Condensed interim consolidated financial statements of MTY Food Group Inc.

For the three-month periods ended February 28, 2022 and 2021

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three-month periods ended February 28, 2022 and 2021
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	Notes	February 28, 2022	February 28, 2021
		$	$
Revenue	13 & 15	**140,494**	118,960
Expenses			
Operating expenses	14 & 15	**104,857**	86,168
Depreciation – property, plant and equipment and right-of-use assets		**3,660**	3,889
Amortization – intangible assets		**7,030**	7,287
Interest on long-term debt		**1,375**	3,263
Net interest expense on leases	7	**482**	572
Impairment charge – right-of-use assets	7	**55**	453
		117,459	101,632
Share of net loss of a joint venture accounted for using the equity method	5	**—**	(155)
Other income (expenses)			
Unrealized and realized foreign exchange gain		**865**	1,347
Interest income		**74**	82
Gain on de-recognition/lease modification of lease liabilities		**397**	72
(Loss) gain on disposal of property, plant and equipment		**(47)**	143
Revaluation of financial liabilities recorded at fair value		**132**	(1,217)
Loss on remeasurement of joint venture interest	5	**(2,769)**	—
		(1,348)	427
Income before taxes		**21,687**	17,600
Income tax expense			
Current		**5,940**	5,448
Deferred		**(929)**	(1,275)
		5,011	4,173
Net income		**16,676**	13,427
Net income attributable to:			
Owners		**16,637**	13,397
Non-controlling interests		**39**	30
		16,676	13,427
Net income per share	11		
Basic		**0.68**	0.54
Diluted		**0.68**	0.54

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

MTY Food Group Inc.

Condensed interim consolidated statements of comprehensive income (loss)

For the three-month periods ended February 28, 2022 and 2021
(In thousands of Canadian dollars)
(Unaudited)

	February 28, 2022	February 28, 2021
	$	$
Net income	**16,676**	13,427
Items that may be reclassified subsequently to net income		
Unrealized loss on translation of foreign operations	**(5,176)**	(14,350)
Other comprehensive loss	**(5,176)**	(14,350)
Total comprehensive income (loss)	**11,500**	(923)
Total comprehensive income (loss) attributable to:		
Owners	**11,461**	(953)
Non-controlling interests	**39**	30
	11,500	(923)

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

MTY Food Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity

For the three-month periods ended February 28, 2022 and 2021

(In thousands of Canadian dollars)

(Unaudited)

	Capital stock	Reserves: Other	Reserves: Contributed surplus	Reserves: Foreign currency translation	Total reserves	Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	$	$	$	$	$	$	$	$	$
For the three months ended February 28, 2022									
Balance, beginning of period	**305,961**	**(850)**	**3,855**	**(21,320)**	**(18,315)**	**359,993**	**647,639**	**1,259**	**648,898**
Net income	**—**	**—**	**—**	**—**	**—**	**16,637**	**16,637**	**39**	**16,676**
Other comprehensive loss	**—**	**—**	**—**	**(5,176)**	**(5,176)**	**—**	**(5,176)**	**—**	**(5,176)**
Total comprehensive income							**11,461**	**39**	**11,500**
Shares repurchased and cancelled (Note 10)	**(3,180)**	**—**	**—**	**—**	**—**	**(11,438)**	**(14,618)**	**—**	**(14,618)**
Dividends	**—**	**—**	**—**	**—**	**—**	**(5,138)**	**(5,138)**	**(280)**	**(5,418)**
Share-based compensation	**—**	**—**	**279**	**—**	**279**	**—**	**279**	**—**	**279**
Balance, end of period	**302,781**	**(850)**	**4,134**	**(26,496)**	**(23,212)**	**360,054**	**639,623**	**1,018**	**640,641**

	Capital stock	Reserves: Other	Reserves: Contributed surplus	Reserves: Foreign currency translation	Total reserves	Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	$	$	$	$	$	$	$	$	$
For the three months ended February 28, 2021									
Balance, beginning of period	306,415	(850)	3,019	(13,354)	(11,185)	286,525	581,755	759	582,514
Net income	—	—	—	—	—	13,397	13,397	30	13,427
Other comprehensive loss	—	—	—	(14,350)	(14,350)	—	(14,350)	—	(14,350)
Total comprehensive (loss) income							(953)	30	(923)
Share-based compensation	—	—	217	—	217	—	217	—	217
Balance, end of period	306,415	(850)	3,236	(27,704)	(25,318)	299,922	581,019	789	581,808

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

MTY Food Group Inc.

