



Aegis Brands Inc.

Management's Discussion and Analysis
For the 13 weeks ended March 27, 2022 and March 27, 2021

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are based on a number of assumptions and are subject to known and unknown risks, uncertainties and other factors, many of which are beyond the Company's control that may cause the Company's actual results, performance or achievements, or those of the Company's coffeehouses, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following are some of the factors that could cause actual results to differ materially from those expressed in the underlying forward-looking statements: competition; availability of premium quality coffee beans; the location of the Company's coffeehouses; the closure of coffeehouses; loss of key personnel; compliance with government regulations; potential litigation; the ability to exploit and protect the Company's trademarks; changing consumer preferences and discretionary spending patterns including, but not restricted to, the impact of weather and economic conditions on such patterns and the impact of the ongoing COVID-19 pandemic on consumer buying and spending trends and on the business environment; and the financial performance and financial condition of the Company. The foregoing list of factors is not exhaustive, and investors should refer to the risks described under "Risks and Uncertainties" below and in the Company's annual information form dated March 28, 2022, which is available at www.sedar.com.

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

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

INTRODUCTION

The following MD&A has been prepared as of May 6, 2022 and is intended to assist in understanding the financial performance and financial condition of Aegis Brands for the 13 weeks (the "Quarter") ended March 27, 2022, should be read in conjunction with the Unaudited Condensed Interim Consolidated Financial Statements of the Company for the 13 weeks ended March 27, 2022 and March 27, 2021 and the Audited Consolidated Financial Statements of the Company for the 52 weeks ended December 26, 2021, and the Annual Information Form, which are available at www.sedar.com. Past performance may not be indicative of future performance. All amounts are presented in thousands of Canadian dollars, except number of coffeehouses, per share amounts or unless otherwise indicated and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company also reports certain non-IFRS measures such as system sales of coffeehouses, same coffeehouse sales, operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share that are discussed in the "Definitions and Discussion of Certain non-IFRS Financial Measures" in this MD&A.

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CORE BUSINESS, STRATEGIC IMPERATIVES, AND KEY PERFORMANCE DRIVERS

Core Business

Aegis Brands currently owns and operates the Bridgehead Coffee brand. Bridgehead Coffee is operated by the Company's wholly-owned subsidiary Bridgehead (2000) Inc. "Bridgehead". The Company owns the trademarks, trade names, operating procedures and systems and other intellectual property used in connection with the operation of this brand in Canada.

Aegis Brands Inc. is a Canadian public company incorporated under the Business Corporations Act (Ontario) in 2011. The Company relocated to a new registered office in September 2021 located at 210 Shields Court, Markham, Ontario, L3R 8V2. The Company's website is www.aegisbrands.ca. The Company's common shares trade under the name and the Toronto Stock Exchange under the ticker symbol "AEG".

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

Operating Brands

As of March 27, 2022, the Company owned and operated one retail operating brand. Bridgehead has 21 Company-owned coffeehouses including its flagship roastery, all of which continue to operate under the Bridgehead brand.

Strategic Imperatives and Key Performance Drivers

Aegis Brands was created with the vision of building a portfolio of brands that can grow and flourish by leveraging expertise developed over 40 years in the Canadian retail and foodservice industry. Aegis will continue to focus on its key strategies which include: the growth and expansion of its retail operating brands through retail and ancillary channels and the pursuit of strategic acquisitions in retail and foodservice.

On February 7, 2021, the Company entered into a definitive agreement to sell all or substantially all of the assets comprising the Second Cup brand ("Second Cup") to an affiliate of Quebec-based Foodtastic Inc. ("Foodtastic"). The sale price was \$14,000,000 in cash received on closing (subject to customary closing adjustments) plus a post-closing earn-out based on royalties earned from certain Second Cup coffeehouses opened following completion of the sale. On April 26, 2021 the Company announced that it had completed the sale of the Second Cup assets.

