
Condensed
interim consolidated financial statements of
MTY Food Group Inc.

For the three and nine-month periods ended August 31, 2022 and 2021

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three and nine-month periods ended August 31, 2022 and 2021

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

(Unaudited)

	Notes	Three months ended August 31		Nine months ended August 31	
		2022	2021	2022	2021
		\$	\$	\$	\$
Revenue	14 & 16	171,540	150,801	474,552	405,618
Expenses					
Operating expenses	15 & 16	122,620	101,015	342,346	279,445
Depreciation – property, plant and equipment and right-of-use assets		3,995	4,137	11,487	12,101
Amortization – intangible assets	8	7,279	7,027	21,485	21,480
Interest on long-term debt		2,706	2,102	5,953	8,387
Net interest expense on leases	7	498	610	1,472	1,734
Impairment charge – right-of-use assets	7	541	436	662	922
Impairment charge – property, plant and equipment and intangible assets		—	80	535	5,354
		137,639	115,407	383,940	329,423
Share of net loss of a joint venture accounted for using the equity method	5	—	(113)	—	(382)
Other (expenses) income					
Unrealized and realized foreign exchange (loss) gain		(5,436)	(4,012)	(3,887)	1,458
Interest income		74	39	222	158
(Loss) gain on de-recognition/lease modification of lease liabilities		(144)	(27)	678	854
Gain on disposal of property, plant and equipment		207	243	20	1,062
Revaluation of financial liabilities recorded at fair value		(165)	1,194	1,232	(1,119)
Loss on remeasurement of joint venture interest	5	—	—	(2,769)	—
Other income		—	15	—	15
		(5,464)	(2,548)	(4,504)	2,428
Income before taxes		28,437	32,733	86,108	78,241
Income tax expense					
Current		4,035	6,145	17,372	16,600
Deferred		1,833	2,160	779	664
		5,868	8,305	18,151	17,264
Net income		22,569	24,428	67,957	60,977
Net income attributable to:					
Owners		22,435	24,337	67,691	60,762
Non-controlling interests		134	91	266	215
		22,569	24,428	67,957	60,977
Net income per share	12				
Basic		0.92	0.99	2.77	2.46
Diluted		0.92	0.98	2.77	2.46

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 and nine-month periods ended August 31, 2022 and 2021

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended August 31		Nine months ended August 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Net income	22,569	24,428	67,957	60,977
Items that may be reclassified subsequently to net income				
Unrealized gain (loss) on translation of foreign operations	25,154	27,689	17,278	(17,277)
Other comprehensive income (loss)	25,154	27,689	17,278	(17,277)
Total comprehensive income	47,723	52,117	85,235	43,700
Total comprehensive income attributable to:				
Owners	47,589	52,026	84,969	43,485
Non-controlling interests	134	91	266	215
	47,723	52,117	85,235	43,700

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 nine-month periods ended August 31, 2022 and 2021

(In thousands of Canadian dollars)

(Unaudited)

	Reserves					Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	Capital stock	Other	Contributed surplus	Foreign currency translation	Total reserves				
	\$	\$	\$	\$	\$	\$	\$	\$	\$
For the nine months ended August 31, 2022									
Balance, beginning of period	305,961	(850)	3,855	(21,320)	(18,315)	359,993	647,639	1,259	648,898
Net income	—	—	—	—	—	67,691	67,691	266	67,957
Other comprehensive income	—	—	—	17,278	17,278	—	17,278	—	17,278
Total comprehensive income							84,969	266	85,235
Shares repurchased and cancelled (Note 11)	(3,180)	—	—	—	—	(11,438)	(14,618)	—	(14,618)
Dividends	—	—	—	—	—	(15,392)	(15,392)	(280)	(15,672)
Share-based compensation	—	—	788	—	788	—	788	—	788
Balance, end of period	302,781	(850)	4,643	(4,042)	(249)	400,854	703,386	1,245	704,631

