



Aegis Brands Inc.

Consolidated Financial Statements

53 Week Period Ended December 31, 2023 and 52 Week Period Ended December 25, 2022



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 "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2023 and 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 53-week and 52-week periods then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at December 31, 2023 and December 25, 2022, and its consolidated financial performance and its consolidated cash flows for the 53-week and 52-week periods then ended in accordance with IFRS accounting standards.

Basis for Opinion

We conducted our audits 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 Corporation in accordance with the ethical requirements that are relevant to our audits 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 in our audits is sufficient and appropriate to provide a basis for our opinion.

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 53-week period ended December 31, 2023. 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.

Baker Tilly WM LLP is a member of Baker Tilly Canada Cooperative, which is a member of the global network of Baker Tilly International Limited. All members of Baker Tilly Canada Cooperative and Baker Tilly International Limited are separate and independent legal entities.

Now, for tomorrow

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and intangible assets for St. Louis Franchise Cash Generating Unit	
Refer to Note 23	Our approach to addressing the matter included the following procedures, among others:
<p>As of December 31, 2023, the Corporation had trademarks of \$22,000, contracts of \$19,270 (net of amortization) and goodwill of \$7,430 allocated to the St. Louis Franchise cash generating unit, consisting of the St. Louis Franchise and SLF Corporate Stores (together the “SLF CGU”).</p> <p>Finite-lived intangible 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 performed its annual impairment test for the SLF CGU as at November 30, 2023.</p> <p>The recoverable amount for the SLF CGU was based on value in use using a discounted cash flow model. The significant assumptions applied by management in determining the value in use included revenue projections, a revenue growth rate and a discount rate. The recoverable amount of the SLF 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 amount, 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.</p>	<p>Evaluated how management determined the recoverable amount of the SLF CGU, 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 Corporation and the budget approved by management. • Tested the reasonableness of the terminal growth rate and forecasted growth rate of sales applied by management in the discounted cash flow model by comparing to past performance and external market data. • Tested the underlying data and inputs used in the discounted cash flow model including the reasonableness of the projections and sensitivity of the inputs to changes in key assumptions. • 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.
Classification, measurement and presentation of assets and liabilities held for sale and of discontinued operations of Bridgehead (2000) Inc.	
Refer to Notes 3 and 30	Our approach to addressing the matter included the following procedures, among others:
As at December 31, 2023, the Corporation had classified the assets and liabilities of the Bridgehead business as held for sale in the consolidated statement of financial position and presented the Bridgehead business as a discontinued operation in the consolidated statement of operations and comprehensive loss.	<ul style="list-style-type: none"> • Assessed management’s analysis of whether the Bridgehead business met the criteria under IFRS 5 for assets held for sale and a discontinued operation. • Tested the accuracy of the measurement of the assets classified as held for sale at the lower of the carrying amount and fair value less costs to sell.

The Corporation determined that the criteria for classifying the assets and liabilities of the Bridgehead business as held for sale under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (“IFRS 5”) were met as at December 31, 2023. Accordingly, the assets held for sale were written down to fair value less costs to sell. In addition, the Corporation determined that the Bridgehead business met the definition of a discontinued operation under IFRS 5 and accordingly, the items of profit or loss related to the Bridgehead business were presented as a discontinued operation in the consolidated statement of operations and comprehensive loss with a restatement of the prior period.

We considered this a key audit matter due to the significance of assets and liabilities held for sale and of discontinued operations in the Bridgehead business and the significant judgment applied by management in evaluating whether the assets and liabilities of the Bridgehead business met the criteria to be classified as held for sale and presented as a discontinued operation under IFRS 5. In addition, significant judgment was applied by management in estimating the fair value less costs to sell of the Bridgehead business including the development of key assumptions in estimating the selling costs and working capital adjustments. These factors have resulted in a high degree of subjectivity in performing audit procedures, related to the judgments and estimates applied by management.

- Reviewed management’s calculations of fair value less costs to sell by comparing the estimate of fair value to the sale price as defined in the definitive agreement entered into with Pilot Coffee Roasters Inc. on January 29, 2024.
- Evaluated management’s estimate of selling costs and estimated working capital adjustments including assumptions applied.
- Assessed the appropriateness of management’s conclusion that there was an impairment as a result of the write-down of the Bridgehead business to fair value less costs to sell.
- Assessed the accuracy and completeness of the IFRS 5 disclosures in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and 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 IFRS accounting 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation'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 Corporation'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 Corporation'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 Corporation 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 8, 2024

Aegis Brands Inc.

Consolidated Statements of Financial Position

As at December 31, 2023, and December 25, 2022

(Expressed in thousands of Canadian dollars)

ASSETS	2023	2022
Current assets		
Cash and cash equivalents (Note 9)	\$ 803	\$ 6,508
Trade, notes, leases and other receivables (Note 10)	3,163	2,448
Inventories (Note 11)	126	919
Prepaid expenses and other assets	141	283
Assets of discontinued operations held for sale (Notes 3 and 30)	8,052	-
	<u>12,285</u>	<u>10,158</u>
Non-current assets		
Notes and leases receivable (Note 10)	2,561	3,596
Property and equipment (Note 12)	1,391	2,080
Right-of-use assets (Note 12)	2,379	3,062
Intangible assets (Note 13)	41,271	46,202
Goodwill (Note 13)	7,430	8,782
	<u>53,032</u>	<u>64,722</u>
Total assets	<u>\$ 67,317</u>	<u>\$ 73,880</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 14)	\$ 2,615	\$ 5,621
Lease liabilities (Note 16)	1,322	2,374
Current portion of long-term debt (Note 18)	1,831	1,079
Deferred revenue (Note 15)	1,754	1,795
Liabilities of discontinued operations held for sale (Notes 3 and 30)	6,574	-
	<u>14,096</u>	<u>10,869</u>
Non-current liabilities		
Provisions (Note 16)	747	1,047
Lease liabilities (Note 16)	4,564	7,717
Long-term debt (Note 18)	27,049	28,795
Convertible debentures (Note 19)	-	18,407
	<u>32,360</u>	<u>56,966</u>
Total liabilities	<u>46,456</u>	<u>66,835</u>
SHAREHOLDERS' EQUITY	<u>20,861</u>	<u>7,045</u>
Total liabilities and shareholders' equity	<u>\$ 67,317</u>	<u>\$ 73,880</u>

See accompanying notes to the consolidated financial statements.
Contingencies, commitments and guarantees (Note 28)
Subsequent event (Note 33)

Approved by the Directors on March 8, 2024

Michael Bregman, Director

Stephen Kelley, Director

Aegis Brands Inc.