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

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

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HIGHLIGHTS OF SIGNIFICANT EVENTS

Statement on COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, ("COVID-19"), a global pandemic. Since then, the outbreak has spread on a global scale, causing companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. The case count continues to be a cause of concern, along with the additional questions and uncertainty as a result of the emergence of the COVID-19 variants. Due to these reasons, government and business enforced restrictions continue to be in effect to varying degrees across parts of Canada.

Since the declaration of the pandemic, a majority of the Bridgehead coffeehouse locations have been negatively impacted by the decline in consumer foot traffic - especially notable in downtown Ottawa, scaled down nature of store operations due to closure of dining space for periods of time, and the general shift in consumer spending patterns in the retail industry. As of March 27, 2022, three out of 21 Bridgehead coffeehouses were temporarily suspended for business operations.

The temporary store closures and restricted store operations as a result of the circumstances described above, continue to significantly reduce sales and impact the Company's cash flows. The decrease in sales and accumulating losses is considered an indicator of impairment by the Company. As the negative impacts outlined above are considered an indicator of impairment by management, at year end, the Company performed an assessment of the recoverability of its assets, including its trademarks, right-of-use assets, property and equipment. Following this assessment at year end, the Company recognized an impairment charge against its assets. The Company did not record any additional impairment for the 13-week period ended March 27, 2022.

In an effort to mitigate the risks associated with the pandemic and in response to the reduction of sales, the Company actively reduced its operating costs by halting discretionary capital expenditures and significantly lowering its staff compensation costs. The Company continued to evaluate all available, applicable government relief programs, including the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") program, which are financial relief measures initiated by the Government of Canada in response to the economic impacts of the COVID-19 pandemic. The Company determined that it was eligible to qualify for the above relief financial programs throughout 2020 and 2021. Subsequent to the 13-week period ended March 27, 2022, the Company applied for \$872,500 of wage and rent subsidies and will recognize these subsidies as a reduction of the related expense upon receipt.

Discontinued Operations

As discussed above in "Strategic Imperatives and Key Performance Drivers", the Company entered into a definitive agreement to sell all or substantially all of the assets comprising Second Cup to an affiliate of Quebec-based Foodtastic Inc. and entered into a strategic transaction with Kiara, a TSX-V-listed cannabis retailer and wholesale distributor, pursuant to which it agreed to sell its Hemisphere subsidiary and operations in consideration for an equity stake in Kiara.

In accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the Company has presented the after-tax loss from these discontinued operations as a single amount in the condensed interim consolidated statement of operations and comprehensive loss. The Company has further disclosed details of the discontinued operations in note 4 to the Audited Consolidated Financial Statements for the 52 weeks ended December 26, 2021.

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CAPABILITIES

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

The Bridgehead Brand

The brand - Bridgehead® – reflects a commitment to deliver original and premium Fairtrade coffee brands, with 100% of its coffee certified Fairtrade and made from organic certified green coffee. A proud Canadian company, Bridgehead has 21 company-owned coffeehouses in Ottawa, including its flagship roastery, all of which continue to operate under the Bridgehead name.

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

There is a total of 220 Bridgehead team members including baristas, wholesale and facilities staff, coffeehouse managers, and corporate personnel employed at the Company's home office.

All Bridgehead coffeehouses serve their premium coffee, baked goods and fresh foods made daily, using local and seasonal ingredients. Bridgehead products are also available for purchase online through their website as well as at an increasing number of grocery retailers throughout Ontario.

Liquidity, capital resources and management of capital

The Company continues to proactively manage its cash flow position and liquidity requirements in the face of various uncertainties. In December 2020, the Company entered into a loan agreement with CWB Franchise Finance ("CWB"), a division of the Canadian Western Bank Financial Group, pursuant to which a revolving credit facility of \$4,000,000 (the "Credit Facility") was made available to the Company at the financing rate of prime + 3.20%, secured by the assets of the Second Cup and Bridgehead. In connection with the sale of Second Cup in Q2 2021 and the associated decrease in security, the Credit Facility was reduced to \$2,000,000. The Credit Facility will be available for a period of 24 months until its maturity on December 7, 2022. The continuance of the Credit Facility will be reviewed on an annual basis.

