
Condensed
interim consolidated financial statements of
MTY Food Group Inc.

For the three and six-month periods ended May 31, 2023 and 2022

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three and six-month periods ended May 31, 2023 and 2022

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

(Unaudited)

	Notes	Three months ended May 31		Six months ended May 31	
		2023	2022	2023	2022
		\$	\$	\$	\$
Revenue	16 & 18	305,219	162,518	591,222	303,012
Expenses					
Operating expenses	17 & 18	230,571	114,869	453,711	219,726
Depreciation – property, plant and equipment and right-of-use assets	8 & 9	15,602	3,832	28,728	7,492
Amortization – intangible assets	10	8,911	7,176	17,847	14,206
Interest on long-term debt		13,455	1,872	26,912	3,247
Net interest expense on leases	8	2,591	492	5,043	974
Impairment (reversal) charge – right-of-use assets	8	(30)	66	106	121
Impairment charge – property, plant and equipment	9	—	535	—	535
		271,100	128,842	532,347	246,301
Other income (expenses)					
Unrealized and realized foreign exchange gain (loss)		329	684	(3,578)	1,549
Interest income		428	74	619	148
(Loss) gain on de-recognition/lease modification of lease liabilities		(134)	425	(240)	822
Gain (loss) on disposal of property, plant and equipment		133	(140)	(994)	(187)
Revaluation of financial liabilities and derivatives recorded at fair value	15	(432)	1,265	(839)	1,397
Loss on remeasurement of joint venture interest		—	—	—	(2,769)
		324	2,308	(5,032)	960
Income before taxes		34,443	35,984	53,843	57,671
Income tax expense					
Current		6,295	7,397	8,784	13,337
Deferred		(2,309)	(125)	(3,891)	(1,054)
		3,986	7,272	4,893	12,283
Net income		30,457	28,712	48,950	45,388
Net income attributable to:					
Owners		30,359	28,619	48,746	45,256
Non-controlling interests		98	93	204	132
		30,457	28,712	48,950	45,388
Net income per share	14				
Basic		1.24	1.17	2.00	1.85
Diluted		1.24	1.17	1.99	1.85

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

MTY Food Group Inc.**Condensed interim consolidated statements of comprehensive income**

For the three and six-month periods ended May 31, 2023 and 2022

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended May 31		Six months ended May 31	
	2023	2022	2023	2022
	\$	\$	\$	\$
Net income	30,457	28,712	48,950	45,388
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Translation adjustments				
Unrealized (loss) gain on translation of foreign operations	(595)	(2,700)	9,389	(7,876)
Cash flow hedges				
Change in fair value of financial instruments	4,706	—	4,706	—
Gain realized on financial instruments transferred to earnings	(604)	—	(604)	—
Deferred tax expense on foreign currency translation adjustments and cash flow hedges	(999)	—	(1,917)	—
	2,508	(2,700)	11,574	(7,876)
Total comprehensive income	32,965	26,012	60,524	37,512
Total comprehensive income attributable to:				
Owners	32,867	25,919	60,320	37,380
Non-controlling interests	98	93	204	132
	32,965	26,012	60,524	37,512

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

MTY Food Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity

For the six-month periods ended May 31, 2023 and 2022

(In thousands of Canadian dollars)

(Unaudited)

	Reserves				Total reserves	Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	Capital stock	Other	Contributed surplus	Accumulated other comprehensive income (Note 6)					
	\$	\$	\$	\$	\$	\$	\$	\$	\$
For the six months ended May 31, 2023									
Balance, beginning of period	302,781	(850)	4,857	13,766	17,773	402,854	723,408	1,218	724,626
Net income	—	—	—	—	—	48,746	48,746	204	48,950
Other comprehensive income	—	—	—	11,574	11,574	—	11,574	—	11,574
Total comprehensive income							60,320	204	60,524
Dividends	—	—	—	—	—	(12,207)	(12,207)	(183)	(12,390)
Share-based compensation	—	—	421	—	421	—	421	—	421
Balance, end of period	302,781	(850)	5,278	25,340	29,768	439,393	771,942	1,239	773,181

	Reserves				Total reserves	Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	Capital stock	Other	Contributed surplus	Accumulated other comprehensive loss (Note 6)					
	\$	\$	\$	\$	\$	\$	\$	\$	\$
For the six months ended May 31, 2022									
Balance, beginning of period	305,961	(850)	3,855	(21,320)	(18,315)	359,993	647,639	1,259	648,898
Net income	—	—	—	—	—	45,256	45,256	132	45,388
Other comprehensive loss	—	—	—	(7,876)	(7,876)	—	(7,876)	—	(7,876)
Total comprehensive income							37,380	132	37,512
Shares repurchased and cancelled (Note 13)	(3,180)	—	—	—	—	(11,438)	(14,618)	—	(14,618)
Dividends	—	—	—	—	—	(10,265)	(10,265)	(280)	(10,545)
Share-based compensation	—	—	554	—	554	—	554	—	554
Balance, end of period	302,781	(850)	4,409	(29,196)	(25,637)	383,546	660,690	1,111	661,801

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

MTY Food Group Inc.

