
Condensed
interim consolidated financial statements of
MTY Food Group Inc.

For the three-month periods ended February 28, 2023 and 2022

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three-month periods ended February 28, 2023 and 2022

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

(Unaudited)

	Notes	February 28, 2023	February 28, 2022
		\$	\$
Revenue	15 & 17	286,003	140,494
Expenses			
Operating expenses	16 & 17	223,140	104,857
Depreciation – property, plant and equipment and right-of-use assets	7 & 8	13,126	3,660
Amortization – intangible assets	9	8,936	7,030
Interest on long-term debt		13,457	1,375
Net interest expense on leases	7	2,452	482
Impairment charge – right-of-use assets	7	136	55
		261,247	117,459
Other (expenses) income			
Unrealized and realized foreign exchange (loss) gain		(3,907)	865
Interest income		191	74
(Loss) gain on de-recognition/lease modification of lease liabilities		(106)	397
Loss on disposal of property, plant and equipment		(1,127)	(47)
Revaluation of financial liabilities recorded at fair value	14	(407)	132
Loss on remeasurement of joint venture interest		—	(2,769)
		(5,356)	(1,348)
Income before taxes		19,400	21,687
Income tax expense			
Current		2,489	5,940
Deferred		(1,582)	(929)
		907	5,011
Net income		18,493	16,676
Net income attributable to:			
Owners		18,387	16,637
Non-controlling interests		106	39
		18,493	16,676
Net income per share	13		
Basic		0.75	0.68
Diluted		0.75	0.68

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**

For the three-month periods ended February 28, 2023 and 2022

(In thousands of Canadian dollars)

(Unaudited)

	February 28, 2023	February 28, 2022
	\$	\$
Net income	18,493	16,676
Items that may be reclassified subsequently to net income		
Unrealized gain (loss) on translation of foreign operations	9,984	(5,176)
Deferred tax expense on foreign currency translation adjustments	(918)	—
Other comprehensive income (loss)	9,066	(5,176)
Total comprehensive income	27,559	11,500
Total comprehensive income attributable to:		
Owners	27,453	11,461
Non-controlling interests	106	39
	27,559	11,500

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, 2023 and 2022

(In thousands of Canadian dollars)

(Unaudited)

For the three months ended February 28, 2023

Balance, beginning of period

Net income

Other comprehensive income

Total comprehensive income

Dividends

Share-based compensation

Balance, end of period

	Reserves				Total reserves	Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	Capital stock	Other	Contributed surplus	Foreign currency translation					
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance, beginning of period	302,781	(850)	4,857	13,766	17,773	402,854	723,408	1,218	724,626
Net income	—	—	—	—	—	18,387	18,387	106	18,493
Other comprehensive income	—	—	—	9,066	9,066	—	9,066	—	9,066
Total comprehensive income							27,453	106	27,559
Dividends	—	—	—	—	—	(6,103)	(6,103)	(50)	(6,153)
Share-based compensation	—	—	212	—	212	—	212	—	212
Balance, end of period	302,781	(850)	5,069	22,832	27,051	415,138	744,970	1,274	746,244

For the three months ended February 28, 2022

Balance, beginning of period

Net income

Other comprehensive loss

Total comprehensive income

Shares repurchased and cancelled (Note 12)

Dividends

Share-based compensation

Balance, end of period

	Reserves				Total reserves	Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	Capital stock	Other	Contributed surplus	Foreign currency translation					
	\$	\$	\$	\$	\$	\$	\$	\$	\$
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 12)	(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

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, 2023 and November 30, 2022

(In thousands of Canadian dollars)

(Unaudited)