In December 2021, the Company finalized a development line of credit (the "DLOC") with CWB for \$28,000,000 to continue the Company's growth in the foodservice industry through acquisition. The DLOC is available for 36 months and is subject to a variable interest rate of prime + 2.75%.

In March 2022, changes were made to the CWB facilities to decrease the DLOC by \$1,000,000 and to increase the Credit Facility by the same amount.

At March 27, 2022, \$650,000 has been drawn on the Credit Facility, leaving Aegis with \$29,350,000 in available credit for short-term operating needs and long-term growth.

At March 27, 2022, there were 23,230,227 common shares issued and outstanding.

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Competition

The specialty coffee industry is characterized by intense competition with respect to price, location, coffee and food quality, and numerous factors affecting discretionary consumer spending. Competitors include national and regional chains, independent coffeehouses, all restaurants and food service outlets that serve coffee, and supermarkets that compete in the whole bean and roast and ground segments.

Technology

The Company relies heavily on information technology network infrastructure including point of sale system ("POS") hardware and software in coffeehouses, gift and loyalty card transactions, and head office ("Aegis Central") financial and administrative functions. The ability to manage operations effectively and efficiently depends on the reliability and capacity of these technology systems, most of which are administered by third party suppliers. The Company has made significant investments in POS systems across its store network as it relies on the POS system to help analysis for both marketing initiatives and royalty calculations. During the prior year, the Company upgraded its point of purchase or retail POS systems sourced from a new third-party supplier to equip its retail Bridgehead coffeehouses with state-of-the-art retail POS infrastructure at its locations.

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

The Company's consolidated operating revenues comprise sales from coffeehouses, the sale of goods through retail and other ancillary channels, and other service fees.

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

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CONSOLIDATED HIGHLIGHTS: CONTINUING OPERATIONS OF BRIDGEHEAD AND AEGIS CORPORATE

The following table sets out selected IFRS and certain non-IFRS financial measures of the Company and should be read in conjunction with the Unaudited Condensed Interim Financial Statements of the Company for the 13 weeks ended March 27, 2022 and March 27, 2021.

(In thousands of Canadian dollars, except same coffeehouse sales, number of coffeehouses, per share amounts, and number of common shares.)	13 weeks ended March 27, 2022	13 weeks ended March 27, 2021
System sales ¹	\$1,986	\$1,701
Same coffeehouse sales ^{1,2}	12%	(29%)
Number of coffeehouses - end of period	21	19
Total revenue	\$2,542	\$2,204
Operating costs and expenses	\$4,319	\$2,504
Operating loss from continuing operations ¹	(\$1,777)	(\$300)
Loss from discontinued operations ¹	-	(\$1,500)
EBITDA ¹	(\$1,360)	\$240
Adjusted EBITDA ¹	(\$971)	\$240
Net loss and comprehensive loss	(\$1,656)	(\$1,801)
Adjusted net loss and comprehensive loss ¹	(\$1,267)	(\$301)
Basic and diluted loss per share as reported	(\$0.07)	(\$0.08)
Adjusted basic and diluted loss per share ¹	(\$0.05)	(\$0.01)
Total assets - end of period	\$18,872	\$20,320
Number of weighted average common shares issued and outstanding	23,230,227	22,916,028

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

²Same coffeehouse sales represent the percentage change, on average, in sales at Bridgehead coffeehouses operating system-wide that have been open for more than 12 months. For months where coffeehouses were closed temporarily due to COVID-19, those months for both years were not included in this calculation.

During the 13 weeks ended March 27, 2022, there were no operations for Second Cup and Hemisphere.

During the 13 weeks ended March 27, 2021, Aegis recorded a \$1,140,000 operating loss on the Second Cup business and a \$360,000 operating loss on the Hemisphere business. The Second Cup and Hemisphere operations are shown in the comparative condensed interim consolidated statements of operations and comprehensive loss as discontinued operations.

