

MiniLuxe Holding Corp.

Consolidated Financial Statements for 13 and 26 weeks ended
July 2, 2023 and June 26, 2022

(Amounts expressed in United States Dollars)

Notice of No Auditor Review of Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim consolidated financial statements by an entity's auditor.

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MiniLuxe Holding Corp.
Consolidated Statements of Financial Position
As at July 2, 2023 and January 1, 2023
Unaudited, Amounts expressed in United States Dollars

	Notes	July 2, 2023	January 1, 2023
Assets			
Current assets:			
Cash and cash equivalents		\$ 4,688,904	\$ 8,178,375
Restricted cash		165,000	165,000
Inventories	7	1,638,837	1,702,822
Prepaid expenses and other current assets		663,271	672,717
Total current assets		7,156,012	10,718,914
Non-current assets:			
Property and equipment, net	8	6,316,791	6,256,604
Intangible assets	8	725,511	633,737
Goodwill	8	260,073	260,073
Tradename	8	948,000	948,000
Deposits		365,173	358,487
Long-term investment	18	50,000	50,000
Right-of-use assets, net	14	4,209,966	4,526,779
Total non-current assets		12,875,514	13,033,680
Total assets		\$ 20,031,526	\$ 23,752,594
Equity and Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	10	\$ 2,365,920	\$ 2,638,163
Deferred revenue		2,245,555	2,406,644
Current portion of lease liabilities	14	1,530,816	1,513,440
Total current liabilities		6,142,291	6,558,247
Non-current liabilities:			
Lease liabilities	14	4,922,542	5,317,666
Loan payable	10	2,475,531	2,469,980
Contingent consideration	10, 18	681,251	630,081
Total non-current liabilities		8,079,324	8,417,727
Total liabilities		14,221,615	14,975,974
Shareholders' equity:			
Share capital	13	117,713,246	117,719,641
Contributed Surplus		999,290	798,576
Accumulated comprehensive loss		(112,902,625)	(109,741,597)
Total equity		5,809,911	8,776,620
Total equity and liabilities		\$ 20,031,526	\$ 23,752,594

See notes to consolidated financial statements.

Approved, on behalf of the Board of Directors, by:

"Tony Tjan"

"Zoe Krislock"

Tony Tjan, Chairman

Zoe Krislock, Director and CEO

MiniLuxe Holding Corp.
Consolidated Statements of Net Profit or Loss and Comprehensive Profit or Loss
13 and 26 weeks ended July 2, 2023 and June 26, 2022
Unaudited, Amounts expressed in United States Dollars

	Notes	13 weeks ended		26 weeks ended	
		July 2, 2023	June 26, 2022	July 2, 2023	June 26, 2022
Revenue	5	\$ 6,385,278	\$ 5,486,117	\$ 11,603,251	\$ 9,893,018
Cost of sales		3,679,522	2,996,709	6,688,078	5,494,361
Gross profit		2,705,756	2,489,408	4,915,173	4,398,657
General and administrative expense	12	4,395,229	4,373,114	8,776,434	8,019,734
Depreciation and amortization expense	8, 14	872,100	727,659	1,701,884	1,491,027
Operating loss		(2,561,573)	(2,611,365)	(5,563,145)	(5,112,104)
Finance costs	10, 14	(340,231)	(336,802)	(677,242)	(685,707)
Other income	9	6,680	3,248	3,166,240	167,470
Unrealized gain/loss	21	(51,170)		(51,170)	
Loss before tax		(2,946,294)	(2,944,919)	(3,125,317)	(5,630,341)
Income tax expense		(23,501)	(17,492)	(35,711)	(42,011)
Net loss and comprehensive loss for the period		\$ (2,969,795)	\$ (2,962,411)	\$ (3,161,028)	\$ (5,672,352)
Basic earnings per share	15				
Subordinate voting shares		\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.04)
Proportionate voting shares		\$ (20.19)	\$ (20.29)	\$ (21.49)	\$ (38.84)
Basic weighted-average shares outstanding					
Subordinate voting shares		56,045,810	54,972,326	56,049,042	54,972,326
Proportionate voting shares		91,064	91,064	91,064	91,064
Diluted earnings per share					
Subordinate voting shares		\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.04)
Proportionate voting shares		\$ (20.19)	\$ (20.29)	\$ (21.49)	\$ (38.84)
Diluted weighted-average shares outstanding					
Subordinate voting shares		56,045,810	54,972,326	56,049,042	54,972,326
Proportionate voting shares		91,064	91,064	91,064	91,064

See notes to consolidated financial statements

MiniLuxe Holding Corp.
Consolidated Statements of Changes in Shareholders' (Deficit) Equity
26 weeks ended July 2, 2023 and June 26, 2022
Unaudited, Amounts expressed in United States Dollars

