
Consolidated financial statements of MTY Food Group Inc.

November 30, 2022 and 2021



Independent auditor's report

To the Shareholders of MTY Food Group Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of MTY Food Group Inc. and its subsidiaries (together, the Company) as at November 30, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of income for the years ended November 30, 2022 and 2021;
- the consolidated statements of comprehensive income for the years ended November 30, 2022 and 2021;
- the consolidated statements of changes in shareholders' equity for the years ended November 30, 2022 and 2021;
- the consolidated statements of financial position as at November 30, 2022 and 2021;
- the consolidated statements of cash flows for the years ended November 30, 2022 and 2021; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended November 30, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of goodwill, trademarks and franchise and master franchise rights

Our approach to addressing the matter included the following procedures, among others:

Refer to note 3 – Accounting policies, note 4 – Critical accounting judgments and key sources of estimation uncertainty, note 14 – Intangible assets, note 15 – Goodwill and note 16 – Net impairment charge - property, plant and equipment, intangible assets and goodwill to the consolidated financial statements.

- Evaluated how management determined the recoverable amounts of the goodwill units and certain CGUs:
 - Tested the mathematical accuracy of the discounted cash flow models.
 - Tested the reasonableness of the projected operating cash flows applied by management in the discounted cash flow models by comparing them to the budget approved by the Board of Directors and by considering the past and current performance of the CGUs.
 - Professionals with specialized skill and knowledge in the field of valuation assisted in testing the appropriateness of the models used and the reasonableness of the discount rates applied by management based on available data of comparable companies.
 - Tested the underlying data used in the discounted cash flow models.

As at November 30, 2022, the Company had goodwill, trademarks (intangible assets with indefinite useful lives) and franchise and master franchise rights (intangible assets with definite useful lives) balances totalling \$529.5 million, \$805.8 million and \$191.2 million, respectively. For the purposes of impairment testing, goodwill is allocated to the cash generating unit (CGU) or a group of CGUs (“goodwill unit”) that are considered to represent the lowest level within the group at which the goodwill is monitored for internal management purposes. For the purpose of the franchise and master franchise rights and trademarks, the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified is the brand level and constitutes the lowest level at which an asset or group of assets has the possibility of generating cash inflows.



Key audit matter

How our audit addressed the key audit matter

Goodwill and trademarks are tested for impairment annually as at August 31, or more frequently when there is an indicator of impairment. Franchise and master franchise rights are tested annually in connection with goodwill and trademarks annual testing, or whenever there is an indication that the asset may be impaired.

If the recoverable amount of a CGU or a goodwill unit is estimated to be less than its carrying amount, the carrying amount of the CGU or goodwill unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

The recoverable amounts of the CGUs or goodwill unit are estimated based on value in use calculations using a discounted cash flow model. The key assumptions used were the projected operating cash flows and the discount rates.

The annual impairment test resulted in an impairment charge of \$13.4 million related to franchise rights and trademarks.

We considered this a key audit matter due to (i) the significance of the goodwill, trademarks and franchise and master franchise rights balances and (ii) the significant judgment made by management in determining the recoverable amount of the goodwill units and CGUs, including the use of key assumptions. This has resulted in a high degree of subjectivity and audit effort in performing audit procedures relating to the key assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.



Key audit matter

How our audit addressed the key audit matter

Preliminary valuation of certain trademarks acquired in the BBQ Holdings Inc. (BBQ Holdings) business combination

Refer to note 3 – Accounting policies and note 6 – Business acquisitions to the consolidated financial statements.

On September 27, 2022, the Company completed the acquisition of all of the issued and outstanding common shares of BBQ Holdings for a total cash consideration paid of \$250.4 million.

The preliminary fair value of identifiable assets acquired included \$166.7 million of intangible assets related to nine trademarks, certain of which represent a significant portion of this amount.

The fair values of the trademarks were estimated, based on the relief from royalty method using discounted cash flow models. In determining the fair values of the trademarks, the Company developed key assumptions such as projected system sales, discount rates and royalty rates.

As of November 30, 2022, the purchase price allocation and valuation of intangible assets, including trademarks, are preliminary.

We considered this a key audit matter due to the judgment by management in estimating the preliminary fair values of certain trademarks, including the development of key assumptions. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the key assumptions developed by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.

Our approach to addressing the matter included the following procedures, among others:

- Tested how management estimated the preliminary fair values of certain trademarks, which included the following:
 - Read the purchase agreement.
 - Tested the underlying data used by management in the discounted royalty cash flow models and the mathematical accuracy thereof.
 - Evaluated the reasonableness of significant assumptions used by management related to projected system sales by considering the current and past performance of BBQ Holdings and considering economic and industry data.
 - Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the appropriateness of management's royalty relief method as well as in evaluating the reasonableness of certain key assumptions such as the royalty rates and discount rates.



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information, and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sonia Boisvert.

/s/PricewaterhouseCoopers LLP¹

Montréal, Quebec
February 15, 2023

¹ FCPA auditor, public accountancy permit No. A116853

MTY Food Group Inc.
Consolidated statements of income

Years ended November 30, 2022 and 2021

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

	Notes	2022	2021
		\$	\$
Revenue	27 & 32	716,522	551,903
Expenses			
Operating expenses	28 & 32	534,440	382,572
Depreciation – property, plant and equipment and right-of-use assets	12 & 13	21,548	16,174
Amortization – intangible assets	14	29,473	28,442
Interest on long-term debt		12,428	10,111
Net interest expense on leases	12	3,210	2,295
Impairment charge – right-of-use assets	12	969	1,550
Net impairment charge – property, plant and equipment and intangible assets	16	13,916	5,903
		615,984	447,047
Share of net loss of a joint venture accounted for using the equity method	7	—	(709)
Other (expenses) income			
Unrealized and realized foreign exchange loss		(5,690)	(300)
Interest income		253	198
Gain on de-recognition/lease modification of lease liabilities		798	1,319
Gain on disposal of property, plant and equipment		108	3,549
Revaluation of financial liabilities recorded at fair value	25	2,932	3,034
Loss on remeasurement of joint venture interest	7	(2,769)	—
Other income		—	125
		(4,368)	7,925
Income before taxes		96,170	112,072
Income tax expense	31		
Current		24,669	21,036
Deferred		(3,678)	5,093
		20,991	26,129
Net income		75,179	85,943
Net income attributable to:			
Owners		74,817	85,639
Non-controlling interests		362	304
		75,179	85,943
Net income per share	24		
Basic		3.06	3.47
Diluted		3.06	3.46

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

MTY Food Group Inc.

Consolidated statements of comprehensive income

Years ended November 30, 2022 and 2021

(In thousands of Canadian dollars)

	2022	2021
	\$	\$
Net income	75,179	85,943
Items that may be reclassified subsequently to net income		
Unrealized gain (loss) on translation of foreign operations	35,577	(7,966)
Deferred tax expense on foreign currency translation adjustments	(491)	—
Other comprehensive income (loss)	35,086	(7,966)
Total comprehensive income	110,265	77,977
Total comprehensive income attributable to:		
Owners	109,903	77,673
Non-controlling interests	362	304
	110,265	77,977

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

MTY Food Group Inc.

Consolidated statements of changes in shareholders' equity

Years ended November 30, 2022 and 2021

(In thousands of Canadian dollars)

	Reserves					Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	Capital stock	Other	Contributed surplus	Foreign currency translation	Total reserves				
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2020	306,415	(850)	3,019	(13,354)	(11,185)	286,525	581,755	759	582,514
Net income for the year ended November 30, 2021	—	—	—	—	—	85,639	85,639	304	85,943
Other comprehensive loss	—	—	—	(7,966)	(7,966)	—	(7,966)	—	(7,966)
Total comprehensive income							77,673	304	77,977
Disposal of interest in 10220396 Canada Inc. (Note 17)	—	—	—	—	—	(1,300)	(1,300)	196	(1,104)
Shares repurchased and cancelled (Note 22)	(454)	—	—	—	—	(1,730)	(2,184)	—	(2,184)
Dividends	—	—	—	—	—	(9,141)	(9,141)	—	(9,141)
Share-based compensation (Note 23)	—	—	836	—	836	—	836	—	836
Balance as at November 30, 2021	305,961	(850)	3,855	(21,320)	(18,315)	359,993	647,639	1,259	648,898
Net income for the year ended November 30, 2022	—	—	—	—	—	74,817	74,817	362	75,179
Other comprehensive income	—	—	—	35,086	35,086	—	35,086	—	35,086
Total comprehensive income							109,903	362	110,265
Shares repurchased and cancelled (Note 22)	(3,180)	—	—	—	—	(11,438)	(14,618)	—	(14,618)
Dividends	—	—	—	—	—	(20,518)	(20,518)	(403)	(20,921)
Share-based compensation (Note 23)	—	—	1,002	—	1,002	—	1,002	—	1,002
Balance as at November 30, 2022	302,781	(850)	4,857	13,766	17,773	402,854	723,408	1,218	724,626

The following dividends were declared and paid by the Company:

	2022	2021
	\$	\$
\$0.840 per common share (2021 – \$0.370 per common share)	20,518	9,141

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

MTY Food Group Inc.

Consolidated statements of financial position

As at November 30, 2022 and 2021

(In thousands of Canadian dollars)

		2022	2021
	Notes	\$	\$
Assets			
Current assets			
Cash		59,479	61,231
Accounts receivable	8	78,099	57,459
Inventories	9	18,517	10,707
Assets held for sale	10	2,111	—
Current portion of loans and other receivables	11	1,153	1,189
Current portion of finance lease receivables	12	83,500	89,046
Income taxes receivable		3,982	3,712
Other assets		3,275	2,403
Prepaid expenses and deposits		14,540	7,721
		264,656	233,468
Loans and other receivables	11	3,289	3,049
Finance lease receivables	12	255,276	310,223
Contract cost asset		6,455	5,631
Deferred income taxes	31	224	185
Investment in a joint venture	7	—	25,911
Property, plant and equipment	13	90,878	17,526
Right-of-use assets	12	159,706	59,937
Intangible assets	14	1,015,271	820,274
Goodwill	15	529,548	428,390
		2,325,303	1,904,594
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		154,988	119,462
Provisions	19	1,490	1,692
Gift card and loyalty program liabilities		127,458	101,889
Income taxes payable		9,813	4,256
Current portion of deferred revenue and deposits	20	17,776	16,100
Current portion of long-term debt	21	9,530	13,116
Current portion of lease liabilities	12	114,437	101,973
		435,492	358,488
Long-term debt	21	551,429	347,612
Lease liabilities	12	400,377	371,575
Deferred revenue and deposits	20	48,405	44,339
Deferred income taxes	31	164,417	132,653
Other liabilities		557	1,029
		1,600,677	1,255,696

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

MTY Food Group Inc.**Consolidated statements of financial position (continued)**

As at November 30, 2022 and 2021

(In thousands of Canadian dollars)

		2022	2021
	Notes	\$	\$
Shareholders' equity			
Equity attributable to owners			
Capital stock	22	302,781	305,961
Reserves		17,773	(18,315)
Retained earnings		402,854	359,993
		723,408	647,639
Equity attributable to non-controlling interests		1,218	1,259
		724,626	648,898
		2,325,303	1,904,594

Approved by the Board on February 15, 2023

_____, Director

_____, Director

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

MTY Food Group Inc.