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OPERATIONAL REVIEW

Seasonality of system sales of coffeehouses

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

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

% of Annual system sales of coffeehouses	2021
First Quarter	19.3
Second Quarter	21.3
Third Quarter	27.8
Fourth Quarter	31.6
	<u>100.0</u>

Coffeehouse/Café/Location network

	13 weeks ended March 27, 2022	13 weeks ended March 27, 2021
Number of locations - beginning of period	21	263
Locations opened	-	-
Locations closed	-	-
Locations reclassified to discontinued operations ¹	-	(244)
Acquired during the period	-	-
	<u>21</u>	<u>19</u>

The Company ended the Quarter with 21 (March 27, 2021 – 19) Bridgehead coffeehouses.

¹Second Cup cafés and Hemisphere stores are presented as discontinued operations.

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First Quarter – Aegis Brands Inc.

System sales of coffeehouses

System sales of coffeehouses for the 13 weeks ended March 27, 2022 were \$1,986,000 compared to \$1,701,000 in the prior year, representing an increase of \$285,000 or 16.8%. The increase in Bridgehead coffeehouse sales is the combined result of the addition of two locations and the gradual lifting of COVID-19 restrictions over the period, leading to a steady increase in customer traffic.

Same coffeehouse sales

During the Quarter, same coffeehouse sales at Bridgehead locations increased by 12%. The increase in same coffeehouse sales is the combined result of increased average ticket prices and the gradual lifting of COVID-19 restrictions over the period, leading to a steady increase in customer traffic.

Analysis of revenue

The Company generated revenue for the Quarter of \$2,542,000 (2021 - \$2,204,000), an increase of \$338,000 or 15%. The breakdown of sales by revenue channel is as follows:

	13 weeks ended March 27, 2022	13 weeks ended March 27, 2021
Coffeehouses	\$ 1,986	\$ 1,701
Wholesale	372	239
E-commerce	183	254
	<u>\$ 2,542</u>	<u>\$ 2,204</u>

Bridgehead's coffeehouse revenue should continue to improve as spending patterns are beginning to recover from the effects of the pandemic. Overall revenue contribution will continue to shift towards the wholesale (grocery) channel as they continue to expand their presence in grocery stores across Ontario with plans to grow across Canada. The e-commerce channel is also well positioned for growth as the brand gets this increased exposure in new markets. Marketing investments in both channels are being made this fiscal year to support this planned growth.

Operating costs and expenses

Coffeehouse cost of sales: cost of sales, direct labour, occupancy and other were \$2,601,000 (2021 - \$1,355,000), an increase of \$1,246,000. Adjusting the 2021 quarter for the \$814,000 in government subsidies received, the increase is \$432,000. Most of this increase is comprised of higher labour costs due to a combination of minimum wage increases and longer opening hours. Higher green coffee prices and food prices also contributed to the increase.

General and administrative: labour and related expenses of Aegis employees and Bridgehead office staff and other overhead items such as professional fees and office expenses were \$913,000 (2021 - \$609,000), an increase of \$304,000. Adjusting the 2021 quarter for the \$66,000 in government subsidies received, the increase is \$238,000. The majority of this increase relates to more salaries and overhead expenses being absorbed by Aegis, having only one operating business to allocate shared services to in 2022 versus three in 2021.

Other: other expenses were \$805,000 (2021 - \$540,000), an increase of \$265,000. The revaluation of Aegis' securities and warrants in 2022 were offset by lower depreciation and amortization expenses at Bridgehead.

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EBITDA

EBITDA loss for the Quarter from continuing operations was \$1,360,000 compared with EBITDA of \$240,000 last year. Adjusted for revaluations of warrants and securities of \$389,000 (2021 - \$nil), EBITDA loss for the Quarter was \$971,000.

Interest and Financing Costs

The Company reported net interest and financing costs of \$98,000 (2021 – 107,000). This is composed primarily of interest expense recorded on the Company's lease payments for right-of-use assets recognized in accordance with IFRS 16.

Net loss

The Company reported a net loss from continuing operations for the Quarter of \$1,656,000 or \$0.07 per share compared with a loss of \$301,000 or \$0.01 per share last year. Total net loss and comprehensive loss was the same at \$1,656,000 or \$0.07 per share compared with a loss of \$1,801,000 or \$0.08 per share last year.

