Aegis Brands Inc.

Unaudited Condensed Interim Consolidated Financial Statements
For the 26 weeks ended June 25, 2023 and June 26, 2022

Notice to Reader

The management of Aegis Brands Inc. (the “Company”) is responsible for the preparation of the accompanying unaudited condensed interim consolidated financial statements. The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the financial position, financial performance and cash flows of the Company.

These unaudited condensed interim consolidated financial statements have not been reviewed by an auditor. These condensed interim consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items that management considers necessary for a fair presentation of the financial position, financial performance and cash flows.

(Signed)

Steven Pelton
President and Chief Executive Officer, Aegis Brands Inc.

(Signed)

Melinda Lee
Chief Financial Officer, Aegis Brands Inc.

July 28, 2023

Aegis Brands Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited, expressed in thousands of Canadian dollars)

		June 25, 2023		December 25, 2022
ASSETS				
Current assets				
Cash and cash equivalents (Note 4)	$	3,602	$	6,508
Trade and other receivables		2,107		808
Notes and leases receivable		1,495		1,640
Inventories		819		919
Prepaid expenses and other assets		300		217
		8,323		10,092
Non-current assets				
Notes and leases receivable		3,095		3,596
Investments in equity securities		33		66
Right-of-use assets		2,904		3,062
Property and equipment		1,942		2,080
Intangible assets		45,714		46,202
Goodwill		8,782		8,782
Total assets	$	70,793	$	73,880
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	4,639	$	5,621
Lease liabilities (Note 6)		1,529		2,374
Current portion of long-term debt (Note 7)		1,901		1,079
Deferred revenue (Note 5)		1,681		1,795
		9,750		10,869
Non-current liabilities				
Provisions		1,047		1,047
Lease liabilities (Note 6)		7,706		7,717
Long-term debt (Note 7)		27,830		28,795
Convertible debentures (Note 8)		-		18,407
Total liabilities		46,333		66,835
SHAREHOLDERS' EQUITY		24,460		7,045
Total liabilities and shareholders' equity	$	70,793	$	73,880

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

Approved by the Directors on July 28, 2023

Michael Bregman, Director

Stephen Kelley, Director

Aegis Brands Inc.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

(Unaudited, expressed in thousands of Canadian dollars)

	13 weeks ended		26 weeks ended	
	June 25, 2023	**June 26, 2022**	**June 25, 2023**	**June 26, 2022**
Revenue (Note 9)	$ 8,886	$ 3,240	$ 15,938	$ 5,782
Operating costs and expenses (Note 10)				
Cost of sales	3,834	1,854	7,132	4,338
General and administrative expenses	3,731	1,036	6,840	2,045
Depreciation of property and equipment	158	152	316	318
Amortization of right-of-use assets	257	251	492	503
Amortization of intangible assets	255	-	510	-
Revaluation of securities, warrants, and other	23	2,904	(16)	3,294
Loss on disposal of capital items	-	30	-	30
	8,258	6,227	15,274	10,528
Income (loss) before interest and other expenses (income)	628	(2,987)	664	(4,746)
Interest and financing expense (Note 11)	775	99	(1,784)	(190)
Other income	(2)	(65)	(2)	(40)
Loss before income taxes	(145)	(3,021)	(1,118)	(4,896)
Income tax recovery	-	205	-	424
Net loss	$ (145)	$ (2,816)	$ (1,118)	$ (4,472)
Basic and diluted loss per share (Note 12)	$ (0.00)	$ (0.12)	$ (0.02)	$ (0.19)

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

Aegis Brands Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

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

	Common Shares		Share Capital		Reserves		Equity component of convertible debentures		Deficit		Total
Balance - December 26, 2021	23,230,227	$	32,895	$	61,917	$	-	$	(86,909)	$	7,903
Net loss	-		-		-		-		(4,472)		(4,472)
Stock option expense	-		-		10		-		-		10
Balance – June 26, 2022	23,230,227	$	32,895	$	61,927	$	-	$	(91,381)	$	3,441
Balance - December 25, 2022	33,647,992	$	35,970	$	62,305	$	4,927	$	(96,157)	$	7,045
Net loss	-		-		-		-		(1,118)		(1,118)
Conversion of convertible debentures to equity	51,639,175		23,405		-		(4,927)		-		18,478
Stock option expense	-		-		55		-		-		55
Balance – June 25, 2023	85,287,167	$	59,375	$	62,360	$	-	$	(97,275)	$	24,460