		Proportionate Voting Shares	Subordinate Voting Shares	Amount	Contributed Surplus	Accumulated Comprehensive Loss	Total Shareholders' (Deficit) Equity
Balance at December 26, 2021		91,064	54,972,326	\$ 116,627,805	\$ 630,243	\$ (98,064,366)	\$ 19,193,682
Share-based payments		-	-	-	27,622	-	27,622
Exercise of stock options		-	-	-	-	-	-
Net comprehensive loss		-	-	-	-	(5,672,352)	(5,672,352)
Balance at June 26, 2022		91,064	54,972,326	\$ 116,627,805	\$ 657,865	\$ (103,736,718)	\$ 13,548,952
Balance at January 1, 2023		91,064	56,054,077	\$ 117,719,641	\$ 798,576	\$ (109,741,597)	\$ 8,776,620
Share-based payments	13	-	-	-	200,713	-	200,713
Exercise of stock options	13	-	21,873	4,538	-	-	4,538
Shares repurchased through normal course issuer bid	11	-	(33,113)	(10,932)	-	-	(10,932)
Net comprehensive loss		-	-	-	-	(3,161,028)	(3,161,028)
Balance at July 2, 2023		91,064	56,042,837	\$ 117,713,247	\$ 999,289	\$ (112,902,625)	\$ 5,809,911

See notes to consolidated financial statements

MiniLuxe Holding Corp.
Consolidated Statements of Cash Flows
26 weeks ended July 2, 2023 and June 26, 2022
Unaudited, Amounts expressed in United States Dollars

	Notes	July 2, 2023	June 26, 2022
Cash flows from operating activities:			
Net loss		(3,161,028)	(5,672,352)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense	9, 16	1,701,199	1,491,027
Share-based payments	14	200,713	27,622
Income tax expense		35,484	42,011
Loss on disposal of property and equipment	9	90,087	-
Real estate modifications	16	-	124,664
Change in fair value of contingent consideration	21	51,170	-
Interest expense	16	677,242	685,707
<i>Changes in operating assets and liabilities</i>			
Inventories	8	63,985	105,888
Prepaid expenses and other current assets		9,446	(227,461)
Deposits		(6,687)	(194,198)
Accounts payable and accrued expenses	11	(274,033)	(252,978)
Deferred revenue	4	(161,088)	8,780
<i>Changes in operating assets and liabilities subtotal</i>		(773,510)	(3,861,288)
Interest paid		(484,191)	(493,454)
Taxes paid		(33,696)	(51,019)
Cash flows used in operating activities		(1,291,397)	(4,405,761)
 Cash flows from investing activities:			
Acquisition of equipment	9	(1,014,689)	(115,348)
Acquisition of intangibles	9	(239,786)	(308,103)
Cash flows used in investing activities		(1,254,475)	(423,451)
 Cash flows from financing activities:			
Repayment of loan payable	11	(187,500)	(187,500)
Repayment of principal portion of lease liabilities	16	(749,705)	(585,108)
Shares repurchased through NCIB	14	(10,932)	-
Option exercises	14	4,538	-
Net cash (used in) provided by financing activities		(943,599)	(772,608)
 Increase (decrease) in cash and cash equivalents		(3,489,471)	(5,601,820)
 Cash, cash equivalents and restricted cash, beginning of period		8,343,375	19,120,111
Cash, cash equivalents and restricted cash, ending of period		4,853,904	13,518,291

See notes to consolidated financial statements

MiniLuxe Holding Corp.
Notes to the Consolidated Financial Statements
13 and 26 weeks ended July 2, 2023 and June 26, 2022

Note 1. Nature of Business

MiniLuxe, Inc. (“MiniLuxe” or the “Company”) was incorporated on April 26, 2008 in the state of Delaware, United States of America (USA). The office of the Company is located at 1 Faneuil Hall Sq Fl 7 Boston, Massachusetts.

MiniLuxe owns and operates nail and beauty salons and provides consumers with nail, hand, foot care, and waxing services, and sells personal beauty products. The Company’s business model today consists of one principal operating segment that includes Talent Revenue (revenue generated through the delivery of services) and Product Revenue (revenue generated on retail sales of proprietary and third-party products across an omni-channel platform).

Under an accounting convention common in the retail industry, the fiscal year of the Company is a 52-week reporting cycle ending on the Sunday closest to December 31, which periodically necessitates a fiscal year of 53 weeks. The second fiscal quarter of 2023 began on April 3, 2023 and ended on July 2, 2023.

The consolidated financial statements of MiniLuxe Holding Corp. for the 13 and 26 weeks ended July 2, 2023 and June 26, 2022 were authorized by the Company’s board of directors on August 28, 2023.

The Company’s services and products are marketed and sold to consumers in the states of Massachusetts, Rhode Island, California, Texas, New York and Florida.

Note 2. Basis of Presentation

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting on the Statement of Comprehensive Profit or Loss, Statement of Changes in Shareholders Equity (Deficit) and Statement of Cash Flows.