Consolidated Statements of Operations and Comprehensive Loss

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

	<u>2023</u>	<u>2022</u>
Revenue (Note 20)	\$ 16,940	\$ 1,952
Operating costs and expenses (Note 21)		
Cost of sales	1,987	-
General and administrative expenses	11,473	4,598
Depreciation of property and equipment	58	3
Amortization of right-of-use assets	255	7
Amortization of intangible assets	1,020	109
Revaluations of securities, warrants, and other (Note 24)	9	4,930
Acquisition related costs (Note 2)	-	571
Total operating costs and expenses	<u>14,802</u>	<u>10,218</u>
Income (loss) from continuing operations, before other income and expenses and income taxes	2,138	(8,266)
Interest and financing expense (Note 22)	(3,177)	(894)
Other income	<u>37</u>	<u>97</u>
Loss from continuing operations before income taxes	(1,002)	(9,063)
Recovery of income taxes (Note 25)	<u>-</u>	<u>1,460</u>
Loss from continuing operations	(1,002)	(7,603)
Discontinued operations, net of tax		
Bridgehead Coffee (Notes 3, 23, 25 and 30)	<u>(3,705)</u>	<u>(1,645)</u>
Net and comprehensive loss for the period	<u>\$ (4,707)</u>	<u>\$ (9,248)</u>
Basic and diluted loss per share – continuing operations (Note 26)	\$ (0.01)	\$ (0.31)
Basic and diluted loss per share – discontinued operations (Note 26)	\$ (0.05)	\$ (0.07)
Basic and diluted loss per share (Note 26)	\$ (0.06)	\$ (0.38)

See accompanying notes to the consolidated financial statements.

Aegis Brands Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

	<u>Common Shares</u>	<u>Share Capital</u>	<u>Reserves</u>	<u>Equity Component of Convertible Debentures</u>	<u>Deficit</u>	<u>Total</u>
Balance, December 26, 2021	23,230,227	\$ 32,895	\$ 61,917	\$ -	\$ (86,909)	\$ 7,903
Net loss, continuing operations	-	-	-	-	(7,603)	(7,603)
Net loss, discontinued operations	-	-	-	-	(1,645)	(1,645)
Common shares issued	10,417,765	3,075	-	-	-	3,075
Conversion component of convertible debentures (Note 19)	-	-	-	4,927	-	4,927
Stock option expense (Note 31)	-	-	388	-	-	388
Balance, December 25, 2022	<u>33,647,992</u>	<u>\$ 35,970</u>	<u>\$ 62,305</u>	<u>\$ 4,927</u>	<u>\$ (96,157)</u>	<u>\$ 7,045</u>
Net loss, continuing operations	-	-	-	-	(1,002)	(1,002)
Net loss, discontinued operations	-	-	-	-	(3,705)	(3,705)
Common shares issued on conversion of convertible debentures into equity (Note 19)	51,639,175	23,368	-	(4,927)	-	18,441
Stock option expense (Note 31)	-	-	82	-	-	82
Balance, December 31, 2023	<u>85,287,167</u>	<u>\$ 59,338</u>	<u>\$ 62,387</u>	<u>\$ -</u>	<u>\$ (100,864)</u>	<u>\$ 20,861</u>

See accompanying notes to the consolidated financial statements.

Aegis Brands Inc.

Consolidated Statements of Cash Flow

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

(Expressed in thousands of Canadian dollars)

CASH PROVIDED BY (USED IN)	2023	2022
Operating activities		
Net loss for the period	\$ (4,707)	\$ (9,248)
<i>Adjusted for:</i>		
Net loss from discontinued operations	3,705	1,645
<i>Items not involving cash</i>		
Depreciation of property and equipment (Note 12)	58	3
Amortization of right-of-use assets (Note 12)	255	7
Amortization of intangible assets (Note 13)	1,020	109
Amortization of financing costs (incurred)	43	-
Stock option expense	82	388
Recovery of income taxes (Note 25)	-	(1,460)
Interest expense – lease liabilities (Note 22)	484	38
Interest income – lease receivable (Note 22)	(372)	(35)
Revaluations of securities, warrants, and other (Note 24)	66	4,930
Changes in non-cash working capital and other (Note 27)	(3,282)	2,247
Cash used in operating activities – continuing operations	(2,648)	(1,376)
Cash provided by operating activities – discontinued operations	1,669	642
Cash used in operating activities	(979)	(734)
Investing activities		
Acquisition of property and equipment and intangible assets	(1,283)	(3)
Cash payment for acquisition of St. Louis (Note 2)	-	(50,000)
Cash used in investing activities – continuing operations	(1,283)	(50,003)
Cash provided by (used in) investing activities – discontinued operations	(73)	134
Cash used in investing activities	(1,356)	(49,869)
Financing activities		
Proceeds (repayment) of long-term debt (Note 18)	(1,006)	30,000
Lease payments (Note 16)	(285)	(52)
Proceeds from convertible debentures issued (Note 19)	-	25,045
Proceeds from common shares issued	-	3,375
Cash provided by (used) in financing activities – continuing operations	(1,291)	56,949
Cash used in financing activities – discontinued operations	(1,628)	(1,603)
Cash provided by (used in) financing activities	(2,919)	55,346
Increase (decrease) in cash and cash equivalents during the period – continuing operations	(5,222)	5,570
Decrease in cash and cash equivalents during the period – discontinued operations	(32)	(827)
Increase (decrease) in cash and cash equivalents during the period	(5,254)	4,743
Cash and cash equivalents – Beginning of the period	6,508	1,765
Cash and cash equivalents – End of the period (Note 9)	\$ 1,254	\$ 6,508
Supplementary information		
Interest paid	\$ 3,142	\$ 1,054
Income taxes paid	\$ -	\$ -

See accompanying notes to the consolidated financial statements.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

(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, St. Louis Bar & Grill, and Wing City by St. Louis. Bridgehead Coffee is operated by the Corporation’s wholly-owned subsidiary Bridgehead (2000) Inc. (“Bridgehead”). The St. Louis Bar & Grill (“St. Louis”) franchise business is operated by the Corporation’s wholly-owned subsidiary SLF Operations LP. The Wing City by St. Louis (“Wing City”) franchise business is operated by the Corporation’s wholly-owned subsidiary Wing City Operations LP.

Aegis is a Canadian public company incorporated under the Business Corporations Act (Ontario) in 2011. The Company’s registered and principal 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 present a valid certificate until such certificate is transferred, re-registered or otherwise exchanged.

