Hemisphere subsidiary was sold to Kiaro. The share consideration received from the sale was recorded on the Statement of financial position at cost and measured using equity accounting, with adjustments made for the Company's share of the profit and losses of Kiaro. During 2022, Kiaro announced that it would effect a consolidation of its common shares on the basis of 1 share for every 10 common shares and issued an additional 10,000,000 common shares, resulting in Aegis' ownership position decreasing below 20% and therefore no longer being subject to equity accounting. Based on this, the investment in Kiaro was written down to fair value, resulting in an impairment charge of \$4,891,000.

As detailed in Note 12, subject to valuation using the Black Scholes option pricing model, the High Tide and Kiaro warrants have been written down to \$nil.

In fiscal 2021, it was determined that the thresholds to meet the contingent consideration relating to the acquisition of Bridgehead had not been met and as a result, the remainder of the earn-out liability was reversed. No earn-out has been paid.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

26. Income taxes

Income taxes, as reported, differ from the amount that would be computed by applying the combined Canadian federal and provincial statutory income tax rate to income before income taxes. The reasons for these differences are as follows:

	2022	2021
Loss from continuing operations, before income taxes	\$ (10,708)	\$ (5,266)
Combined Canadian federal and provincial tax rate	26.5%	26.5%
Tax recovery at statutory rate	\$ (2,838)	\$ (1,395)
Non-deductible expenses, permanent differences	587	156
Effect of equity conversion component	753	-
Change in unrecognized deferred taxes	38	835
Income tax recovery	\$ (1,460)	\$ (404)
Current income tax recovery	-	-
Deferred tax recovery	\$ (1,460)	\$ (404)
Income tax recovery	\$ (1,460)	\$ (404)

The significant components of the Company's temporary differences and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2022	2021
Non-capital loss carryforwards	\$ 6,419	\$ 4,280
Warrants	-	(45)
Property and equipment and leases	627	(369)
Financing fees	103	68
Revaluation of investment in Kiaro	654	-
Other	245	(251)
Equity portion of convertible debentures	(753)	-
	7,295	3,683
Unrecognized deferred tax assets	(7,295)	(4,359)
	\$ -	\$ (676)

The Company's loss carryforwards expire as follows:

Year of expiration	
2032	\$ 266
2033	261
2034	254
2035	850
2036	1,651
2037	827
2038	252
2039	4,805
2040	5,303
2041	3,058
2042	6,696
Total	\$ 24,223

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

27. Basic and diluted loss

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

	2022	2021
Basic:		
Net loss from continuing operations	\$ (9,248)	\$ (4,862)
Weighted average number of shares issued and outstanding	24,346,416	23,066,671
Basic loss per share from continuing operations	\$ (0.38)	\$ (0.21)
Net loss from discontinued operations	\$ -	(3,052)
Weighted average number of shares issued and outstanding	24,346,416	23,066,671
Basic loss per share from discontinued operations	\$ -	(0.13)
Total basic and diluted loss per share	\$ (0.38)	\$ (0.34)

28. Supplemental cash flow information

	2022	2021
Changes in non-cash working capital		
Trade, and other receivables	\$ (553)	\$ 806
Inventories	(249)	(241)
Prepaid expenses and other assets	(50)	1
Notes receivable	(561)	(102)
Accounts payable and accrued liabilities	2,304	(696)
Provisions	(170)	1,355
Deferred revenue	1,527	(80)
Other	31	-
	\$ 2,279	\$ 1,043

29. Contingencies, commitments and guarantees

The Company is involved in litigation and other claims arising in the normal course of business. Judgement 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 above the amounts provided for in the consolidated financial statements will be incurred with such claims. However, there can be no assurance that unforeseen circumstances will not result in significant costs. The outcome of these actions is not determinable at this time, and adjustments, if any, will be recorded in the period of settlement.

Contracts are in place with third-party companies to purchase the coffee that is sold in all Bridgehead coffeehouses. In terms of these supply agreements, there is a guaranteed minimum value of coffee purchases of \$1,619,000 (2021 - \$519,000) for the subsequent 12 months. The coffee purchase commitment is comprised of two components: unapplied futures commitment contracts and fixed price physical contracts.

30. Related parties

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

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

above-mentioned parties. Amounts recorded under the Directors' deferred share unit plan are related party transactions.

For the purposes of these consolidated financial statements, a party is considered related to the Company if such party or the Company has the ability to, directly or indirectly, control or exercise significant influence over the other entity's financial and operating decisions, or if the Company and such party are subject to common influence. Related parties may be individuals or other entities and include members of key management of the Company.