Consolidated statements of cash flows

Years ended November 30, 2022 and 2021

(In thousands of Canadian dollars)

		2022	2021
	Notes	\$	\$
Operating activities			
Net income		75,179	85,943
Adjusting items:			
Interest on long-term debt		12,428	10,111
Net interest expense on leases	12	3,210	2,295
Depreciation – property, plant and equipment and right-of-use assets	12 & 13	21,548	16,174
Amortization – intangible assets	14	29,473	28,442
Impairment charge – property, plant and equipment	16	535	131
Impairment charge – right-of-use assets	12	969	1,550
Net impairment charge – intangible assets	16	13,381	5,772
Share of net loss of a joint venture accounted for using the equity method	7	—	709
Gain on de-recognition/lease modification of lease liabilities		(798)	(1,319)
Gain on disposal of property, plant and equipment		(108)	(3,549)
Revaluation of financial liabilities recorded at fair value through profit or loss	25	(2,932)	(3,034)
Loss on remeasurement of joint venture interest	7	2,769	—
Other income		—	(125)
Income tax expense		20,991	26,129
Share-based expense		1,002	836
		177,647	170,065
Income taxes paid		(17,570)	(27,448)
Interest paid		(11,781)	(10,079)
Other		1,411	(3,797)
Changes in non-cash working capital items	33	(6,910)	10,558
Cash flows provided by operating activities		142,797	139,299
Investing activities			
Net cash outflow on acquisitions	6	(261,713)	—
Cash acquired through acquisition and change in control (disposed of through disposal)	6 & 7	14,820	(131)
Proceeds on disposal of interest in 10220396 Canada Inc.	17	—	7,500
Additions to property, plant and equipment	13	(8,670)	(6,439)
Additions to intangible assets	14	(3,988)	(324)
Proceeds on disposal of property, plant and equipment		1,131	6,465
Cash flows (used in) provided by investing activities		(258,420)	7,071

MTY Food Group Inc.**Consolidated statements of cash flows (continued)**

Years ended November 30, 2022 and 2021

(In thousands of Canadian dollars)

		2022	2021
	Notes	\$	\$
Financing activities			
Issuance of long-term debt	33	275,626	—
Repayment of long-term debt	33	(80,214)	(102,238)
Net lease payments	12	(18,960)	(15,354)
Shares repurchased and cancelled	22	(14,618)	(2,184)
Capitalized financing costs	33	(1,817)	(665)
Dividends paid to non-controlling shareholders of subsidiaries		(403)	—
Repayment of long-term debt in business acquisition	6	(33,800)	—
Dividends paid		(20,518)	(9,141)
Cash flows provided by (used in) financing activities		105,296	(129,582)
Net (decrease) increase in cash		(10,327)	16,788
Effect of foreign exchange rate changes on cash		8,575	141
Cash, beginning of year		61,231	44,302
Cash, end of year		59,479	61,231

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

MTY Food Group Inc.

Table of contents

Independent Auditor's Report	2
1. Description of the business	14
2. Basis of preparation	14
3. Accounting policies	15
4. Critical accounting judgments and key sources of estimation uncertainty	27
5. Future accounting changes	30
6. Business acquisitions	31
7. Change in control	35
8. Accounts receivable	37
9. Inventories	37
10. Assets held for sale	38
11. Loans and other receivables	38
12. Leases	38
13. Property, plant and equipment	42
14. Intangible assets	43
15. Goodwill	44
16. Net impairment charge – property, plant and equipment and intangible assets	44
17. Disposal of interest in 10220396 Canada Inc.	46
18. Credit facility	47
19. Provisions	47
20. Deferred revenue and deposits	48
21. Long-term debt	49
22. Capital stock	49
23. Stock options	50
24. Net income per share	51
25. Financial instruments	51
26. Capital disclosures	55
27. Revenue	56
28. Operating expenses	57
29. Guarantee	57
30. Contingent liabilities	57
31. Income taxes	58
32. Segmented information	59
33. Statement of cash flows	61
34. Related party transactions	62
35. Subsequent events	63

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

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 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 financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standard Board ("IASB").

These financial statements were authorized for issue by the Board of Directors on February 15, 2023.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Principal subsidiaries are as follows:

Principal subsidiaries	Percentage of equity interest	
	2022	2021
	%	%
MTY Franchising Inc.	100	100
MTY Franchising USA, Inc.	100	100
Kahala Brands Inc.	100	100
BF Acquisition Holdings, LLC	100	100
Built Franchise Systems, LLC	100	100
CB Franchise Systems, LLC	100	100
Papa Murphy's Holdings Inc.	100	100
BBQ Holdings, Inc. (Note 6)	100	–
11554891 Canada Inc. ⁽¹⁾	70	70
9974644 Canada Inc.	65	65

⁽¹⁾ On December 3, 2021, the Company gained control over its 70% interest in 11554891 Canada Inc. – see Note 7.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote-holders;
- potential voting rights held by the Company, other vote-holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the statements of income and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

All intercompany transactions, balances, revenue and expenses are eliminated in full on consolidation.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Changes in the Company's ownership interests in existing subsidiaries

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income (loss) in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, Financial Instruments: Recognition and Measurement when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. This is calculated as the sum, as of the acquisition date, of the fair values of the assets transferred by the Company and liabilities incurred by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except for deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12, Income Taxes.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interest are present ownership interests and entitle their holders to a proportionate share of the Company's net assets in the event of liquidation. These may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as "measurement period" adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Business combinations (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 or IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income (loss) are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Where goodwill forms part of a cash-generating unit ("CGU") and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the CGU retained.

Revenue recognition

The Company's accounting policies are summarized below:

Revenue from franchise locations

- i) Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, as they are earned.
- ii) Initial franchise fees are recognized on a straight-line basis over the term of the franchise agreement as the performance obligation relating to franchise rights is fulfilled. Amortization begins once the restaurant has opened.
- iii) Upfront fees related to master license agreements are recognized over the term of the master license agreements on a straight-line basis.
- iv) Renewal fees and transfer fees are recognized on a straight-line basis over the term of the related franchise agreement.
- v) Restaurant construction and renovation revenue is recognized when the construction and renovation are completed.
- vi) The Company earns rent revenue on certain leases it holds and sign rental revenue. Rental income that is not included in the measurement of the finance lease receivable under IFRS 16 is recognized on a straight-line basis over the term of the relevant lease.
- vii) The Company recognizes breakage income proportionately as each gift card is redeemed, based on the historical redemption pattern of the gift cards. The Company also charges various program fees to its franchisees as gift cards are redeemed. Notably, this does not apply to gift card liabilities assumed in a business acquisition, which are accounted for at fair value at the acquisition date.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Revenue recognition (continued)

Revenue from franchise locations (continued)

- viii) The Company receives considerations from certain suppliers. Fees are generally earned based on the value of purchases during the year. Agreements that contain an initial upfront fee, in addition to ongoing fees, are recognized on a straight-line basis over the term of the respective agreement. Supplier contributions are recognized as revenue as they are earned and are recorded in other franchising revenue.

Revenue from food processing, distribution and retail

Food processing, distribution and retail revenue is recognized when the customer takes control of the product, which usually occurs upon shipment or receipt of the goods by the customer, depending on the specific terms of the agreement.

Revenue from promotional fund contributions

Promotional fund contributions are based on a percentage of gross sales as reported by the franchisees. Corresponding promotional fund transfers to the promotional funds are reported separately and included in accounts payable and accrued liabilities. The Company is not entitled to retain these promotional fund payments received and is obligated to transfer these funds to be used solely for use in promotional and marketing-related costs for specific restaurant banners. The Company sometimes charges a fee for the administration of the promotional funds. The combined amount payable resulting from the promotional fund reserves amounts to a surplus of \$33,819 (2021 – surplus of \$30,481). These amounts are included in Accounts payable and accrued liabilities.

Revenue from corporate-owned locations

Revenue from corporate-owned locations is recorded when goods are delivered to customers.

Contract cost asset

The Company recognizes incremental costs of obtaining a contract as an asset if they are expected to be recoverable, unless their amortization period would be less than one year, in which case a practical expedient is used to expense them as incurred. The costs are amortized to operating expenses over the term of the related franchise agreement.

Assets held for sale

Judgment is required in determining whether an asset meets the criteria for classification as “assets held for sale” in the consolidated statements of financial position. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the expected timeframe of the completion of the anticipated sale and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each period and reclassifies such assets to or from this category as appropriate. In addition, there is a requirement to evaluate and record assets held for sale at the lower of their carrying value and fair value less costs to sell.

Leasing

The Company enters into leases for franchised and corporately-owned locations, offices, and equipment in the normal course of business.

The Company as lessee

The Company recognizes lease liabilities with corresponding right-of-use assets, except for short-term leases and leases of low value assets, which are expensed on a straight-line basis over the lease term. The Company recognizes depreciation of right-of-use assets and interest on lease liabilities. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Leasing (continued)

The Company as lessor

When the Company enters into a sublease arrangement as an intermediate lessor, the Company accounts for the head lease and the sublease as two separate contracts. The Company is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease. For finance subleases, the Company derecognizes the right-of-use asset relating to the head lease that is transferred to the sublessee and recognizes a finance lease receivable in the sublease. As the intermediate lessor, the Company retains the lease liability on the head lease in its consolidated statement of financial position. During the term of the sublease, the Company recognizes both finance income on the sublease and interest expense on the head lease.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises expenses for the related costs for which the grants are intended to compensate.

Functional and presentation currency

These financial statements are presented using the Company's functional currency, which is the Canadian dollar. Each entity of the Company determines its own functional currency, and the financial statement items of each entity are measured using that functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.

The assets and liabilities of a foreign operation with a functional currency different from that of the Company are translated into the presentation currency using the exchange rate in effect on the reporting date. Revenue and expenses are translated into the presentation currency using the average exchange rate for the period. Exchange differences arising from the translation of a foreign operation are recognized in reserves. Upon complete or partial disposal of the investment in the foreign operation, the foreign currency translation reserve or a portion of it will be recognized in the statement of income (loss) in other income (charges).

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year and adjustments to prior year provisions. Taxable profit differs from profit as reported in the consolidated statement of income (loss) because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income (loss) or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income (loss) or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their historical costs less accumulated depreciation (buildings) and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use.

Equipment, leasehold improvements, rolling stock and computer hardware are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is based on the following terms:

Buildings	Straight-line	25 to 50 years
Equipment	Straight-line	Three to 10 years
Leasehold improvements	Straight-line	Lesser of the term of the lease or useful life
Rolling stock	Straight-line	Five to seven years
Computer hardware	Straight-line	Three to seven years

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if applicable. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses, if applicable.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Intangible assets (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets having a finite life acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, if applicable, on the same basis as intangible assets that are acquired separately. Intangible assets having an indefinite life are not amortized and are therefore carried at cost less accumulated impairment losses, if applicable.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

The Company reviews each reporting period the amortization periods of its intangible assets with finite useful lives. The Company also reviews each reporting period the useful lives of its intangible assets with indefinite useful lives to determine whether events and circumstances continue to support an indefinite useful life assessment for those assets.