	Reserves					Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	Capital stock	Other	Contributed surplus	Foreign currency translation	Total reserves				
	\$	\$	\$	\$	\$	\$	\$	\$	\$
For the nine months ended August 31, 2021									
Balance, beginning of period	306,415	(850)	3,019	(13,354)	(11,185)	286,525	581,755	759	582,514
Net income	—	—	—	—	—	60,762	60,762	215	60,977
Other comprehensive loss	—	—	—	(17,277)	(17,277)	—	(17,277)	—	(17,277)
Total comprehensive income							43,485	215	43,700
Dividends	—	—	—	—	—	(4,571)	(4,571)	—	(4,571)
Share-based compensation	—	—	630	—	630	—	630	—	630
Disposal of interest in 10220396 Canada Inc.	—	—	—	—	—	(1,300)	(1,300)	196	(1,104)
Balance, end of period	306,415	(850)	3,649	(30,631)	(27,832)	341,416	619,999	1,170	621,169

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 August 31, 2022 and November 30, 2021

(In thousands of Canadian dollars)

(Unaudited)

		August 31, 2022	November 30, 2021
	Notes	\$	\$
Assets			
Current assets			
Cash		55,294	61,231
Accounts receivable	6	68,256	57,459
Inventories		12,843	10,707
Current portion of loans and other receivables		1,150	1,189
Current portion of finance lease receivables	7	84,957	89,046
Income taxes receivable		345	3,712
Other assets		5,320	2,403
Prepaid expenses and deposits		9,727	7,721
		237,892	233,468
Loans and other receivables			
Loans and other receivables		3,006	3,049
Finance lease receivables	7	266,617	310,223
Contract cost asset		6,076	5,631
Deferred income taxes		177	185
Investment in a joint venture	5	—	25,911
Property, plant and equipment		20,479	17,526
Right-of-use assets	7	60,276	59,937
Intangible assets	8	843,839	820,274
Goodwill	9	451,180	428,390
		1,889,542	1,904,594
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		127,593	119,462
Provisions		1,480	1,692
Gift card and loyalty program liabilities		108,848	101,889
Income taxes payable		5,993	4,256
Current portion of deferred revenue and deposits		16,598	16,100
Current portion of long-term debt	10	10,653	13,116
Current portion of lease liabilities	7	98,558	101,973
		369,723	358,488
Long-term debt			
Long-term debt	10	304,624	347,612
Lease liabilities	7	326,266	371,575
Deferred revenue and deposits		46,978	44,339
Deferred income taxes		136,818	132,653
Other liabilities		502	1,029
		1,184,911	1,255,696

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

As at August 31, 2022 and November 30, 2021

(In thousands of Canadian dollars)

(Unaudited)

		August 31, 2022	November 30, 2021
	Notes	\$	\$
Shareholders' equity			
Equity attributable to owners			
Capital stock	11	302,781	305,961
Reserves		(249)	(18,315)
Retained earnings		400,854	359,993
		703,386	647,639
Equity attributable to non-controlling interests		1,245	1,259
		704,631	648,898
		1,889,542	1,904,594

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

Approved by the Board on October 6, 2022

_____, Director

_____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three and nine-month periods ended August 31, 2022 and 2021

(In thousands of Canadian dollars)

(Unaudited)