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

Aegis Brands Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited, expressed in thousands of Canadian dollars)

	13 weeks ended		26 weeks ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
CASH PROVIDED BY (USED IN)				
Operating activities				
Net loss for the period	$ (145)	$ (2,816)	$ (1,118)	$ (4,472)
Items not involving cash				
Depreciation of property and equipment	158	152	316	318
Amortization of right-of-use assets	257	251	492	503
Amortization of intangible assets	255	-	510	-
Amortization of capitalized acquisition costs	2	-	73	-
Deferred income taxes	-	(205)	-	(424)
Loss on disposal of capital items	-	30	-	30
Stock option expense	27	5	55	10
Interest income – leases receivable	(98)	(3)	(202)	(6)
Interest expense – lease liabilities	180	90	362	185
Revaluation of warrants and equity securities	33	2,961	33	3,343
Changes in non-cash working capital & other (Note 13)	(865)	(468)	(1,969)	(607)
Cash used in operating activities	(196)	(3)	(1,448)	(1,120)
Investing activities				
Payments for capital expenditures	(176)	(26)	(178)	(30)
Payments for intangible assets	(22)	-	(22)	-
Proceeds received on the sale of capital items	-	120	-	120
Cash provided by (used in) investing activities	(198)	94	(200)	90
Financing activities				
Lease payments	(453)	(439)	(1,113)	(866)
Repayment of long-term debt	(145)	-	(145)	-
Advances of short-term debt	-	300	-	950
Cash provided by (used in) financing activities	(598)	(139)	(1,258)	84
Decrease in cash and cash equivalents during the period	(992)	(48)	(2.906)	(946)
Cash and cash equivalents – Beginning of the period	4,594	867	6,508	1,765
Cash and cash equivalents – End of the period	$ 3,602	$ 819	$ 3,602	$ 819

Supplementary information

Interest paid	$ 740	$ 10	$ 1,707	$ 13

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

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

1. Organization and nature of business

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

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

As of June 25, 2023, Aegis has 20 Company-owned coffeehouses including its flagship roastery, all of which operate under the Bridgehead brand and 74 franchises and 1 corporate restaurant, all of which operate under the St. Louis Bar & Grill brand.

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

1) in the current period, the segmented note separates the Cost of Sales according to the statement of operations and comprehensive loss. A portion of these expenses were included in General and Administrative expenses in the prior year.

2. Business Combinations

Acquisition of St. Louis

On November 17, 2022, Aegis completed the acquisition of substantially all of the assets of the St. Louis Franchise business pursuant to the terms and conditions set forth in the asset purchase agreement. The fair value of consideration on closing was $50,000,000 in cash. The cash consideration was financed (before financing fees) with the proceeds of $30,000,000 from the Company's existing Development Line of Credit ("DLOC") facility with Canadian Western Bank Franchise Finance ("CWB"), $25,045,000 from issuing 11% convertible unsecured subordinated debentures ("the Debentures"), and $3,375,000 from issuing common shares, with the excess fundraising going towards working capital and general corporate purposes. Acquisition related costs totaled $2,007,000, of which $571,000 was expensed and $1,436,000 was recognized against the related debt or equity. Goodwill acquired is primarily attributable to expected earnings growth and potential synergies.

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

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

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

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

Working capital upon closing was calculated as follows:

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

3. Summary of significant accounting policies

a. Basis of preparation

The unaudited condensed interim consolidated financial statements (the "financial statements") have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The unaudited financial statements were approved and authorized for issue by the Board of Directors on July 28, 2023. The unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period. The functional currency of the Company and its subsidiaries is the Canadian dollar.

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

The fiscal year is made up of 52 or 53-week periods ending on the last Sunday of December. Fiscal 2023 consists of 53 weeks. The Company's results in Q2 2023 reflect the consolidated financial statements of Aegis, the Bridgehead brand, and the St. Louis brand.