These interim financial statements follow the same accounting policies and methods of application as set forth in the consolidated financial statements for the years ended January 1, 2023 and December 26, 2021. These statements do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the consolidated financial statements for the years ended January 1, 2023 and December 26, 2021.

The consolidated financial statements are comprised of the financial results of the Company and its wholly owned subsidiary MiniLuxe, Inc. All intercompany balances and transactions have been eliminated upon consolidation.

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss or financial assets at fair value through other comprehensive profit or loss. The Company’s financial assets and liabilities revalued at fair value through comprehensive profit or loss include long term investments and contingent consideration.

Note 3. Summary of Significant Accounting Policies

For a summary of significant accounting policies, refer to “Note 3 - Summary of Significant Accounting Policies” to the financial statements for the years ended January 1, 2023 and December 26, 2021. Additional policies are below:

These interim consolidated financial statements are comprised of the financial results of the Company and its subsidiaries, which are the entities under the Company’s control.

MiniLuxe Holding Corp.
Notes to the Consolidated Financial Statements
13 and 26 weeks ended July 2, 2023 and June 26, 2022

Note 4. Significant Accounting Judgments, Estimates and Uncertainties

For a summary of significant accounting judgments, estimates, and uncertainties, refer to “Note 4 - Summary of Significant Accounting Judgments, Estimates and Uncertainties” to the financial statements for the years ended January 1, 2023 and December 26, 2021.

Note 5. Segment information

The Company has one operating segment, which consists of talent revenue and product revenue. The revenue recognition for the talent revenue and product revenue are recognized at a point in time.

The Company operates in only one geographical region which is the United States of America (USA).

	<i>13 weeks ended</i>		<i>26 weeks ended</i>	
	July 2, 2023	June 26, 2022	July 2, 2023	June 26, 2022
Talent revenue	\$ 6,237,148	\$ 5,433,252	\$ 11,333,473	\$ 9,775,230
Product revenue	148,130	52,865	269,778	117,788
	<u>\$ 6,385,278</u>	<u>\$ 5,486,117</u>	<u>\$ 11,603,251</u>	<u>\$ 9,893,018</u>

Note 6. Capital Management

No changes were made in the objectives, policies or processes for managing capital during the 26 weeks ended July 2, 2023 and June 26, 2022. Please refer to “Note 7 – Capital Management” to the financial statements for the years ended January 1, 2023 and December 26, 2021.

Note 7. Inventories

Inventory consisted of the following as of July 2, 2023 and January 1, 2023:

	July 2, 2023	January 1, 2023
Merchandise and retail products	\$ 756,287	\$ 760,002
Inventory supplies	218,524	297,306
Polish	334,248	309,473
Raw materials	329,779	336,041
Total inventories	<u>\$ 1,638,837</u>	<u>\$ 1,702,822</u>
Inventory write-downs	<u>\$ 34,798</u>	<u>\$ 104,599</u>

There have been no reversals of inventory write-downs for the 26 weeks ending July 2, 2023 or June 26, 2022.

Inventory recognized as an expense in cost of sales is \$461,070 and \$341,957 for the 13 weeks ending July 2, 2023 and June 26, 2022, respectively. Inventory recognized as an expense in cost of sales is \$797,405 and \$645,196 for the 26 weeks ending July 2, 2023 and June 26, 2022, respectively.

MiniLuxe Holding Corp.
Notes to the Consolidated Financial Statements
13 and 26 weeks ended July 2, 2023 and June 26, 2022

Note 8. Property and Equipment, net and Intangible Assets

Property and equipment, net consists of the following as of July 2, 2023 and January 1, 2023:

	Furniture, Fixtures & Equipment	Leasehold Improvements	Construction in Progress	Total
Cost				
At January 1, 2023	\$ 2,269,482	\$ 15,743,129	\$ -	18,012,611
Additions	38,400	21,430	375,513	435,343
At April 2, 2023	\$ 2,307,882	\$ 15,764,559	\$ 375,513	\$ 18,447,954
Additions	172,368	391,108	15,870	579,346
Transfers	-	340,915	(340,915)	-
Disposals	-	(90,087)	-	(90,087)
At July 2, 2023	\$ 2,480,250	\$ 16,406,495	\$ 50,468	\$ 18,937,213
Depreciation				
At January 1, 2023	\$ 1,897,233	\$ 9,858,774	\$ -	\$ 11,756,007
Depreciation charge for the quarter	39,402	376,612	-	416,014
Disposals	-	-	-	-
At April 2, 2023	\$ 1,936,635	\$ 10,235,386	\$ -	\$ 12,172,021
Depreciation charge for the year	49,038	400,050	-	449,088
Disposals	-	(687)	-	(687)
At July 2, 2023	\$ 1,985,673	\$ 10,634,749	\$ -	\$ 12,620,422
Net book value				
At January 1, 2023	\$ 372,249	\$ 5,884,355	\$ -	\$ 6,256,604
At April 2, 2023	\$ 371,247	\$ 5,529,173	\$ 375,513	\$ 6,275,933
At July 2, 2023	\$ 494,577	\$ 5,771,746	\$ 50,468	\$ 6,316,791

Transfers of \$340,915 from Construction in Progress to Leasehold Improvements were made when construction was completed on the Company's new Tampa studio location.