	Notes	Three months ended August 31		Nine months ended August 31	
		2022	2021	2022	2021
		\$	\$	\$	\$
Operating activities					
Net income		22,569	24,428	67,957	60,977
Adjusting items:					
Interest on long-term debt		2,706	2,102	5,953	8,387
Net interest expense on leases	7	498	610	1,472	1,734
Depreciation – property, plant and equipment and right-of-use assets		3,995	4,137	11,487	12,101
Amortization – intangible assets	8	7,279	7,027	21,485	21,480
Impairment charge – property, plant and equipment		—	80	535	80
Impairment charge – right-of-use assets	7	541	436	662	922
Impairment charge – intangible assets		—	—	—	5,274
Share of net loss of a joint venture accounted for using the equity method	5	—	113	—	382
Loss (gain) on de-recognition/lease modification of lease liabilities		144	27	(678)	(854)
Gain on disposal of property, plant and equipment		(207)	(243)	(20)	(1,062)
Revaluation of financial liabilities recorded at fair value through profit or loss		165	(1,194)	(1,232)	1,119
Loss on remeasurement of joint venture interest	5	—	—	2,769	—
Other income		—	(15)	—	(15)
Income tax expense		5,868	8,305	18,151	17,264
Share-based expense		234	201	788	630
		43,792	46,014	129,329	128,419
Income taxes paid		(3,529)	(7,975)	(12,223)	(19,721)
Interest paid		(2,562)	(2,203)	(5,501)	(8,528)
Other		132	(910)	(822)	(3,063)
Changes in non-cash working capital items	17	(995)	11,627	(3,510)	10,294
Cash flows provided by operating activities		36,838	46,553	107,273	107,401
Investing activities					
Net cash outflow on acquisitions	4	—	—	(11,270)	—
Cash acquired through change in control	5	—	—	502	—
Proceeds on disposal of interest in 10220396 Canada Inc.		—	7,500	—	7,500
Additions to property, plant and equipment		(1,327)	(1,248)	(5,970)	(4,762)
Additions to intangible assets	8	(713)	(65)	(3,731)	(268)
Proceeds on disposal of property, plant and equipment		666	361	845	1,027
Cash flows (used in) provided by investing activities		(1,374)	6,548	(19,624)	3,497

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

For the three and nine-month periods ended August 31, 2022 and 2021

(In thousands of Canadian dollars)

(Unaudited)

	Notes	Three months ended August 31		Nine months ended August 31	
		2022	2021	2022	2021
		\$	\$	\$	\$
Financing activities					
Repayment of long-term debt		(34,160)	(35,210)	(56,355)	(79,546)
Net lease payments	7	(3,598)	(3,605)	(11,599)	(11,308)
Shares repurchased and cancelled	11	—	—	(14,618)	—
Capitalized financing costs		—	—	—	(665)
Dividends paid to non-controlling shareholders of subsidiaries		—	—	(280)	—
Dividends paid		(5,127)	(4,571)	(15,392)	(4,571)
Cash flows used in financing activities		(42,885)	(43,386)	(98,244)	(96,090)
Net (decrease) increase in cash		(7,421)	9,715	(10,595)	14,808
Cash disposed of through disposal		—	(131)	—	(131)
Effect of foreign exchange rate changes on cash		6,476	5,278	4,658	(2,586)
Cash, beginning of period		56,239	41,531	61,231	44,302
Cash, end of period		55,294	56,393	55,294	56,393

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 and nine-month periods ended August 31, 2022 and 2021

(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, 2021, prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

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, 2021.

The financial statements were authorized for issue by the Board of Directors on October 6, 2022.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2022 and 2021

(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. 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 third quarter of 2022, the continuing vaccination campaigns, including the administration of boosters and the gradual expansion of the coverage of the population, allowed the Canadian and US markets to mostly remain open with small disruptions in certain areas. Although there is uncertainty surrounding the effects that the lifting of restrictions will have on the number of infections and the potential emergence of new variants, the current situation appears to highlight a familiar sense of back-to-normal with the longer-term impact on the economy and the rules and restrictions that will apply to MTY’s restaurants 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 and nine months ended August 31, 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 attributable to COVID-19. 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 three and nine-month periods ended August 31, 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”.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2022 and 2021

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

(Unaudited)

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.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2022 and 2021

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

(Unaudited)

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
Property, plant and equipment	145
Right-of-use assets	46
Franchise rights	1,090
Trademark	4,970
Customer list	3,380
Goodwill ⁽¹⁾	2,908
	12,841
Current liabilities	
Accounts payable and accrued liabilities	40
Gift card liability	67
Current portion of lease liabilities	35
	142
Lease liabilities	11
	153
Net purchase price	12,688

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2022 and 2021

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

(Unaudited)

4. Business acquisitions (continued)

I) Küto Comptoir à Tartares (2022) (continued)

(1) Goodwill is deductible for tax purposes.

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.

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 \$1,930. 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 10).