The Company currently carries the following intangible assets on its books:

Franchise rights and master franchise rights

The franchise rights and master franchise rights acquired through business combinations were recognized at fair value, based on the excess earnings method using discounted cash flow models. In determining the fair value of franchise rights and master franchise rights, the Company uses key assumptions such as projected operating cash flows and pre-tax discount rates. The franchise rights and master franchise rights are generally amortized on a straight-line basis over the terms of the agreements, which typically range between 10 to 20 years.

Step-in rights

Step-in rights are the rights of the Company to take over the premises and associated lease of a franchised location in the event the franchise is in default of payments. These are acquired through business combinations and are recognized at their fair value at the time of the acquisition. They are amortized over the term of the franchise agreement.

Trademarks

Trademarks acquired through business combinations were recognized at their fair value at the time of the acquisition, based on the relief from royalty method using discounted cash flow models, and are not amortized. In determining the fair value of trademarks, the Company uses key assumptions such as projected system sales, discount rates and royalty rates. Trademarks were determined to have an indefinite useful life based on their strong brand recognition and their ability to generate revenue through changing economic conditions with no foreseeable time limit.

Other

Included in other intangible assets is primarily purchased software and liquor licences, which are being amortized over their expected useful life on a straight-line basis.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Impairment and reversal of impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. A majority of the Company's intangible assets do not have cash inflows independent of those from other assets and as such are tested within their respective CGU. For the purpose of the franchise and master franchise rights and trademarks, the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified is the brand level and constitutes the lowest level at which an asset or group of assets has the possibility of generating cash inflows.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Franchise rights and master franchise rights are tested annually as part of the CGU annual testing or whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated projected operating cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of projected operating cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. The Company does not reduce the carrying value of an asset below the highest of its fair value less cost of disposal and its value in use.

At the end of each reporting period, the Company reviews whether there is any indication that the events and circumstances which led to prior years' impairment losses for its franchise rights, master franchise rights and trademarks may no longer exist. If any such indication exists, the Company shall estimate the recoverable amount of that asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Impairment of goodwill

For the purposes of impairment testing, goodwill is allocated to the CGU or a group of CGUs ("goodwill unit") that are considered to represent the lowest level within the group at which the goodwill is monitored for internal management purposes. As at November 30, 2022, goodwill is allocated as follows:

	Goodwill unit description
Canada Goodwill Unit	A group of CGUs comprised of acquired brands in Canada's operating segment
US Goodwill Unit A	A group of CGUs comprised of acquired brands in the US & International operating segment, excluding the Papa Murphy's ("Papa Murphy's") and BBQ Holdings, Inc. ("BBQ Holdings") brands
US Goodwill Unit B	One CGU comprised of Papa Murphy's brand in the US & International operating segment
US Goodwill Unit C	A group of CGUs comprised of the BBQ Holdings brands in the US & International operating segment

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Impairment of goodwill (continued)

Goodwill and trademarks are tested for impairment annually as at August 31, or more frequently when there is an indicator of impairment. If the recoverable amount of the goodwill unit is less than its carrying amount, the impairment loss reduces the carrying amount of any goodwill allocated to the goodwill unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of income (loss). An impairment loss recognized for goodwill is not reversed in subsequent periods. The Company performed its annual impairment test for US Goodwill Unit C as at November 30, 2022 due to the timing of the acquisition.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated projected operating cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of projected operating cash flows have not been adjusted.

Cash and restricted cash

Cash and restricted cash includes cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant. As at November 30, 2022, cash and restricted cash included \$680 of restricted cash (2021 – \$462) that is required as part of guarantees on certain lease commitments.

Inventories

Inventories are measured at the lower of cost and net realizable value. Costs of inventories are determined on a first-in-first-out basis and include acquisition costs, conversion costs and other costs incurred to bring inventories to their present location and condition. The cost of finished goods includes a pro-rata share of production overhead based on normal production capacity.

In the normal course of business, the Company enters into contracts for the construction and sale of franchise locations. The related work in progress inventory includes all direct costs relating to the construction of these locations and is recorded at the lower of cost and net realizable value.

Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Classification of financial assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss, or "FVTPL") are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognized immediately in profit or loss.

On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost, fair value through other comprehensive income ("FVOCI") or FVTPL, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is subsequently measured at amortized cost if the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest. Unless a financial asset is designated at FVTPL, a financial asset is subsequently measured at FVOCI if the asset is held within a business model in order to collect contractual cash flows and sell financial assets and the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest. Financial assets that do not meet either the contractual cash flow characteristics of solely payments of principal and interest or the business model of held to collect or held to collect and sell are measured at FVTPL. Financial assets measured at FVTPL and any subsequent changes therein are recognized in net income.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Financial instruments (continued)

Classification of financial assets (continued)

The Company currently classifies its cash, accounts receivable and loans receivable as assets measured at amortized cost.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Impairment of financial assets

The Company uses the simplified expected credit-loss ("ECL") model for its trade receivables, as permitted by IFRS 9. The simplified approach under IFRS 9 permits the use of the lifetime expected loss provision for all trade receivables and also incorporates forward-looking information. Lifetime ECL represents the ECL that will result from all probable default events over the expected life of a financial instrument.

For its loans receivable balance carried at amortized cost, the Company has applied the general ECL model. Unlike the simplified approach, the general ECL model depends on whether there has been a significant increase in credit risk. The Company considers the probability of default upon initial recognition of the financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition of the financial asset.

A significant increase in credit risk is assessed based on changes in the probability of default since initial recognition along with borrower-specific qualitative information, or when loans are more than 30 days past due. Loans are considered impaired and in default when they are 90 days past due or there is sufficient doubt regarding the ultimate collectability of principal and/or interest. Loans that are 180 days past due are written down to the present value of the expected future cash flows. Impairment under the IFRS 9 general ECL model is assessed on an individual basis. In assessing the risk of default, the Company also incorporates available reasonable and supportive forward-looking information.

When credit risk is assessed as being low or when there has not been a significant increase in credit risk since initial recognition, the ECL is based on a 12-month ECL which represents the portion of lifetime ECL expected to occur from default events that are possible within 12 months after the reporting date. If a significant increase in credit risk has occurred throughout a reporting period, impairment is based on lifetime ECL.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income (loss) and accumulated in equity is recognized in profit or loss.

Deferred consideration receivable

The Company's deferred consideration receivable consists of a deferred consideration in conjunction with the sale of its interest in 10220396 Canada Inc. The deferred consideration is a financial instrument measured at amortized cost and is included in Loans and other receivables.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Financial instruments (continued)

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Classification of financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL. These financial liabilities, including derivative liabilities and certain obligations, are subsequently measured at fair value with changes in fair value recorded in net income in the period in which they arise. Financial liabilities designated as FVTPL are recorded at fair value with changes in fair value attributable to changes in the Company's own credit risk recorded in net income.

Financial liabilities classification:

Accounts payable and accrued liabilities	Amortized cost
Revolving credit facility	Amortized cost
Non-interest-bearing contract cancellation fees and holdbacks	Amortized cost
Contingent consideration related to the acquisition of Küto Comptoir à Tartares	FVTPL
Contingent consideration related to the 70% interest in 11554891 Canada Inc.	FVTPL
Non-controlling interest buyback obligation	FVTPL
Obligation to repurchase 11554891 Canada Inc. partner	FVTPL

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The Company makes assumptions and estimations based on its current knowledge of future disbursements it will have to make in connection with various events that have occurred in the past and for which the amount to be disbursed and the timing of such disbursement are uncertain at the date of producing its financial statements. This includes provisions for onerous contracts, litigations and disputes and contingencies. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value when the effect is material. This is recorded in Cost of goods sold and rent (Note 28) on the consolidated statement of income.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Provisions (continued)

Litigation, disputes and closed stores

Provisions for the expected cost of litigation, disputes and the cost of settling leases for closed stores, with the exception of lease liabilities already recorded pursuant to IFRS 16, are recognized when it becomes probable the Company will be required to settle the obligation, at management's best estimate of the expenditure required to settle the Company's obligation.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37 and the amount initially recognized less cumulative amortization recognized, if any.

Gift card and loyalty program liabilities

Gift card liability represents liabilities related to unused balances on reloadable payment cards. Loyalty program liabilities represent the dollar value of the loyalty points earned and unused by customers.

The Company's various franchised and corporate-owned locations, in addition to third-party companies, sell gift cards to be redeemed at the Company's corporate and franchised locations for food and beverages only. Proceeds from the sale of gift cards are included in gift card liability until redeemed by the gift cardholder as a method of payment for food and beverage purchases.

Due to the inherent nature of gift cards, it is not possible for the Company to determine what portion of the gift card liability will be redeemed in the next 12 months and, therefore, the entire unredeemed gift card liability is considered to be a current liability.

Management is required to make certain assumptions in both the prorated recognition based on redemption pattern and remoteness recognition of gift card breakage. The significant estimates are breakage rate and the redemption patterns.

Deferred revenue and deposits

The Company has deferred revenue and deposits for amounts received for which the service or sale of goods associated with these revenues have not yet been rendered. These are comprised mainly of franchise fee deposits, unearned rent, and supplier contributions. Revenues on these are recorded once the service or contract terms have been met and the services or goods have been delivered. The Company recognizes certain supplier contribution revenues based on estimated considerations to be received from suppliers. These estimates are based on historical patterns of purchase and earned revenues.

Share-based payment arrangements

The Company measures stock options granted to employees that vest in specified installments over the service period based on the fair value of each tranche on the grant date by using the Black-Scholes option-pricing model. Based on the Company's estimate of equity instruments that will eventually vest, a compensation expense is recognized over the vesting period applicable to the tranche with a corresponding increase to contributed surplus. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 23.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment in contributed surplus. When the stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

3. Accounting policies (continued)

Operating segments

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other components, and for which separate financial information is available. Segment disclosures are provided for the Company's operating segments (Note 32). The operating segments are determined based on the Company's management and internal reporting structure. All operating segments' operating results are regularly reviewed by the Chief Operating Officers ("COOs") to make decisions on resources to be allocated to the segment and to assess its performance.

Joint arrangements

Joint arrangements are arrangements in which the Company exercises joint control as established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangement's returns. When the Company has the rights to the net assets of the arrangement, the arrangement is classified as a joint venture and is accounted for using the equity method. When the Company has rights to the assets and obligations for the liabilities relating to an arrangement, the arrangement is classified as a joint operation and the Company accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profits or losses and movements in other comprehensive income of the investee. When the Company's share of losses in a joint venture equals or exceeds its interests in the joint ventures, the Company does not recognize further losses unless it will incur obligations or make payments on behalf of the joint ventures.

Unrealized gains resulting from transactions with joint ventures are eliminated, to the extent of the Company's share in the joint venture. For sales of products or services from the Company to its joint ventures, the elimination of unrealized profits is considered in the carrying value of the investment in equity-accounted investees in the consolidated statements of financial position and in the share in profit or loss of equity-accounted investees in the consolidated statements of income.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Impairment of long-lived assets

The Company assesses whether there are any indicators of impairment for all long-lived assets at each reporting period date. In addition, management is required to use judgment in determining the grouping of assets to identify a CGU; the determination is done based on management's best estimation of what constitutes the lowest level at which an asset or group of assets has the possibility of generating cash inflows.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the year ended November 30, 2022, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Business combinations

For business combinations, the Company must make assumptions and estimates to determine the purchase price accounting of the business being acquired. To do so, the Company must determine, as of the acquisition date, the fair value of the identifiable assets acquired, including such intangible assets as franchise rights and master franchise rights, trademarks, step-in rights and liabilities assumed. Among other things, the determination of these fair market values involves the use of key assumptions such as projected system sales and operating cash flows, discount rates and royalty rates. Goodwill is measured as the excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree over the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. These assumptions and estimates have an impact on the asset and liability amounts recorded in the statement of financial position on the acquisition date. In addition, the estimated useful lives of the acquired amortizable assets, the identification of intangible assets and the determination of the indefinite or finite useful lives of intangible assets acquired will have an impact on the Company's future profit or loss.