As of December 31, 2023, the Company has 21 Company-owned coffeehouses including its flagship roastery, all of which operate under the Bridgehead brand, 75 franchised and 3 corporate St. Louis locations, all which operate under the St. Louis Bar & Grill brand, and 1 Wing City corporate location, which operates under the Wing City by St. Louis brand.

On January 29, 2024, the Company announced it had entered into a definitive agreement to sell substantially all the assets of the Bridgehead business. This has been further discussed in subsequent sections of these consolidated financial statements (the “financial statements”). In these financial statements, the operations of Bridgehead have been presented as discontinued operations.

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

2. Business Combinations

Acquisition of St. Louis

On November 17, 2022, Aegis completed the acquisition of substantially all 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 the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

The Company has completed a 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:

Property and equipment	\$	170
Contracts		20,400
Trademarks		22,000
Goodwill		7,430
Total	\$	50,000

Final working capital was calculated as follows:

<u>Assets</u>		
Segregated cash	\$	1,107
Accounts receivable		300
Prepaid expenses		19
Inventory		122
Total Assets	\$	1,548
<u>Liabilities</u>		
Accounts payable and accruals	\$	47
Deferred revenue		1,330
Other current liabilities		68
Total liabilities	\$	1,445
Working capital	\$	103

3. Held for Sale and Discontinued Operations

On January 29, 2024, the Corporation announced that it had entered into a definitive agreement to sell substantially all the assets of the Bridgehead business to an affiliate of Pilot Coffee Roasters Inc. (“Pilot”). As at December 31, 2023, the Corporation is committed to a plan to sell the disposal group comprising the assets and liabilities of Bridgehead which are included in the definitive agreement (“the Agreement”). The disposal group was sold to Pilot for \$3,500,000 in cash payable on closing (subject to customary closing adjustments). Management has assessed that the Bridgehead assets meet the criteria to be classified as held for sale as at December 31, 2023. The disposal group is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of this nature in the food and beverage industry, and the sale is highly probable based on the factors above. In accordance with IFRS 5 (“Non-Current Assets Held for Sale and Discontinued Operations”), the Corporation has classified this disposal group as held for sale as its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The Corporation has measured the disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell being \$3,500,000 less \$976,000 in estimated costs to sell and \$530,000 in estimated working capital adjustments. As at December 31, 2023, the carrying value of the Bridgehead disposal group was \$3,175,000 and the goodwill in Aegis associated to the Bridgehead brand was \$1,352,000, which gave rise to a total impairment expense included in loss from discontinued operations of \$2,533,000.

The disposal group referenced above represents a major line of business, and the Corporation has a single coordinated plan to dispose of this separate major line of business. As such, the Corporation has presented the disposal group as discontinued operations as a single amount in the consolidated statement of operations and comprehensive loss, comprising the post-tax loss of discontinued operations and post-tax loss recognized on the measurement to fair value less costs to sell. The Corporation has further disclosed details of the discontinued operations in Note 30 in these financial statements.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

The related assets and liabilities that have been presented as held for sale are as follows:

Cash and cash equivalents	\$	454
Trade, note, leases, and other receivables		313
Inventories		806
Prepaid expenses and other assets		114
Right-of-use assets		2,252
Property and equipment		1,329
Intangible assets		2,784
Assets of discontinued operations held for sale	\$	<u>8,052</u>
Accounts payable and accrued liabilities	\$	1,783
Lease liabilities		4,372
Deferred revenue		419
Liabilities of discontinued operations held for sale	\$	<u>6,574</u>
Net assets held for sale	\$	<u>1,478</u>

The result of the discontinued operations are as follows:

	53 weeks ended Dec 31, 2023	52 weeks ended Dec 25, 2022
Revenue	\$ 16,427	\$ 13,207
Expenses	(17,599)	(14,521)
Impairment	(2,533)	(331)
Loss from discontinued operations	<u>\$ (3,705)</u>	<u>\$ (1,645)</u>

4. Material accounting policies

a. Basis of preparation

The financial statements have been prepared in accordance with and comply with IFRS Accounting 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 8, 2024. 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 Corporation and its subsidiaries is the Canadian dollar.

The Company’s fiscal year (the “period”, “fiscal”, 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 2023 is a 53-week period and 2022 was a 52-week period. The Company’s results in fiscal 2023 reflect the consolidated financial statements of Aegis, the St. Louis brand, and the Wing City brand, with the Bridgehead brand presented as discontinued operations.

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 in these financial statements, with Bridgehead presented as discontinued operations in (see Note 30).

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

The Company's consolidated operating revenues from continuing operations are comprised of the sales of goods from Company-operated restaurants, 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 the sales of goods from Company-operated coffeeshouses and the sale of goods through retail and other ancillary channels of the Bridgehead business. Management is organized based on the Company's operating brands rather than the specific revenue streams.

c. Basis of consolidation

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

- Bridgehead (2000) Inc.
- 2707048 Ontario Corporation (inactive)
- SLF Operations GP Inc.
- SLF Operations Limited Partnership
- SLF IP Operations Inc.
- SLF Corporate Stores Limited Partnership
- Wing City by St. Louis Limited Partnership

The entity is required 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 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 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 combinations; 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.

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.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

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.

All financial assets are initially measured at fair value. Financial assets classified as fair value through profit or loss ("FVTPL") are measured at fair value with any gain or loss recognized in profit or loss. Financial assets classified as fair value through other comprehensive income ("FVTOCI") are subsequently 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 and subsequently measured at amortized cost. Transaction costs associated with FVTPL financial assets 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 and subsequently measured FVTPL, FVTOCI or at amortized cost using the effective interest method. The effective interest method 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:

Financial Instruments

Financial assets

Cash and cash equivalents
Trade and other receivables
Notes receivable
Investments in equity securities

Recognition method

Amortized cost
Amortized cost
Amortized cost
Fair value through profit or loss

Financial liabilities

Accounts payable and accrued liabilities
Long-term debt
Convertible debentures

Amortized cost
Amortized cost
Amortized cost

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.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

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 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 lease
Equipment, furniture, fixtures, and other	3 to 7 years
Computer hardware	3 years

Right-of-use assets

IFRS 16 requires the Company, as a lessee for Company-operated restaurants 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 profit or loss. Right-of-use assets are measured at cost which comprises 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 St. Louis Bar and Grill in Canada and are recorded at the historical cost less impairment write-downs. 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.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

(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 amortization rate is based on the expected useful life of the asset of 3-7 years.

(iv) Goodwill

The Company has recorded Goodwill on its consolidated statement of financial position, which is carried at cost net of impairment losses. Goodwill is tested for impairment on an annual basis.

Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the end of the reporting period.

Income taxes

Income taxes comprise current and deferred taxes. Income taxes are recognized in profit or loss except to the extent 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 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 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 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 4.23% in fiscal 2023 based on historical redemption patterns for St. Louis. 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 by 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.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

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 corporate restaurants, 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 reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects exercising that option. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company'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. The non-cash interest expense on the lease liability is recorded in profit and loss.

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 the 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 restaurants, supplier contributions, franchise and royalty fees, as well as other sales relating to the St. Louis and Wing City 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.

Corporate restaurant 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 restaurant sales, the end customer is considered to be the guest whereas for wholesale, the end customer is the distributor.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

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.

Operating costs and expenses

Included in operating costs and expenses related to continuing operations is the following:

(i) *Franchise expenses*: including direct labour and other expenses to support the franchise network, Co-op Fund expenses, travel and franchisee meetings, business development initiatives, and professional fees directly relating to franchise operations.

(ii) *General and administrative expenses*: including labour and other expenses for home office, professional fees, public company expenses, and occupancy costs.

Included in operating costs and expenses related to discontinued operations is the following:

(i) *Coffeehouse operational expenses and cost of product sales*: including direct labour and other expenses relating to the operations of the Company-owned coffeehouses and product cost of goods sold.

(ii) *General and administrative expenses*: including labour and other expenses for Bridgehead's home office and the wholesale and e-commerce operations, professional fees, and occupancy costs.

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 Director's departure from the Board. 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. Any dividends paid during the vesting period are accrued based 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.

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 recognizes 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.

Impairment of non-financial assets

Property and equipment, intangible assets with finite lives, and right-of-use assets (resulting from the Company-owned restaurants and lease commitments) are tested for impairment when events or changes in circumstances indicate the

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

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. November 30th 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 other 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 a CGUs with its 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.

Related parties

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 key management personnel of the Company.

Share-based compensation

For share option awards granted as part of the stock option plan, fair value is determined at the date of grant and that fair value is recognized in profit or loss 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, was since Amended and Restated and approved at the Annual and Special Meeting of Shareholders in fiscal 2020, and was ratified again at the Annual Meeting of Shareholders in fiscal 2023. 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 then total issued and outstanding Shares of the Company, effectively converting the Amended and Restated Stock Option Plan into an "evergreen" plan.

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.

5. 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.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

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;
- the derivation of deferred 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 cash flows derived from such assets using cash flow projections that have been discounted at an appropriate rate and based on a market participant's view. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including:

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

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

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

(ii) Deferred 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 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 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.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

(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.

(v) Classification, measurement and presentation of assets and liabilities held for sale and of discontinued operations of Bridgehead (2000) Inc.

Management applied significant judgement in determining that the criteria for classifying the assets and liabilities of the Bridgehead business as held for sale under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (“IFRS 5”) were met as at December 31, 2023 and in estimating the fair value less costs to sell of the Bridgehead business including the development of key assumptions in estimating the selling costs and working capital adjustments.

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. Subsequent to year end, the \$500,000 loan was extended to June 2026.

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.

In December 2022, the Company 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.

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 the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

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

	2023		2022
Share capital	\$ 59,339	\$	35,970
Long-term debt	28,880		29,874
Liability portion of convertible debentures	-		18,407
Equity portion of convertible debentures	-		4,927
	<u>\$ 88,219</u>	\$	<u>89,178</u>

The Company's primary uses of capital are to finance growth in the St. Louis brands and Wing City 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 \$2,000,000. 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.

On January 23, 2023, the Company converted 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.

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	Risk
<i>Financial assets</i>	
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
<i>Financial liabilities</i>	
Accounts payable and accrued liabilities	Liquidity
Short-term debt	Liquidity
Long-term debt	Liquidity, and interest rate

Fair value of financial instruments

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

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

The carrying value of long-term debt 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 Company currently does not have any financial instruments that are held at fair 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 53 weeks ended December 31, 2023.

Financial risk management

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. During the year the company's exposure to and management of this risk has not changed since the prior year.

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 leases receivable are primarily comprised of amounts due from franchisees and suppliers. Credit risk associated with these receivables is mitigated by the review and evaluation of balances beyond a particular age. The overall credit risk of other receivables is mitigated due to Company-owned restaurants 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 expected credit losses 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. During the year the company's exposure to and management of this risk has not changed since the prior year.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

The following are the contractual maturities of financial instruments as of December 31, 2023 and December 25, 2022. The amounts are undiscounted and do not include contractual interest payments:

December 31, 2023

	Under 1 year	Between 1- 2 years	Between 2- 3 years	Between 3-4 years	Over 5 years	Total
Financial Assets						
Cash and cash equivalents	\$ 803	\$ -	\$ -	\$ -	\$ -	\$ 803
Trade, notes, leases and other receivables	3,447	950	795	411	975	6,578
	<u>\$ 4,250</u>	<u>\$ 950</u>	<u>\$ 795</u>	<u>\$ 411</u>	<u>\$ 975</u>	<u>\$ 7,381</u>
Financial Liabilities						
Accounts payable and accrued liabilities	\$ 2,615	\$ -	\$ -	\$ -	\$ -	\$ 2,615
Long-term debt	1,852	2,045	2,258	2,493	20,346	28,994
	<u>\$ 4,467</u>	<u>\$ 2,045</u>	<u>\$ 2,258</u>	<u>\$ 2,493</u>	<u>\$ 20,346</u>	<u>\$ 31,609</u>

December 25, 2022

	Under 1 year	Between 1- 2 years	Between 2- 3 years	Between 3-4 years	Over 5 years	Total
Financial Assets						
Cash and cash equivalents	\$ 6,508	\$ -	\$ -	\$ -	\$ -	\$ 6,508
Trade, notes, leases and other receivables	2,898	1,273	989	737	1,372	7,269
	<u>\$ 9,406</u>	<u>\$ 1,273</u>	<u>\$ 989</u>	<u>\$ 737</u>	<u>\$ 1,372</u>	<u>\$ 13,777</u>
Financial Liabilities						
Accounts payable and accrued liabilities	\$ 5,621	\$ -	\$ -	\$ -	\$ -	\$ 5,621
Long-term debt	1,083	2,001	2,199	2,416	22,301	30,000
	<u>\$ 6,704</u>	<u>\$ 2,001</u>	<u>\$ 2,199</u>	<u>\$ 2,416</u>	<u>\$ 22,301</u>	<u>\$ 35,621</u>

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. Management believes the Company is not significantly exposed to currency or other price risk. During the year the company's exposure to and management of this risk has not changed since the prior year.