The Company's results in Q2 2022 reflect the consolidated financial statements of Aegis and the Bridgehead brand.

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.

The Company's consolidated operating revenues from continuing operations are comprised of the sale of goods from Company-operated coffeehouses, the sale of goods through retail and other ancillary channels, royalties from the St. Louis franchisees, supplier contributions, and other service fees.

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

c. Basis of consolidation

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

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

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

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

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

d. Business Combinations

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

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

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

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

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

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

4. Cash and cash equivalents

Cash and cash equivalents is comprised of the following:

	June 25, 2023	December 25, 2022
Cash	$ 912	$ 2,087
Term deposits	1,900	3,022
Segregated cash	790	1,399
	$ 3,602	$ 6,508

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.

5. Deferred revenue

The movement of deferred revenue for the 26 week period ended June 25, 2023 is presented in the table below:

	Gift cards and loyalty program	Other franchise revenue	Advertising fund	Total
As at December 25, 2022	$ 606	$ 935	$ 254	$ 1,795
Additions	655	427	1,437	2,519
Recognition into revenue	(649)	(293)	(1,691)	(2,633)
As at June 25, 2023	$ 612	$ 1,069	$ -	$ 1,681

The Advertising Fund overspend balance of $222,718 at June 25, 2023 is in Trade and other receivables.

6. Lease liabilities

The following table outlines the total contractual real estate lease liabilities as at June 25, 2023:

Year 1	$ 3,095
Year 2	2,808
Year 3	2,380
Year 4	1,430
Year 5	582
Thereafter	708
Less: future interest expense	(1,768)
Less: lease liabilities – current	(1,529)
Total long-term lease liabilities	$ 7,706

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

7. Long-term debt

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

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

The following table outlines the movement in long-term debt from December 25, 2022 to June 25, 2023:

Long-term debt, December 25, 2022	$	29,874
Deferred financing costs expensed		2
Principal payments made		(145)
Less current portion		(1,901)
Long-term debt, June 25, 2022	$	27,830

8. Convertible debentures

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

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

The carrying amount of the liability component of the convertible debentures, net of issuance costs are as follows:

Liability component of convertible debentures as of December 25, 2022	$	18,407
Amortization of discount		12
Amortization of issuance costs		59
Conversion of debentures		(18,478)
Liability component as of June 25, 2023	$	-

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

9. Revenue

The breakdown of by revenue channel is as follows:

	13 weeks ended		26 weeks ended	
	June 25, 2023	**June 26, 2022**	**June 25, 2023**	**June 26, 2022**
Franchise revenue				
Royalties	$ 1,511	$ -	$ 2,788	$ -
Advertising fund contributions	1,216	-	1,836	-
Other franchise revenue	2,085	-	3,710	-
	$ 4,812	$ -	$ 8,334	$ -
Company-owned coffeehouses and product sales				
Coffeehouses	$ 3,635	$ 2,810	$ 6,689	$ 4,796
Wholesale	309	277	649	650
E-commerce	130	153	264	336
	$ 4,074	$ 3,240	$ 7,604	$ 5,782
Total Revenue	$ 8,886	$ 3,240	$ 15,938	$ 5,782

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

10. Operating costs and expenses

Cost of Sales	**13 weeks ended**		**26 weeks ended**	
	June 25, 2023	**June 26, 2022**	**June 25, 2023**	**June 26, 2022**
Cost of product sales	$ 1,764	$ 1,184	$ 3,186	$ 2,244
Labour and related expenses	1,377	566	2,630	1,511
Overhead and other	693	104	1,316	583
	3,834	1,854	7,132	4,338
General and administrative expenses				
Labour and related expenses	1,988	448	4,016	1,158
Overhead and other	1,743	588	2,824	887
	3,731	1,036	6,840	2,045
Other				
Depreciation and amortization	158	152	316	318
Amortization of right-of-use assets	257	251	492	503
Amortization of intangible assets	255	-	510	-
Revaluation of securities, warrants and other	23	2,904	(16)	3,294
Loss on disposal	-	30	-	30
	693	3,337	1,302	4,145
	$ 8,258	$ 6,227	$ 15,274	$ 10,528