Condensed interim consolidated statements of financial position

As at May 31, 2023 and November 30, 2022

(In thousands of Canadian dollars)

(Unaudited)

		May 31, 2023	November 30, 2022
	Notes	\$	\$
Assets			
Current assets			
Cash		62,596	59,479
Accounts receivable	7	85,956	78,099
Inventories		18,845	18,517
Assets held for sale		2,196	2,111
Current portion of loans and other receivables		977	1,153
Current portion of finance lease receivables	8	82,848	83,500
Income taxes receivable		6,389	3,982
Current portion of derivative assets		4,934	—
Other assets		4,032	3,275
Prepaid expenses and deposits		16,559	14,540
		285,332	264,656
Loans and other receivables			
Loans and other receivables		2,634	3,289
Finance lease receivables	8	253,115	255,276
Contract cost asset		7,195	6,455
Deferred income taxes		213	224
Property, plant and equipment	9	112,411	90,878
Right-of-use assets	8	173,542	159,706
Intangible assets	10	1,143,512	1,015,271
Goodwill	11	711,428	529,548
		2,689,382	2,325,303
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		165,552	154,988
Provisions		2,606	1,490
Gift card and loyalty program liabilities		138,128	127,458
Income taxes payable		3,820	9,813
Current portion of deferred revenue and deposits		17,645	17,776
Current portion of long-term debt	12	11,491	9,530
Current portion of lease liabilities	8	114,986	114,437
		454,228	435,492
Long-term debt			
Long-term debt	12	804,717	551,429
Lease liabilities	8	411,318	400,377
Deferred revenue and deposits		52,841	48,405
Deferred income taxes		192,910	164,417
Other liabilities		187	557
		1,916,201	1,600,677

MTY Food Group Inc.

Condensed interim consolidated statements of financial position (continued)

As at May 31, 2023 and November 30, 2022

(In thousands of Canadian dollars)

(Unaudited)

		May 31, 2023	November 30, 2022
	Notes	\$	\$
Shareholders' equity			
Equity attributable to owners			
Capital stock	13	302,781	302,781
Reserves		29,768	17,773
Retained earnings		439,393	402,854
		771,942	723,408
Equity attributable to non-controlling interests		1,239	1,218
		773,181	724,626
		2,689,382	2,325,303

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

Approved by the Board on July 10, 2023

_____, Director

_____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three and six-month periods ended May 31, 2023 and 2022

(In thousands of Canadian dollars)

(Unaudited)

	Notes	Three months ended May 31		Six months ended May 31	
		2023	2022	2023	2022
		\$	\$	\$	\$
Operating activities					
Net income		30,457	28,712	48,950	45,388
Adjusting items:					
Interest on long-term debt		13,455	1,872	26,912	3,247
Net interest expense on leases	8	2,591	492	5,043	974
Depreciation – property, plant and equipment and right-of-use assets	8 & 9	15,602	3,832	28,728	7,492
Amortization – intangible assets	10	8,911	7,176	17,847	14,206
Impairment charge – property, plant and equipment	9	—	535	—	535
Impairment (reversal) charge – right-of-use assets	8	(30)	66	106	121
Unrealized foreign exchange (gain) loss ⁽¹⁾		(329)	(684)	3,578	(1,549)
Loss (gain) on de-recognition/lease modification of lease liabilities		134	(425)	240	(822)
(Gain) loss on disposal of property, plant and equipment		(133)	140	994	187
Revaluation of financial liabilities and derivatives recorded at fair value	15	432	(1,265)	839	(1,397)
Loss on remeasurement of joint venture interest		—	—	—	2,769
Income tax expense		3,986	7,272	4,893	12,283
Share-based compensation		209	275	421	554
		75,285	47,998	138,551	83,988
Income taxes paid		(8,044)	(4,584)	(17,323)	(8,694)
Interest paid		(12,606)	(1,728)	(25,864)	(2,939)
Other		1,227	315	(839)	(954)
Changes in non-cash working capital items	19	459	(11,946)	(1,476)	(2,515)
Cash flows provided by operating activities		56,321	30,055	93,049	68,886
Investing activities					
Considerations on acquisitions	5	—	—	(298,365)	(11,270)
Cash acquired through acquisitions and change in control	5	—	—	9,349	502
Additions to property, plant and equipment	9	(11,030)	(3,494)	(18,927)	(4,643)
Additions to intangible assets	10	(393)	(1,346)	(513)	(3,018)
Proceeds on disposal of property, plant and equipment		246	84	727	179
Cash flows used in investing activities		(11,177)	(4,756)	(307,729)	(18,250)