MiniLuxe Holding Corp.
Notes to the Consolidated Financial Statements
13 and 26 weeks ended July 2, 2023 and June 26, 2022

Note 8. Property and Equipment, net and Intangible Assets (continued)

Intangible assets consists of the following as of July 2, 2023 and January 1, 2023:

	Website	Goodwill	Tradename	Tech Platform	Total
Cost					
At January 1, 2023	\$ 888,072	\$ 260,073	\$ 948,000	\$ -	2,096,145
Additions	-	-	-	20,000	20,000
Disposals	-	-	-	-	-
At April 2, 2023	<u>\$ 888,072</u>	<u>\$ 260,073</u>	<u>\$ 948,000</u>	<u>\$ 20,000</u>	<u>\$2,116,145</u>
Additions	-	-	-	\$ 219,786	219,786
Disposals	-	-	-	-	-
At July 2, 2023	<u>\$ 888,072</u>	<u>\$ 260,073</u>	<u>\$ 948,000</u>	<u>\$ 239,786</u>	<u>\$2,335,931</u>
Depreciation					
At January 1, 2023	\$ 254,335	\$ -	\$ -	\$ -	\$ 254,335
Depreciation charge for the period	74,007	-	-	-	74,007
Disposals	-	-	-	-	-
At April 2, 2023	<u>\$ 328,342</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 328,342</u>
Depreciation charge for the period	74,006	-	-	-	74,006
Disposals	-	-	-	-	-
At July 2, 2023	<u>\$ 402,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 402,348</u>
Net book value					
At January 1, 2023	<u>\$ 633,737</u>	<u>\$ 260,073</u>	<u>\$ 948,000</u>	<u>\$ -</u>	<u>\$1,841,810</u>
At April 2, 2023	<u>\$ 559,730</u>	<u>\$ 260,073</u>	<u>\$ 948,000</u>	<u>\$ 20,000</u>	<u>\$1,787,803</u>
At July 2, 2023	<u>\$ 485,724</u>	<u>\$ 260,073</u>	<u>\$ 948,000</u>	<u>\$ 239,786</u>	<u>\$1,933,583</u>

Note 9. Government Grants

In March of 2022 and January of 2023, the Company received a refundable payroll tax credit, the Employee Retention Credit, under the Coronavirus Aid, Relief, and Economic Security (CARES) Act in the amount of \$164,222 and \$3,159,560 respectively.

The Employee Retention Credit is a government funded tax credit established by the United States federal government under the CARES Act to help eligible employer that presented a decline in business due to the COVID-19 pandemic and related shutdowns. The Company recognized the entirety of the Employee Retention Credit as other income when it was reasonably assured the credit would be received, which occurred upon cash receipt.

MiniLuxe Holding Corp.
Notes to the Consolidated Financial Statements
13 and 26 weeks ended July 2, 2023 and June 26, 2022

Note 10. Financial Instruments

The Company's financial assets are comprised of a long-term investment.

On December 15, 2021, the Company invested in Blank Beauty (formerly BeautyByMe), a volumetric device brand focused on the creation of small-batch, on-demand cosmetic products for \$50,000. The investment is classified as FVTPL with all changes in value being recorded through the income statement. The investment is presented as a long-term asset.

The Company's financial and lease liabilities are comprised of the following:

	Interest Rate	Maturity	July 2, 2023	January 1, 2023
Current interest-bearing loans and borrowings				
Lease liabilities	15%	2023	\$ 1,530,816	\$ 1,513,440
Total current interest-bearing loans and borrowings			1,530,816	1,513,440
Non-current interest-bearing loans and borrowings				
Lease liabilities	15%	2023-2027	4,922,542	5,317,666
Loan Payable	15%	2025	2,475,531	2,469,980
Total non-current interest-bearing loans and borrowings			7,398,073	7,787,646
Total interest-bearing loans and borrowings			8,928,889	9,301,086
Financial liabilities at amortized cost, other than interest-bearing loans and borrowings				
Accounts payable and accrued expenses			2,365,920	2,638,163
Contingent consideration			681,251	630,081
Total other financial liabilities			\$ 3,047,171	\$ 3,268,244
Total current			\$ 3,896,736	\$ 4,151,603
Total non-current			\$ 8,079,324	\$ 8,417,727

MiniLuxe Holding Corp.
Notes to the Consolidated Financial Statements
13 and 26 weeks ended July 2, 2023 and June 26, 2022

Note 10. Financial Instruments (continued)

Senior debt

The Company also issued \$2,500,000 of senior debt recorded at \$2,460,000 (net of approximately \$40,000 in transaction costs) during the quarter ended June 27, 2021 repayable no later than April 27, 2025. The Company is required to make monthly interest payments of \$31,250 until the maturity date of the loan. Interest expense on the senior debt for the 13 and 26 weeks ended July 2, 2023 was \$96,579 and \$193,051 respectively (13 and 26 weeks ended June 27, 2022 – \$96,173 and \$192,253 respectively).