Condensed interim consolidated statements of financial position

As at February 28, 2022 and November 30, 2021
(In thousands of Canadian dollars)
(Unaudited)

	Notes	February 28, 2022 $	November 30, 2021 $
Assets			
Current assets			
Cash		**52,464**	61,231
Accounts receivable	6	**62,322**	57,459
Inventories		**11,009**	10,707
Current portion of loans and other receivables		**1,178**	1,189
Current portion of finance lease receivables	7	**89,143**	89,046
Income taxes receivable		**2,237**	3,712
Other assets		**2,986**	2,403
Prepaid expenses and deposits		**9,126**	7,721
		230,465	233,468
Loans and other receivables		**3,001**	3,049
Finance lease receivables	7	**295,320**	310,223
Contract cost asset		**5,792**	5,631
Deferred income taxes		**199**	185
Investment in a joint venture	5	**—**	25,911
Property, plant and equipment		**18,509**	17,526
Right-of-use assets	7	**60,076**	59,937
Intangible assets		**829,919**	820,274
Goodwill	8	**452,967**	428,390
		1,896,248	1,904,594
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**127,306**	119,462
Provisions		**1,386**	1,692
Gift card and loyalty program liabilities		**108,473**	101,889
Income taxes payable		**4,622**	4,256
Current portion of deferred revenue and deposits		**16,194**	16,100
Current portion of long-term debt	9	**21,314**	13,116
Current portion of lease liabilities	7	**101,746**	101,973
		381,041	358,488
Long-term debt	9	**340,838**	347,612
Lease liabilities	7	**356,446**	371,575
Deferred revenue and deposits		**44,760**	44,339
Deferred income taxes		**132,026**	132,653
Other liabilities		**496**	1,029
		1,255,607	1,255,696

(In thousands of Canadian dollars)

	Notes	**February 28, 2022**	November 30, 2021
		$	$
Shareholders' equity			
Equity attributable to owners			
Capital stock	10	**302,781**	305,961
Reserves		**(23,212)**	(18,315)
Retained earnings		**360,054**	359,993
		639,623	647,639
Equity attributable to non-controlling interests		**1,018**	1,259
		640,641	648,898
		1,896,248	1,904,594

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

Approved by the Board on April 7, 2022

____, Director

____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three-month periods ended February 28, 2022 and 2021
(In thousands of Canadian dollars)
(Unaudited)

	Notes	February 28, 2022	February 28, 2021
		$	$
Operating activities			
Net income		**16,676**	13,427
Adjusting items:			
Interest on long-term debt		**1,375**	3,263
Net interest expense on leases	7	**482**	572
Depreciation – property, plant and equipment and right-of-use assets		**3,660**	3,889
Amortization – intangible assets		**7,030**	7,287
Impairment charge – right-of-use assets	7	**55**	453
Share of net loss of a joint venture accounted for using the equity method	5	**—**	155
Gain on de-recognition/lease modification of lease liabilities		**(397)**	(72)
Loss (gain) on disposal of property, plant and equipment		**47**	(143)
Revaluation of financial liabilities recorded at fair value through profit or loss		**(132)**	1,217
Loss on remeasurement of joint venture interest	5	**2,769**	—
Income tax expense		**5,011**	4,173
Share-based expense		**279**	217
		36,855	34,438
Income taxes paid		**(4,110)**	(2,651)
Interest paid		**(1,211)**	(3,268)
Other		**(1,269)**	(1,252)
Changes in non-cash working capital items	16	**9,431**	4,040
Cash flows provided by operating activities		**39,696**	31,307
Investing activities			
Net cash outflow on acquisitions	4	**(11,270)**	—
Cash acquired through change in control	5	**502**	—
Additions to property, plant and equipment		**(1,149)**	(1,213)
Additions to intangible assets		**(1,672)**	(47)
Proceeds on disposal of property, plant and equipment		**95**	253
Cash flows used in investing activities		**(13,494)**	(1,007)

(In thousands of Canadian dollars)