	Notes	February 28, 2023	November 30, 2022
		\$	\$
Assets			
Current assets			
Cash		58,721	59,479
Accounts receivable	6	84,775	78,099
Inventories		18,649	18,517
Assets held for sale		2,134	2,111
Current portion of loans and other receivables		1,138	1,153
Current portion of finance lease receivables	7	83,715	83,500
Income taxes receivable		4,135	3,982
Other assets		4,478	3,275
Prepaid expenses and deposits		16,823	14,540
		274,568	264,656
Loans and other receivables		3,044	3,289
Finance lease receivables	7	253,450	255,276
Contract cost asset		6,760	6,455
Deferred income taxes		215	224
Property, plant and equipment	8	107,652	90,878
Right-of-use assets	7	178,450	159,706
Intangible assets	9	1,152,487	1,015,271
Goodwill	10	712,415	529,548
		2,689,041	2,325,303
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		160,912	154,988
Provisions		2,994	1,490
Gift card and loyalty program liabilities		140,634	127,458
Income taxes payable		3,139	9,813
Current portion of deferred revenue and deposits		21,177	17,776
Current portion of long-term debt	11	10,100	9,530
Current portion of lease liabilities	7	115,312	114,437
		454,268	435,492
Long-term debt	11	829,578	551,429
Lease liabilities	7	414,909	400,377
Deferred revenue and deposits		49,515	48,405
Deferred income taxes		194,448	164,417
Other liabilities		79	557
		1,942,797	1,600,677

MTY Food Group Inc.**Condensed interim consolidated statements of financial position (continued)**

As at February 28, 2023 and November 30, 2022

(In thousands of Canadian dollars)

(Unaudited)

		February 28, 2023	November 30, 2022
	Notes	\$	\$
Shareholders' equity			
Equity attributable to owners			
Capital stock	12	302,781	302,781
Reserves		27,051	17,773
Retained earnings		415,138	402,854
		744,970	723,408
Equity attributable to non-controlling interests		1,274	1,218
		746,244	724,626
		2,689,041	2,325,303

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

Approved by the Board on April 11, 2023

_____, Director

_____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three-month periods ended February 28, 2023 and 2022

(In thousands of Canadian dollars)

(Unaudited)

		February 28, 2023	February 28, 2022
	Notes	\$	\$
Operating activities			
Net income		18,493	16,676
Adjusting items:			
Interest on long-term debt		13,457	1,375
Net interest expense on leases	7	2,452	482
Depreciation – property, plant and equipment and right-of-use assets	7 & 8	13,126	3,660
Amortization – intangible assets	9	8,936	7,030
Impairment charge – right-of-use assets	7	136	55
Unrealized foreign exchange loss (gain) ⁽¹⁾		3,907	(865)
Loss (gain) on de-recognition/lease modification of lease liabilities		106	(397)
Loss on disposal of property, plant and equipment		1,127	47
Revaluation of financial liabilities recorded at fair value	14	407	(132)
Loss on remeasurement of joint venture interest		—	2,769
Income tax expense		907	5,011
Share-based compensation		212	279
		63,266	35,990
Income taxes paid		(9,279)	(4,110)
Interest paid		(13,258)	(1,211)
Other		(2,066)	(1,269)
Changes in non-cash working capital items	18	(1,935)	9,431
Cash flows provided by operating activities		36,728	38,831
Investing activities			
Considerations on acquisitions	5	(298,365)	(11,270)
Cash acquired through acquisitions and change in control	5	9,349	502
Additions to property, plant and equipment	8	(7,897)	(1,149)
Additions to intangible assets	9	(120)	(1,672)
Proceeds on disposal of property, plant and equipment		481	95
Cash flows used in investing activities		(296,552)	(13,494)

MTY Food Group Inc.**Condensed interim consolidated statements of cash flows (continued)**

For the three-month periods ended February 28, 2023 and 2022

(In thousands of Canadian dollars)

(Unaudited)