Accounts payable and accrued expenses

	July 2, 2023	January 1, 2023
Accounts payable	991,513	869,094
Other payables and accrued expenses	1,315,117	1,707,312
Interest payable		
Variable rent	59,291	61,757
	<u>\$ 2,365,920</u>	<u>\$ 2,638,163</u>

Terms and conditions of the above financial liabilities:

- Accounts payable and accrued expenses are non-interest bearing and are normally settled on 30-day terms.
- Variable Rent and other payables are non-interest bearing and have an average term of 30 days.
- Interest is payable on maturity of the convertible promissory notes.

Finance Costs

Reconciliation of finance costs for the 26 weeks ended July 2, 2023 and June 26, 2022 are summarized in the following table:

	13 weeks ended		26 weeks ended	
	July 2, 2023	June 26, 2022	July 2, 2023	June 26, 2022
Lease adjustments	243,651	240,629	\$ 484,191	493,454
Senior debt Interest	96,579	96,173	\$ 193,051	192,253
	<u>\$ 340,231</u>	<u>\$ 336,802</u>	<u>\$ 677,242</u>	<u>\$ 685,707</u>

Note 11. Share Capital

As of July 2, 2023 and June 26, 2022, the Company has authorized an unlimited number of subordinate and proportionate voting shares. The holders of the subordinate and proportionate voting shares are entitled to vote on all matters. The holders of the subordinate voting shares are entitled to the number of votes equal to the number shares held. The holders of the proportionate voting shares are entitled to 1,000 votes for each share held. As of July 2, 2023, there were 56,042,837 subordinate voting shares and 91,064 proportionate voting shares issued and outstanding (January 1, 2023 – 56,054,077 subordinate voting shares and 91,064 proportionate voting shares issued and outstanding).

During the 26 weeks ended July 2, 2023, the Company acquired a total of 33,113 subordinate voting shares for C\$14,855 under its Normal Course Issuer Bid ("NCIB") announced on September 19, 2022. As noted in the press release, the NCIB commenced on September 20, 2022 and will terminate upon the earliest of (i) the Company purchasing 2,800,000 subordinate voting shares, (ii) the Company providing notice of termination of the NCIB, and (iii) September 20, 2023. Under the NCIB, the Company may not acquire more than 2% of its issued and outstanding subordinate voting shares in any 30-day period.

MiniLuxe Holding Corp.
Notes to the Consolidated Financial Statements
13 and 26 weeks ended July 2, 2023 and June 26, 2022

Note 12. General and Administrative Expenses

General and administrative expenses are comprised of the following:

	<i>13 weeks ended</i>		<i>26 weeks ended</i>	
	July 2, 2023	June 26, 2022	July 2, 2023	June 26, 2022
Salaries, wages and employee benefits	\$ 2,102,905	\$ 2,026,513	\$ 4,385,253	\$ 3,895,592
Variable rent	280,252	229,207	545,737	458,337
Marketing and selling expenses	268,465	334,946	506,727	466,847
IT related costs	232,068	242,630	470,488	397,854
Professional fees	219,433	486,100	433,845	787,133
Bank and credit card fees	181,149	165,576	329,486	293,418
Operating supplies	156,648	125,672	334,855	211,323
Repairs and maintenance	149,350	138,460	255,137	275,116
HR, payroll and recruiting fees	136,764	174,210	262,117	397,952
Insurance, permits and fines	130,391	111,127	248,743	198,451
Travel, meals and entertainment	128,383	125,815	286,148	179,044
Warehouse	124,708	122,526	242,138	225,060
Loss on disposal of property and equipment	89,371	-	89,371	-
Stock compensation	84,560	10,359	200,713	27,622
Other expenses	60,347	2,292	93,860	60,622
Equipment	34,173	33,142	65,571	60,675
Listing costs	16,262	44,539	26,245	84,688
Total general and administrative expense	\$ 4,395,229	\$ 4,373,114	\$ 8,776,434	\$ 8,019,734

Note 13. Share-based payments

Under the 2021 Omnibus Equity Incentive Compensation Plan (the "Plan"), 14,603,586 shares and an aggregate of 13,228,771 between Restricted Share Units ("RSU"), Deferred Share Units ("DSU") and Performance Share Units ("PSU") are authorized for issuance at July 2, 2023 and January 1, 2023.