Impairment

The Company uses judgment in determining the grouping of assets to identify its CGUs for purposes of testing for impairment of property, plant and equipment, right-of-use assets, goodwill, trademarks and franchise rights.

In testing for impairment of property, plant and equipment and right-of-use assets, the Company determined that its CGUs mostly comprise of individual stores or groups of stores and the assets are thereby allocated to each CGU.

In testing for impairment, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the business combination. In testing for impairment, trademarks and franchise rights are allocated to the CGUs to which they relate. Furthermore, at each reporting period, judgment is used in determining whether there has been an indication of impairment, which would require the completion of a quarterly impairment test, in addition to the annual requirement.

Impairment of property, plant and equipment and right-of-use assets

The Company performs an impairment test of its property, plant and equipment and right-of-use assets when there is an indicator of impairment. The recoverable amounts of the Company's corporate store assets are generally estimated based on fair value less cost of disposal as this was determined to be higher than their value in use. The fair value less cost of disposal of corporate stores is generally determined by estimating the liquidation value of the restaurant equipment and any costs associated with exiting the lease.

During the years ended November 30, 2022 and 2021, the Company recognized impairment charges on its property, plant and equipment (Note 16). The total impairment on property, plant and equipment of \$535 (2021 – \$131) represents a write-down of the carrying value of the leasehold improvements and equipment to their fair value less cost of disposal, which was higher than their value in use.

During the years ended November 30, 2022 and 2021, the Company also recognized impairment charges on its right-of-use assets (Note 12) of \$969 (2021 – \$1,550).

Impairment of franchise rights and trademarks

The Company performs at least annually an impairment test of its trademarks. The recoverable amounts of the Company's assets are generally estimated based on value in use calculations using a discounted cash flow model as this was determined to be higher than fair value less cost of disposal.

Discount rates are based on pre-tax rates that reflect the current market assessments, taking the time value of money and the risks specific to the CGU into account.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Impairment (continued)

Impairment of franchise rights and trademarks (continued)

During the year ended November 30, 2022, the Company recognized impairment charges of \$13,381 (2021 – net impairment charge of \$5,772 comprised of an impairment charge of \$15,135 partially offset by a reversal of impairment charge of \$9,363) on its franchise rights and trademarks (Note 16) representing a write-down of the carrying value to the recoverable amount. The fair value was determined using key assumptions such as discount rates and projected operating cash flows. The fair value is classified as level 3 in the fair value hierarchy. During the year ended November 30, 2021, the Company also carried out a review of the recoverable amount allocated to the intangible assets associated with the “Houston Avenue Bar & Grill” and “Industria Pizza + Bar” brands, where the recoverable amount was measured at fair value less costs of disposal.

These calculations take into account the Company’s best estimate of projected operating cash flows. Projected operating cash flows are estimated based on a multiyear extrapolation of the most recent historical actual results or budgets and a terminal value calculated by discounting the final year in perpetuity.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount in use of the goodwill unit to which goodwill has been allocated. The value in use calculation requires management to estimate the projected operating cash flows expected to arise from the goodwill unit and a suitable discount rate in order to calculate present value.

During the years ended November 30, 2022 and 2021, no impairment charge on goodwill was required.

Impact of COVID-19

During the year ended November 30, 2022, the COVID-19 pandemic continued to impact the markets in which MTY and its franchise partners and suppliers operate. The first half of the year saw Canada continue to be impacted by the continuation of government-imposed restrictions, such as restrictions on dine-in guests, reduced operating hours and/or temporary closures. However, over the following months such restrictions were gradually eased, with most government-imposed restrictions lifted in both Canada and the US by the end of the second quarter. 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 in the second half of the year, 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, MTY’s network currently operates with no restrictions.

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 year ended November 30, 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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

5. 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 year ended November 30, 2022 and have not been applied in preparing these consolidated financial statements.

The following amendments may have a material impact on the consolidated 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 & 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 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 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.

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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

5. Future accounting changes (continued)

IAS 1, Presentation of Financial Statements (continued)

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.

6. Business acquisitions

I) BBQ Holdings (2022)

On September 27, 2022, the Company completed the acquisition of all of the issued and outstanding common shares of BBQ Holdings. BBQ Holdings is a franchisor and operator of casual and fast casual dining restaurants across 37 states in the US, Canada, and the United Arab Emirates. As of the date of the acquisition, BBQ Holdings was operating 198 franchised and 103 corporate-owned restaurants under nine different brands. The purpose of the transaction was to diversify the Company's range of offerings in the US as well as to bring proficiency in operating corporate-owned restaurants.

The transaction included a purchase consideration totaling \$250,443 (US\$182,458), repayment of long-term debt of \$33,800 (US\$24,625) and early cash settlement of stock options and restricted stock units of \$13,951 (US\$10,164), as detailed below. The resulting aggregate cash outflow in connection with the BBQ Holdings acquisition was \$284,243 (US\$207,083).

The Company has not yet completed its fair value assessment of all assets acquired and liabilities assumed in connection with the BBQ Holdings acquisition. The most significant aspects remaining to be finalized relate to the valuation of property, plant and equipment, franchise rights, trademarks, gift card liability 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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

6. Business acquisitions (continued)

I) BBQ Holdings (2022) (continued)

	2022
	\$
Consideration paid:	
Cash	250,443
Amount paid for early settlement of options	13,951
Total consideration	264,394
Cash consideration paid	250,443
Repayment of long-term debt	33,800
Net consideration paid/cash outflow	284,243
The preliminary purchase price allocation is as follows:	
	2022
	\$
Net assets acquired:	
Current assets	
Cash	28,269
Accounts receivable	8,026
Inventories	5,289
Income taxes receivable	1,228
Other assets	247
Prepaid expenses	1,849
	44,908
Loans receivable	196
Property, plant and equipment	74,448
Right-of-use assets	109,260
Intangible assets – Franchise rights	11,159
Intangible assets – Trademarks	166,689
Intangible assets – Other	1,382
Goodwill ⁽¹⁾	72,039
	480,081
Current liabilities	
Accounts payable and accrued liabilities	31,769
Gift card liability	10,444
Current portion of deferred revenue	583
Current portion of lease liabilities	17,241
	60,037
Long-term debt	33,800
Lease liabilities	92,019
Deferred income taxes	29,000
Other liabilities	831
	215,687
Net purchase price	264,394

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

6. Business acquisitions (continued)

I) BBQ Holdings (2022) (continued)

(1) Goodwill is deductible for tax purposes.

Total expenses incurred related to acquisition costs amounted to \$4,781.

From September 27, 2022 to November 30, 2022, the Company's consolidated statement of income included revenue of \$71,914 and net income of \$2,149 attributable to BBQ Holdings.

The following unaudited pro forma information for the year ended November 30, 2022 represents the Company's results of operations as if the acquisition of BBQ Holdings had occurred on December 1, 2021. 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.

	2022
	\$
Revenue	1,022,785
Net income	85,467

II) Küto Comptoir à Tartares (2022)

On December 1, 2021, the Company's Canadian operations completed the 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

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

6. Business acquisitions (continued)

II) Kûto Comptoir à Tartares (2022) (continued)

The final 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
Intangible assets – Franchise rights	1,090
Intangible assets – Trademark	4,970
Intangible assets – 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

⁽¹⁾ Goodwill is deductible for tax purposes.

Total expenses incurred related to acquisition costs amounted to nil.

The purchase price allocation is final.

From December 1, 2021 to November 30, 2022, the Company's consolidated statement of income included revenue of \$6,602 and net income of \$1,730 attributable to Kûto Comptoir à Tartares.

III) Other acquisition (2022)

On February 14, 2022, the Company's Canadian operations completed the 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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

7. 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 21).

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 consolidated statement of income for the year ended November 30, 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 acquired	23,197

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

7. Change in control (continued)

The final 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
Intangible assets – Franchise rights	2,700
Intangible assets – Trademarks	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 final.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

8. Accounts receivable

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

	2022	2021
	\$	\$
Total accounts receivable	85,193	65,915
Less: Allowance for credit losses	7,094	8,456
Total accounts receivable, net	78,099	57,459
Of which:		
Not past due	65,059	42,257
Past due for more than one day but no more than 30 days	2,513	2,549
Past due for more than 31 days but no more than 60 days	1,841	2,131
Past due for more than 61 days	8,686	10,522
Total accounts receivable, net	78,099	57,459

	2022	2021
	\$	\$
Allowance for credit losses, beginning of year	8,456	12,531
Increase (decrease) to current year provision	1,017	(1,324)
Addition through business acquisition	506	—
Change in control over interest in 11554891 Canada Inc.	44	—
Reversal of amounts previously written off	22	41
Write-offs	(3,072)	(2,697)
Impact of foreign exchange	121	(95)
Allowance for credit losses, end of year	7,094	8,456

9. Inventories

	2022	2021
	\$	\$
Raw materials ⁽¹⁾	2,386	2,204
Work in progress	1,011	513
Finished goods and supplies ⁽¹⁾	7,326	4,293
Food and beverage ⁽¹⁾	7,794	3,697
Total inventories	18,517	10,707

⁽¹⁾ Prior year amounts have been restated to reflect a reclassification between raw materials, finished goods and supplies and food and beverage.

Inventories are presented net of a \$26 allowance for obsolescence (2021 – \$27). All of the inventories are expected to be sold within the next 12 months.

Inventories expensed during the year ended November 30, 2022 were \$178,768 (2021 – \$127,657).

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

10. Assets held for sale

Assets held for sale as at November 30, 2022 are stated at fair value less costs to sell and are comprised of one location's leasehold improvements, land and building in the US & International segment that were acquired with BBQ Holdings and that were transferred from property, plant and equipment (Note 13). They did not meet the definition of assets held for sale as at the acquisition date of BBQ Holdings.