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

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LIQUIDITY AND CAPITAL RESOURCES

The Company generates revenue from the sale of products at its coffeehouses and as well as ancillary channels, including grocery, wholesale and ecommerce. For a more detailed discussion of the risks and uncertainties affecting the Company's liquidity, see the general risks outlined below and the "Capabilities" section above.

Summary of cash flows

(\$000's)	13 weeks ended	
	March 27, 2022	March 27, 2021
Cash provided by (used in) operating activities – continuing operations	\$ (1,112)	\$ 860
Cash used in operating activities – discontinued operations	-	(665)
Cash provided by (used in) operating activities	(1,112)	195
Cash used in investing activities – continuing operations	-	(3)
Cash used in investing activities – discontinued operations	-	(506)
Cash used in investing activities	-	(509)
Cash provided by financing activities – continuing operations	214	623
Cash used in financing activities – discontinued operations	-	(438)
Cash provided used in financing activities	214	(175)
Net decrease in cash and cash equivalents during the period	\$ (898)	\$ (517)

The Company used cash of \$1,112,000 in its operating activities. Cash used in operating activities were higher in 2022 compared to 2021 due to operations being negatively affected by the Omicron COVID-19 wave in the first quarter of 2022 and not having received any government subsidies yet this year.

Cash provided by financing activities was \$214,000, comprised of \$650,000 in proceeds from the revolving line of credit offset by lease payments.

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Working capital as at

	March 27, 2022	December 26, 2021
(\$000's)		
Current assets	\$ 2,411	\$ 2,993
Current liabilities	<u>6,096</u>	<u>4,979</u>
Working capital deficiency	\$ <u>(3,685)</u>	\$ <u>(1,986)</u>

The Company's net working capital deficiency of \$3,685,000 as at March 27, 2022 compares to a working capital deficiency of \$1,986,000 at December 26, 2021. Although the investment in Kiaro is required to be classified as a long-term investment due to the trading restrictions imposed on the Company's shares and Kiaro's overall illiquidity, they are marketable securities and represent another \$4,588,000 of potentially liquid assets.

The Company has drawn \$650,000 as at March 27, 2022 (December 26, 2021 - \$nil) on its revolving credit facility.

Financial instruments

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

Financial instrument	Risks
<i>Financial assets</i>	
Cash and cash equivalents	Credit and interest rate
Trade and other receivables	Credit and interest rate
Notes and leases receivable	Credit and interest rate
Warrants	Credit, liquidity and interest rate
<i>Financial liabilities</i>	
Accounts payable and accrued liabilities	Liquidity
Short-term debt	Liquidity
Provisions	Liquidity
Lease liabilities	Liquidity

Fair value of financial instruments

The carrying values of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, and other liabilities approximate their fair values due to their short-term maturity. The fair value of the short-term debt represents the actual principal amount drawn from the Company's revolving line of credit facility. The credit facility has a maturity date of December 7, 2022. The carrying value of notes and leases receivable approximates their fair value as the implicit interest used to discount the base value is considered to be based on an appropriate credit and risk rate pertaining to the debtor.

The fair value of warrants was determined using the Black-Scholes option pricing model, which was valued based on Level 2 inputs. This valuation model requires five input variables: the exercise price of the warrants, the current price of the underlying stock, the time to expiration, the risk-free interest rate, and the stock's volatility.

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

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

The Company has not transferred any financial instruments between Levels 1, 2 or 3 of the fair value hierarchy during the 13 weeks ended March 27, 2022.

Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligation.

a. Cash and cash equivalents

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

b. Trade and other receivables, notes and leases receivable

Trade and other receivables are comprised primarily of sales to Bridgehead's wholesale customers. The credit risk associated with these receivables is low as these are large customers with significant financial resources and collection experience has been excellent. Notes and lease receivable are comprised primarily of amounts due from lessees of Bridgehead and a note receivable from Kiara relating to post-closing items. Credit risk associated with the lessees is low as there are subleases in place with the tenants and there have been no collection issues in the past. Credit risk associated with the Kiara receivable is low as it is secured by a promissory note from a publicly-traded company.