Options to purchase 5,579,102 subordinate voting shares were available for issuance under the Plan as of July 2, 2023 and 6,596,591 as of January 1, 2023. No RSUs, DSUs or PSUs were issued and outstanding as of July 2, 2023 or January 1, 2023.

Stock option activity under the Plan during the 26 weeks ended July 2, 2023 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (in years)
Outstanding at January 1, 2023	7,963,205	\$0.20	8.0
Granted	1,053,000	0.45	
Exercised	(21,873)	0.21	
Forfeited	(13,011)	0.19	
Cancelled	-	-	
Outstanding at April 2, 2023	8,981,321	\$ 0.23	7.8
Granted	-	-	
Exercised	-	-	
Forfeited	(22,500)	0.38	
Cancelled	-	-	
Outstanding at July 2, 2023	(22,500)	\$ 0.23	7.51
Options exercisable at July 2, 2023	5,940,354	\$ 0.18	6.79

MiniLuxe Holding Corp.
Notes to the Consolidated Financial Statements
13 and 26 weeks ended July 2, 2023 and June 26, 2022

Note 13. Share-based payments (continued)

There were 1,053,000 stock options granted in the 26 weeks ended July 2, 2023. There are no RSUs, DSUs or PSUs outstanding as of July 2, 2023.

In the 26 weeks ended July 2, 2023, 21,873 stock options were exercised. In the year ended January 1, 2023, 43,790 stock options were exercised.

The Company recognized \$200,713 in stock-based compensation expense for the 26 weeks ended July 2, 2023 (26 weeks ended June 26, 2022 - \$27,622). As of July 2, 2023, there was approximately \$240,601 of total unrecognized compensation expense related to unvested employee stock-based compensation arrangements, which is expected to be recognized over a weighted-average period of 1.9 years.

Note 14. Leases

The Company has lease contracts for real estate and other equipment used in its operations. Leases of real estate have lease terms generally between 3 and 10 years, and equipment generally have lease terms between 3 and 5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Company also has certain leases of equipment with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. Furthermore, the Company has combined lease and non-lease components for its real estate leases.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Real Estate	Equipment	Total
As at January 1, 2023	\$ 4,526,686	\$ 93	\$ 4,526,779
Modifications	2,000	-	\$ 2,000
Depreciation expense	(339,672)	(93)	\$ (339,764)
As at April 2, 2023	<u>\$ 4,189,015</u>	<u>\$ -</u>	<u>\$ 4,189,015</u>
Additions	369,957		\$ 369,957
Depreciation expense	(349,006)		\$ (349,006)
At July 2, 2023	<u>\$ 4,209,966</u>	<u>\$ -</u>	<u>\$ 4,209,966</u>

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Note 14. Leases (continued)

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period and compared to FY2022:

	July 2, 2023	January 1, 2023
Balance as of beginning of period	\$ 6,831,106	\$ 6,890,782
Additions	369,957	1,129,444
Modifications	2,000	57,961
Accretion of interest	484,191	995,843
Payments	(1,233,896)	(2,242,924)
Balance as of end of period	\$ 6,453,358	\$ 6,831,106
Current	1,530,816	\$ 1,513,440
Non-Current	4,922,542	\$ 5,317,666

The following are the amounts recognized in profit or loss for the 13 and 26 weeks ended July 2, 2023 and June 26, 2022:

	13 weeks ended		26 weeks ended	
	July 2, 2023	June 26, 2022	July 2, 2023	June 26, 2022
Depreciation expense of right-of-use assets	\$ 349,006	\$ 279,835	\$ 688,771	\$ 599,448
Interest expense on lease liabilities	243,651	240,629	484,191	493,454
Expense relating to leases of low-value assets	7,764	9,274	16,087	17,363
Variable rent	280,252	229,207	545,737	458,337
Total amount recognized in comprehensive loss	\$ 880,674	\$ 758,945	\$ 1,734,786	\$ 1,568,602

The Company did not record a gain or loss on modification of real estate leases within other income in the 13 or 26 weeks ended July 2, 2023 or June 26, 2022.

The Company has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Company's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Note 15. Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to common equity holders of the Company by the weighted average number of participating common stock outstanding during the year. The participating common stock includes the Company's subordinate and proportionate voting shares. Diluted EPS is calculated by dividing the profit attributable to common equity holders of the parent by the weighted average number of common stock outstanding during the year plus the weighted average number of common stock that would be issued on conversion of all the dilutive potential common stock into common stock.

Instruments at the Company that could potentially dilute basic earnings per share include stock options, and warrants. For the 26 weeks ended July 2, 2023 and June 26, 2022, the stock options and warrants are anti-dilutive in nature.