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 31, 2023, an increase or decrease of 1% in the bank prime rate would have an impact of \$289,000 on annual interest expense using the balance of the long-term debt at December 31, 2023 and expected loan payments.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

9. 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 insignificant risk of changes in value.

Cash and cash equivalents is comprised of the following:

	<u>2023</u>	<u>2022</u>
Cash	\$ 274	\$ 2,087
Term deposits	22	3,022
Segregated cash	504	1,399
Cash, discontinued operations	454	-
	<u>\$ 1,254</u>	<u>\$ 6,508</u>

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:

	<u>0-30 Days</u>	<u>31-60 Days</u>	<u>61-90 Days</u>	<u>>90 Days</u>	<u>Total</u>
Trade receivable – net amount as at December 25, 2022	\$ 642	\$ 29	\$ 3	\$ 134	\$ 808
Trade receivables – gross amount as at December 31, 2023	\$ 1,089	\$ 661	\$ 83	\$ 505	\$ 2,338
Loss allowance	(74)	-	-	(357)	(431)
Net	<u>\$ 1,015</u>	<u>\$ 661</u>	<u>\$ 83</u>	<u>\$ 148</u>	<u>\$ 1,907</u>

Trade receivables include a combined loss allowance of \$431,000 (December 25, 2022 - \$37,000). Credit terms vary by customer in the range of 30 to 90 days.

b. Notes and leases receivable

	<u>2023</u>	<u>2022</u>
Notes receivable	\$ 395	\$ 747
Leases receivable	3,422	4,489
	<u>\$ 3,817</u>	<u>\$ 5,236</u>

The notes and other leases receivable balance for December 31, 2023 is primarily made up of lease receivables related to franchised St. Louis Bar & Grill locations in which the Company is named on the head lease with the franchisee being the sublessor and a receivable from the vendor of St. Louis relating to working capital amounts and supplier contributions.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

The following table outlines the total contractual discounted real estate lease receivables as at December 31, 2023 and December 25, 2022:

	<u>2023</u>	<u>2022</u>
Year 1	\$ 1,235	\$ 1,343
Year 2	950	1,273
Year 3	705	989
Year 4	411	737
Year 5	385	411
Thereafter	590	961
Less: future interest expense	(854)	(1,225)
Total lease receivables	<u>\$ 3,422</u>	<u>\$ 4,489</u>

c. Total trade, notes, leases, and other receivables

	<u>2023</u>	<u>2022</u>
Trade and other receivables	\$ 1,907	\$ 808
Notes receivable	395	747
Leases receivable	3,422	4,489
	<u>\$ 5,724</u>	<u>\$ 6,044</u>
Trade, notes, leases, and other receivables – current	\$ 3,163	\$ 2,448
Notes and leases receivable – non-current	2,561	3,596
Trade, notes, leases, and other receivables	<u>\$ 5,724</u>	<u>\$ 6,044</u>

11. Inventories

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

	<u>2023</u>	<u>2022</u>
Merchandise held for resale	\$ 66	\$ 219
Finished goods	60	163
Work in process	-	50
Raw materials	-	447
Supplies	-	40
	<u>\$ 126</u>	<u>\$ 919</u>

Inventory recognized as an expense in the 53-week period ended December 31, 2023 was \$6,936,000 (52-week period ended 2022 - \$4,530,000). In the 53-week period ended December 31, 2023, \$6,900,000 (52-week period ended 2022 - \$4,530,000) of this expense related to discontinued operations.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

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

a. Property and equipment

	Leasehold improvements	Equipment, furniture, fixtures, vehicles	Computer hardware	Total
As at December 26, 2021	\$ 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)
As at December 25, 2022	\$ 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)
As at December 25, 2022	\$ 1,205	\$ 819	\$ 56	\$ 2,080
Additions	714	503	77	1,294
Held for sale - Bridgehead	(1,138)	(759)	(28)	(1,925)
Depreciation	(17)	(19)	(22)	(58)
As at December 31, 2023	\$ 764	\$ 544	\$ 83	\$ 1,391
Cost	\$ 782	\$ 564	\$ 106	\$ 1,452
Accumulated depreciation	(18)	(20)	(23)	(61)
As at December 31, 2023	\$ 764	\$ 544	\$ 83	\$ 1,391

b. Right-of-use assets

	2023	2022
Opening balance	\$ 3,062	\$ 3,968
Additions	2,657	354
Disposals – cost	-	(180)
Disposals – accumulated depreciation	-	158
Held for sale - Bridgehead	(2,252)	-
Amortization	(1,088)	(973)
Asset impairment charges	-	(265)
Closing balance	\$ 2,379	\$ 3,062

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

13. Intangible assets and goodwill

	Trademarks		Contracts		Goodwill		Total
As at December 26, 2021	\$ 3,911	\$ -	\$ 1,352	\$ 5,263			
Additions from acquisition of St. Louis	22,000	20,400	7,430	49,830			
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			
Disposals	-	-	-	-			
Accumulated amortization	-	(109)	-	(109)			
As at December 25, 2022	\$ 25,911	\$ 20,291	\$ 8,782	\$ 54,984			
Additions	61	-	-	61			
Held for sale - Bridgehead	(3,972)	-	(1,352)	(5,324)			
Amortization	-	(1,020)	-	(1,020)			
As at December 31, 2023	\$ 22,000	\$ 19,271	\$ 7,430	\$ 48,701			
Cost	\$ 22,000	\$ 20,400	\$ 7,430	\$ 49,830			
Accumulated amortization	-	(1,129)	-	(1,129)			
As at December 31, 2023	\$ 22,000	\$ 19,271	\$ 7,430	\$ 48,701			

14. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consists of:

	2023	2022
Accounts payable – trade ⁽¹⁾	\$ 1,312	\$ 2,572
Accrued liabilities	796	2,305
Deferred share unit plan liabilities	51	107
Accrued salaries, wages, benefits and incentives	336	479
Other payables	120	158
	\$ 2,615	\$ 5,621

⁽¹⁾ This amount includes short term provisions

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

15. Deferred revenue

The movement of deferred revenue for the 53-week period ended December 31, 2023 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	\$ 606	\$ 935	\$ 254	\$ 1,795
Additions	77	809	3,034	3,920
Recognition into revenue	(14)	(698)	(2,830)	(3,542)
Held for sale - Bridgehead	(419)	-	-	(419)
As at December 31, 2023	\$ 250	\$ 1,046	\$ 458	\$ 1,754