The Company has applied IFRS 9's simplified approach and has calculated ECLs based on lifetime expected credit losses. Consistent with prior periods, 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 the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Liquidity risk is managed through regular monitoring of forecast and actual cash flows, monitoring maturity dates of financial assets and liabilities, and also the management of the Company's capital structure and debt leverage. The Company's main source of income is coffeehouse sales and sales of other goods and services.

On April 26, 2021, the Company announced that it completed the sale of the Second Cup assets. The proceeds from the transaction of \$14,000,000 were subject to certain adjustments on closing, resulting in a net closing cash payment to Aegis Brands of approximately \$12,000,000, plus potential future earn-out payments based on certain targets. The cash resulting from the closing of the sale of Second Cup has strengthened the Company's statement of financial position and its ability to meet its commitments and obligations.

On September 27, 2021, the Company announced that it completed the strategic transaction with Kiara, a TSX-V-listed cannabis retailer and wholesale distributor, pursuant to which it sold Hemisphere to Kiara. In consideration for 100% of Hemisphere's common shares, Kiara issued 61,300,000 common shares to Aegis, plus 6,700,000 Kiara common share purchase warrants. Kiara issued an additional 4,700,000 Kiara shares (net of transaction expenses) to Aegis upon the achievement of certain commercial milestones during Q4 2021. The

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Kiario shares and warrants are liquid securities, further strengthening the Company's statement of financial position and its ability to meet its commitments and obligations.

In December 2021, adding to the already existing \$2,000,000 revolving credit facility from CWB, the Company finalized a development line of credit (DLOC) with CWB for \$28,000,000 to continue the Company's growth in the foodservice industry through acquisition. In March 2022, changes were made to the CWB facilities to decrease the DLOC by \$1,000,000 and to increase the revolving credit facility by the same amount. At March 27, 2022, \$650,000 has been drawn on the revolving credit facility, leaving Aegis with \$29,350,000 in available credit for short-term operating needs and long-term growth.

Commodity and currency risk

The Company purchases certain products, such as coffee, in U.S. dollars, thereby exposing the Company to risks associated with fluctuations in currency exchange rates. The Company is also directly and indirectly exposed to the commodity market risk. The exposure relates to the changes in coffee commodity prices given it is a material input for product offerings. The direct exposure pertaining to the wholesale business is mitigated given that the Company has the ability to adjust its sales price if commodity prices rise over a threshold level. This risk is mitigated by entering fixed price purchase commitments through coffee commodity brokers and by having the ability to adjust retail selling prices.

Market risk

The Company is exposed to market risk through its investment in Kiario shares as the fair value of the investment will fluctuate with changes in market prices. The carrying values of investments subject to equity price risk are based on quoted market prices as of the consolidated statements of financial position dates. Market prices are subject to fluctuation, and consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value.

Purchase Obligations

Contracts are in place with third-party companies to purchase the coffee that is sold in coffeehouses. In terms of these supply agreements, there is a guaranteed minimum value of coffee purchases of \$808,000 (2020 - \$776,000) for the subsequent 12 months. The coffee purchase commitment is composed of two components: unapplied futures commitment contracts and fixed price physical contracts.

Other Obligations

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

Related parties

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

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EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

Disclosure controls and procedures

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

As at May 6, 2022, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that, as at March 27, 2022 the Company's disclosure controls and procedures were appropriately designed.

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

During the 13 weeks ended March 27, 2022 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change that has materially affected, or is reasonably likely to materially affect the Company's disclosure controls and procedures.

Internal controls over financial reporting

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

As at May 6, 2022, the Company's management, under the supervision of, and with the participation of, the CEO and CFO, evaluated the design of the controls over financial reporting. No material weaknesses in the design of these controls over financial reporting were identified. Based on this evaluation, the CEO and CFO have concluded that, as at March 27, 2022, the Company's controls over financial reporting were appropriately designed and were operating effectively.