As part of the RTO transaction the issued and outstanding common and preferred shares were exchanged for subordinate and proportionate voting shares. Those common and preferred shares that were exchanged to subordinate voting shares were converted to 1.34303 subordinate shares at a ratio of 1 to 1. The remaining shares that were converted to proportionate voting shares were exchanged at the

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Note 15. Earnings per share (EPS) (continued)

same rate of 1.34303 but each 1,000 shares converted into one proportionate voting share. The below table reflects these changes in both the current and prior year. Each of the proportionate voting shares is convertible into 1,000 subordinate voting shares at the option of the holder.

The calculation and presentation below is based on the number of shares outstanding at July 2, 2023, which is based on the legal amount of shares outstanding under each class without assuming conversion.

If the 91,064 proportionate voting shares outstanding were converted into subordinate voting shares, the numbers of subordinate voting shares issued would be 91,064,000.

The following table reflects the income and share data used in the basic and diluted EPS calculations:

	13 weeks ended				26 weeks ended			
	July 2, 2023		June 26, 2022		July 2, 2023		June 26, 2022	
	Subordinate Voting Shares	Proportionate Voting Shares	Subordinate Voting Shares	Proportionate Voting Shares	Subordinate Voting Shares	Proportionate Voting Shares	Subordinate Voting Shares	Proportionate Voting Shares
Loss attributable to common equity holders of the Company (Basic)	\$ (1,131,434)	\$ (1,838,361)	\$ (1,115,141)	\$ (1,847,270)	\$ (1,204,333)	\$ (1,956,695)	\$ (2,135,245)	\$ (3,537,107)
Weighted average number of common stock for basic EPS	56,045,810	91,064	54,972,326	91,064	56,049,042	91,064	54,972,326	91,064
Basic earnings per share	\$ (0.02)	\$ (20.19)	\$ (0.02)	\$ (20.29)	\$ (0.02)	\$ (21.49)	\$ (0.04)	\$ (38.84)
Loss attributable to common equity holders of the Company (Diluted)	\$ (1,131,434)	\$ (1,838,361)	\$ (1,115,141)	\$ (1,847,270)	\$ (1,204,333)	\$ (1,956,695)	\$ (2,135,245)	\$ (3,537,107)
Weighted average number of common stock for diluted EPS	56,045,810	91,064	54,972,326	91,064	56,049,042	91,064	54,972,326	91,064
Diluted earnings per share	\$ (0.02)	\$ (20.19)	\$ (0.02)	\$ (20.29)	\$ (0.02)	\$ (21.49)	\$ (0.04)	\$ (38.84)
Weighted average number of common stock for basic EPS								
Issued common stock at start of period	56,047,450	91,064	54,972,326	91,064	56,054,077	91,064	54,972,326	91,064
Effect of share options exercised	-	-	-	-	19,590	-	-	-
Effect of NCIB purchases	(1,640)	-	-	-	(24,624)	-	-	-
Weighted average number of common stock end of year (basic)	56,045,810	91,064	54,972,326	91,064	56,049,043	91,064	54,972,326	91,064
Effects of dilution from:								
Effect of share options issued	-	-	-	-	-	-	-	-
Effect of conversion of redeemable preferred shares	-	-	-	-	-	-	-	-
Effect of contingently issuable shares	-	-	-	-	-	-	-	-
Weighted average number of common stock end of year (dilutive)	56,045,810	91,064	54,972,326	91,064	56,049,043	91,064	54,972,326	91,064

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Note 16. Commitments and Contingencies

From time to time, the Company may be involved in legal actions arising in the ordinary course of business or, conditions may exist that may result in a loss but will only be resolved when one or more future events occur or fail to occur. Each of these actions or matters is assessed by the Company's management and legal counsel to evaluate the perceived merits of any proceeding or claim, as well as any relief sought or expected to be sought. Such assessment involves the exercise of judgment. The Company establishes accruals for losses that management deems to be probable and subject to reasonable estimates. If the assessment indicates that a potentially material loss contingency is not probable but reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed. Loss contingencies considered remote are not disclosed.

The Company does not have any material commitments for future years, apart from leases.

Note 17. Profit Sharing Plan

The Company sponsors a qualified 401(k) profit sharing plan (the Plan) covering all eligible employees, as defined. The Company's contributions to the Plan are discretionary and are determined annually by the Board of Directors. There were no Company contributions to the Plan for the 26 weeks ended July 2, 2023 and June 26, 2022.

Note 18. Fair Value Measurement

The Company measures its redeemable preferred shares and long-term investments at fair value, which is at level 3. No other financial statement accounts are measured at fair value as their carrying amount approximates fair value. The following table provides the fair value measurement hierarchy of the Company's assets and liabilities.