16. Provisions and lease liabilities

a. Provisions

As at December 26, 2021	\$ 1,847
Provisions charged during the period	-
Provisions utilized during the period	(416)
Net provisions during the period	(416)
As at December 25, 2022	\$ 1,431
Current portion (in accounts payable)	\$ 384
Non-current portion	1,047
As at December 25, 2022	\$ 1,431
Provisions charged during the period	-
Provisions utilized during the period	(541)
Net provisions during the period	(541)
As at December 31, 2023	\$ 890
Current portion (in accounts payable)	\$ 143
Non-current portion	747
As at December 31, 2023	\$ 890

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

b. Lease liabilities

The following table outlines the total contractual discounted real estate lease liabilities as at December 31, 2023 and December 25, 2022:

	<u>2023</u>		<u>2022</u>
Year 1	\$ 1,829	\$	3,043
Year 2	1,526		2,888
Year 3	1,294		2,439
Year 4	910		1,868
Year 5	814		652
Thereafter	1,149		1,116
Less: future interest expense	(1,636)		(1,915)
Less: lease liabilities – current	(1,322)		(2,374)
Lease liabilities- non-current	<u>\$ 4,564</u>	<u>\$</u>	<u>7,717</u>

The following table outlines the movement in lease liabilities for the 53-week period ended December 31, 2023 and the 52-week period ended and December 25, 2022:

	<u>2023</u>		<u>2022</u>
Lease liabilities, beginning of period	\$ 10,091	\$	6,940
Lease additions	2,661		4,647
Lease disposals	-		(29)
Cash lease payments	(1,918)		(1,655)
Lease payments from subleases	(1,344)		(200)
Add back interest included in payments	768		388
Held for sale - Bridgehead	(4,372)		-
Lease liabilities, end of period	<u>5,886</u>		<u>10,091</u>
Less current portion	(1,322)		(2,374)
	<u>\$ 4,564</u>	<u>\$</u>	<u>7,717</u>

17. Short-term debt

The Corporation has a credit agreement with CWB Franchise Finance (CWB) pursuant to which a revolving credit facility (“Credit Facility”) of \$2,000,000 is available, secured by all the assets of the Company. The Credit Facility is currently undrawn, leaving Aegis with \$2,000,000 of available credit for short-term needs.

	<u>2023</u>		<u>2022</u>
Short-term debt, beginning of period	\$ -	\$	-
Proceeds of Credit Facility	-		1,650
Repayment of Credit Facility	-		(1,650)
Short-term debt, end of period	<u>\$ -</u>	<u>\$</u>	<u>-</u>

18. Long-term debt

The Corporation 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 Corporation 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 was 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

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

corporately-owned St. Louis and Wing City locations, as well as all improvements, additions, replacements and substitutions of the equipment, and all proceeds thereof (including insurance proceeds), from Aegis, SLF Corporate Stores LP and Wing City Operations LP (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.

At December 31, 2023, the Company was not in compliance with the Pre-Compensation Consolidated FCCR covenant or the Consolidated funded debt to Consolidated EBITDA covenant. CWB has provided a letter to waive the Pre-Compensation FCCR covenant and the Senior Leverage covenant defaults for the reporting period ending December 31, 2023.

The following table outlines the movement in long-term debt:

	<u>2023</u>	<u>2022</u>
Long-term debt, beginning of the year	\$ 29,874	\$ -
Proceeds of DLOC	-	30,000
Deferred financing costs	12	(126)
Principal repayments	<u>(1,006)</u>	<u>-</u>
Long-term debt, end of the year	28,880	29,874
Less current portion	<u>(1,831)</u>	<u>(1,079)</u>
	<u>\$ 27,049</u>	<u>\$ 28,795</u>

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

Year 1	\$1,852
Year 2	\$2,045
Year 3	\$2,258
Year 4	\$2,493
Thereafter	<u>\$20,346</u>
Total	<u>\$28,994</u>

19. Convertible debentures

On November 17, 2022, the Corporation 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 entitled the holder thereof to receive, upon the satisfaction of certain conditions, one \$1,000 principal amount, unsecured Debenture. The Debentures were convertible at the holder’s option into Common Shares at any time prior to the close of business on the Maturity date at a conversion price of \$0.485. The Debentures could not be redeemed at any date that is 2 years prior to the maturity date. The Corporation may exercise its right of Forced Conversion if 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 Corporation 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 was calculated using a market interest rate that would be used for a similar liability that does not

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

have a conversion feature with the residual value being recognized as the equity conversion component. The market rate of interest was determined to be 15%.

At initial recognition the equity conversion component resulted in a taxable temporary difference. The Corporation 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 are recognized in profit or loss as deferred tax recovery.

On December 23, 2022, Aegis announced that it would convert the entire outstanding principal amount of its 11.0% convertible unsecured subordinated debentures due December 17, 2027 into common shares of the Corporation 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 Corporation issued an aggregate of 51,639,175 common shares effective January 23, 2023.

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		(1,010)
Face value of convertible debentures issued on November 17, 2022	\$	18,355
Amortization of discount		36
Amortization of issuance costs		16
Liability component as of December 25, 2022	\$	18,407
Amortization of discount		13
Amortization of issuance costs		21
Conversion of debentures		(18,441)
Liability component as of December 31, 2023	\$	-

20. Revenue

	<u>2023</u>		<u>2022</u>	
Franchise Revenue				
Royalties	\$	5,388	\$	532
Advertising fund contributions		2,595		816
Other franchise revenue		7,141		604
Corporate store revenue		1,816		-
	\$	16,940	\$	1,952

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

21. Operating costs and expenses

	<u>2023</u>	<u>2022</u>
Cost of Sales		
Cost of product sales	\$ 817	\$ -
Labour and related expenses	658	-
Overhead and other	512	-
	<u>1,987</u>	<u>-</u>
General and administrative expenses		
Labour and related expenses (Note 29)	6,530	2,631
Overhead and other	4,943	1,967
	<u>11,473</u>	<u>4,598</u>
Other		
Depreciation and amortization	58	3
Amortization of right-of-use assets	255	7
Amortization of intangible assets	1,020	109
Acquisition related costs	-	571
Revaluation of securities, warrants and other	9	4,930
	<u>1,342</u>	<u>5,620</u>
	<u>\$ 14,802</u>	<u>\$ 10,218</u>

For the 53-week ended December 31, 2023, the Company applied for \$nil (2022 - \$721,000) of wage subsidies in connection with the CEWS financial relief program. The Company recorded the wage subsidy as a reduction to the eligible remuneration expense incurred by the Company for that period.

For the 53-week ended December 31, 2023, the Company applied for \$nil (2022 - \$381,000) 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.