11. Loans and other receivables

Loans and other receivables generally result from: the sales of franchises and of various advances to certain franchisees; and a deferred consideration receivable from the disposal of the Company's 80% interest in 10220396 Canada Inc. Loans and other receivables consist of the following:

	2022	2021
	\$	\$
Loans receivable bearing interest between 0% and 8% per annum, receivable in monthly installments of \$163 in aggregate, including principal and interest, ending in 2032	3,918	4,057
Less: Allowance for credit losses on loans receivable	1,299	1,569
	2,619	2,488
Current portion of loans receivable	(1,153)	(1,189)
Loans receivable	1,466	1,299
Deferred consideration receivable	1,823	1,750
Loans and other receivables	3,289	3,049

The capital repayments of loans receivable in subsequent years will be:

	\$
2023	1,153
2024	488
2025	346
2026	144
2027	36
Thereafter	452
	<u>2,619</u>

12. 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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

12. Leases (continued)

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 years ended November 30, 2022 and 2021:

	Offices, corporate and dark stores	Store locations subject to operating subleases	Other	Total
	\$	\$	\$	\$
Balance as at November 30, 2020	58,336	10,278	609	69,223
Additions	14,658	—	834	15,492
Depreciation expense	(10,615)	(1,428)	(460)	(12,503)
Impairment charge	(1,550)	—	—	(1,550)
De-recognition/lease modification of lease liabilities	(14,493)	4,211	93	(10,189)
Foreign exchange	(538)	6	(4)	(536)
Balance as at November 30, 2021	45,798	13,067	1,072	59,937
Additions	17,304	—	150	17,454
Additions through business acquisitions (Note 6)	108,775	—	531	109,306
Change in control over interest in 11554891 Canada Inc. (Note 7)	999	—	8	1,007
Depreciation expense	(13,795)	(1,373)	(405)	(15,573)
Impairment charge	(969)	—	—	(969)
De-recognition/lease modification of lease liabilities	(10,749)	(193)	(41)	(10,983)
Foreign exchange	(655)	176	6	(473)
Balance as at November 30, 2022	146,708	11,677	1,321	159,706

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

12. Leases (continued)

Finance lease receivables and lease liabilities

The following table provides the net carrying amounts of the finance lease receivables and lease liabilities, and the changes in the years ended November 30, 2022 and 2021:

	Finance lease receivables	Lease liabilities
	\$	\$
Balance as at November 30, 2020	468,127	(558,749)
Additions	8,379	(14,649)
Lease renewals and modifications	35,622	(35,110)
Lease terminations	(16,082)	18,717
Other adjustments	1,722	4,037
Interest income (expense)	11,553	(13,848)
(Receipts) payments	(108,142)	123,496
Foreign exchange	(1,910)	2,558
Balance as at November 30, 2021	399,269	(473,548)
Additions	17,001	(16,631)
Additions through business acquisitions (Note 6)	—	(109,306)
Change in control over interest in 11554891 Canada Inc. (Note 7)	2,858	(3,916)
Lease renewals and modifications	21,456	(21,869)
Lease terminations	(15,483)	9,226
Other adjustments	(800)	(334)
Interest income (expense)	10,210	(13,420)
(Receipts) payments	(101,051)	120,011
Foreign exchange	5,316	(5,027)
Balance as at November 30, 2022	338,776	(514,814)

Recorded in the 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	83,500	(114,437)
Long-term portion	255,276	(400,377)
November 30, 2022	338,776	(514,814)

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

12. Leases (continued)

Maturity analysis

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be paid or received after November 30, 2022:

	Lease liabilities	Finance lease receivables	Operating subleases
	\$	\$	\$
2023	130,554	92,671	1,551
2024	111,553	78,482	1,410
2025	94,035	64,594	1,317
2026	76,396	50,519	636
2027	57,203	35,210	402
Thereafter	111,125	53,022	492
Total undiscounted lease payments	580,866	374,498	5,808
Unguaranteed residual values	—	2,240	—
Gross investment in the lease	—	376,738	—
Less: Unearned finance income	—	(33,071)	—
Present value of minimum lease payment receivables	—	343,667	—
Allowance for credit losses	—	(4,891)	—
Current portion of finance lease receivables	—	(83,500)	—
Finance lease receivables	—	255,276	—

The Company has recognized net rent expense of \$4,985 (2021 – \$2,914) related to its short-term leases, leases of low-value assets, and variable lease payments.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

13. Property, plant and equipment

Cost	Leasehold						Total
	Land	Buildings	improve- ments	Equipment	Computer hardware	Rolling stock	
	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2020	1,236	5,253	9,697	12,372	3,246	552	32,356
Additions	—	12	1,336	3,811	1,170	110	6,439
Disposals ⁽¹⁾	—	(131)	(2,703)	(693)	(2)	(65)	(3,594)
Impairment (Note 16)	—	—	(20)	(111)	—	—	(131)
Foreign exchange	—	—	(75)	(16)	8	(1)	(84)
Balance as at November 30, 2021	1,236	5,134	8,235	15,363	4,422	596	34,986
Additions	1,900	30	2,020	2,949	1,721	50	8,670
Transfer to assets held for sale (Note 10)	(1,055)	(993)	(63)	—	—	—	(2,111)
Disposals	—	—	(737)	(1,392)	(122)	(20)	(2,271)
Impairment (Note 16)	—	—	(282)	(253)	—	—	(535)
Foreign exchange	(174)	(65)	(490)	(212)	60	1	(880)
Change in control (Note 7)	—	—	307	99	—	—	406
Additions through business acquisitions (Note 6)	5,416	5,778	35,420	25,183	3,304	12	75,113
Balance as at November 30, 2022	7,323	9,884	44,410	41,737	9,385	639	113,378

Accumulated depreciation	Leasehold						Total
	Land	Buildings	improve- ments	Equipment	Computer hardware	Rolling stock	
	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2020	—	1,624	5,335	6,717	1,890	239	15,805
Eliminated on disposal of assets ⁽¹⁾	—	(32)	(1,819)	(89)	(14)	(38)	(1,992)
Foreign exchange	—	—	(10)	(15)	1	—	(24)
Depreciation expense	—	221	1,219	1,616	528	87	3,671
Balance as at November 30, 2021	—	1,813	4,725	8,229	2,405	288	17,460
Eliminated on disposal of assets	—	—	(253)	(692)	(119)	(20)	(1,084)
Foreign exchange	—	—	53	51	45	—	149
Depreciation expense	—	279	2,438	1,811	1,343	104	5,975
Balance as at November 30, 2022	—	2,092	6,963	9,399	3,674	372	22,500

Carrying amounts	Leasehold						Total
	Land	Buildings	improve- ments	Equipment	Computer hardware	Rolling stock	
	\$	\$	\$	\$	\$	\$	\$
November 30, 2021	1,236	3,321	3,510	7,134	2,017	308	17,526
November 30, 2022	7,323	7,792	37,447	32,338	5,711	267	90,878

⁽¹⁾ During the year ended November 30, 2021, the Company disposed of two portfolios comprised of seven and 24 corporately-owned locations in the US segment that were converted into franchises upon completion of the sale. The Company received a total consideration of \$4,201 for both portfolios and recognized a gain on disposal of \$1,374, presented in Gain on disposal of property, plant and equipment in its consolidated statements of income.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

14. Intangible assets

Cost	Franchise and master franchise rights		Step-in rights	Customer lists		Other ⁽¹⁾	Total
	\$	\$		\$	\$		
Balance as at November 30, 2020	370,722	619,613	1,199	10,318	7,847	1,009,699	
Additions	—	—	—	—	324	324	
Disposals	(2,180)	(1,270)	—	—	—	(3,450)	
Foreign exchange	(2,997)	(5,202)	—	—	(33)	(8,232)	
Net impairment (Note 16)	(752)	(4,788)	—	—	(232)	(5,772)	
Balance as at November 30, 2021	364,793	608,353	1,199	10,318	7,906	992,569	
Additions	—	—	—	—	3,988	3,988	
Additions through business acquisitions (Note 6)	12,249	171,659	—	3,380	1,382	188,670	
Change in control (Note 7)	2,700	16,200	—	—	—	18,900	
Foreign exchange	12,414	19,107	—	—	326	31,847	
Impairment (Note 16)	(3,842)	(9,539)	—	—	—	(13,381)	
Balance as at November 30, 2022	388,314	805,780	1,199	13,698	13,602	1,222,593	

Accumulated amortization	Franchise and master franchise rights		Step-in rights	Customer lists		Other ⁽¹⁾	Total
	\$	\$		\$	\$		
Balance as at November 30, 2020	140,619	—	859	1,638	2,554	145,670	
Disposals	(1,259)	—	—	—	—	(1,259)	
Foreign exchange	(553)	—	—	—	(5)	(558)	
Amortization	26,136	—	119	818	1,369	28,442	
Balance as at November 30, 2021	164,943	—	978	2,456	3,918	172,295	
Foreign exchange	5,460	—	—	—	94	5,554	
Amortization	26,724	—	120	966	1,663	29,473	
Balance as at November 30, 2022	197,127	—	1,098	3,422	5,675	207,322	

Carrying amounts	Franchise and master franchise rights		Step-in rights	Customer lists		Other ⁽¹⁾	Total
	\$	\$		\$	\$		
November 30, 2021	199,850	608,353	221	7,862	3,988	820,274	
November 30, 2022	191,187	805,780	101	10,276	7,927	1,015,271	

⁽¹⁾ Other items include \$1,663 (2021 – \$347) of licenses with an indefinite term that are not amortized.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

14. Intangible assets (continued)

Indefinite life intangible assets consist of trademarks and perpetual licenses, where each brand represents a separate CGU for impairment testing, for 65 CGUs (2021 – 55 CGUs) totalling \$807,443 (2021 – \$608,700).

15. Goodwill

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

	2022	2021
	\$	\$
Goodwill, beginning of year	490,627	502,531
Business acquisitions (Note 6)	76,877	—
Change in control (Note 7)	11,946	—
Disposal (Note 17)	—	(7,807)
Foreign exchange	15,819	(4,097)
Goodwill, end of year	595,269	490,627
Accumulated impairment, beginning of year	62,237	63,079
Foreign exchange	3,484	(842)
Accumulated impairment, end of year	65,721	62,237
Carrying amount	529,548	428,390

As at November 30, 2022, goodwill was allocated to four (2021 – three) goodwill units as follows:

	2022	2021
	\$	\$
Canada Goodwill Unit ⁽¹⁾	204,327	187,543
US Goodwill Unit A ⁽²⁾	126,066	119,385
US Goodwill Unit B ⁽²⁾	128,260	121,462
US Goodwill Unit C ⁽³⁾	70,895	—
	529,548	428,390

⁽¹⁾ Variance from prior year due to acquisition of the assets of Küto Comptoir à Tartares and a corporate store located in the province of Quebec (Note 6), and change in control over the Company's 70% interest in 11554891 Canada Inc. (Note 7).

⁽²⁾ Variance from prior year due to foreign exchange conversion.

⁽³⁾ Variance from prior year due to acquisition of BBQ Holdings (Note 6) and foreign exchange conversion.

16. Net impairment charge – property, plant and equipment and intangible assets

The Company performed its annual impairment test as at August 31, 2022. For five of its brands (two and three brands in the Canada and US & International geographical segments, respectively), an impairment charge on intangible assets was required in the amount of \$13,381. Additionally, the Company recorded \$535 of impairment losses on its property, plant and equipment, for a total of \$13,916 of impairment charges on its property, plant and equipment and intangible assets for the year ended November 30, 2022, which have been recognized in the consolidated statements of comprehensive income.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

16. Net impairment charge – property, plant and equipment and intangible assets (continued)

Impairment charges were based on the amount by which the carrying values of the assets exceeded the recoverable amounts, determined using expected discounted projected operating cash flows for trademarks and franchise rights.