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

During the 13 weeks ended March 27, 2022 and up to the date of the approval of the Unaudited Condensed Interim Financial Statements and MD&A, there has been no change in the Company's internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

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CRITICAL ACCOUNTING ESTIMATES

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

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

- impairment charges and/or the determination of the recoverable amounts of tangible and intangible assets subject to depreciation, amortization, or with indefinite lives, including the Company's right-of-use assets, property, equipment, trademark and goodwill. Management has assessed the recoverable amounts after noting indicators of impairment as a direct result of the COVID-19 pandemic;
- the derivation of deferred income tax assets and liabilities;
- the estimated useful lives of assets;
- the allowance for credit losses;
- the fair value of intangible assets acquired in business combinations; and

(i) Impairment charges

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

- growth in total revenue;
- change and timing of cash flows such as the increase or decrease of expenditures;
- selection of discount rates to reflect the risks involved;
- applying judgement in cash flows specific to CGUs; and
- estimating the impact of the COVID-19 pandemic on the future business operations of the Company, including the impact on the ability to grow revenue and cash flow.

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

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

(ii) Deferred income taxes

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

(iii) Estimated useful lives

The useful lives of property and equipment 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

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for any period are affected by these estimated useful lives. It is possible that changes in these factors may cause significant changes in the amount of depreciation recorded in respect of the Company's property and equipment in the future.

(iv) Allowance for credit losses

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

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

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

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

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CHANGES IN ACCOUNTING POLICIES

These condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 26, 2021. During 2021, the Company completed the sale of the Second Cup assets and the sale of Hemisphere Cannabis Co. The Company has presented these disposal groups as discontinued operations as a single amount in the comparative condensed interim consolidated statement of operations and comprehensive loss.

RISKS AND UNCERTAINTIES

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

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

- There is uncertainty on how long the ongoing COVID-19 pandemic will continue to restrict business operations and disrupt the way consumers shop and buy from retail stores. There is also uncertainty on whether the vaccines will be effective against the pandemic and associated variants. There is risk that consumer spending habits as they relate to retail may not return, partially or in full, in the near future. All Bridgehead coffeehouses are located in Ottawa, with a significant portion of their locations in the downtown core, a city that is recovering much more slowly than most given the concentration of government offices.
- The specialty coffee industry is characterized by intense competition with respect to price, location, coffee and food quality, and numerous factors affecting discretionary consumer spending. Competitors include national and regional chains, independent coffeehouses, all restaurants and food service outlets that serve coffee, and supermarkets that compete in the whole bean and roast and ground segments.
- Growth of the coffeehouse network depends on Aegis Brands Inc.'s ability to secure and build desirable locations for its retail operating brands. There can be no assurance that current locations will continue to be attractive, or that additional coffeehouse sites can be located and secured as demographic and traffic patterns change. It is possible that the current locations or economic conditions where coffeehouses are located could decline in the future, resulting in reduced sales in those locations. There is no assurance that future sites will produce the same results as past sites.
- The Canadian specialty coffee industry is also affected by changes in discretionary spending patterns, which are in turn dependent on consumer confidence, disposable consumer income and general economic conditions. Factors such as changes in general economic conditions, recessionary or inflationary trends, job security and unemployment, equity market levels, consumer credit availability and overall consumer confidence levels may affect their business. The specialty coffee industry is also affected by demographic trends, traffic and weather patterns, as well competing coffeehouses.
- Business could be adversely affected by increased concerns about food safety in general or other unusual events. On May 28, 2015, the government of Ontario enacted the Making Healthy Choices Act, 2015. The Act came into force on January 1, 2017. Restaurant chains and other food service providers with 20 or more locations operating under the same (or substantially the same) name in Ontario have made changes to the information they display on menus, menu boards and displays.
- The Company relies heavily on information technology (IT) network infrastructure. The ability to manage operations effectively and efficiently depends on the reliability and capacity of these IT systems, most of which are administered by third party suppliers. The Company relies on POS for system sales for both

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marketing trends and analyzing of key performance indicators. The coffeehouses rely on IT network infrastructure to order goods and process credit, debit and card transactions. Aegis' financial and administrative functions rely on IT infrastructure for accurate and reliable information. The failure of these systems to operate effectively, or problems with upgrading or replacing systems, could cause a material negative financial result. The Company is continually reviewing its systems and procedures to minimize risk.