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows (continued)

For the three and six-month periods ended May 31, 2023 and 2022

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended May 31		Six months ended May 31	
	2023	2022	2023	2022
Notes	\$	\$	\$	\$
Financing activities				
Issuance of long-term debt	2,449	—	306,660	—
Repayment of long-term debt	(26,812)	(12,077)	(56,414)	(22,195)
Net lease payments	(11,136)	(4,299)	(21,634)	(8,001)
Shares repurchased and cancelled	—	—	—	(14,618)
Capitalized financing costs	(60)	—	(60)	—
Dividends paid to non-controlling shareholders of subsidiaries	(88)	—	(138)	(280)
Dividends paid	(6,104)	(5,127)	(12,207)	(10,265)
Cash flows (used in) provided by financing activities	(41,751)	(21,503)	216,207	(55,359)
Net increase (decrease) in cash	3,393	3,796	1,527	(4,723)
Effect of foreign exchange rate changes on cash ⁽¹⁾	482	(21)	1,590	(269)
Cash, beginning of period	58,721	52,464	59,479	61,231
Cash, end of period	62,596	56,239	62,596	56,239

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

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

MTY Food Group Inc.

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MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and six-month periods ended May 31, 2023 and 2022

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

(Unaudited)

1. Description of the business

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

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

2. Basis of preparation

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

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

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

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

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

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

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

Statement of compliance

The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and apply the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended November 30, 2022, prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), with the exception of:

- hedging and derivative financial instruments as disclosed below;
- fixed interest rate swaps as disclosed below; and
- IAS 37 as disclosed in Note 3 to these financial statements.

These financial statements do not include all the information required under IFRS for complete financial statements and should therefore be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2022.

The financial statements were authorized for issue by the Board of Directors on July 10, 2023.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and six-month periods ended May 31, 2023 and 2022

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

(Unaudited)

2. Basis of preparation (continued)

Hedging and derivative financial instruments

The Company applies general hedge accounting requirements of IFRS 9, Financial Instruments.

Fixed interest rate swaps

Periodically, the Company uses fixed interest rate swaps to manage the interest rate risk associated with its borrowings from its credit facility. Where the general hedge accounting requirements are met, the Company designates those fixed interest rate swaps as a cash flow hedge of the interest from its credit facility. Accordingly, changes in the fair value of the derivative financial instruments, which are included in Current portion of derivative assets, are recognized in Other comprehensive income. Realized gains and losses in Accumulated other comprehensive income are reclassified to Interest on long-term debt over the same periods as the interest expense on the long-term debt is recognized in earnings.

Financial instruments

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 fair value through profit or loss ("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
Derivative financial instruments	FVTPL
Derivative financial instruments designated as cash flow hedges	FVTPL subject to hedge accounting requirements

Seasonality

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

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and six-month periods ended May 31, 2023 and 2022

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

(Unaudited)

3. Change in accounting policies

Policy applicable beginning December 1, 2022

IAS 37, Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB published *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)* amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The changes in *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)* specify that the “cost of fulfilling” a contract comprises the “costs that relate directly to the contract”. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

The amendments to IAS 37 were adopted effective December 1, 2022 and resulted in no significant adjustment.

4. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the IASB that are not yet effective for the three and six-month periods ended May 31, 2023 and have not been applied in preparing these financial statements.

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

Standard	Issue date	Effective date for the Company	Impact
IAS 1, Presentation of Financial Statements	January 2020, July 2020, February 2021 & October 2022	December 1, 2024	In assessment
IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors	February 2021	December 1, 2023	In assessment
IAS 12, Income Taxes	May 2021	December 1, 2023	In assessment
IFRS 16, Leases	September 2022	December 1, 2024	In assessment

IAS 1, Presentation of Financial Statements

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

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

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.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and six-month periods ended May 31, 2023 and 2022

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

(Unaudited)

4. Future accounting changes (continued)

IAS 1, Presentation of Financial Statements (continued)

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

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

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

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

IAS 12, Income Taxes

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

IFRS 16, Leases

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

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and six-month periods ended May 31, 2023 and 2022

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

(Unaudited)

5. Business acquisitions

I) Wetzel's Pretzels (2023)