22. Interest and financing expense

	<u>2023</u>	<u>2022</u>
Interest expense – lease liabilities	\$ 484	\$ 38
Interest expense	3,186	1,053
Interest income – finance leases	(372)	(35)
Interest income	(121)	(162)
	<u>\$ 3,177</u>	<u>\$ 894</u>

23. Impairment of trademarks and goodwill

As at November 30, 2023, 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 and Wing City operating segment (the St. Louis CGU). An impairment charge is recorded when the carrying value of the CGU exceeds its recoverable amount. The Bridgehead impairment is discussed in Note 4 as this CGU is classified as held for sale. The recoverable amount of the St. Louis 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 St. Louis CGU included: (i) a discount rate of 32.8% and (ii) revenue projections which were based on management's projections for 2024 and beyond and

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

factoring in an average revenue growth rate of 23.1%, 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 St. Louis CGU.

24. Revaluation of securities, warrants, and other

	<u>2023</u>	<u>2022</u>
Revaluation of investment in Kiaro	\$ 66	\$ 4,891
Revaluation of High Tide warrants	-	6
Revaluation of Kiaro warrants	-	32
Revaluation of Director's deferred share option plan	(57)	1
	<u>\$ 9</u>	<u>\$ 4,930</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 a revaluation impairment charge of \$4,891,000. On June 6, 2023, the British Columbia and Ontario Securities Commissions issued a cease trade order against Kiaro for failing to file its annual filings for the period ended January 31, 2023. Trading in the company's shares remains suspended and as a result, the \$66,000 investment in Kiaro was revalued to \$nil.

25. 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:

	<u>2023</u>	<u>2022</u>
Net loss before income taxes	\$ (4,707)	\$ (10,708)
Combined Canadian federal and provincial tax rate	26.5%	26.5%
Tax recovery at statutory rate	(1,247)	(2,838)
Non-deductible expenses, permanent difference	722	587
Effect of equity conversion component	-	753
Return to provision	361	-
Other	4	-
Rate differences	(2)	-
Equity	80	-
Change in unrecognized deferred taxes	82	38
Income tax recovery	<u>\$ -</u>	<u>\$ (1,460)</u>
Current income tax recovery	\$ -	\$ -
Deferred tax recovery	-	(1,460)
Income tax recovery	<u>\$ -</u>	<u>\$ (1,460)</u>

The deferred tax recovery in 2022 relates only to continuing operations.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

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:

	2023		2022
Non-capital loss carryforwards	\$ 6,650	\$	6,419
Reserves	447		-
Property and equipment and leases	(384)		627
Financing fees	(86)		103
Revaluation of investment in Kiaro	737		654
Equity portion of convertible debentures	13		245
Other	-		(753)
	<u>\$ 7,377</u>		<u>7,295</u>
Unrecognized deferred tax assets	(7,377)		(7,295)
	<u>\$ -</u>	\$	<u>-</u>

The Company has non-capital losses of approximately \$25 million which are available to apply against its future taxable income. If not utilized, the non-capital losses will expire as follows:

Year of expiration		
2033	\$	266
2034		261
2035		254
2036		850
2037		1,651
2038		827
2039		5,057
2040		5,303
2041		3,058
2042		3,348
2043		3,908
Total	\$	<u>24,783</u>

26. 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:

	2023		2022
Basic			
Net loss from continuing operations	\$ (1,002)	\$	(7,603)
Weighted average number of shares issued and outstanding	79,432,738		24,346,416
Basic loss per share from continuing operations	\$ (0.01)	\$	(0.31)
Net loss from discontinued operations	\$ (3,705)	\$	(1,645)
Weighted average number of shares issued and outstanding	79,432,738		24,346,416
Basic loss per share from discontinued operations	\$ (0.05)	\$	(0.07)
Total basic and diluted loss per share	<u>\$ (0.06)</u>	\$	<u>(0.38)</u>

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

27. Supplemental cash flow information

Changes in non-cash working capital	<u>2023</u>		<u>2022</u>	
Trade, and other receivables	\$	(2,475)	\$	653
Inventories		(3)		547
Prepaid expenses and other assets		(55)		81
Notes receivable		411		(561)
Accounts payable and accrued liabilities		(1,166)		487
Provisions		(300)		(170)
Deferred revenue		306		1,179
Other		-		31
	\$	(3,282)	\$	2,247

28. Contingencies, commitments and guarantees

The Company is involved in litigation and other claims arising in the normal course of business. Judgement is 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.

29. Related parties

Related parties are identified as key management that effectively exercise significant influence over the Corporation. Such related parties include any entities acting with or on behalf of the aforementioned parties. For the purposes of these consolidated financial statements, a party is considered related to the Corporation if such party or the Corporation has the ability to, directly or indirectly, control or exercise significant influence over the other entity's financial and operating decisions, or if the Corporation and such party are subject to common influence.

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:

	<u>2023</u>		<u>2022</u>	
Office rent expense	\$	-	\$	49
Franchise fee expense		3		-
Interest income on related party loan (Note 6)		20		20
Total transactions	\$	23	\$	69

Compensation of key management personnel

The following summarizes the compensation expense of key management personnel and the composition thereof:

	<u>2023</u>		<u>2022</u>	
Salaries and short-term employee benefits (Note 21)	\$	1,311	\$	1,624
Directors' deferred share option plan		(57)		1
Share-based compensation		64		368
Total compensation	\$	1,318	\$	1,993

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

30. Segmented reporting

The Corporation'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 (Corporate)

Corporate amounts are public company expenses and amounts relating to shared groups who provide services, such as back-office functions, to support its operating brands.

St. Louis

The Corporation owns 100% of the partnership interest of the St. Louis brand, which has 75 franchised and 3 corporate locations Canada-wide. St. Louis products, such as sauces and frozen food products, are also sold in a growing number of grocery stores across Canada.

Wing City

The Corporation owns 100% of the partnership interest of the Wing City brand, which has 1 corporate location in Toronto, Ontario.