- Reduced earnings could impact the Company's ability to comply with its credit facility covenants.
- The loss of key personnel and/or a shortage of experienced management and hourly employees could have an adverse impact on coffeehouse operations.

A more detailed discussion of the risks and uncertainties is set out in the Company's Annual Information Form dated March 28, 2022, which is available at www.sedar.com.

Risks Related to COVID-19

The COVID-19 pandemic continues to significantly impact global economic activity, including consumer spending patterns. Further, due to governmental measures and public health recommendations including those relating to physical distancing, public meeting places, including restaurants and other hospitality-related venues, the Company could experience a significant near and potentially long-term decline in customer visits.

The Canadian specialty coffee industry is also affected by changes in discretionary spending patterns, which are in turn dependent on consumer confidence, disposable consumer income and general economic conditions. In the event that the Company is unable to continue to mitigate the impacts of the COVID-19 outbreak on operations, the Company may be unable to fulfill product delivery obligations to customers, costs may increase, and revenue and margins could decrease. It is unknown whether and how the Company may be affected if such an epidemic continues to persist for an extended period of time. A widespread health crisis could adversely affect the global economy, resulting in an economic downturn that could impact demand for business. The Company may incur expenses or delays relating to such events outside of their control, which could have a material adverse impact on business, operating results and the overall financial condition.

The Company may also experience temporary shortages of supplies or staff to the extent its work force is impacted and may also continue to experience location closures for undefined periods of time.

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DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES

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

System sales of coffeehouses

System sales of coffeehouses comprise the Gross Revenue from coffeehouses.

Same coffeehouse sales

Same coffeehouse sales represent the percentage change, on average, in retail sales at coffeehouses that have been open for more than 12 months. It is one of the key metrics the Company uses to assess its performance and provides a useful comparison between fiscal quarters. The two principal factors that affect this metric are changes in customer traffic and changes in average check (the average dollar amount on a single transaction at the coffeehouse). If a coffeehouse was temporarily closed due to COVID-19, sales during the months of closure were excluded from the calculation in both years.

Operating loss

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

EBITDA and adjusted EBITDA

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

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

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

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Reconciliations of net loss to operating loss and EBITDA, adjusted net loss and adjusted net loss per share are provided below:

	13 weeks ended March 27, 2022	13 weeks ended March 27, 2021
Net loss	\$ (1,656)	\$ (1,801)
Add (deduct):		
Net loss from discontinued operations	-	1,500
Income tax recovery	(219)	(106)
Interest and financing expense	98	107
Operating loss, continuing operations	\$ <u>(1,777)</u>	\$ <u>(300)</u>
	13 weeks ended March 27, 2022	13 weeks ended March 27, 2021
Net loss	\$ (1,656)	\$ (1,801)
Add (deduct):		
Net loss from discontinued operations	-	1,500
Income tax recovery	(219)	(106)
Interest and financing expenses	98	107
Depreciation of property and equipment	165	204
Amortization of right-of-use asset	251	336
EBITDA, continuing operations	<u>(1,360)</u>	<u>240</u>
Add impact of the following:		
Revaluations of warrants and securities	389	-
Adjusted EBITDA, continuing operations	\$ <u>(971)</u>	\$ <u>240</u>
	13 weeks ended March 27, 2022	13 weeks ended March 27, 2021
Net loss	\$ (1,656)	\$ (1,801)
Add (deduct) impact of the following:		
Net loss from discontinued operations	-	1,500
Revaluations of warrants and securities	389	-
Adjusted net loss, continuing operations	\$ <u>(1,267)</u>	\$ <u>(301)</u>

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	13 weeks ended March 27, 2022	13 weeks ended March 27, 2021
Net loss per share	\$ (0.07)	\$ (0.08)
Add (deduct) impact of the following:		
Net loss from discontinued operations	-	0.07
Revaluations of warrants and securities	(0.02)	-
Adjusted net loss per share, continuing operations	\$ <u>(0.05)</u>	\$ <u>(0.01)</u>