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

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

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

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

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and six-month periods ended May 31, 2023 and 2022

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

(Unaudited)

5. Business acquisitions (continued)

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

The preliminary purchase price allocation is as follows:

	As previously reported	Adjustments	2023 \$
Net assets acquired:			
Current assets			
Cash	9,318	—	9,318
Accounts receivable	1,364	—	1,364
Inventories	360	—	360
Current portion of loans and other receivables	61	—	61
Current portion of finance lease receivables	2,529	—	2,529
Prepaid expenses	1,028	—	1,028
	<u>14,660</u>	<u>—</u>	<u>14,660</u>
Loans and other receivables	807	—	807
Finance lease receivables ⁽¹⁾	8,552	132	8,684
Property, plant and equipment	7,578	—	7,578
Right-of-use assets ⁽¹⁾	16,082	2,358	18,440
Intangible assets – Franchise rights	42,783	—	42,783
Intangible assets – Trademark	92,358	—	92,358
Goodwill ⁽²⁾	172,010	133	172,143
	<u>354,830</u>	<u>2,623</u>	<u>357,453</u>
Current liabilities			
Accounts payable and accrued liabilities	11,993	—	11,993
Gift card liability	134	—	134
Current portion of deferred revenue	1,117	—	1,117
Current portion of lease liabilities	4,908	—	4,908
	<u>18,152</u>	<u>—</u>	<u>18,152</u>
Lease liabilities ⁽¹⁾	22,255	2,623	24,878
Deferred income taxes	29,697	—	29,697
Other liabilities	5	—	5
	<u>70,109</u>	<u>2,623</u>	<u>72,732</u>
Net purchase price	<u>284,721</u>	<u>—</u>	<u>284,721</u>

(1) The Company has recorded adjustments to its previously reported preliminary purchase price allocation reported in the prior quarter. The adjustments relate to the fair values of finance lease receivables, right-of-use assets and lease liabilities.

(2) Goodwill is partially deductible for tax purposes.

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

From December 8, 2022 to May 31, 2023, the Company's condensed interim consolidated statement of income included revenue of \$39,092 and net income of \$7,951 attributable to Wetzel's Pretzels.

MTY Food Group Inc.

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5. Business acquisitions (continued)

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

The following unaudited pro forma information for the six-month period ended May 31, 2023 represents the Company's results of operations as if the acquisition of Wetzel's Pretzels had occurred on December 1, 2022. This pro forma information does not purport to be indicative of the results that would have occurred for the period presented or that may be expected in the future.

	2023
	\$
Revenue	593,213
Net income	50,293

II) Sauce Pizza and Wine (2023)

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

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

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

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

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5. Business acquisitions (continued)

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

The preliminary purchase price allocation is as follows:

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

⁽¹⁾ Goodwill is deductible for tax purposes.

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

From December 15, 2022 to May 31, 2023, the Company's condensed interim consolidated statement of income included revenue of \$16,470 and net income of \$685 attributable to Sauce Pizza and Wine.

The acquisition of Sauce Pizza and Wine would not have had a significant impact on the Company's revenue and net income for the six-month period ended May 31, 2023 if the acquisition had occurred on December 1, 2022.

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6. Accumulated other comprehensive income (loss)

As at May 31, 2023, the Company's accumulated other comprehensive income related to cash flow hedges amounted to \$4,102 (November 30, 2022 – nil).

As at May 31, 2023, the Company's accumulated other comprehensive income related to translation adjustments and deferred tax expense on foreign currency translation adjustments and cash flow hedges amounted to \$21,238 (November 30, 2022 – \$13,766).

7. Accounts receivable

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

	May 31, 2023	November 30, 2022
	\$	\$
Total accounts receivable	94,795	85,193
Less: Allowance for credit losses	8,839	7,094
Total accounts receivable, net	85,956	78,099
Of which:		
Not past due	73,164	65,059
Past due for more than one day but no more than 30 days	2,489	2,513
Past due for more than 31 days but no more than 60 days	1,475	1,841
Past due for more than 61 days	8,828	8,686
Total accounts receivable, net	85,956	78,099

8. 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.