Discontinued Operations:

Bridgehead

The Corporation 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 Bridgehead's website as well as in a growing number of grocery stores across Ontario. The Corporation sold substantially all the assets of the Bridgehead business subsequent to year end and as a result, the Bridgehead segment is presented as discontinued operations in the 2023 consolidated financial statements.

a. Segmented Operations 2023

Segmented Operations – 53 weeks ended December 31, 2023

	Corporate	Bridgehead	St. Louis	Wing City	Total
Revenue from external customers	\$ -	\$ -	\$ 16,929	\$ 11	\$ 16,940
Cost of sales	-	-	(1,811)	(176)	(1,987)
Other amounts in loss	-	-	(10,532)	(160)	(10,692)
Corporate overhead	(5,263)	-	-	-	(5,263)
Net income (loss) before income taxes	\$ (5,263)	\$ -	\$ 4,586	\$ (325)	\$ (1,002)
Income tax recovery	-	-	-	-	-
Net income (loss) from continuing operations	\$ (5,263)	\$ -	\$ 4,586	\$ (325)	\$ (1,002)
Discontinued operations after income taxes	-	(3,705)	-	-	(3,705)
Net income (loss)	\$ (5,263)	\$ (3,705)	\$ 4,586	\$ (325)	\$ (4,707)

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

b. Segmented Operations 2022

Segmented Operations – 52 weeks ended December 25, 2022

	Corporate	Bridgehead	St. Louis	Wing City	Total
Revenue from external customers	\$ -	\$ -	\$ 1,952	\$ -	\$ 1,952
Cost of sales	-	-	-	-	-
Other amounts in loss	-	-	(1,701)	-	(1,701)
Corporate overhead	(9,314)	-	-	-	(9,314)
Net income (loss) before income taxes	\$ (9,314)	\$ -	\$ 251	\$ -	\$ (9,063)
Income tax recovery	1,460	-	-	-	1,460
Net income (loss) from continuing operations	\$ (9,314)	\$ -	\$ 251	\$ -	\$ (7,603)
Discontinued operations after income taxes	-	(1,645)	-	-	(1,645)
Net income (loss)	\$ (9,314)	\$ (1,645)	\$ 251	\$ -	\$ (9,248)

c. Segmented net assets 2023

	Cash & Cash equivalents	Right-of-Use Assets	Property & Equipment	Intangible Assets & Goodwill	Other Assets	Total
Bridgehead	\$ 454	\$ 2,252	\$ 1,329	\$ 2,785	\$ 1,319	\$ 8,139
St. Louis	794	1,052	147	48,701	5,485	56,179
Wing City	1	1,327	1,244	-	25	2,597
Aegis	8	-	-	-	394	402
	\$ 1,257	\$ 4,631	\$ 2,720	\$ 51,486	\$ 7,223	\$ 67,317
Less: Assets of Discontinued Operations	(454)	(2,252)	(1,329)	(2,785)	(1,232)	(8,052)
	\$ 803	\$ 2,379	\$ 1,391	\$ 48,701	\$ 5,991	\$ 59,265

	Accounts Payable & Accrued Liabilities	Lease Liabilities	Other Liabilities	Total
Bridgehead	\$ 1,783	\$ 4,460	\$ 419	\$ 6,662
St. Louis	1,214	4,435	1,754	7,403
Wing City	177	1,363	-	1,540
Aegis	1,224	-	29,627	30,851
	\$ 4,398	\$ 10,258	\$ 31,800	\$ 46,456
Less: Liabilities of Discontinued Operations	(1,783)	(4,372)	(419)	(6,574)
	\$ 2,615	\$ 5,886	\$ 31,381	\$ 39,882

d. Segmented net assets 2022

	Cash & Cash equivalents	Right-of-Use Assets	Property & Equipment	Intangible Assets & Goodwill	Other Assets	Total
Bridgehead	\$ 483	\$ 2,715	\$ 1,913	\$ 3,911	\$ 2,399	\$ 11,421
St. Louis	1,889	347	167	49,721	5,591	57,715
Aegis	4,136	-	-	1,352	(744)	4,744
	\$ 6,508	\$ 3,062	\$ 2,080	\$ 54,984	\$ 7,246	\$ 73,880

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

	Accounts Payable & Accrued Liabilities	Lease Liabilities	Other Liabilities	Total
Bridgehead	\$ 1,894	\$ 5,518	\$ 1,093	\$ 8,505
St. Louis	1,447	4,573	1,445	7,465
Aegis	2,280	-	48,585	50,865
	<u>\$ 5,621</u>	<u>\$ 10,091</u>	<u>\$ 51,123</u>	<u>\$ 66,835</u>

31. Share-based compensation

Stock option plan

The stock option plan was introduced in May 2014, subsequently Amended and Restated at the Annual and Special Meeting of Shareholders held virtually on September 24, 2020, and ratified at the Meeting of Shareholders held on May 5, 2023. The Corporation may grant options to buy up to 10% of its then issued and outstanding Common Shares, a total of 8,528,717. At December 31, 2023, there were 1,510,000 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	44.1%
Risk-free interest rate	3.66%
Expected dividends	\$0.00
Expected life (in years)	5.2
Weighted-average share price	\$0.375
Forfeiture rate	nil

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
March 17, 2023	180,000	\$0.45	5.2 years	44.1%	3.7%	\$0.20
October 27, 2023	100,000	\$0.25	5.2 years	44.1%	3.7%	\$0.11

⁽¹⁾ On December 23, 2022, the Board of Directors approved the repricing of these 1,045,000 stock options of the Corporation. 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 Corporation's shares after the Corporation'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 was approved by the TSX and disinterested shareholders at the Corporation's annual general meeting of shareholders on May 5, 2023.

Aegis Brands Inc.

Notes to the Consolidated Financial Statements

For the 53 weeks ended December 31, 2023, and 52 weeks ended December 25, 2022

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

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 profit or loss with a corresponding increase/decrease to reserves. For the 53-week period ended December 31, 2023, the Corporation recognized a stock-based compensation expense of \$82,000 (2022 - \$388,000) with a corresponding increase to reserves.

The table below summarizes all option activities for the 53 weeks ended December 31, 2023:

	Number of share options outstanding	Weighted-average exercise price/share
Outstanding Options, December 25, 2022	1,575,000	\$0.62
Granted	280,000	\$0.38
Exercised	-	-
Forfeited	(345,000)	\$0.61
Expired	-	-
Outstanding Options, December 31, 2023	1,510,000	\$0.58
Options exercisable, end of period	825,000	\$0.64

32. Director's deferred share option plan

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

	Notional Units	Recorded Value
As at December 25, 2022	149,196	\$ 107
Deferred units granted	-	-
Deferred units paid out	-	-
Change in fair value	-	(57)
As at December 31, 2023	149,196	\$ 50
Recovery during the period		\$ (57)

There were no deferred units granted in 2023.

33. Subsequent event

On January 26, 2024, the Corporation entered into a definitive agreement with an affiliate of Pilot Coffee Roasters Inc. to sell substantially all the assets of its specialty coffee brand Bridgehead for \$3,500,000 in cash payable on closing (subject to customary closing adjustments). The transaction closed on March 8, 2024.