		February 28, 2023	February 28, 2022
	Notes	\$	\$
Financing activities			
Issuance of long-term debt		304,211	—
Repayment of long-term debt		(29,602)	(10,118)
Net lease payments	7	(10,498)	(3,702)
Shares repurchased and cancelled	12	—	(14,618)
Dividends paid to non-controlling shareholders of subsidiaries		(50)	(280)
Dividends paid		(6,103)	(5,138)
Cash flows provided by (used in) financing activities		257,958	(33,856)
Net decrease in cash		(1,866)	(8,519)
Effect of foreign exchange rate changes on cash ⁽¹⁾		1,108	(248)
Cash, beginning of period		59,479	61,231
Cash, end of period		58,721	52,464

⁽¹⁾ Prior year amounts have been restated to reflect a reclassification between cash flows provided by operating activities and the effect of foreign exchange rate changes on cash.

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

MTY Food Group Inc.

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MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2023 and 2022

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

(Unaudited)

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, 2022, prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), with the exception of IAS 37 as disclosed in Note 3 to these financial statements.

These financial statements do not include all 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, 2022.

The financial statements were authorized for issue by the Board of Directors on April 11, 2023.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2023 and 2022

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

(Unaudited)

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.

3. Change in accounting policies

Policy applicable beginning December 1, 2022

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". 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 were adopted effective December 1, 2022 and resulted in no significant adjustment.

4. 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 three-month period ended February 28, 2023 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 1, Presentation of Financial Statements	January 2020, July 2020, February 2021 & October 2022	December 1, 2024	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
IFRS 16, Leases	September 2022	December 1, 2024	In assessment

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.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2023 and 2022

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

(Unaudited)

4. Future accounting changes (continued)

IAS 1, Presentation of Financial Statements (continued)

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.

In October 2022, the IASB published *Non-current Liabilities with Covenants (Amendments to IAS 1)* to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments modify the requirements introduced by *Classification of Liabilities as Current or Non-current* on how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances: only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments also defer the effective date of the 2020 amendments to January 1, 2024.

The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. The Company will adopt the amendments on December 1, 2024.

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.

IFRS 16, Leases

In September 2022, the IASB issued *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)* with amendments that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15, Revenue from Contracts with Customers, to be accounted for as a sale. The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease. The amendments to IFRS 16 are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. The Company will adopt the amendments on December 1, 2024.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2023 and 2022

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

(Unaudited)

5. Business acquisitions

I) Wetzel's Pretzels (2023)

On December 8, 2022, one of the Company's wholly owned subsidiaries completed the acquisition of all of the issued and outstanding shares of COP WP Parent, Inc. ("Wetzel's Pretzels"), a franchisor and operator of quick service restaurants operating in the snack category across 25 states in the US, as well as in Canada and Panama. As of the date of the acquisition, Wetzel's Pretzels was operating 328 franchised and 38 corporate-owned restaurants. The purpose of the transaction was to diversify the Company's range of offerings in the US.

The transaction included a purchase price totaling \$284,721 (US\$209,632), as detailed below. The resulting aggregate cash outflow in connection with the Wetzel's Pretzels acquisition was \$275,403 (US\$202,772). The transaction consideration also includes US\$3,000 held in escrow contingent on the completion of a lease contract.

The Company has not yet completed its fair value assessment of all assets acquired and liabilities assumed in connection with the Wetzel's Pretzels acquisition. The most significant aspects remaining to be finalized relate to the valuation of property, plant and equipment, franchise right, trademark and deferred income taxes. Consequently, the table below presents management's preliminary assessment of the fair values of the assets acquired and the liabilities assumed. The final determination of the fair values will be made within 12 months of the acquisition date. Accordingly, the following values, including goodwill, are subject to change and such changes may be material.