Impairment by geographical segment for the year ended November 30, 2022:

	Property, plant and equipment	Intangible assets		Total
		Franchise rights	Trademarks	
	\$	\$	\$	\$
Canada	100	1,454	4,338	5,892
US & International	435	2,388	5,201	8,024
Impairment charge	535	3,842	9,539	13,916

Impairment (reversal of impairment) by geographical segment for the year ended November 30, 2021:

	Property, plant and equipment	Intangible assets			Total
		Franchise rights	Trademarks	Other	
	\$	\$	\$	\$	\$
Canada	97	2,809	8,496	232	11,634
US & International	34	667	2,931	—	3,632
Impairment charge	131	3,476	11,427	232	15,266
Canada	—	(531)	(1,792)	—	(2,323)
US & International	—	(2,193)	(4,847)	—	(7,040)
Reversal of impairment charge	—	(2,724)	(6,639)	—	(9,363)
Net impairment charge	131	752	4,788	232	5,903

The key assumptions used, where the recoverable amount was measured as a goodwill unit's value in use, are those related to projected operating cash flows, as well as the discount rates. The sales forecasts for cash flows were based on the subsequent fiscal year's budgeted operating results, which were prepared by management and approved by the Board, and internal forecasts for subsequent years, which were prepared by management and developed from the budgeted operating results.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

16. Net impairment charge – property, plant and equipment and intangible assets (continued)

The following table presents the key assumptions used in the Company's impairment tests, as well as the recoverable amounts measured at value in use as at August 31, 2022 and 2021:

	2022			2021		
	Canada Goodwill Unit	US Goodwill Unit A	US Goodwill Unit B	Canada Goodwill Unit	US Goodwill Unit A	US Goodwill Unit B
<i>(\$, except percentage data)</i>						
Discount rates after tax	9.8%	10.3%	10.3%	8.1%	8.0%	8.0%
Discount rates pre-tax	12.7%	13.1%	13.2%	10.4%	10.1%	10.2%
Recoverable amounts	1,137,633	675,843	328,712	1,109,172	877,544	384,986

Long-term growth rates ranging from 0% to 2% (2021 – 0% to 2%) were used in the impairment test for the Canada Goodwill Unit. A change of 100 basis points in discount rates in the Canada Goodwill Unit would result in additional impairment charges on intangible assets of four brands (2021 – four brands) representing 1.8% (2021 – 0.1%) of the total carrying value of the franchise rights and trademarks in that goodwill unit. A change of 100 basis points in discount rates in the Canada Goodwill Unit would not result in additional impairment charges on goodwill for the years ended November 30, 2022 and 2021. For the Canada Goodwill Unit, an increase of 950 basis points (2021 – 860 basis points) in the discount rate would have resulted in its recoverable amount being equal to its carrying value.

Long-term growth rates ranging from 0% to 2% (2021 – 0% to 2%) were used in the impairment test for US Goodwill Unit A. A change of 100 basis points in discount rates in US Goodwill Unit A would result in additional impairment charges on intangible assets of four brands (2021 – three brands) representing 0.5% (2021 – 0.1%) of the total carrying value of the franchise rights and trademarks in that goodwill unit. A change of 100 basis points in discount rates in US Goodwill Unit A would not result in additional impairment charges on goodwill for the years ended November 30, 2022 and 2021. For US Goodwill Unit A, an increase of 320 basis points (2021 – 500 basis points) in the discount rate would have resulted in its recoverable amount being equal to its carrying value.

A long-term growth rate of 1.5% (2021 – 1.5%) was used in the impairment test for US Goodwill Unit B. A change of 100 basis points in discount rates in US Goodwill Unit B would not result in additional impairment charges on intangible assets or goodwill for the years ended November 30, 2022 and 2021. For US Goodwill Unit B, an increase of 110 basis points (2021 – 230 basis points) in the discount rate would have resulted in its recoverable amount being equal to its carrying value.

The Company performed its annual impairment test for US Goodwill Unit C, using the fair value less costs to sell method, as at November 30, 2022 due to the timing of the acquisition. A long-term growth rate of 2.0%, a discount rate after tax of 10.6% and a pre-tax discount rate of 12.1% were used in the impairment test for US Goodwill Unit C, which was acquired on September 27, 2022.

17. Disposal of interest in 10220396 Canada Inc.

During the year ended November 30, 2021, the Company sold its 80% interest in 10220396 Canada Inc., whose activities consist of franchising for the banners "Houston Avenue Bar & Grill" and "Industria Pizza + Bar", for a cash consideration of \$7,500 and a deferred consideration of \$1,693. The deferred consideration has a contractual amount of up to \$3,000, to be repaid in two tranches: the first tranche of \$1,500 will be repaid in variable instalments based on royalties collected, beginning in July 2022; the second tranche will also be repaid in variable instalments based on royalties collected, which will begin once the first tranche is fully repaid, and will end on the earlier of such time \$1,500 is repaid, or a period of 10 years has elapsed. The Company recorded a gain on the disposal of its shares of 10220396 Canada Inc. of \$141, presented in Other income in the consolidated statement of income.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

18. Credit facility

During the year ended November 30, 2022, the Company modified its existing credit facility payable to a syndicate of lenders. The modification resulted in an increase to the revolving credit facility, which now has an authorized amount of \$900,000 (2021 – \$600,000), and an extension of its maturity by 18 months, until October 28, 2025. The accordion feature amounting to \$300,000 (2021 – \$300,000) remained unchanged. Transaction costs of \$1,817 were incurred and will be deferred and amortized over the remaining three years of the life of the revolving credit facility. As at November 30, 2022, US\$408,850 was drawn from the revolving credit facility (2021 – US\$271,470).

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 November 30, 2022, the Company was in compliance with its financial covenants.

19. Provisions

Included in provisions are the following amounts:

	2022	2021
	\$	\$
Litigations, disputes and other contingencies	1,490	1,636
Closed stores	—	56
	1,490	1,692

The provision for litigation, disputes and other contingencies represents management's best estimate of the outcome of litigations and disputes that are ongoing at the date of the statement of financial position. This provision is made of multiple items; the timing of the settlement of this provision is unknown given its nature, as the Company does not control the litigation timelines.

The payables related to closed stores mainly represent amounts that are expected to be disbursed to exit leases of underperforming or closed stores. The negotiations with the various stakeholders are typically short in duration and are expected to be settled within a few months following the recognition of the provision. The Company has recognized a liability of nil (2021 – \$56) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement, with the exception of leases for which the lease liabilities are already recorded pursuant to IFRS 16.

The provisions also varied in part due to foreign exchange fluctuations related to the US subsidiaries.

	2022	2021
	\$	\$
Provision for litigations, disputes and closed stores, beginning balance	1,692	3,065
Reversals	(517)	(541)
Amounts used	(404)	(1,116)
Additions	680	305
Impact of foreign exchange	39	(21)
Provision for litigations, disputes and closed stores, ending balance	1,490	1,692

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

20. Deferred revenue and deposits

	2022	2021
	\$	\$
Franchise fee deposits	55,646	49,266
Unearned rent, advances for restaurant construction and renovation	2,854	2,364
Supplier contributions and other allowances	7,681	8,809
	66,181	60,439
Less: Current portion	(17,776)	(16,100)
	48,405	44,339

Deferred revenues consist mostly of initial, transfer and renewal franchise fees paid by franchisees, as well as upfront fees paid by master franchisees, which are generally recognized on a straight-line basis over the term of the related agreement. Deferred revenues also include amounts paid in advance for royalties, restaurant construction and renovation, as well as upfront fees received from agreements with suppliers, which are amortized over the term of the related agreement.

There were no significant changes to contract liabilities during the year.

\$15,391 (2021 – \$12,853) of revenue recognized in the current year was included in the deferred revenue balance at the beginning of the year.

The following table provides estimated revenues expected to be recognized in future years related to performance obligations that are unsatisfied as at November 30, 2022:

Estimate for fiscal year:	\$
2023	17,776
2024	8,806
2025	6,808
2026	5,468
2027	4,216
Thereafter	<u>23,107</u>
	<u>66,181</u>

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

21. Long-term debt

	2022	2021
	\$	\$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions	142	12,171
Contingent considerations on Küto Comptoir à Tartares acquisition (Note 6) and 11554891 Canada Inc. (Note 7) ⁽¹⁾	3,626	1,961
Fair value of non-controlling interest option in 9974644 Canada Inc. ⁽²⁾	1,853	1,575
Fair value of obligation to repurchase 11554891 Canada Inc. partner (Note 7) ⁽³⁾	7,867	1,416
Revolving credit facility payable to a syndicate of lenders ⁽⁴⁾	550,055	345,000
Credit facility financing costs	(2,584)	(1,395)
	560,959	360,728
Less: Current portion	(9,530)	(13,116)
	551,429	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 October 28, 2025 and must be repaid in full at that time. The revolving credit facility has an authorized amount of \$900,000 (2021 – \$600,000). As at November 30, 2022, the Company had drawn US\$408,850 (2021 – US\$271,470) 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.

22. Capital stock

Authorized, unlimited number of common shares without nominal or par value:

	2022		2021	
	Number	Amount	Number	Amount
		\$		\$
Balance, beginning of year	24,669,861	305,961	24,706,461	306,415
Shares repurchased and cancelled	(256,400)	(3,180)	(36,600)	(454)
Balance, end of year	24,413,461	302,781	24,669,861	305,961

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 year ended November 30, 2022, the Company repurchased and cancelled a total of 256,400 common shares (2021 – 36,600 common shares) under the current NCIB, at a weighted average price of \$57.01 per common share (2021 – \$59.68 per common share), for a total consideration of \$14,618 (2021 – \$2,184). An excess of \$11,438 (2021 – \$1,730) of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

23. Stock options

The Company offered for the benefit of certain key members of management and directors a stock option plan. In accordance with the terms of the plan the Company may grant stock options on the common shares at the discretion of the Board of Directors. 60,000 shares are available for issuance under the stock option plan as at November 30, 2022 (2021 – 60,000).

Under the stock option plan of the Company, the following options were granted and are outstanding as at November 30, 2022 and 2021:

	2022		2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding, beginning of year	440,000	50.97	400,000	50.19
Granted	—	—	40,000	58.78
Outstanding, end of year	440,000	50.97	440,000	50.97
Vested, end of year	102,221	49.72	66,666	48.36

As at November 30, 2022, the range of exercise prices and the weighted average remaining contractual life of options are as follows:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life
\$		(years)
48.36	200,000	4.3
52.01	200,000	6.8
58.78	40,000	2.1
	440,000	5.3

As at November 30, 2021, the range of exercise prices and the weighted average remaining contractual life of options were as follows:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life
\$		(years)
48.36	200,000	5.3
52.01	200,000	7.8
58.78	40,000	3.1
	440,000	6.3

No options were granted during the year ended November 30, 2022.

Options granted during the year ended November 30, 2021 have a service condition in order to vest. One third of the granted options vested and were exercisable on July 1, 2022. The remaining options will vest and be exercisable as to one third of the grant on each of July 1, 2023 and July 1, 2024. The options will expire on December 31, 2024.

The weighted average fair value of the stock options granted for the year ended November 30, 2021 was \$9.23 per option. The fair value of the options granted was estimated at the grant date for purposes of determining share-based payment expense using the Black-Scholes option pricing model.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

23. Stock options (continued)

The following weighted average assumptions were used:

	<u>2021</u>
Acquisition date share price	\$ 58.78
Exercise price	\$ 58.78
Expected dividend yield	1.26%
Expected volatility	26.1%
Risk-free interest rate	1.15%
Expected life (in years)	<u>2.5 years</u>

A compensation expense of \$1,002 was recorded for the year ended November 30, 2022 (2021 – \$836). The expense is presented in Wages and benefits in Operating expenses in the consolidated statements of income.