	Notes	February 28, 2022 $	February 28, 2021 $
Financing activities			
Repayment of long-term debt		**(10,118)**	(29,086)
Net lease payments	7	**(3,702)**	(3,776)
Shares repurchased and cancelled	10	**(14,618)**	—
Dividends paid to non-controlling shareholders of subsidiaries		**(280)**	—
Dividends paid		**(5,138)**	—
Cash flows used in financing activities		**(33,856)**	(32,862)
Net decrease in cash		**(7,654)**	(2,562)
Effect of foreign exchange rate changes on cash		**(1,113)**	(2,740)
Cash, beginning of period		**61,231**	44,302
Cash, end of period		**52,464**	39,000

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

Table of contents

1. Description of the business

MTY Food Group Inc. (the "Company") is a franchisor in the quick service and casual dining food industry. Its activities consist of franchising and operating corporate-owned locations as well as the sale of retail products under a multitude of banners. The Company also operates a distribution center and a food-processing plant, both of which are located in the province of Quebec.

The Company is incorporated under the *Canada Business Corporations Act* and is listed on the Toronto Stock Exchange ("TSX"). The Company's head office is located at 8210 Trans-Canada Highway, Ville Saint-Laurent, Quebec.

2. Basis of preparation

The unaudited condensed interim consolidated financial statements ("financial statements") have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for:

- share-based payment transactions, that are within the scope of International Financial Reporting Standards ("IFRS") 2, Share-based Payment;
- leasing transactions, that are within the scope of IFRS 16, Leases; and
- measurements that have some similarities to fair value but are not fair value, such as net realizable value in International Accounting Standards ("IAS") 2, Inventories, or value in use in IAS 36, Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements are presented in Canadian dollars, which is the functional currency of the Company, and tabular amounts are rounded to the nearest thousand ($000) except when otherwise indicated.

Statement of compliance

The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and apply the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended November 30, 2021, prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

These financial statements do not include all of the information required under IFRS for complete financial statements and should therefore be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2021.

The financial statements were authorized for issue by the Board of Directors on April 7, 2022.

(In thousands of Canadian dollars, except per share amounts)

2. Basis of preparation (continued)

Seasonality

Results of operations for any interim period are not necessarily indicative of the results of operations for the full year. The Company expects that seasonality will continue to be a factor in the quarterly variation of its results. For example, the Frozen treat category, which is a significant category in the United States ("US") market, varies significantly during the winter season as a result of weather conditions. This risk is offset by other brands that have better performance during winter seasons such as Papa Murphy's, which typically does better during winter months. Sales for shopping mall locations are also higher than average in December during the holiday shopping period. For 2022, the normal seasonal trends might be affected by the shifts in consumer behavior caused by the pandemic or government regulations.

Impact of COVID-19

During the first quarter of 2022, the COVID-19 pandemic continued to impact the markets in which MTY and its franchise partners and suppliers operate. Canada continued to be impacted by the continuation of government-imposed restrictions, as well as additional government mandated restrictions at the beginning of the quarter in response to the spread of the Omicron variant, such as restrictions on dine-in guests, reduced operating hours and/or temporary closures. However, throughout the quarter such restrictions were gradually eased, with most territories back to full capacity for seated dining by the end of the quarter and on the path to removing all restrictions, including vaccine passports and mask mandates, shortly after the end of the quarter. The disruptions are expected to persist into 2022 with uncertainty surrounding the effects that the lifting of restrictions will have on the number of infections and the potential emergence of new variants. The longer-term impact on the economy and the rules and restrictions that will apply to MTY's restaurants are expected to fluctuate and impact the network for the foreseeable future.

As a result of the continued and uncertain economic and business impacts of the COVID-19 pandemic, the Company continues to monitor the estimates, judgments and assumptions used in the financial statements. For the three months ended February 28, 2022, the Company determined that there were no specific triggers for impairment assessments attributable to COVID-19. Accordingly, the Company did not record or reverse impairment charges on its property, plant and equipment, intangible assets, and goodwill in the period. These estimates, judgments and assumptions are subject to change and could be materially different at year-end.

3. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the IASB that are not yet effective for the period ended February 28, 2022 and have not been applied in preparing these condensed interim consolidated financial statements.

The following amendments may have a material impact on the financial statements of the Company:

Standard	Issue date	Effective date for the Company	Impact
IAS 37, Provisions, Contingent Liabilities and Contingent Assets	May 2020	December 1, 2022	In assessment
IAS 1, Presentation of Financial Statements	January 2020, July 2020 & February 2021	December 1, 2023	In assessment
IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors	February 2021	December 1, 2023	In assessment
IAS 12, Income Taxes	May 2021	December 1, 2023	In assessment

IAS 37, Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB published *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)* amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The changes in *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)* specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract".