	2023
	\$
Consideration paid:	
Purchase price	284,721
Total consideration	284,721
Cash	(9,318)
Net consideration paid/cash outflow	275,403

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2023 and 2022

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

(Unaudited)

5. Business acquisitions (continued)

I) Wetzel's Pretzels (2023) (continued)

The preliminary purchase price allocation is as follows:

	2023
	\$
Net assets acquired:	
Current assets	
Cash	9,318
Accounts receivable	1,364
Inventories	360
Current portion of loans and other receivables	61
Current portion of finance lease receivables	2,529
Prepaid expenses	1,028
	14,660
Loans and other receivables	807
Finance lease receivables	8,552
Property, plant and equipment	7,578
Right-of-use assets	16,082
Intangible assets – Franchise right	42,783
Intangible assets – Trademark	92,358
Goodwill ⁽¹⁾	172,010
	354,830
Current liabilities	
Accounts payable and accrued liabilities	11,993
Gift card liability	134
Current portion of deferred revenue	1,117
Current portion of lease liabilities	4,908
	18,152
Lease liabilities	22,255
Deferred income taxes	29,697
Other liabilities	5
	70,109
Net purchase price	284,721

⁽¹⁾ Goodwill is partially deductible for tax purposes.

Total expenses incurred related to acquisition costs amounted to \$920.

From December 8, 2022 to February 28, 2023, the Company's condensed interim consolidated statement of income included revenue of \$19,378 and net income of \$4,818 attributable to Wetzel's Pretzels.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2023 and 2022

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

(Unaudited)

5. Business acquisitions (continued)

I) Wetzel's Pretzels (2023) (continued)

The following unaudited pro forma information for the three-month period ended February 28, 2023 represents the Company's results of operations as if the acquisition of Wetzel's Pretzels had occurred on December 1, 2022. This pro forma information does not purport to be indicative of the results that would have occurred for the period presented or that may be expected in the future.

	2023
	\$
Revenue	287,994
Net income	19,836

II) Sauce Pizza and Wine (2023)

On December 15, 2022, one of the Company's wholly owned subsidiaries completed the acquisition of the assets of Sauce Pizza and Wine, an operator of fast casual restaurants operating in the state of Arizona in the US. As of the date of the acquisition, Sauce Pizza and Wine was operating 13 corporate-owned restaurants. The purpose of the transaction was to diversify the Company's range of offerings in the US.

The transaction included a purchase price totaling \$15,228 (US\$11,165) and a holdback on acquisition of \$1,089 (US\$798), as detailed below. The resulting aggregate cash outflow in connection with the Sauce Pizza and Wine acquisition was \$13,613 (US\$9,980).

The Company has not yet completed its fair value assessment of all assets acquired and liabilities assumed in connection with the Sauce Pizza and Wine acquisition. The most significant aspects remaining to be finalized relate to the valuation of property, plant and equipment, trademark and gift card liability. Consequently, the table below presents management's preliminary assessment of the fair values of the assets acquired and the liabilities assumed. The final determination of the fair values will be made within 12 months of the acquisition date. Accordingly, the following values, including goodwill, are subject to change and such changes may be material.

	2023
	\$
Consideration paid:	
Purchase price	15,228
Working capital	(473)
Cash	31
Discount on non-interest-bearing holdback	(53)
Total consideration	14,733
Cash	(31)
Holdback	(1,089)
Net consideration paid/cash outflow	13,613

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2023 and 2022

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

(Unaudited)

5. Business acquisitions (continued)

II) Sauce Pizza and Wine (2023) (continued)

The preliminary purchase price allocation is as follows:

	2023
	\$
Net assets acquired:	
Current assets	
Cash	31
Inventories	250
Prepaid expenses	161
	442
Property, plant and equipment	5,212
Right-of-use assets	9,913
Intangible assets – Trademark	5,306
Goodwill ⁽¹⁾	7,172
	28,045
Current liabilities	
Accounts payable and accrued liabilities	107
Gift card liability	3,155
Current portion of lease liabilities	1,661
	4,923
Lease liabilities	8,389
	13,312
Net purchase price	14,733

⁽¹⁾ Goodwill is deductible for tax purposes.

Total expenses incurred related to acquisition costs amounted to \$176.