Related party balances as of year-end

Related party transactions during the year outside of compensation

The following table summarizes the related party transactions that occurred during the year outside of compensation of key management:

	2022	2021
Office rent	\$ 49	\$ 18
Interest on related party loan (Note 6)	20	20
Total transactions	\$ 69	\$ 38

Compensation of key management personnel

Key management personnel is defined as the senior management team and the Board of Directors. The following summarizes the compensation expense of key management personnel and the composition thereof:

	2022	2021
Salaries and short-term employee benefits (note 22)	\$ 1,624	\$ 1,037
Directors' deferred share option plan	1	84
Share-based compensation	368	372
Total compensation	\$ 1,993	\$ 1,493

31. 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 reflects how internal financial results and key performance indicators are reported to the Chief Executive Officer.

The following is a summary of each reportable business segment and its business activity.

Aegis

Aegis aims to be a consolidator of brands in the food and beverage industry. There are shared groups who provide services, such as back-office functions, to support its retail operating brands.

Bridgehead

The Company owns 100% of the issued and outstanding shares of Ottawa-based Bridgehead Coffee, which has 21 Company-operated coffeehouses. Bridgehead products, such as coffee and tea products, are also sold on the Company's website as well as in a growing number of grocery stores across Ontario.

St. Louis

The Company owns 100% of the partnership interest of the St. Louis brand, which has 74 franchised locations Canada-wide.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

Discontinued Operations:

Second Cup

Second Cup is a retail operating brand that was owned and operated by the Company until it was sold in Q2 2021. There are franchised and company-operated retail cafés branded as Second Cup across Canada, and coffee products were also sold on the Company's website. The Second Cup segment is presented as discontinued operations in the 2021 consolidated financial statements.

Hemisphere

The Company owned and operated retail cannabis dispensaries under the trade name Hemisphere Cannabis Co. until it was sold in Q3 2021. Hemisphere is in the business of selling cannabis products and cannabis accessories through its dispensaries in Ontario and selling its products through e-commerce/online channels. The Hemisphere segment is presented as discontinued operations in the 2021 consolidated financial statements.

a. **Segmented Operations 2022**

Segmented Operations - 52 weeks ended December 25, 2022

	Bridgehead	St. Louis	Aegis	Total
Revenue from external customers	\$ 13,207	\$ 1,952	\$ -	\$ 15,159
Cost of sales	(11,123)	-	-	(11,123)
Other amounts in loss	(3,729)	(1,701)	(9,314)	(14,744)
Net income (loss) before income taxes	(1,645)	251	(9,314)	(10,708)
Income tax recovery	-	-	1,460	1,460
Net income (loss)	\$ (1,645)	\$ 251	\$ (7,854)	\$ (9,248)

b. **Segmented Operations 2021**

Segmented Operations - 52 weeks ended December 26, 2021

	Second Cup	Hemisphere	Bridgehead	Aegis	Total
Revenue from external customers	\$ -	\$ -	\$ 10,876	\$ -	\$ 10,876
Cost of sales	-	-	(8,217)	-	(8,217)
Other amounts in loss	-	-	(3,481)	(4,444)	(7,925)
Net loss before income taxes	-	-	(822)	(4,444)	(5,266)
Income taxes	-	-	292	112	404
Net loss from continuing operations	-	-	(530)	(4,332)	(4,862)
Net income (loss) from discontinued operations	(2,769)	(1,122)	-	839	(3,052)
Net loss	\$ (2,769)	\$ (1,122)	\$ (530)	\$ (3,493)	\$ (7,914)

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

c. Segmented net assets 2022

	Cash & Cash Equivalents	Right-of-Use Assets	Property & Equipment	Intangible assets & Goodwill	Other Assets	Total	Accounts payable and accrued liabilities	Lease liabilities	Other liabilities	Total
Bridgehead	\$ 483	\$ 2,715	\$ 1,913	\$ 3,911	\$ 2,399	\$ 11,421	\$ 1,894	\$ 5,518	\$ 1,093	\$ 8,505
St Louis	1,889	347	167	49,721	5,591	57,715	1,447	4,573	1,445	7,465
Aegis	4,136	-	-	1,352	(744)	4,744	2,280	-	48,585	50,865
	\$ 6,508	\$ 3,062	\$ 2,080	\$ 54,984	\$ 7,246	\$ 73,880	\$ 5,621	\$ 10,091	\$ 51,123	\$ 66,835

d. Segmented net assets 2021

	Cash & Cash Equivalents	Right-of-Use Assets	Property & Equipment	Intangible assets & Goodwill	Other Assets	Total	Accounts payable and accrued liabilities	Lease liabilities	Other liabilities	Total
Bridgehead	\$ 1,003	\$ 3,968	\$ 2,714	\$ 3,911	\$ 2,218	\$ 13,814	\$ 1,301	\$ 6,940	\$ 1,013	\$ 9,254
Aegis	762	-	-	1,352	4,392	6,506	2,015	-	1,148	3,163
	\$ 1,765	\$ 3,968	\$ 2,714	\$ 5,263	\$ 6,610	\$ 20,320	\$ 3,316	\$ 6,940	\$ 2,161	\$ 12,417

32. Share-based compensation

Stock option plan

The stock option plan was introduced in May 2014, and subsequently Amended and Restated at the Annual and Special Meeting of Shareholders held virtually on September 24, 2020, to advance the interests of the Company by:

- providing eligible persons with incentives;
- encouraging share ownership by participants;
- increasing the proprietary interest of participants in the success of the Company;
- encouraging participants to remain with the Company or its affiliates; and
- attracting new directors and employees.