24. 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 that used for the purpose of diluted income per share:

	<u>2022</u>	<u>2021</u>
Weighted daily average number of common shares – basic	24,439,892	24,704,866
Assumed exercise of stock options ⁽¹⁾	25,846	40,265
Weighted daily average number of common shares – diluted	24,465,738	24,745,131

⁽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 year ended November 30, 2022 was 240,000 (2021 – 200,000).

25. 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

Contingent considerations on acquisitions

The Company issued as part of its consideration for the acquisition of Küto Comptoir à Tartares and 70% interest in 11554891 Canada Inc., contingent considerations to the vendors. These contingent considerations are subject to earn-out provisions, which are based on future earnings; the contingent considerations for Küto Comptoir à Tartares and 11554891 Canada Inc. are repayable in June 2024 and December 2022, respectively. These contingent considerations have been recorded at fair value and are remeasured on a recurring basis.

A fair value remeasurement gain of \$1,794 was recorded for the contingent considerations for the year ended November 30, 2022 (2021 – gain of \$1,656).

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

25. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Obligation to repurchase non-controlling interest

The Company has entered into an agreement to purchase the shares of a minority interest shareholder of 9974644 Canada Inc. at the option of the holder at any time after December 9, 2017. The consideration is based on a multiplier of EBITDA, as prescribed by the terms of the shareholder agreement. The Company records a liability at fair value (Note 21) which is remeasured at each reporting period.

A fair value remeasurement loss of \$278 (2021 – loss of \$404) was recorded for this non-controlling interest obligation.

Obligation to repurchase 11554891 Canada Inc. partner

The Company, in conjunction with the acquisition of its 70% interest in 11554891 Canada Inc., entered into an agreement to acquire the remaining 30% interest by December 2024. The consideration to be paid for this acquisition will be based on future earnings. The Company recorded a liability at fair value (Note 21) which is remeasured at each reporting period. An increase or decrease by 1% in the discount rates used would have an impact of nil on the carrying amount as at November 30, 2022 (2021 – \$14).

A fair value remeasurement gain of \$1,416 (2021 – gain of \$1,948) was recorded for this obligation to repurchase the 11554891 Canada Inc. partner.

Cross currency interest rate swaps

On November 26, 2022 and November 29, 2022, the Company entered into one floating to floating 3-month cross currency interest rate swap and one floating to floating 2-month cross currency interest rate swap (November 30, 2021 – one floating to floating 3-month cross currency interest rate swap, one floating to floating 2-month cross currency interest rate swap and one floating to floating 1-month cross currency interest rate swap). A fair value of nil was recorded as at November 30, 2022 (November 30, 2021 – nil). The Company has classified this as level 2 in the fair value hierarchy.

	2022		2021		
	3-month	2-month	3-month	2-month	1-month
Receive – Notional	US\$64,850	US\$150,000	US\$78,920	US\$180,761	US\$11,789
Receive – Rate	6.18%	6.18%	1.29%	1.29%	1.29%
Pay – Notional	CA\$87,000	CA\$201,000	CA\$100,000	CA\$230,000	CA\$15,000
Pay – Rate	5.95%	5.80%	1.23%	1.09%	1.38%

Fair value hierarchy

	Level 3	
	2022	2021
	\$	\$
Contingent considerations on Kúto Comptoir à Tartares acquisition and 11554891 Canada Inc.	3,626	1,961
Non-controlling interest buyback option	1,853	1,575
Obligation to repurchase 11554891 Canada Inc. partner	7,867	1,416
Financial liabilities	13,346	4,952

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

25. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

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 receivables, 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 November 30, 2022 and 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.

	2022		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Loans and other receivables	4,442	4,442	4,238	4,238
Finance lease receivables	338,776	338,776	399,269	399,269
Financial liabilities				
Long-term debt ⁽¹⁾	550,197	550,197	357,171	357,189

⁽¹⁾ Excludes contingent considerations on Küto Comptoir à Tartares acquisition and 11554891 Canada Inc., cross currency interest rate swaps, credit facility financing costs, non-controlling interest option in 9974644 Canada Inc. 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 instruments:

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.

The Company, through its financial assets and financial liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at November 30, 2022.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the consolidated statement of financial position represent the maximum exposure to credit risk for each respective financial asset as at the relevant dates. The Company believes that the credit risk of accounts receivable is limited as other than receivables from international locations, the Company's broad client base is spread mostly across Canada and the US, which limits the concentration of credit risk.

The credit risk on the Company's loans and other receivables is similar to that of its accounts receivable.

Foreign exchange risk

Foreign exchange risk is the Company's exposure to decreases or increases in financial instrument values caused by fluctuations in exchange rates. The Company's exposure to foreign exchange risk mainly comes from sales denominated in foreign currencies. The Company's US and foreign operations use the US dollar ("USD") as functional currency. The Company's exposure to foreign exchange risk stems mainly from cash, accounts receivable, long-term debt denominated in USD, other working capital items and financial obligations from its US operations. As at November 30, 2022, US\$408,850 (2021 – US\$271,470) was drawn from the revolving credit facility. Of that amount, US\$214,850 (2021 – US\$271,470) was not exposed to foreign exchange risk as a result of two (2021 – three) cross currency interest rate swaps, and US\$194,000 (2021 – nil) was exposed to foreign exchange risk.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

25. Financial instruments (continued)

Foreign exchange risk (continued)

Fluctuations in USD exchange rates are deemed to have minimal risk as they are mostly offset by the stand-alone operations of the Company's US entities.

As at November 30, 2022 and 2021, the Company has the following financial instruments denominated in foreign currencies:

	2022		2021	
	USD	CAD	USD	CAD
	\$	\$	\$	\$
Financial assets				
Cash	5,424	7,327	3,744	4,789
Accounts receivable	463	625	378	484
Financial liabilities				
Accounts payable and deposits	(212)	(286)	(82)	(105)
Long-term debt	(194,000)	(262,055)	—	—
Net financial (liabilities) assets	(188,325)	(254,389)	4,040	5,168

All other factors being equal, a reasonable possible 5% rise in foreign currency exchange rates per Canadian dollar would result in a loss of \$9,416 (2021 – profit of \$202) on the consolidated statements of income and comprehensive income.

Interest rate risk

Interest rate risk is the Company's exposure to increases and decreases in financial instrument values caused by the fluctuation in interest rates. The Company is exposed to cash flow risk due to the interest rate fluctuation in its floating-rate interest-bearing financial obligations.

Furthermore, upon refinancing of a borrowing, depending on the availability of funds in the market and lender perception of the Company's risk, the margin that is added to the reference rate, such as SOFR or prime rates, could vary and thereby directly influence the interest rate payable by the Company.

Long-term debt stems mainly from acquisitions of long-term assets and business combinations. The Company is exposed to interest rate risk with its revolving credit facility which is used to finance the Company's acquisitions. The facility bears interest at a variable rate and as such the interest burden could change materially. \$550,055 (2021 – \$345,000) of the credit facility was used as at November 30, 2022. A 100 basis points increase in the bank's prime rate would result in additional interest of \$5,501 per annum (2021 – \$3,450) on the outstanding credit facility.

Liquidity risk

Liquidity risk refers to the possibility of the Company not being able to meet its financial obligations when they become due. The Company has contractual and fiscal obligations as well as financial liabilities and is therefore exposed to liquidity risk. Such risk can result, for example, from a market disruption or a lack of liquidity. The Company actively maintains its credit facility to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

As at November 30, 2022, the Company had an authorized revolving credit facility for which the available amount may not exceed \$900,000 (2021 – \$600,000) and including an accordion feature amounting to \$300,000 (2021 – \$300,000) to ensure that sufficient funds are available to meet its financial requirements. The terms and conditions related to this revolving credit facility are described in Note 18 and Note 21.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

25. Financial instruments (continued)

Liquidity risk (continued)

The following are the contractual maturities of financial liabilities as at November 30, 2022:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	Thereafter
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	154,988	154,988	154,988	—	—	—
Long-term debt (Note 21) ⁽¹⁾	560,959	563,543	10,709	4	2,727	550,103
Interest on long-term debt ⁽¹⁾	n/a	106,053	18,180	18,181	36,361	33,331
Lease liabilities	514,814	580,866	65,277	65,277	111,553	338,759
	1,230,761	1,405,450	249,154	83,462	150,641	922,193

⁽¹⁾ When future interest cash flows are variable, they are calculated using the interest rates prevailing at the end of the reporting period.

26. Capital disclosures

The Company's objectives when managing capital are:

- To safeguard its ability to obtain financing should the need arise;
- To provide an adequate return to its shareholders; and
- To maintain financial flexibility in order to have access to capital in the event of future acquisitions.

The Company defines its capital as follows:

- Shareholders' equity;
- Long-term debt including the current portion;
- Deferred revenue including the current portion; and
- Cash

The Company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Company may invest in longer or shorter-term investments depending on eventual liquidity requirements.

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at November 30, 2022 and 2021 were as follows:

	2022	2021
	\$	\$
Debt	560,959	360,728
Equity	724,626	648,898
Debt-to-equity ratio	0.77	0.56

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

26. Capital disclosures (continued)

Maintaining a low debt-to-equity ratio is a priority in order to preserve the Company's ability to secure financing at a reasonable cost for future acquisitions. The Company expects to maintain a low ratio by continuously using the expected cash flows from the newly acquired business in both the US and Canada to reduce the level of long-term debt.

The Company's credit facility imposes a maximum debt-to-proforma EBITDA ratio of 4.00:1.00 after an acquisition in excess of \$150,000 for a period of twelve months after acquisition; 3.50:1.00 anytime thereafter and until the maturity date of October 28, 2025.

27. Revenue

	For the year ended					
	November 30, 2022			November 30, 2021		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
Royalties	83,860	128,968	212,828	62,084	118,631	180,715
Franchise and transfer fees	5,141	6,729	11,870	5,019	4,353	9,372
Retail, food processing and distribution revenues	162,467	5,996	168,463	124,280	4,972	129,252
Sale of goods, including construction revenue	35,410	94,821	130,231	24,650	44,862	69,512
Gift card breakage income	450	5,427	5,877	228	4,518	4,746
Promotional funds	42,394	68,890	111,284	32,151	61,207	93,358
Other franchising revenue	37,901	26,443	64,344	28,598	25,648	54,246
Other	3,000	8,625	11,625	3,175	7,527	10,702
	370,623	345,899	716,522	280,185	271,718	551,903

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

28. Operating expenses

	For the year ended					
	November 30, 2022			November 30, 2021		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
Cost of goods sold and rent	15,800	36,355	52,155	12,044	19,829	31,873
Retail, food processing and distribution costs	145,995	—	145,995	113,992	—	113,992
Wages and benefits ⁽¹⁾	55,910	79,602	135,512	42,477	55,004	97,481
Wage and rent subsidies	—	—	—	(5,458)	(291)	(5,749)
Consulting and professional fees	7,750	12,897	20,647	6,760	7,018	13,778
Insurance and taxes	1,360	3,723	5,083	1,242	2,814	4,056
Utilities, repairs and maintenance	2,003	5,077	7,080	1,387	2,041	3,428
Advertising, travel, meals and entertainment	3,635	6,535	10,170	2,256	4,759	7,015
Gift cards – related costs	—	8,153	8,153	—	6,245	6,245
Royalties	49	7,972	8,021	44	7,401	7,445
Promotional funds ⁽²⁾	42,394	68,890	111,284	32,151	61,207	93,358
Impairment (reversal of impairment) for expected credit losses	2,320	(216)	2,104	(1,219)	(1,975)	(3,194)
Other ⁽³⁾	10,227	18,009	28,236	6,437	6,407	12,844
	287,443	246,997	534,440	212,113	170,459	382,572

⁽¹⁾ Wages and benefits are presented net of investment tax credit of \$459 (2021 – nil).