From December 15, 2022 to February 28, 2023, the Company's condensed interim consolidated statement of income included revenue of \$7,178 and net income of \$672 attributable to Sauce Pizza and Wine.

The acquisition of Sauce Pizza and Wine would not have had a significant impact on the Company's revenue and net income for the three-month period ended February 28, 2023 if the acquisition had occurred on December 1, 2022.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2023 and 2022

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

(Unaudited)

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, 2023	November 30, 2022
	\$	\$
Total accounts receivable	92,371	85,193
Less: Allowance for credit losses	7,596	7,094
Total accounts receivable, net	84,775	78,099
Of which:		
Not past due	68,041	65,059
Past due for more than one day but no more than 30 days	4,505	2,513
Past due for more than 31 days but no more than 60 days	1,456	1,841
Past due for more than 61 days	10,773	8,686
Total accounts receivable, net	84,775	78,099

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 has options to purchase the premises on some 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, 2023:

	Offices, corporate and dark stores	Store locations subject to operating subleases	Other	Total
	\$	\$	\$	\$
Balance as at November 30, 2022	146,708	11,677	1,321	159,706
Additions	1,594	—	—	1,594
Additions through business acquisitions (Note 5)	25,995	—	—	25,995
Depreciation expense	(8,413)	(332)	(142)	(8,887)
Impairment charge	(136)	—	—	(136)
De-recognition/lease modification of lease liabilities	(567)	—	(1)	(568)
Foreign exchange	859	21	4	884
Other	(138)	—	—	(138)
Balance as at February 28, 2023	165,902	11,366	1,182	178,450

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

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

(Unaudited)

7. Leases (continued)

Finance lease receivables

The following table provides the carrying amount of the finance lease receivables and the changes in the three-month period ended February 28, 2023:

	2023
	\$
Balance as at November 30, 2022	338,776
Additions	7,616
Additions through business acquisitions (Note 5)	11,081
Lease renewals and modifications	1,871
Lease terminations	(1,698)
Other adjustments	75
Interest income ⁽¹⁾	2,646
Receipts	(23,910)
Foreign exchange	708
Balance as at February 28, 2023	337,165

⁽¹⁾ During the three-month period ended February 28, 2022, the Company recorded interest income on finance lease receivables of \$2,529.

Recorded in the condensed interim consolidated statements of financial position as follows:

	Finance lease receivables
	\$
Current portion	83,500
Long-term portion	255,276
November 30, 2022	338,776
Current portion	83,715
Long-term portion	253,450
February 28, 2023	337,165

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

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

(Unaudited)

7. Leases (continued)

Lease liabilities

The following table provides the carrying amount of the lease liabilities and the changes in the three-month period ended February 28, 2023:

	<u>2023</u>
	\$
Balance as at November 30, 2022	514,814
Additions	6,127
Additions through business acquisitions (Note 5)	37,213
Lease renewals and modifications	4,334
Lease terminations	(1,349)
Other adjustments	(3,234)
Interest expense ⁽¹⁾	5,098
Payments	(34,408)
Foreign exchange	1,626
Balance as at February 28, 2023	530,221

⁽¹⁾ During the three-month period ended February 28, 2022, the Company recorded interest expense on lease liabilities of \$3,011.

Recorded in the condensed interim consolidated statements of financial position as follows:

	<u>Lease liabilities</u>
	\$
Current portion	114,437
Long-term portion	400,377
November 30, 2022	514,814
Current portion	115,312
Long-term portion	414,909
February 28, 2023	530,221

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(Unaudited)

8. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2022	7,323	9,884	44,410	41,737	9,385	639	113,378
Additions	—	2	4,752	2,511	632	—	7,897
Disposals	—	(80)	(1,060)	(1,404)	(234)	(18)	(2,796)
Foreign exchange	31	35	292	227	45	—	630
Additions through business acquisitions (Note 5)	—	—	7,536	5,192	62	—	12,790
Balance as at February 28, 2023	7,354	9,841	55,930	48,263	9,890	621	131,899