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 nine-month period ended August 31, 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

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2022 and 2021

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

(Unaudited)

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 liabilities	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.

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6. Accounts receivable

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

	August 31, 2022	November 30, 2021
	\$	\$
Total accounts receivable	75,805	65,915
Less: Allowance for credit losses	7,549	8,456
Total accounts receivable, net	68,256	57,459
Of which:		
Not past due	45,428	42,257
Past due for more than one day but no more than 30 days	4,889	2,549
Past due for more than 31 days but no more than 60 days	3,851	2,131
Past due for more than 61 days	14,088	10,522
Total accounts receivable, net	68,256	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 nine-month period ended August 31, 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	14,508	—	72	14,580
Acquisition through business combination (Note 4)	46	—	—	46
Change in control over interest in 11554891 Canada Inc. (Note 5)	999	—	8	1,007
Depreciation expense	(7,494)	(1,006)	(277)	(8,777)
Impairment charge	(662)	—	—	(662)
De-recognition/lease modification of lease liabilities	(8,302)	1,924	(21)	(6,399)
Foreign exchange	525	16	3	544
Balance as at August 31, 2022	45,418	14,001	857	60,276

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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 nine-month period ended August 31, 2022:

	Finance lease receivables	Lease liabilities
	\$	\$
Balance as at November 30, 2021	399,269	(473,548)
Additions	10,232	(13,145)
Acquisition through business combination (Note 4)	—	(46)
Change in control over interest in 11554891 Canada Inc. (Note 5)	2,858	(3,916)
Lease renewals and modifications	17,396	(17,403)
Lease terminations	(13,015)	8,360
Other adjustments	921	(723)
Interest income (expense) ⁽¹⁾	7,704	(9,176)
(Receipts) payments	(76,185)	87,784
Foreign exchange	2,394	(3,011)
Balance as at August 31, 2022	351,574	(424,824)

⁽¹⁾ During the three and nine-month periods ended August 31, 2022, the Company recorded interest income on finance lease receivables of \$2,624 and \$7,704, respectively (2021 – \$2,763 and \$8,863, respectively) and interest expense on lease liabilities of \$3,122 and \$9,176, respectively (2021 – \$3,373 and \$10,597, respectively).

Recorded in the condensed interim consolidated statements 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	84,957	(98,558)
Long-term portion	266,617	(326,266)
August 31, 2022	351,574	(424,824)

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8. Intangible assets

Cost	Franchise and master franchise rights	Trademarks	Step-in rights	Customer lists	Other	Total
	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2021	364,793	608,353	1,199	10,318	7,906	992,569
Additions	—	—	—	—	3,731	3,731
Acquisition through business combination (Note 4)	1,090	4,970	—	3,380	—	9,440
Change in control (Note 5)	2,700	16,200	—	—	—	18,900
Foreign exchange	5,615	9,702	—	—	149	15,466
Balance as at August 31, 2022	374,198	639,225	1,199	13,698	11,786	1,040,106

Accumulated amortization	Franchise and master franchise rights	Trademarks	Step-in rights	Customer lists	Other	Total
	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2021	164,943	—	978	2,456	3,918	172,295
Foreign exchange	2,449	—	—	—	38	2,487
Amortization	19,527	—	90	724	1,144	21,485
Balance as at August 31, 2022	186,919	—	1,068	3,180	5,100	196,267

Carrying amounts	Franchise and master franchise rights	Trademarks	Step-in rights	Customer lists	Other	Total
	\$	\$	\$	\$	\$	\$
November 30, 2021	199,850	608,353	221	7,862	3,988	820,274
August 31, 2022	187,279	639,225	131	10,518	6,686	843,839

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9. Goodwill

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

	<u>2022</u>
	\$
Goodwill as at November 30, 2021	490,627
Purchase price allocation (Note 4)	4,838
Change in control (Note 5)	11,946
Foreign exchange	7,558
Goodwill as at August 31, 2022	514,969
Accumulated impairment as at November 30, 2021	62,237
Foreign exchange	1,552
Accumulated impairment as at August 31, 2022	63,789
Carrying amounts	
November 30, 2021	428,390
August 31, 2022	451,180