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8. 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 six-month period ended May 31, 2023:

	Offices, corporate and dark stores	Store locations subject to operating subleases	Other	Total
	\$	\$	\$	\$
Balance as at November 30, 2022	146,708	11,677	1,321	159,706
Additions	4,022	—	—	4,022
Additions through business acquisitions (Note 5)	28,353	—	—	28,353
Depreciation expense	(17,456)	(673)	(289)	(18,418)
Impairment charge	(106)	—	—	(106)
De-recognition/lease modification of lease liabilities	(549)	—	(1)	(550)
Foreign exchange	785	20	3	808
Other	(273)	—	—	(273)
Balance as at May 31, 2023	161,484	11,024	1,034	173,542

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8. Leases (continued)

Finance lease receivables

The following table provides the carrying amount of the finance lease receivables and the changes in the six-month period ended May 31, 2023:

	<u>2023</u>
	\$
Balance as at November 30, 2022	338,776
Additions	11,424
Additions through business acquisitions (Note 5)	11,213
Lease renewals and modifications	21,110
Lease terminations	(4,035)
Other adjustments	65
Interest income ⁽¹⁾	5,443
Receipts	(48,688)
Foreign exchange	655
Balance as at May 31, 2023	335,963

⁽¹⁾ During the three and six-month periods ended May 31, 2023, the Company recorded interest income on finance lease receivables of \$2,797 and \$5,443, respectively (2022 – \$2,551 and \$5,080, respectively).

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

	<u>Finance lease receivables</u>
	\$
Current portion	83,500
Long-term portion	255,276
November 30, 2022	338,776
Current portion	82,848
Long-term portion	253,115
May 31, 2023	335,963

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8. Leases (continued)

Lease liabilities

The following table provides the carrying amount of the lease liabilities and the changes in the six-month period ended May 31, 2023:

	<u>2023</u>
	\$
Balance as at November 30, 2022	514,814
Additions	8,740
Additions through business acquisitions (Note 5)	39,836
Lease renewals and modifications	26,352
Lease terminations	(2,751)
Other adjustments	(2,360)
Interest expense ⁽¹⁾	10,486
Payments	(70,322)
Foreign exchange	1,509
Balance as at May 31, 2023	526,304

⁽¹⁾ During the three and six-month periods ended May 31, 2023, the Company recorded interest expense on lease liabilities of \$5,388 and \$10,486, respectively (2022 – \$3,043 and \$6,054, respectively).

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

	<u>Lease liabilities</u>
	\$
Current portion	114,437
Long-term portion	400,377
November 30, 2022	514,814
Current portion	114,986
Long-term portion	411,318
May 31, 2023	526,304

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Notes to the condensed interim consolidated financial statements

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9. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2022	7,323	9,884	44,410	41,737	9,385	639	113,378
Additions	—	9	11,828	6,285	805	—	18,927
Disposals	—	(80)	(1,364)	(1,858)	(234)	(18)	(3,554)
Foreign exchange	30	33	272	219	48	—	602
Additions through business acquisitions (Note 5)	—	—	7,536	5,192	62	—	12,790
Balance as at May 31, 2023	7,353	9,846	62,682	51,575	10,066	621	142,143

Accumulated depreciation	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2022	—	2,092	6,963	9,399	3,674	372	22,500
Eliminated on disposal of assets	—	(80)	(1,304)	(1,502)	(233)	(18)	(3,137)
Foreign exchange	—	1	13	30	15	—	59
Depreciation expense	—	210	5,054	3,799	1,205	42	10,310
Balance as at May 31, 2023	—	2,223	10,726	11,726	4,661	396	29,732

Carrying amounts	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
November 30, 2022	7,323	7,792	37,447	32,338	5,711	267	90,878
May 31, 2023	7,353	7,623	51,956	39,849	5,405	225	112,411

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10. Intangible assets

Cost	Franchise and master franchise rights	Trademarks	Step-in rights	Customer lists	Other	Total
	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2022	388,314	805,780	1,199	13,698	13,602	1,222,593
Additions	—	—	—	—	513	513
Additions through business acquisitions (Note 5)	42,783	97,664	—	—	—	140,447
Foreign exchange	1,798	4,135	—	—	54	5,987
Balance as at May 31, 2023	432,895	907,579	1,199	13,698	14,169	1,369,540

Accumulated amortization	Franchise and master franchise rights	Trademarks	Step-in rights	Customer lists	Other	Total
	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2022	197,127	—	1,098	3,422	5,675	207,322
Foreign exchange	841	—	—	—	18	859
Amortization	16,297	—	60	483	1,007	17,847
Balance as at May 31, 2023	214,265	—	1,158	3,905	6,700	226,028

Carrying amounts	Franchise and master franchise rights	Trademarks	Step-in rights	Customer lists	Other	Total
	\$	\$	\$	\$	\$	\$
November 30, 2022	191,187	805,780	101	10,276	7,927	1,015,271
May 31, 2023	218,630	907,579	41	9,793	7,469	1,143,512