⁽²⁾ Promotional fund expenses include wages and benefits.

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

29. Guarantee

The Company has guaranteed leases on certain franchise stores in the event the franchisees are unable to meet their remaining lease commitments. The maximum amount the Company may be required to pay under these agreements was \$18,648 as at November 30, 2022 (2021 – \$19,260). In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. As at November 30, 2022, the Company has accrued \$1,570 (2021 – \$1,796), included in Accounts payable and accrued liabilities, with respect to these guarantees.

30. Contingent liabilities

The Company is involved in legal claims associated with its current business activities. The Company's estimate of the outcome of these claims is disclosed in Note 19. The timing of the outflows, if any, is out of the control of the Company and is as a result undetermined at the moment.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

31. Income taxes

Variations of income tax expense from the basic Canadian federal and provincial combined tax rates applicable to income from operations before income taxes are as follows:

	2022		2021	
	\$	%	\$	%
Combined income tax rate in Canada	25,486	26.5	29,699	26.5
Add effect of:				
Difference between Canadian and foreign statutory rate	(6,126)	(6.4)	(6,195)	(5.5)
Non-taxable portion of capital gains	505	0.5	16	—
Permanent differences	3,601	3.7	(238)	(0.2)
Recognition of previously unrecognized deferred tax assets	—	—	(20)	—
Losses in subsidiaries for which no deferred income tax assets is recognized	2	—	1,645	1.5
Rate variation on deferred income tax	(754)	(0.8)	1,851	2.4
Adjustment to prior year provisions	(768)	(0.8)	428	(0.4)
Revision of estimates for tax exposures	(875)	(0.9)	—	—
Other – net	(80)	(0.1)	(1,057)	(1.0)
Provision for income taxes	20,991	21.7	26,129	23.3

The variation in deferred income taxes during the years ended November 30, 2022 and 2021 were as follows:

	November 30, 2021	Recognized		Acquisition	Foreign exchange	November 30, 2022
		Recognized in profit or loss	in other comprehen- sive loss			
	\$	\$	\$	\$	\$	\$
Net deferred tax assets (liabilities) in relation to:						
Property, plant and equipment	(4,437)	(1,527)	—	(10,430)	(339)	(16,733)
Finance lease receivables	(103,487)	15,726	—	1,045	(1,443)	(88,159)
Right-of-use assets	(15,267)	(25,633)	—	200	(580)	(41,280)
Accounts receivable	363	(67)	—	—	12	308
Deferred costs	(1,298)	(26)	—	—	(35)	(1,359)
Inventory	58	(5)	—	—	3	56
Provisions and gift cards	19,965	569	—	2,221	1,173	23,928
Long-term debt	(1,255)	1,095	(491)	(1,561)	(2)	(2,214)
Non-capital losses	78	438	—	18,552	(1,138)	17,930
Capital losses	—	228	—	—	—	228
Intangible assets	(169,309)	3,867	—	(38,337)	(5,998)	(209,777)
Accrued expenses	10,002	(1,389)	—	—	381	8,994
Deferred revenue	9,857	576	—	—	359	10,792
Lease liabilities	122,262	10,159	—	(1,257)	2,074	133,238
Other	—	(333)	—	—	188	(145)
	(132,468)	3,678	(491)	(29,567)	(5,345)	(164,193)

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

31. Income taxes (continued)

	November 30, 2020	Recognized in profit or loss	Foreign exchange	November 30, 2021
	\$	\$	\$	\$
Net deferred tax assets (liabilities) in relation to:				
Property, plant and equipment	(1,600)	(2,845)	8	(4,437)
Finance lease receivables	(121,412)	17,408	517	(103,487)
Right-of-use assets	(17,560)	2,144	149	(15,267)
Accounts receivable	455	(84)	(8)	363
Deferred costs	(1,252)	(46)	—	(1,298)
Inventory	100	(42)	—	58
Provisions and gift cards	18,665	1,487	(187)	19,965
Long-term debt	282	(1,539)	2	(1,255)
Non-capital losses	828	(720)	(30)	78
Intangible assets	(168,598)	(2,249)	1,538	(169,309)
Accrued expenses	8,562	1,502	(62)	10,002
Deferred revenue	9,377	491	(11)	9,857
Lease liabilities	143,587	(20,600)	(725)	122,262
	<u>(128,566)</u>	<u>(5,093)</u>	<u>1,191</u>	<u>(132,468)</u>

As at November 30, 2022, there were nil (2021 – \$857) capital losses which may be applied against capital gains for future years and be carried forward indefinitely. The deferred income tax benefit of these capital losses has not been recognized.

As at November 30, 2022, there were approximately \$2,170 (2021 – \$1,805) in non-capital losses accumulated in one of the Company's subsidiaries for which no deferred income tax asset was recognized. These non-capital losses will expire between 2037 and 2042.

The deductible temporary difference in relation to foreign exchange on intercompany loans for which a deferred tax asset has not been recognized amounts to \$987 (2021 – \$7,609).

No deferred income tax liability is recognized on unremitted earnings of \$80,931 (2021 – \$39,846) related to the investments in subsidiaries. Such unremitted earnings are reinvested in the subsidiaries and will not be repatriated in the foreseeable future.

The Company has an uncertain tax risk related to pre-acquisition periods whereby tax returns were filed by previous owners.

32. 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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

32. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance during the years ended November 30, 2022 and 2021.

November 30, 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	141,127	29,353	163,141	42,394	(5,392)	370,623	182,250	89,803	5,996	68,890	(1,040)	345,899	716,522
Operating expenses	71,548	29,266	145,992	42,394	(1,757)	287,443	97,579	85,203	—	68,890	(4,675)	246,997	534,440
Segment profit (loss)	69,579	87	17,149	—	(3,635)	83,180	84,671	4,600	5,996	—	3,635	98,902	182,082
Total assets	1,299,304	22,253	51,612	11,761	—	1,384,930	734,775	183,539	—	22,059	—	940,373	2,325,303
Total liabilities	957,112	21,575	10,718	11,761	—	1,001,166	296,761	280,691	—	22,059	—	599,511	1,600,677

November 30, 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	107,308	19,388	124,989	32,151	(3,651)	280,185	167,250	40,180	4,972	61,207	(1,891)	271,718	551,903
Operating expenses	50,413	17,297	114,034	32,151	(1,782)	212,113	71,363	41,649	—	61,207	(3,760)	170,459	382,572
Segment profit (loss)	56,895	2,091	10,955	—	(1,869)	68,072	95,887	(1,469)	4,972	—	1,869	101,259	169,331
Total assets	1,120,006	17,583	36,052	9,472	—	1,183,113	667,186	33,286	—	21,009	—	721,481	1,904,594
Total liabilities	796,589	18,351	10,810	9,472	—	835,222	388,934	10,531	—	21,009	—	420,474	1,255,696

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

33. Statement of cash flows

Changes in liabilities and assets arising from financing and investing activities:

	Revolving credit facility	Long-term debt in business acquisition	Loan financing costs	Non-interest- bearing contracts and holdbacks	Non-controlling interest option	Contingent considerations	Obligation to repurchase 11554891 Canada Inc. partner	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2021	345,000	—	(1,395)	12,171	1,575	1,961	1,416	360,728
Changes from financing activities:								
Increase in term revolving credit facility	275,626	—	—	—	—	—	—	275,626
Repayments of term revolving credit facility and holdbacks	(67,807)	—	—	(12,407)	—	—	—	(80,214)
Repayment of long-term debt in business acquisition (Note 6)	—	(33,800)	—	—	—	—	—	(33,800)
Payment of transaction costs	—	—	(1,817)	—	—	—	—	(1,817)
Changes from non-cash transactions:								
Amortization of transaction costs directly attributable to a financing arrangement	—	—	628	—	—	—	—	628
Accretion of interest on non-interest-bearing holdbacks	—	—	—	19	—	—	—	19
Revaluation of financial liabilities recorded at fair value through profit and loss (Note 25)	—	—	—	—	278	(1,794)	(1,416)	(2,932)
Foreign exchange	(2,764)	—	—	109	—	—	—	(2,655)
Changes from investing activities:								
Change in control over interest in 11554891 Canada Inc. (Note 7)	—	—	—	—	—	—	7,867	7,867
Business acquisition (Note 6)	—	33,800	—	—	—	—	—	33,800
Issuance of holdback (Note 6)	—	—	—	250	—	—	—	250
Issuance of contingent consideration (Note 6)	—	—	—	—	—	3,459	—	3,459
Balance as at November 30, 2022	550,055	—	(2,584)	142	1,853	3,626	7,867	560,959

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

33. Statement of cash flows (continued)

Changes in non-cash operating activities are as follows:

	2022	2021
	\$	\$
Accounts receivable	(10,187)	(3,746)
Inventories	(2,049)	(1,366)
Loans receivable	36	338
Other assets	(345)	389
Prepaid expenses and deposits	(5,027)	(1,512)
Accounts payable and accrued liabilities	(1,376)	4,128
Provisions	(251)	(1,348)
Gift card and loyalty program liabilities	9,368	7,749
Deferred revenue and deposits	2,921	5,926
	(6,910)	10,558

Non-cash items are included in proceeds from dispositions of capital assets amounting to \$164 (2021 – \$1,314).

The variation of accounts receivables includes non-cash transfers from long-term debt amounting to nil (2021 – \$2,465).

34. 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 28 of these consolidated financial statements, during the years ended November 30, 2022 and 2021 was as follows:

	2022	2021
	\$	\$
Short-term benefits ⁽¹⁾	4,811	3,231
Share-based compensation	1,120	924
Consulting fees	282	57
Board member fees	78	78
Total remuneration of key management personnel and directors	6,291	4,290

⁽¹⁾ Prior year amount has been restated to reflect a prior period adjustment.

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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2022 and 2021

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

35. Subsequent events

Acquisition of Wetzel's Pretzels

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, for a cash consideration of approximately \$282,000 (US\$207,000), on a cash-free, debt-free basis. At closing, there were 329 franchised restaurants and 38 corporate-owned restaurants in operation.

Acquisition of Sauce Pizza and Wine

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, for a total consideration of \$14,789 (US\$10,842), including a holdback on acquisition of \$1,142 (US\$837). At closing, there were 13 corporate-owned restaurants in operation.

Dividends

On January 18, 2023, the Company announced an increase to its quarterly dividend payment, from \$0.210 per common share to \$0.250 per common share. The dividend of \$0.250 per common share was paid on February 15, 2023.