3. Future accounting changes (continued)

IAS 37, Provisions, Contingent Liabilities and Contingent Assets (continued)

Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments to IAS 37 are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The Company will adopt the amendments on December 1, 2022.

IAS 1, Presentation of Financial Statements

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.

In July 2020, the IASB published *Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Amendment to IAS 1)* deferring the effective date of the January 2020 amendments to IAS 1 by one year.

In February 2021, the IASB issued *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. An entity is now required to disclose its material accounting policy information instead of its significant accounting policies and several paragraphs are added to IAS 1 to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. The amendments also clarify that: accounting policy information may be material because of its nature, even if the related amounts are immaterial; accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company will adopt the amendments on December 1, 2023.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued *Definition of Accounting Estimates (Amendments to IAS 8)* with amendments that are intended to help entities to distinguish between accounting policies and accounting estimates. The changes to IAS 8 focus entirely on accounting estimates and clarify that: the definition of a change in accounting estimates is replaced with a definition of accounting estimates; entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty; a change in accounting estimate that results from new information or new developments is not the correction of an error; and a change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The amendments to IAS 8 are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company will adopt the amendments on December 1, 2023.

IAS 12, Income Taxes

In May 2021, the IASB published *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)* that clarifies how companies account for deferred tax on transactions such as leases and decommissioning obligations. The main change is an exemption from the initial recognition exemption, which does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. The amendments to IAS 12 are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company will adopt the amendments on December 1, 2023.

(In thousands of Canadian dollars, except per share amounts)

4. Business acquisitions

I) Küto Comptoir à Tartares (2022)

On December 1, 2021, the Company's Canadian operations completed its acquisition of the assets of Küto Comptoir à Tartares for a total consideration of $12,688. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing Company brands.

	2022
	$
Consideration paid:	
Purchase price	9,033
Contingent consideration	3,459
Working capital	196
Net purchase price	12,688
Contingent consideration	(3,459)
Holdback	(250)
Net consideration paid/cash outflow	8,979

The preliminary purchase price allocation is as follows:

	2022
	$
Net assets acquired:	
Current assets	
Inventories	302
	302
Goodwill (1 & 2)	12,492
	12,794
Current liabilities	
Accounts payable and accrued liabilities	39
Gift card liability	67
	106
Net purchase price	12,688

(1) Goodwill is deductible for tax purposes.

(2) Given the timing of the acquisition, the Company had not completed its fair value assessment of the net assets acquired as at February 28, 2022. Consequently, most of the fair value adjustments were included in goodwill in the preliminary fair value assessment and the Company anticipates material changes relating to franchise rights, trademark and deferred income taxes in subsequent quarters.

Total expenses incurred related to acquisition costs amounted to nil.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized, and as such, further adjustments may still be made.

(In thousands of Canadian dollars, except per share amounts)

4. Business acquisitions (continued)

II) Other acquisition (2022)

On February 14, 2022, the Company's Canadian operations completed its acquisition of the assets of a restaurant located in the province of Quebec, for a total consideration of $2,450 (net cash outflow of $2,291). The amount allocated to goodwill was $1,908. The purpose of the transaction was to operate the restaurant as a corporately-owned restaurant until it can be converted into a franchise.

5. Change in control

On December 3, 2021, the Company gained control of 11554891 Canada Inc., previously a joint venture, as a result of a lapse of rights held by the minority shareholder that previously stopped the Company from controlling. Accordingly, the Company now has control over 11554891 Canada Inc., which triggers its deemed acquisition and thus fully consolidates 11554891 Canada Inc. starting December 3, 2021. There is no cash consideration for the acquisition and there is no change of participation of each partner in 11554891 Canada Inc.

The Company has an obligation to repurchase the interest of the minority shareholder of 11554891 Canada Inc. Under IFRS, this option gives the equity participation of this minority shareholder the characteristics of liability more than equity. As such, this minority shareholder's participation is classified in the current portion of long-term debt (Note 9).

The change in control provides for the revaluation of the previously held interest to its fair market value. The Company remeasured its pre-existing equity interest of 70% to its fair value of $23,142. As a result, the Company recorded a loss of $2,769 in its condensed interim consolidated statement of income for the three-month period ended February 28, 2022.