Accumulated depreciation	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2022	—	2,092	6,963	9,399	3,674	372	22,500
Eliminated on disposal of assets	—	(80)	(1,085)	(1,239)	(233)	(18)	(2,655)
Foreign exchange	—	1	119	23	14	6	163
Depreciation expense	—	98	1,744	1,774	595	28	4,239
Balance as at February 28, 2023	—	2,111	7,741	9,957	4,050	388	24,247

Carrying amounts	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
November 30, 2022	7,323	7,792	37,447	32,338	5,711	267	90,878
February 28, 2023	7,354	7,730	48,189	38,306	5,840	233	107,652

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(Unaudited)

9. Intangible assets

Cost	Franchise and master franchise rights	Trademarks	Step-in rights	Customer lists	Other	Total
	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2022	388,314	805,780	1,199	13,698	13,602	1,222,593
Additions	—	—	—	—	120	120
Additions through business acquisitions (Note 5)	42,783	97,664	—	—	—	140,447
Foreign exchange	1,945	4,469	—	—	57	6,471
Balance as at February 28, 2023	433,042	907,913	1,199	13,698	13,779	1,369,631
Accumulated amortization	Franchise and master franchise rights	Trademarks	Step-in rights	Customer lists	Other	Total
	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2022	197,127	—	1,098	3,422	5,675	207,322
Foreign exchange	862	—	—	—	24	886
Amortization	8,148	—	30	241	517	8,936
Balance as at February 28, 2023	206,137	—	1,128	3,663	6,216	217,144
Carrying amounts	Franchise and master franchise rights	Trademarks	Step-in rights	Customer lists	Other	Total
	\$	\$	\$	\$	\$	\$
November 30, 2022	191,187	805,780	101	10,276	7,927	1,015,271
February 28, 2023	226,905	907,913	71	10,035	7,563	1,152,487

10. Goodwill

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

	2023
	\$
Goodwill as at November 30, 2022	595,269
Purchase price allocation (Note 5)	179,182
Foreign exchange	4,176
Goodwill as at February 28, 2023	778,627
Accumulated impairment as at November 30, 2022	65,721
Foreign exchange	491
Accumulated impairment as at February 28, 2023	66,212
Carrying amounts	
November 30, 2022	529,548
February 28, 2023	712,415

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(Unaudited)

11. Long-term debt

	February 28, 2023	November 30, 2022
	\$	\$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions	1,228	142
Contingent considerations on Küto Comptoir à Tartares acquisition and 11554891 Canada Inc. ⁽¹⁾	3,750	3,626
Fair value of non-controlling interest option in 9974644 Canada Inc. ⁽²⁾	2,136	1,853
Fair value of obligation to repurchase 11554891 Canada Inc. partner ⁽³⁾	7,867	7,867
Revolving credit facility payable to a syndicate of lenders ⁽⁴⁾	827,082	550,055
Credit facility financing costs	(2,385)	(2,584)
	839,678	560,959
Less: Current portion	(10,100)	(9,530)
	829,578	551,429

(1) Küto Comptoir à Tartares (payable June 2024) and 11554891 Canada Inc. (payable within the next 12 months).

(2) Payable on demand.

(3) Payable on demand, with a maximum maturity date of December 2024.

(4) 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 October 28, 2025 and must be repaid in full at that time. The revolving credit facility has an authorized amount of \$900,000 (November 30, 2022 – \$900,000). As at February 28, 2023, the Company had drawn US\$608,966 (November 30, 2022 – US\$408,850) and has elected to pay interest based on the Secured Overnight Financing Rate ("SOFR") plus applicable margins. The credit facility bears interest at Canadian prime rate, US prime rate rate, Bankers' acceptances rate and eventually the Canadian Overnight Repo Rate Average, and SOFR plus an applicable margin that will vary depending on the type of advances. The Company pays a commitment fee on the available unused credit facility.