10. Long-term debt

	<u>August 31,</u>	November 30,
	<u>2022</u>	2021
	\$	\$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions	192	12,171
Contingent considerations on Küto Comptoir à Tartares acquisition (Note 4) and 11554891 Canada Inc. (Note 5) ⁽¹⁾	5,254	1,961
Fair value of non-controlling interest option in 9974644 Canada Inc. ⁽²⁾	1,926	1,575
Fair value of obligation to repurchase 11554891 Canada Inc. partner (Note 5) ⁽³⁾	7,867	1,416
Revolving credit facility payable to a syndicate of lenders ⁽⁴⁾	301,000	345,000
Credit facility financing costs	(962)	(1,395)
	315,277	360,728
Less: Current portion	(10,653)	(13,116)
	304,624	347,612

⁽¹⁾ Küto Comptoir à Tartares (payable June 2024) and 11554891 Canada Inc. (payable December 2022).

⁽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 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 August 31, 2022, the Company had drawn US\$232,495 (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 August 31, 2022, the Company was in compliance with its financial covenants.

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11. 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 and nine-month periods ended August 31, 2022, the Company repurchased and cancelled a total of nil and 256,400 common shares, respectively (2021 – nil and nil, respectively) under the current NCIB, at a weighted average price of nil and \$57.01 per common share, respectively (2021 – nil and nil, respectively), for a total consideration of nil and \$14,618, respectively (2021 – nil and nil, respectively). An excess of nil and \$11,438, respectively (2021 – nil and nil, respectively) of the shares’ repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

12. 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:

	Three months ended August 31		Nine months ended August 31	
	2022	2021	2022	2021
Weighted daily average number of common shares – basic	24,413,461	24,706,461	24,448,670	24,706,461
Assumed exercise of stock options ⁽¹⁾	25,619	83,942	20,937	30,839
Weighted daily average number of common shares – diluted	24,439,080	24,790,403	24,469,607	24,737,300

⁽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 and nine-month periods ended August 31, 2022 was 240,000 and 262,223, respectively (2021 – nil and 200,000, respectively).

13. 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 July 27, 2022, the Company entered into one (November 30, 2021 – nil) floating to floating 3-month cross currency interest rate swap. On August 30, 2022, the Company entered into one (November 30, 2021 – three) floating to floating 1-month cross currency interest rate swap. A fair value of nil was recorded as at August 31, 2022 (November 30, 2021 – nil). The Company has classified this as level 2 in the fair value hierarchy.

	August 31, 2022		November 30, 2021		
	3-month	1-month	1-month	1-month	1-month
Receive – Notional	US\$154,895	US\$77,600	US\$78,920	US\$180,761	US\$11,789
Receive – Rate	3.69%	3.49%	1.29%	1.29%	1.29%
Pay – Notional	CA\$200,000	CA\$101,000	CA\$100,000	CA\$230,000	CA\$15,000
Pay – Rate	3.97%	4.03%	1.23%	1.09%	1.38%

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13. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Fair value hierarchy

	Level 3	
	August 31, 2022	November 30, 2021
	\$	\$
Contingent considerations on Kûto Comptoir à Tartares acquisition and 11554891 Canada Inc.	5,254	1,961
Non-controlling interest buyback options	1,926	1,575
Obligation to repurchase 11554891 Canada Inc. partner	7,867	1,416
Financial liabilities	15,047	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 August 31, 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.

	August 31, 2022		November 30, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Loans and other receivables	4,156	4,156	4,238	4,238
Finance lease receivables	351,574	351,574	399,269	399,269
Financial liabilities				
Long-term debt ⁽¹⁾	301,192	301,192	357,171	357,189

⁽¹⁾ Excludes contingent considerations on Kûto Comptoir à Tartares acquisition and 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.