	2022
	$
Enterprise value of 11554891 Canada Inc.	37,093
Liabilities assumed and settlement of pre-existing relationships	(13,896)
Fair value of net assets transferred	23,197

(In thousands of Canadian dollars, except per share amounts)

5. Change in control (continued)

The preliminary purchase price allocation is as follows:

	2022
	$
Net assets transferred:	
Current assets	
Cash	502
Accounts receivable	1,110
Inventories	87
Current portion of finance lease receivables	459
Income taxes receivable	70
Other assets	115
Prepaid expenses and deposits	71
	2,414
Finance lease receivables	2,399
Property, plant and equipment	406
Right-of-use assets	1,007
Franchise rights	2,700
Trademark	16,200
Goodwill [1]	11,946
	37,072
Current liabilities	
Accounts payable and accrued liabilities	920
Gift card liability	268
Current portion of lease liabilities	678
	1,866
Long-term debt	7,867
Lease liabilties	3,238
Deferred income taxes	815
Deferred revenue	89
	13,875
	23,197

(1) Goodwill is deductible for tax purposes.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized, and as such, further adjustments may still be made.

(In thousands of Canadian dollars, except per share amounts)

6. Accounts receivable

The following table provides details on trade accounts receivable not past due, past due and the related credit loss allowance.

	February 28, 2022	November 30, 2021
	$	$
Total accounts receivable	**70,075**	65,915
Less: Allowance for credit losses	**7,753**	8,456
Total accounts receivable, net	**62,322**	57,459
Of which:		
Not past due	**44,764**	42,257
Past due for more than one day but no more than 30 days	**3,552**	2,549
Past due for more than 31 days but no more than 60 days	**1,931**	2,131
Past due for more than 61 days	**12,075**	10,522
Total accounts receivable, net	**62,322**	57,459

7. Leases

Leases as a lessee relate primarily to leases of premises in relation to the Company's operations and its corporate store locations. For many of the leases related to its franchised locations, the Company is on the head lease of the premises and a corresponding sublease contract was entered into between the Company and its unrelated franchisee. The sublease contract is substantially based on the same terms and conditions as the head lease.

Leases and subleases typically have terms ranging between five and 10 years at inception. The Company does not have options to purchase the premises on any of its leases.

Right-of-use assets

The following table provides the net carrying amounts of the right-of-use assets by class of underlying asset and the changes in the three-month period ended February 28, 2022:

	Offices, corporate and dark stores	Store locations subject to operating subleases	Other	Total
	$	$	$	$
Balance as at November 30, 2021	45,798	13,067	1,072	**59,937**
Additions	3,327	—	25	**3,352**
Change in control over interest in 11554891 Canada Inc. (Note 5)	999	—	8	**1,007**
Depreciation expense	(2,332)	(341)	(96)	**(2,769)**
Impairment charge	(55)	—	—	**(55)**
De-recognition/lease modification of lease liabilities	(1,228)	—	—	**(1,228)**
Foreign exchange	(162)	(5)	(1)	**(168)**
Balance as at February 28, 2022	**46,347**	**12,721**	**1,008**	**60,076**

(In thousands of Canadian dollars, except per share amounts)

7. Leases (continued)

Finance lease receivables and lease liabilities

The following table provides the carrying amounts of the finance lease receivables and lease liabilities, and the changes in the three-month period ended February 28, 2022:

	Finance lease receivables	Lease liabilities
	$	$
Balance as at November 30, 2021	399,269	(473,548)
Additions	1,611	(4,051)
Change in control over interest in 11554891 Canada Inc. (Note 5)	2,858	(3,916)
Lease renewals and modifications	6,137	(6,098)
Lease terminations	(3,144)	3,746
Other adjustments	1,364	(1,373)
Interest income (expense) [1]	2,529	(3,011)
(Receipts) payments	(25,377)	29,079
Foreign exchange	(784)	980
Balance as at February 28, 2022	**384,463**	**(458,192)**

[1] During the three-month period ended February 28, 2021, the Company recorded interest income on finance lease receivables of $3,132 and interest expense on lease liabilities of $3,704.