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, 2023, the Company was in compliance with its financial covenants.

12. Capital stock

On June 28, 2022, the Company announced the renewal of the normal course issuer bid ("NCIB"). The NCIB began on July 3, 2022 and will end on July 2, 2023 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 1,220,673 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, 2023, the Company did not repurchase and cancel any common shares under the current NCIB. During the three-month period ended February 28, 2022, the Company repurchased and cancelled a total of 256,400 common shares, at a weighted average price of \$57.01 per common share, for a total consideration of \$14,618. An excess of \$11,438 of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

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

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13. 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, 2023	February 28, 2022
Weighted daily average number of common shares – basic	24,413,461	24,520,653
Assumed exercise of stock options ⁽¹⁾	84,260	28,640
Weighted daily average number of common shares – diluted	24,497,721	24,549,293

⁽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, 2023 was 13,334 (2022 – 240,000).

14. 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 27, 2023, the Company entered into two floating to floating 1-month cross currency interest rate swaps (November 30, 2022 – one floating to floating 3-month cross currency interest rate swap and one floating to floating 2-month cross currency interest rate swap). A fair value of nil was recorded as at February 28, 2023 (November 30, 2022 – nil). The Company has classified this as level 2 in the fair value hierarchy.

	February 28, 2023		November 30, 2022	
	1-month	1-month	3-month	2-month
Receive – Notional	US\$103,500	US\$103,466	US\$64,850	US\$150,000
Receive – Rate	6.80%	6.70%	6.18%	6.18%
Pay – Notional	CA\$140,000	CA\$140,000	CA\$87,000	CA\$201,000
Pay – Rate	6.64%	6.64%	5.95%	5.80%

Fair value hierarchy

The changes in the carrying amount of the financial liabilities classified as level 3 in the fair value hierarchy are as follows:

	2023 \$
Financial liabilities classified as level 3 as at November 30, 2022	13,346
Revaluation of financial liabilities recorded at fair value	407
Financial liabilities classified as level 3 as at February 28, 2023	13,753

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Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2023 and 2022

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(Unaudited)

14. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Fair value hierarchy (continued)

As at February 28, 2023 and November 30, 2022, the financial liabilities classified as level 3 in the fair value hierarchy were comprised of the following:

	February 28, 2023	November 30, 2022
	\$	\$
Contingent considerations on Küto Comptoir à Tartares acquisition and 11554891 Canada Inc.	3,750	3,626
Non-controlling interest buyback option	2,136	1,853
Obligation to repurchase 11554891 Canada Inc. partner	7,867	7,867
Financial liabilities classified as level 3	13,753	13,346

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, 2023 and November 30, 2022. 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, 2023		November 30, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Loans and other receivables	4,182	4,182	4,442	4,442
Finance lease receivables	337,165	337,165	338,776	338,776
Financial liabilities				
Long-term debt ⁽¹⁾	828,310	828,310	550,197	550,197

⁽¹⁾ Excludes contingent considerations on Küto Comptoir à Tartares acquisition and 11554891 Canada Inc., 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.

MTY Food Group Inc.**Notes to the condensed interim consolidated financial statements**

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(Unaudited)

15. Revenue

	Three months ended					
	February 28, 2023			February 28, 2022		
	US &			US &		
	Canada	International	TOTAL	Canada	International	TOTAL
	\$	\$	\$	\$	\$	\$
Royalties	22,680	41,338	64,018	16,241	28,173	44,414
Franchise and transfer fees	1,398	1,483	2,881	1,274	1,350	2,624
Retail, food processing and distribution revenues	37,959	1,180	39,139	36,364	1,408	37,772
Sale of goods, including construction revenue	10,378	115,350	125,728	7,827	5,640	13,467
Gift card breakage income	172	1,543	1,715	110	1,386	1,496
Promotional funds	10,617	18,627	29,244	9,141	14,847	23,988
Other franchising revenue	9,623	7,830	17,453	7,613	5,838	13,451
Other	1,030	4,795	5,825	999	2,283	3,282
	93,857	192,146	286,003	79,569	60,925	140,494

MTY Food Group Inc.