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14. Revenue

	Three months ended					
	August 31, 2022			August 31, 2021		
	US &		TOTAL	US &		TOTAL
	Canada	International		Canada	International	
	\$	\$	\$	\$	\$	\$
Royalties	23,479	33,944	57,423	19,459	31,626	51,085
Franchise and transfer fees	1,306	1,351	2,657	1,176	1,119	2,295
Retail, food processing and distribution revenues	42,222	1,440	43,662	29,823	1,223	31,046
Sale of goods, including construction revenue	9,173	7,161	16,334	8,220	11,261	19,481
Gift card breakage income	82	1,528	1,610	62	1,304	1,366
Promotional funds	11,777	17,911	29,688	9,604	17,058	26,662
Other franchising revenue	9,952	7,234	17,186	8,260	8,421	16,681
Other	837	2,143	2,980	770	1,415	2,185
	98,828	72,712	171,540	77,374	73,427	150,801

	Nine months ended					
	August 31, 2022			August 31, 2021		
	US &		TOTAL	US &		TOTAL
	Canada	International		Canada	International	
	\$	\$	\$	\$	\$	\$
Royalties	61,190	94,682	155,872	42,994	89,738	132,732
Franchise and transfer fees	3,781	5,064	8,845	3,588	2,981	6,569
Retail, food processing and distribution revenues	120,489	4,314	124,803	89,923	3,692	93,615
Sale of goods, including construction revenue	25,670	19,117	44,787	16,939	34,645	51,584
Gift card breakage income	384	4,352	4,736	178	3,607	3,785
Promotional funds	31,434	48,812	80,246	22,631	45,995	68,626
Other franchising revenue	26,357	20,086	46,443	20,465	20,028	40,493
Other	2,572	6,248	8,820	2,433	5,781	8,214
	271,877	202,675	474,552	199,151	206,467	405,618

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15. Operating expenses

	Three months ended					
	August 31, 2022			August 31, 2021		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
Cost of goods sold and rent	4,217	3,729	7,946	4,021	5,310	9,331
Retail, food processing and distribution costs	37,955	—	37,955	27,740	—	27,740
Wages and benefits	13,972	13,440	27,412	11,043	12,874	23,917
Wage and rent subsidies	—	—	—	(783)	—	(783)
Consulting and professional fees	3,282	1,878	5,160	1,544	1,655	3,199
Gift cards – related costs	—	1,818	1,818	—	1,542	1,542
Royalties	19	2,424	2,443	36	2,307	2,343
Promotional funds ⁽¹⁾	11,777	17,911	29,688	9,604	17,058	26,662
Impairment (reversal of impairment) for expected credit losses	825	144	969	(165)	114	(51)
Other ⁽²⁾	4,097	5,132	9,229	3,216	3,899	7,115
	76,144	46,476	122,620	56,256	44,759	101,015

	Nine months ended					
	August 31, 2022			August 31, 2021		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
Cost of goods sold and rent	11,450	9,972	21,422	8,435	15,506	23,941
Retail, food processing and distribution costs	109,202	—	109,202	81,994	—	81,994
Wages and benefits	41,625	40,268	81,893	31,508	41,175	72,683
Wage and rent subsidies	—	—	—	(5,063)	(291)	(5,354)
Consulting and professional fees	7,099	5,157	12,256	4,782	4,896	9,678
Gift cards – related costs	—	5,574	5,574	—	4,418	4,418
Royalties	33	6,218	6,251	39	5,747	5,786
Promotional funds ⁽¹⁾	31,434	48,812	80,246	22,631	45,995	68,626
Impairment (reversal of impairment) for expected credit losses	562	(176)	386	(774)	(1,074)	(1,848)
Other ⁽²⁾	11,782	13,334	25,116	7,902	11,619	19,521
	213,187	129,159	342,346	151,454	127,991	279,445

(1) Promotional fund expenses include wages and benefits.

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

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16. 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 August 31, 2022.