Recorded in the consolidated statement of financial position as follows:

	Finance lease receivables	Lease liabilities
	$	$
Current portion	89,046	(101,973)
Long-term portion	310,223	(371,575)
November 30, 2021	399,269	(473,548)
Current portion	**89,143**	**(101,746)**
Long-term portion	**295,320**	**(356,446)**
February 28, 2022	**384,463**	**(458,192)**

(In thousands of Canadian dollars, except per share amounts)

8. Goodwill

The changes in the carrying amount of goodwill are as follows:

	2022
	$
Goodwill as at November 30, 2021	490,627
Purchase price allocation (Note 4)	**14,400**
Change in control (Note 5)	**11,946**
Foreign exchange	**(2,226)**
Goodwill as at February 28, 2022	**514,747**
Accumulated impairment as at November 30, 2021	62,237
Foreign exchange	**(457)**
Accumulated impairment as at February 28, 2022	**61,780**
Carrying amounts	
November 30, 2021	428,390
February 28, 2022	**452,967**

9. Long-term debt

	February 28, 2022	November 30, 2021
	$	$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions (1)	**9,256**	12,171
Contingent consideration on Küto Comptoir à Tartares acquisition and interest in 11554891 Canada Inc. (Note 5) (2)	**5,199**	1,961
Fair value of non-controlling interest option in 9974644 Canada Inc. (3)	**1,608**	1,575
Fair value of obligation to repurchase 11554891 Canada Inc. partner (Note 5) (4)	**9,340**	1,416
Revolving credit facility payable to a syndicate of lenders (5)	**338,000**	345,000
Credit facility financing costs	**(1,251)**	(1,395)
	362,152	360,728
Less: Current portion	**(21,314)**	(13,116)
	340,838	347,612

(1) The holdbacks will be repaid within the next 12 months.
(2) Küto Comptoir à Tartares (payable June 2024) and 11554891 Canada Inc. (payable December 2022).
(3) Payable on demand.
(4) Payable on demand, with a maximum maturity date of December 2024.
(5) Under the revolving credit facility, the Company has the option to draw funds in Canadian or in US dollars, at its discretion. The facility's maturity is April 22, 2024 and must be repaid in full at that time. The revolving credit facility has an authorized amount of $600,000 (November 30, 2021 – $600,000). As at February 28, 2022, the Company had drawn US$265,462 (November 30, 2021 – US$271,470) and has elected to pay interest based on the London Inter-Bank Offered Rate plus applicable margins.

Under this facility, the Company is required to comply with certain financial covenants, including:

- a debt to EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio that must be less than or equal to 3.50:1.00;
- a debt to EBITDA ratio that must be less than or equal to 4.00:1.00 in the twelve months following acquisitions with a consideration exceeding $150,000; and
- an interest and rent coverage ratio that must be at least 2.00:1.00 at all times.

As at February 28, 2022, the Company was in compliance with its financial covenants.

(In thousands of Canadian dollars, except per share amounts)

10. Capital stock

On June 28, 2021, the Company announced the renewal of the normal course issuer bid ("NCIB"). The NCIB began on July 3, 2021 and will end on July 2, 2022 or on such earlier date when the Company completes its purchases or elects to terminate the NCIB. The renewed period allows the Company to purchase 1,235,323 of its common shares. These purchases will be made on the open market plus brokerage fees through the facilities of the TSX and/or alternative trading systems at the prevailing market price at the time of the transaction, in accordance with the TSX's applicable policies. All common shares purchased pursuant to the NCIB will be cancelled.

During the three-month period ended February 28, 2022, the Company repurchased and cancelled a total of 256,400 common shares (2021 – nil) under the current NCIB, at a weighted average price of $57.01 per common share (2021 – nil), for a total consideration of $14,618 (2021 – nil). An excess of $11,438 (2021 – nil) of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

11. Net income per share

The following table provides the weighted average number of common shares used in the calculation of basic income per share and used for the purpose of diluted income per share:

	February 28, 2022	February 28, 2021
Weighted daily average number of common shares – basic	**24,520,653**	24,706,461
Assumed exercise of stock options (1)	**28,640**	7,527
Weighted daily average number of common shares – diluted	**24,549,293**	24,713,988

(1) The calculation of the assumed exercise of stock options includes the effect of the average unrecognized future compensation cost of dilutive options. The number of excluded options for the three-month period ended February 28, 2022 was 240,000 (2021 – 311,112).

12. Financial instruments

In the normal course of business, the Company uses various financial instruments, which by their nature involve risk, including market risk and the credit risk of non-performance by counterparties. These financial instruments are subject to normal credit standards, financial controls, risk management, and monitoring procedures.