The Company may grant options to buy up to 10% of its issued and outstanding Common Shares, a total of 8,528,717. At December 25, 2022, there were 1,575,000 options outstanding. The stock options outstanding have a term of 8-10 years from the initial grant date, depending on the option. Each stock option is exercisable into one Common Share at the price specified in the terms of the option agreement.

Stock options are to be settled on a net-equity basis. Compensation expense/gain for stock awards is recognized using the fair value when the stock awards are granted using the Black-Scholes option pricing model. Significant assumptions used for the newly issued grants for the period are detailed below:

Expected volatility	26.0%
Risk-free interest rate	2.67%
Expected dividends	\$0.00
Expected life (in years)	5.2

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

The expected volatility is based on comparable industry stocks and the risk-free interest rate is based on Government of Canada bond yields with maturities that coincide with the exercise period and terms of the grant.

Option Grant Date	Number of Options	Exercise Price	Expected Time to Expiry from Grant Date	Stock Price Volatility	Risk-Free Interest Rate	Grant Date Fair Value of Option
May 28, 2019 ⁽¹⁾	750,000	\$0.64	6.5 years	25.2%	1.6%	\$0.66
December 29, 2020 ⁽¹⁾	145,000	\$0.64	6.5 years	23.9%	0.6%	\$0.28
August 12, 2021 ⁽¹⁾	150,000	\$0.64	6.5 years	25.3%	1.1%	\$0.27
March 18, 2022	205,000	\$0.71	5.2 years	26.0%	1.9%	\$0.19
September 1, 2022	25,000	\$0.40	5.2 years	26.0%	2.8%	\$0.12
November 17, 2022	300,000	\$0.52	5.2 years	26.0%	3.3%	\$0.16

⁽¹⁾ On December 23, 2022, the Board of Directors approved the repricing of these 1,045,000 stock options of the Company. The repricing decision was taken as existing strike prices did not achieve the goal of rewarding senior management with long-term rewards linked directly to the market value of the Company's shares after the Company's recapitalization. The Options were repriced at \$0.64 per Common Share, being the five-day volume weighted average closing price of the Common Shares prior to the decision. The repricing of the Options is subject to approval by the TSX and disinterested shareholders at the Company's next annual general meeting of shareholders.

All options vest in tranches and are amortized over the awards' vesting period using the accelerated expense attribution method. Recognition of the expense/gain is recorded as a charge to operating expenses with a corresponding increase/decrease to reserves. For the 52-week period ended December 25, 2022, the Company recognized a stock-based compensation expense of \$388,000 (2021 - \$36,000) with a corresponding increase to reserves.

The table below summarizes all options activities for the 52 weeks ended December 25, 2022:

	Number of share options outstanding	Weighted-average exercise price/share
Outstanding Options, December 26, 2021	1,420,000	\$ 1.42
Granted	590,000	0.60
Exercised	-	-
Forfeited	(435,000)	0.99
Expired	-	-
Outstanding Options, December 25, 2022	1,575,000	\$ 0.62
Options exercisable, end of period	538,000	\$ 0.64

33. Directors' deferred share option plan

A summary of the status of the Company's directors' deferred share unit plan is presented below:

	Notional Units	Recorded Value
As at December 26, 2021	149,196	\$ 106
Deferred units granted	-	-
Deferred units paid out	-	-
Change in fair value	-	1
As at December 25, 2022	149,196	\$ 107
Expense during the period	-	\$ 1

There were no deferred units granted in 2022.

Aegis Brands Inc.

Notes to Consolidated Financial Statements

For the 52 weeks ended December 25, 2022, and December 26, 2021

(Tabulated amounts expressed in thousands of Canadian dollars, except as noted)

34. Subsequent events

On December 23, 2022, Aegis announced that it would convert the entire outstanding principal amount of its 11.0% convertible unsecured subordinated debentures due November 17, 2027 into common shares of the Company at a conversion price of \$0.485 per common share in accordance with the terms and conditions of the debentures. In connection with this forced conversion, the Company issued an aggregate of 51,639,175 common shares effective January 23, 2023, bringing Aegis' total number of common shares outstanding to 85,287,167.