11. Goodwill

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

	2023
	\$
Goodwill as at November 30, 2022	595,269
Purchase price allocation (Note 5)	179,315
Foreign exchange	3,027
Goodwill as at May 31, 2023	777,611
Accumulated impairment as at November 30, 2022	65,721
Foreign exchange	462
Accumulated impairment as at May 31, 2023	66,183
Carrying amounts	
November 30, 2022	529,548
May 31, 2023	711,428

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(Unaudited)

12. Long-term debt

	May 31, 2023	November 30, 2022
	\$	\$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions	1,248	142
Contingent considerations on Küto Comptoir à Tartares acquisition and 11554891 Canada Inc. ⁽¹⁾	4,223	3,626
Fair value of non-controlling interest option in 9974644 Canada Inc. ⁽²⁾	2,100	1,853
Fair value of obligation to repurchase 11554891 Canada Inc. partner ⁽³⁾	7,867	7,867
Revolving credit facility payable to a syndicate of lenders ⁽⁴⁾	802,989	550,055
Credit facility financing costs	(2,219)	(2,584)
	816,208	560,959
Less: Current portion	(11,491)	(9,530)
	804,717	551,429

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

(2) Payable on demand.

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

(4) Under the revolving credit facility, the Company has the option to draw funds in Canadian or in US dollars, at its discretion. The facility's maturity is October 28, 2025 and must be repaid in full at that time. The revolving credit facility has an authorized amount of \$900,000 (November 30, 2022 – \$900,000). As at May 31, 2023, the Company had drawn US\$590,312 (November 30, 2022 – US\$408,850) and has elected to pay interest based on the Secured Overnight Financing Rate ("SOFR") plus applicable margins. The credit facility bears interest at Canadian prime rate, US prime rate rate, Bankers' acceptances rate and eventually the Canadian Overnight Repo Rate Average, and SOFR plus an applicable margin that will vary depending on the type of advances. The Company pays a commitment fee on the available unused credit facility.

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

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

As at May 31, 2023, the Company was in compliance with its financial covenants.

13. Capital stock

On June 29, 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. The NCIB was again renewed on June 29, 2023 for a period beginning on July 3, 2023 and ending on July 2, 2024 or on such earlier date when the Company completes its purchases or elects to terminate the NCIB. The renewed period allows the Company to purchase 1,220,673 of its common shares. These purchases will be made on the open market plus brokerage fees through the facilities of the TSX and/or alternative trading systems at the prevailing market price at the time of the transaction, in accordance with the TSX's applicable policies. All common shares purchased pursuant to the NCIB will be cancelled.

During the three and six-month periods ended May 31, 2023, the Company did not repurchase and cancel any common shares under the current NCIB. During the three and six-month periods ended May 31, 2022, the Company repurchased and cancelled a total of nil and 256,400 common shares, respectively, at a weighted average price of nil and \$57.01 per common share, respectively, for a total consideration of nil and \$14,618, respectively. An excess of nil and \$11,438, respectively, of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

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14. Net income per share

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

	Three months ended May 31		Six months ended May 31	
	2023	2022	2023	2022
Weighted daily average number of common shares – basic	24,413,461	24,413,461	24,413,461	24,466,468
Assumed exercise of stock options ⁽¹⁾	70,187	10,845	77,138	17,476
Weighted daily average number of common shares – diluted	24,483,648	24,424,306	24,490,599	24,483,944

⁽¹⁾ The calculation of the assumed exercise of stock options includes the effect of the average unrecognized future compensation cost of dilutive options. The number of excluded options for the three and six-month periods ended May 31, 2023 was 13,334 for both periods (2022 – 306,668 and 284,446, respectively).

15. Financial instruments

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

Fair value of recognized financial instruments

Cross currency interest rate swaps

On April 27, 2023 and May 30, 2023, the Company entered into one floating to floating 2-month cross currency interest rate swap and one floating to floating 1-month cross currency interest rate swap, respectively (November 30, 2022 – one floating to floating 3-month cross currency interest rate swap and one floating to floating 2-month cross currency interest rate swap). A derivative asset fair value of \$560 was recorded as at May 31, 2023 (November 30, 2022 – nil). The Company has classified this as level 2 in the fair value hierarchy.

	May 31, 2023		November 30, 2022	
	2-month	1-month	3-month	2-month
Receive – Notional	US\$55,300	US\$148,012	US\$64,850	US\$150,000
Receive – Rate	7.24%	7.24%	6.18%	6.18%
Pay – Notional	CA\$75,000	CA\$201,000	CA\$87,000	CA\$201,000
Pay – Rate	6.56%	6.55%	5.95%	5.80%

On May 24, 2023, the Company also entered into one forward floating to floating 1-month cross currency interest rate swap (November 30, 2022 – none), with a locked rate based on the Canadian Dollar Offered Rate less a margin of 0.56%. A derivative liability fair value of \$7 was netted against the derivative asset as at May 31, 2023 (November 30, 2022 – nil). The Company has classified this as level 2 in the fair value hierarchy.