Fair value of recognized financial instruments

Cross currency interest rate swaps

On February 25, 2022, the Company entered into one (November 30, 2021 – three) floating to floating 1-month cross currency interest rate swaps. A fair value of nil was recorded as at February 28, 2022 (November 30, 2021 – nil). The Company has classified this as level 2 in the fair value hierarchy.

	February 28, 2022			November 30, 2021
Receive – Notional	**US$265,462**	US$78,920	US$180,761	US$11,789
Receive – Rate	**1.39%**	1.29%	1.29%	1.29%
Pay – Notional	**CA$338,000**	CA$100,000	CA$230,000	CA$15,000
Pay – Rate	**1.57%**	1.23%	1.09%	1.38%

(In thousands of Canadian dollars, except per share amounts)

12. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Fair value hierarchy	**Level 3**	
	February 28, 2022	November 30, 2021
	$	$
Contingent consideration on Küto Comptoir à Tartares acquisition and interest in 11554891 Canada Inc.	**5,199**	1,961
Non-controlling interest buyback options	**1,608**	1,575
Obligation to repurchase 11554891 Canada Inc. partner	**9,340**	1,416
Financial liabilities	**16,147**	4,952

The Company has determined that the fair values of its financial assets and financial liabilities with short-term and long-term maturities approximate their carrying value. These financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, deposits and other liabilities. The table below shows the fair value and the carrying amount of other financial instruments as at February 28, 2022 and November 30, 2021. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	February 28, 2022		November 30, 2021	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Loans and other receivables	**4,179**	**4,179**	4,238	4,238
Finance lease receivables	**384,463**	**384,463**	399,269	399,269
Financial liabilities				
Long-term debt (1)	**347,256**	**347,256**	357,171	357,189

(1) Excludes contingent consideration on Küto Comptoir à Tartares acquisition and interest in 11554891 Canada Inc., cross currency interest rate swaps, credit facility financing costs and obligation to repurchase 11554891 Canada Inc. partner.

Determination of fair value

The following methods and assumptions were used to estimate the fair values of each class of financial instrument:

Loans and other receivables and Finance lease receivables – The carrying amount for these financial instruments approximates fair value due to the short-term maturity of these instruments and/or the use of market interest rates.

Long-term debt – The fair value of long-term debt is determined using the present value of future cash flows under current financing agreements based on the Company's current estimated borrowing rate for similar debt.

(In thousands of Canadian dollars, except per share amounts)

13. Revenue

	Three months ended					
	February 28, 2022			February 28, 2021		
	Canada	**US & International**	**TOTAL**	Canada	US & International	TOTAL
	$	**$**	**$**	$	$	$
Royalties	**16,241**	**28,173**	**44,414**	10,398	26,679	37,077
Franchise and transfer fees	**1,274**	**1,350**	**2,624**	1,239	935	2,174
Retail, food processing and distribution revenues	**36,364**	**1,408**	**37,772**	28,520	1,215	29,735
Sale of goods, including construction revenue	**7,827**	**5,640**	**13,467**	3,712	11,826	15,538
Gift card breakage income	**110**	**1,386**	**1,496**	74	1,153	1,227
Promotional funds	**9,141**	**14,847**	**23,988**	5,908	14,010	19,918
Other franchising revenue	**7,613**	**5,838**	**13,451**	5,300	4,905	10,205
Other	**999**	**2,283**	**3,282**	788	2,298	3,086
	79,569	**60,925**	**140,494**	55,939	63,021	118,960

14. Operating expenses

	Three months ended					
	February 28, 2022			February 28, 2021		
	Canada	**US & International**	**TOTAL**	Canada	US & International	TOTAL
	$	**$**	**$**	$	$	$
Cost of goods sold and rent	**4,195**	**2,902**	**7,097**	1,720	5,370	7,090
Retail, food processing and distribution costs	**33,313**	**—**	**33,313**	25,902	—	25,902
Wages and benefits (1)	**13,349**	**13,450**	**26,799**	9,722	13,938	23,660
Wage and rent subsidies (1)	**—**	**—**	**—**	(2,353)	(291)	(2,644)
Consulting and professional fees	**1,545**	**1,555**	**3,100**	1,693	1,548	3,241
Gift cards – related costs	**—**	**2,210**	**2,210**	—	1,458	1,458
Royalties	**4**	**1,498**	**1,502**	1	1,416	1,417
Promotional funds (2)	**9,141**	**14,847**	**23,988**	5,908	14,010	19,918
Impairment (reversal) for expected credit losses	**195**	**(423)**	**(228)**	246	(758)	(512)
Other (3)	**3,104**	**3,972**	**7,076**	2,577	4,061	6,638
	64,846	**40,011**	**104,857**	45,416	40,752	86,168

(1) Prior year amounts have been restated to reflect a reclassification of the Internal Revenue Service's Employee Retention Credit in the US.