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(Unaudited)

16. Operating expenses

	Three months ended					
	February 28, 2023			February 28, 2022		
	US &			US &		
	Canada	International	TOTAL	Canada	International	TOTAL
	\$	\$	\$	\$	\$	\$
Cost of goods sold and rent	4,959	38,278	43,237	4,195	2,902	7,097
Retail, food processing and distribution costs	34,022	76	34,098	33,313	—	33,313
Wages and benefits	14,927	58,522	73,449	13,349	13,450	26,799
Other corporate store expenses ⁽¹⁾	626	14,174	14,800	643	572	1,215
Consulting and professional fees	1,834	2,703	4,537	1,545	1,555	3,100
Insurance and taxes ⁽¹⁾	490	1,670	2,160	320	667	987
Utilities, repairs and maintenance ⁽¹⁾	559	6,182	6,741	476	383	859
Advertising, travel, meals and entertainment ⁽¹⁾	1,101	3,466	4,567	663	1,266	1,929
Gift cards – related costs	—	2,388	2,388	—	2,210	2,210
Royalties	5	1,723	1,728	4	1,498	1,502
Promotional funds ⁽²⁾	10,617	18,627	29,244	9,141	14,847	23,988
Impairment (reversal of impairment) for expected credit losses	407	271	678	195	(423)	(228)
Other ^(1 & 3)	1,899	3,614	5,513	1,002	1,084	2,086
	71,446	151,694	223,140	64,846	40,011	104,857

⁽¹⁾ Prior year amounts have been restated to reflect a reclassification between other corporate store expenses, insurance and taxes, utilities, repairs and maintenance, advertising, travel, meals and entertainment, and other operating expenses.

⁽²⁾ Promotional fund expenses include wages and benefits.

⁽³⁾ Other operating expenses are composed mainly of other office administration expenses.

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Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2023 and 2022

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

(Unaudited)

17. 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, 2023.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Total US &		Total consolidated
											International		
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Revenue	37,806	7,618	38,162	10,618	(347)	93,857	57,792	114,906	1,180	18,627	(359)	192,146	286,003
Operating expenses	19,373	7,830	34,061	10,618	(436)	71,446	29,944	103,317	76	18,627	(270)	151,694	223,140
Segment profit (loss)	18,433	(212)	4,101	—	89	22,411	27,848	11,589	1,104	—	(89)	40,452	62,863

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	Total US &		Total consolidated
											International		
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
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

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

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(Unaudited)

18. Condensed interim consolidated statement of cash flows

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

	February 28, 2023	February 28, 2022
	\$	\$
Accounts receivable	(4,914)	(4,044)
Inventories	533	59
Loans receivable	76	11
Other assets	(1,169)	(468)
Prepaid expenses and deposits	(1,249)	(1,576)
Accounts payable and accrued liabilities	(8,684)	8,108
Provisions	1,484	(298)
Gift card and loyalty program liabilities	8,944	6,944
Deferred revenue and deposits	3,044	695
	(1,935)	9,431

Non-cash items amounting to \$1,467 (2022 – nil) are included in proceeds on disposal of property, plant and equipment, related to commitments made as part of the disposal of a portfolio of corporately-owned locations in the US segment.

19. Subsequent events

On March 24, 2023, the Company entered into a three-year SOFR fixed interest rate swap on US\$200,000. The period of three years begins on April 10, 2023 and ends on April 10, 2026. Under the terms of this swap, the interest rate is fixed at 3.32%.

On March 29, 2023, the Company entered into a three-month option to enter into a three-year SOFR fixed interest rate swap on US\$35,000 with a strike price of 3.48%.