		Fair Value Measurement Using					
		Date of Valuation	Total	Quoted priced in	Significant	Significant	
				Active Markets	Observable Inputs	Unobservable Inputs	
				(Level 1)	(Level 2)	(Level 3)	
Assets measured at fair value							
Long term investment	July 2, 2023	\$ 50,000	\$	-	\$	-	\$ 50,000
	January 1, 2023	\$ 50,000	\$	-	\$	-	\$ 50,000
Liabilities measured at fair value							
Contingent consideration - Paintbox	July 2, 2023	\$ 681,251	\$	-	\$	-	\$ 630,081
	January 1, 2023	\$ 630,081	\$	-	\$	-	\$ 630,081

There were no transfers between Level 1 and Level 2 during the 26 weeks ended July 2, 2023.

For calculation of the fair value of contingent consideration associated with the Paintbox acquisition, the Company used a Black-Scholes method for visualizing the consideration as a combination of embedded options. This model requires management to make assumptions which include cash flow forecasts, revenue growth rates, royalty rates, and discount rates and was built in conjunction with third party specialists.

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Note 19. Risk Management

The Company's principal financial liabilities comprise of accounts payables and accrued expenses, redeemable preferred shares, convertible promissory notes, lease liabilities, and senior debt. The main purpose of these financial liabilities is to finance the Company's operations.

For a summary of other risks, refer to "Note 21 – Risk Management" to the financial statements for the years ended January 1, 2023 and December 26, 2021.

Note 20. Related Party Transactions

Management compensation and balances outstanding as of period end dates are as follows:

	<i>Transaction value for 13 weeks ended</i>		<i>Transaction value for 26 weeks ended</i>	
	July 2, 2023	June 26, 2022	July 2, 2023	June 26, 2022
Key Management Personnel				
Short-term benefits	\$ 365,546	\$ 253,455	\$ 704,718	\$ 506,910
Share-based payments	30,430	10,081	86,605	21,550
Total	<u>\$ 395,976</u>	<u>\$ 263,536</u>	<u>\$ 791,323</u>	<u>\$ 528,460</u>

	<i>Balance Outstanding as of</i>	
	July 2, 2023	June 26, 2022
Key Management Personnel		
Share-based payments	\$ 511,914	\$ 317,791

Note 21. Acquisitions

On August 16, 2022, the Company acquired a majority of the assets of Paintbox LLC ("Paintbox") for total consideration of \$1,730,081. Paintbox brings MiniLuxe their leading brand in premium nail art & design, proprietary IP in their iconic look-book, and 260K new social followers.

As part of the acquisition of Paintbox, the Company included an indemnity holdback to offset any damages claimed against the Company during the first 18 months following the closing date. After this date the remaining balance of the holdback will be released and paid in shares of the Company. The fair value of the indemnity holdback at acquisition has been determined by calculating the present value of the amount using the Company's cost of debt over the 18-month holdback period. The fair value has been calculated as \$185,267 and is included as contingent consideration on the Consolidated Statements of Financial Position.

In addition, the Company is subject to a gift card holdback for a 3-year period from the date of acquisition. The Company will determine the gift card redemption amount which is calculated as the amount of gift cards redeemed after the closing date until the end of the 3-year period to the extent the amount redeemed exceeds \$61,000. The difference between the gift card holdback and the gift card redemption amount will be released and paid in shares of the Company at the end of the 3-year period. The fair value of the gift card holdback at acquisition has been determined by calculating the present value of the amount using the Company's cost of debt over the 3-year holdback period using management's best estimate of the future gift card redemptions. The fair value has been calculated as \$85,741 and is included as contingent consideration on the Consolidated Statements of Financial Position.

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Note 21. Acquisitions (continued)

As part of the acquisition, there is an earn-out clause which becomes applicable if the Company has revenue above the earn-out thresholds. The earn-out period ends December 31, 2026. The amount of the earn-out is calculated as 0.115 multiplied by the amount by which the aggregate revenue earned from the closing date to the end of the earn-out period exceeds the earn-out threshold of \$3,000,000. The amount of the earnout will not exceed \$1,800,000. The Company recorded the earn-out at fair value based on management's best estimate of future performance and will pay this out at the end of the earn-out period in shares of the Company. The earnout has been recorded at fair value using the Company's pre tax cost of debt over the earn-out period. The fair value has been calculated as \$359,073 as of FY 2022 and is included as contingent consideration on the Consolidated Statements of Financial Position. During Q2 2023 the Company recognized a \$51,170 expense upon revaluation of the earn-out. This amount was included in other income/expense on Consolidated Statement of Financial position. The fair value of the earn-out as of Q2 2023 is \$410,243.

Note 22. Significant Events

During Q2 2023, the Company completed construction and commenced operations in a new studio location in West Central Florida, at the Water Street Development in downtown Tampa Bay, FL. The grand opening of the studio occurred on May 11, 2023 as MiniLuxe celebrated its 21st studio location opening, the first since the pandemic.

During H1 2023, the Company signed a lease to open a new studio in Dedham, Massachusetts at the Legacy Place Development. The lessor has not yet made the studio available for use.