(2) Promotional fund expenses include wages and benefits.

(3) Other operating expenses are composed mainly of travel and promotional costs, and other office administration expenses.

(In thousands of Canadian dollars, except per share amounts)

15. Segmented information

Management monitors and evaluates results of the Company based on geographical segments, these two segments being Canada and US & International. The Company and its chief operating decision maker assess the performance of each operating segment based on its segment profit and loss, which is equal to revenue less operating expenses. Within those geographical segments, the Company's chief operating decision maker also assesses the performance of subdivisions based on the type of product or service provided. These subdivisions include franchising, corporate stores, processing, distribution and retail and promotional fund revenues and expenses. This information is disclosed below.

Below is a summary of each geographical and operating segment's performance for the three-month period ended February 28, 2022.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total US & International	Total consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	**28,418**	**5,833**	**36,536**	**9,141**	**(359)**	**79,569**	**40,293**	**4,599**	**1,408**	**14,847**	**(222)**	**60,925**	**140,494**
Operating expenses	**16,471**	**6,334**	**33,338**	**9,141**	**(438)**	**64,846**	**19,696**	**5,611**	**—**	**14,847**	**(143)**	**40,011**	**104,857**
Segment profit (loss)	**11,947**	**(501)**	**3,198**	**—**	**79**	**14,723**	**20,597**	**(1,012)**	**1,408**	**—**	**(79)**	**20,914**	**35,637**

Below is a summary of each geographical and operating segment's performance for the three-month period ended February 28, 2021.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total US & International	Total consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	18,349	3,342	28,717	5,908	(377)	55,939	38,049	10,299	1,215	14,010	(552)	63,021	118,960
Operating expenses	11,056	2,937	25,967	5,908	(452)	45,416	17,024	10,195	—	14,010	(477)	40,752	86,168
Segment profit (loss)	7,293	405	2,750	—	75	10,523	21,025	104	1,215	—	(75)	22,269	32,792

(In thousands of Canadian dollars, except per share amounts)

16. Interim consolidated statement of cash flows

Changes in non-cash working capital items are as follows:

	February 28, 2022	February 28, 2021
	$	$
Accounts receivable	**(4,044)**	(4,575)
Inventories	**59**	(817)
Loans receivable	**11**	(61)
Other assets	**(468)**	920
Prepaid expenses and deposits	**(1,576)**	(2,272)
Accounts payable and accrued liabilities	**8,108**	5,430
Provisions	**(298)**	(1,293)
Gift card and loyalty program liabilities	**6,944**	4,598
Deferred revenue and deposits	**695**	2,110
	9,431	4,040

17. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation. Details of transactions between the Company and other related parties are disclosed below.

Remuneration of key management personnel and directors

The remuneration of key management personnel and directors, presented in Wages and benefits and Other in Note 14 of the financial statements, was as follows:

	February 28, 2022	February 28, 2021
	$	$
Short-term benefits	**909**	727
Share-based compensation	**319**	239
Consulting fees	**67**	—
Board member fees	**19**	19
Total remuneration of key management personnel and directors	**1,314**	985

(In thousands of Canadian dollars, except per share amounts)

17. Related party transactions (continued)

Key management personnel is composed of the Company's CEO, COOs and CFO. The remuneration of directors and key executives is determined by the Board of Directors having regard to the performance of individuals and market conditions.

Given its widely held share base, the Company does not have an ultimate controlling party; one of its most important shareholders is its Chair of the Board of Directors, who controls 16.4% of the outstanding shares.

The Company also pays employment benefits to individuals related to members of the key management personnel described above. Their total remuneration, presented in Wages and benefits in Note 14 of the financial statements, was as follows:

	February 28, 2022	February 28, 2021
	$	$
Short-term benefits	**143**	128
Share-based compensation	**7**	6
Total remuneration of individuals related to key management personnel	**150**	134