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

11. Interest and financing costs

	13 weeks ended		26 weeks ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Interest expense –lease liabilities	$ 180	$ 90	$ 362	$ 185
Interest expense	737	17	1,704	22
Interest income – leases receivable	(98)	(3)	(202)	(6)
Interest income	(44)	(5)	(80)	(11)
	$ 775	$ 99	$ 1,784	$ 190

12. Basic and diluted loss per share

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

	13 weeks ended		26 weeks ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Net loss from operations	$ (145)	$ (2,816)	$ (1,118)	$ (4,472)
Weighted average number of shares issued and outstanding	85,287,167	23,230,227	73,630,062	23,230,227
Basic and diluted loss per share	$ (0.00)	$ (0.12)	$ (0.02)	$ (0.19)

13. Supplemental cash flow information

	13 weeks ended		26 weeks ended	
	June 25, 2023	June 26, 2022	June 25, 2023	June 26, 2022
Changes in non-cash working capital & other (inflows (outflows)):				
Trade, and other receivables	$ (1,032)	$ (328)	$ (1,299)	$ (339)
Notes and leases receivable	(14)	20	409	91
Inventories	107	29	100	-
Prepaid expenses and other assets	(43)	70	(83)	(205)
Accounts payable and accrued liabilities	195	(272)	(982)	(193)
Deferred revenue	(78)	13	(114)	39
	$ (865)	$ (468)	$ (1,969)	$ (607)

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

14. Contingencies, commitments and guarantees

The Company is involved in litigation and other claims arising in the normal course of business. Judgment must be used to determine whether or not a claim has any merit, the amount of the claim and whether to record a provision, which is dependent on the potential success of the claim. It is believed that no significant losses or expenses will be incurred with such claims above what has been accrued. However, there can be no assurance that unforeseen circumstances will not result in significant costs. The outcome of these actions is not determinable at this time, and adjustments, if any, will be recorded in the period of settlement.

Contracts are in place with third party companies to purchase the coffee that is sold in all coffeehouses. In terms of these supply agreements, there is a guaranteed minimum volume of coffee purchases of $1,138,000 (June 26, 2022 - $730,000) for the subsequent 12 months. The coffee purchase commitment is comprised of two components: unapplied futures commitment contracts and fixed price physical contracts.

15. Segmented reporting

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

Segmented Operations – 13 Weeks Ended June 25, 2023

	St. Louis	Bridgehead	Aegis	Total
Revenue from external customers	$ 4,812	$ 4,074	$ -	$ 8,886
Cost of sales	(344)	(3,490)	-	(3,834)
Other amounts in income (loss)	(3,164)	(885)	(1,148)	(5,197)
Net income (loss)	**$ 1,304**	**$ (301)**	**$ (1,148)**	**$ (145)**

Segmented Operations – 13 Weeks Ended June 26, 2022

	Bridgehead	Aegis	Total
Revenue from external customers	$ 3,240	$ -	$ 3,240
Cost of sales	(1,854)	-	(1,854)
Other amounts in loss	(762)	(3,645)	(4,407)
Net loss before income taxes	624	(3,645)	(3,021)
Income tax recovery	165	(370)	(205)
Net income (loss)	**$ 459**	**$ (3,275)**	**$ (2,816)**

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

Segmented Operations – 26 Weeks Ended June 25, 2023

	St. Louis	Bridgehead	Aegis	Total
Revenue from external customers	$ 8,334	$ 7,604	$ -	$ 15,938
Cost of sales	(406)	(6,730)	-	(7,136)
Other amounts in loss	(5,672)	(1,763)	(2,485)	(9,920)
Net income (loss)	**$ 2,256**	**$ (889)**	**$ (2,485)**	**$ (1,118)**

Segmented Operations – 26 Weeks Ended June 26, 2022

	Bridgehead	Aegis	Total
Revenue from external customers	$ 5,782	$ -	$ 5,782
Cost of sales	(4,338)	-	(4,338)
Other amounts in loss	(1,638)	(4,703)	(6,341)
Net loss before income taxes	(194)	(4,703)	(4,897)
Income tax recovery	(54)	(371)	(425)
Net loss	**$ (140)**	**$ (4,332)**	**$ (4,472)**