	CANADA						US & INTERNATIONAL						Total consolidated
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total US & International	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	37,106	7,886	42,356	11,777	(297)	98,828	47,617	5,956	1,440	17,911	(212)	72,712	171,540
Operating expenses	19,416	7,457	37,887	11,777	(393)	76,144	21,777	6,904	—	17,911	(116)	46,476	122,620
Segment profit (loss)	17,690	429	4,469	—	96	22,684	25,840	(948)	1,440	—	(96)	26,236	48,920

Below is a summary of each geographical and operating segment's performance for the three-month period ended August 31, 2021.

	CANADA						US & INTERNATIONAL						Total consolidated
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total US & International	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	32,185	5,868	29,964	9,604	(247)	77,374	45,423	10,096	1,223	17,058	(373)	73,427	150,801
Operating expenses	14,202	5,051	27,741	9,604	(342)	56,256	17,282	10,697	—	17,058	(278)	44,759	101,015
Segment profit (loss)	17,983	817	2,223	—	95	21,118	28,141	(601)	1,223	—	(95)	28,668	49,786

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16. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the nine-month period ended August 31, 2022.

	CANADA						US & INTERNATIONAL						Total consolidated
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total US & International	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	99,079	21,420	120,955	31,434	(1,011)	271,877	134,473	15,729	4,314	48,812	(653)	202,675	474,552
Operating expenses	52,600	21,267	109,166	31,434	(1,280)	213,187	62,233	18,498	—	48,812	(384)	129,159	342,346
Segment profit (loss)	46,479	153	11,789	—	269	58,690	72,240	(2,769)	4,314	—	(269)	73,516	132,206

Below is a summary of each geographical and operating segment's performance for the nine-month period ended August 31, 2021.

	CANADA						US & INTERNATIONAL						Total consolidated
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total US & International	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	73,591	13,528	90,404	22,631	(1,003)	199,151	127,470	30,770	3,692	45,995	(1,460)	206,467	405,618
Operating expenses	36,623	11,454	82,005	22,631	(1,259)	151,454	52,151	31,049	—	45,995	(1,204)	127,991	279,445
Segment profit (loss)	36,968	2,074	8,399	—	256	47,697	75,319	(279)	3,692	—	(256)	78,476	126,173

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17. Condensed interim consolidated statement of cash flows

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

	Three months ended August 31		Nine months ended August 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Accounts receivable	(930)	3,807	(9,018)	(3,241)
Inventories	(1,123)	1,095	(1,684)	(565)
Loans receivable	45	64	39	238
Other assets	(1,428)	1,392	(2,657)	1,487
Prepaid expenses and deposits	(774)	2,693	(2,076)	(1,865)
Accounts payable and accrued liabilities	4,191	2,804	5,796	7,881
Provisions	(147)	6	(230)	(1,433)
Gift card and loyalty program liabilities	(1,840)	(1,147)	4,225	3,856
Deferred revenue and deposits	1,011	913	2,095	3,936
	(995)	11,627	(3,510)	10,294

18. 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 15 of the financial statements, was as follows:

	Three months ended August 31		Nine months ended August 31	
	2022	2021	2022	2021
	\$	\$	\$	\$
Short-term benefits ⁽¹⁾	1,111	827	3,064	2,404
Share-based compensation	259	224	878	696
Consulting fees	69	—	205	—
Board member fees ⁽¹⁾	20	16	59	54
Total remuneration of key management personnel and directors	1,459	1,067	4,206	3,154

⁽¹⁾ Prior year amounts have been restated to reflect prior period adjustments.

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18. 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.

19. Subsequent events

Revolving credit facility

In September 2022, the Company drew an additional \$276,900 (US\$202,000) from its existing revolving credit facility.

Acquisition of BBQ Holdings, Inc.

On September 27, 2022, the Company completed its acquisition of all of the issued and outstanding common shares of BBQ Holdings, Inc., a franchisor and operator of casual and fast casual dining restaurants across 37 states in the US, Canada, and United Arab Emirates, for a total cash consideration of \$284,200 (US\$207,100), which was financed from the Company's cash on hand and existing credit facilities. The Company acquired nine concepts and there are currently 206 franchised restaurants and 115 corporate-owned restaurants operating under BBQ Holdings, Inc. banners.