Fixed interest rate swaps

On March 24, 2023, the Company entered into a three-year SOFR fixed interest rate swap for a notional amount of US\$200,000. The period of three years ends on April 10, 2026. Under the terms of this swap, the interest rate is fixed at 3.32%. A derivative asset fair value of \$4,364 was recorded as at May 31, 2023 (November 30, 2022 – nil). The Company has classified this as level 2 in the fair value hierarchy and has designated this as a cash flow hedge of the Company's interest rate risk from its credit facility.

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15. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Fixed interest rate swaps (continued)

On May 30, 2023, the Company entered into a two-year SOFR fixed interest rate swap for a notional amount of US\$100,000. The period of two years ends on May 30, 2025. Under the terms of this swap, the interest rate is fixed at 3.64%, unless the 1-month term SOFR exceeds 5.50%; if the 1-month term SOFR exceeds 5.50%, the Company will pay the 1-month term SOFR. A derivative asset fair value of \$17 was recorded as at May 31, 2023 (November 30, 2022 – nil). The Company has classified this as level 2 in the fair value hierarchy.

A fair value remeasurement gain of \$5 was recorded for the fixed interest rate swaps for both the three and six-month periods ended May 31, 2023 (2022 – nil and nil, respectively).

Fair value hierarchy

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

	<u>2023</u>
	\$
Financial liabilities classified as level 3 as at November 30, 2022	13,346
Revaluation of financial liabilities recorded at fair value	844
Financial liabilities classified as level 3 as at May 31, 2023	<u>14,190</u>

As at May 31, 2023 and November 30, 2022, the financial liabilities classified as level 3 in the fair value hierarchy were comprised of the following:

	<u>May 31, 2023</u>	November 30, 2022
	\$	\$
Contingent considerations on Kûto Comptoir à Tartares acquisition and 11554891 Canada Inc.	4,223	3,626
Non-controlling interest buyback option	2,100	1,853
Obligation to repurchase 11554891 Canada Inc. partner	7,867	7,867
Financial liabilities classified as level 3	<u>14,190</u>	<u>13,346</u>

The Company has determined that the fair values of its financial assets and financial liabilities with short-term and long-term maturities approximate their carrying value. These financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, deposits and other liabilities. The table below shows the fair value and the carrying amount of other financial instruments as at May 31, 2023 and November 30, 2022. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	<u>May 31, 2023</u>		November 30, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Loans and other receivables	3,611	3,611	4,442	4,442
Finance lease receivables	335,963	335,963	338,776	338,776
Financial liabilities				
Long-term debt ⁽¹⁾	804,237	804,237	550,197	550,197

⁽¹⁾ Excludes contingent considerations on Kûto Comptoir à Tartares acquisition and 11554891 Canada Inc., credit facility financing costs, non-controlling interest option in 9974644 Canada Inc. and obligation to repurchase 11554891 Canada Inc. partner.

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15. Financial instruments (continued)

Determination of fair value

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

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

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

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. The Company from time to time may enter into fixed interest rate derivatives to manage its cash flow risk exposure, with long-term commitments requiring Board approval to ensure compliance with the Company's risk management strategy. As at May 31, 2023, the Company holds a floating-to-fixed interest rate swap in order to hedge a portion of the interest rate cash flow risk associated with floating interest rate debt.

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.

16. Revenue

Three months ended

	May 31, 2023			May 31, 2022		
	US &		TOTAL	US &		TOTAL
	Canada	International		Canada	International	
	\$	\$	\$	\$	\$	\$
Royalties	23,524	45,423	68,947	21,470	32,565	54,035
Franchise and transfer fees	1,296	1,650	2,946	1,201	2,363	3,564
Retail, food processing and distribution revenues	41,342	132	41,474	41,903	1,466	43,369
Sale of goods, including construction revenue	9,519	124,469	133,988	8,670	6,316	14,986
Gift card breakage income	85	1,454	1,539	192	1,438	1,630
Promotional funds	11,579	19,254	30,833	10,516	16,054	26,570
Other franchising revenue	9,913	12,527	22,440	8,792	7,014	15,806
Other	646	2,406	3,052	736	1,822	2,558
	97,904	207,315	305,219	93,480	69,038	162,518

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16. Revenue (continued)

	Six months ended					
	May 31, 2023			May 31, 2022		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
Royalties	46,204	86,761	132,965	37,711	60,738	98,449
Franchise and transfer fees	2,694	3,133	5,827	2,475	3,713	6,188
Retail, food processing and distribution revenues	79,301	1,312	80,613	78,267	2,874	81,141
Sale of goods, including construction revenue	19,897	239,819	259,716	16,497	11,956	28,453
Gift card breakage income	257	2,997	3,254	302	2,824	3,126
Promotional funds	22,196	37,881	60,077	19,657	30,901	50,558
Other franchising revenue	19,536	20,357	39,893	16,405	12,852	29,257
Other	1,676	7,201	8,877	1,735	4,105	5,840
	191,761	399,461	591,222	173,049	129,963	303,012

17. Operating expenses

	Three months ended					
	May 31, 2023			May 31, 2022		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
Cost of goods sold and rent	3,126	38,157	41,283	3,038	3,341	6,379
Retail, food processing and distribution costs	37,104	99	37,203	37,934	—	37,934
Wages and benefits	15,488	60,335	75,823	14,304	13,378	27,682
Other corporate store expenses ⁽¹⁾	688	15,432	16,120	762	537	1,299
Consulting and professional fees	2,143	3,706	5,849	2,272	1,724	3,996
Insurance and taxes ⁽¹⁾	323	1,674	1,997	311	754	1,065
Utilities, repairs and maintenance ⁽¹⁾	483	5,776	6,259	558	349	907
Advertising, travel, meals and entertainment ⁽¹⁾	1,134	3,430	4,564	932	1,322	2,254
Gift cards – related costs	—	1,839	1,839	—	1,546	1,546
Royalties	24	2,474	2,498	10	2,296	2,306
Promotional funds ⁽²⁾	11,579	19,254	30,833	10,516	16,054	26,570
Impairment (reversal of impairment) for expected credit losses	758	359	1,117	(458)	103	(355)
Other ^(1 & 3)	2,482	2,704	5,186	2,018	1,268	3,286
	75,332	155,239	230,571	72,197	42,672	114,869

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

(Unaudited)

17. Operating expenses (continued)

	Six months ended					
	May 31, 2023			May 31, 2022		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
Cost of goods sold and rent	8,085	76,435	84,520	7,233	6,243	13,476
Retail, food processing and distribution costs	71,126	175	71,301	71,247	—	71,247
Wages and benefits	30,415	118,857	149,272	27,653	26,828	54,481
Other corporate store expenses ⁽¹⁾	1,314	29,606	30,920	1,405	1,109	2,514
Consulting and professional fees	3,977	6,409	10,386	3,817	3,279	7,096
Insurance and taxes ⁽¹⁾	813	3,344	4,157	631	1,421	2,052
Utilities, repairs and maintenance ⁽¹⁾	1,042	11,958	13,000	1,034	732	1,766
Advertising, travel, meals and entertainment ⁽¹⁾	2,235	6,896	9,131	1,595	2,588	4,183
Gift cards – related costs	—	4,227	4,227	—	3,756	3,756
Royalties	29	4,197	4,226	14	3,794	3,808
Promotional funds ⁽²⁾	22,196	37,881	60,077	19,657	30,901	50,558
Impairment (reversal of impairment) for expected credit losses	1,165	630	1,795	(263)	(320)	(583)
Other ^(1 & 3)	4,381	6,318	10,699	3,020	2,352	5,372
	146,778	306,933	453,711	137,043	82,683	219,726

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

(2) Promotional fund expenses include wages and benefits.

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

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

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18. Segmented information

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

Below is a summary of each geographical and operating segment's performance for the three-month period ended May 31, 2023.

	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	36,900	8,166	41,647	11,578	(387)	97,904	63,134	125,149	132	19,254	(354)	207,315	305,219
Operating expenses	19,006	8,064	37,169	11,578	(485)	75,332	29,096	107,046	99	19,254	(256)	155,239	230,571
Segment profit (loss)	17,894	102	4,478	—	98	22,572	34,038	18,103	33	—	(98)	52,076	74,648

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

	CANADA						US & INTERNATIONAL						Total consolidated
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total US & International	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	33,555	7,701	42,063	10,516	(355)	93,480	46,563	5,174	1,466	16,054	(219)	69,038	162,518
Operating expenses	16,713	7,476	37,941	10,516	(449)	72,197	20,760	5,983	—	16,054	(125)	42,672	114,869
Segment profit (loss)	16,842	225	4,122	—	94	21,283	25,803	(809)	1,466	—	(94)	26,366	47,649

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

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18. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the six-month period ended May 31, 2023.

	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	74,706	15,784	79,809	22,196	(734)	191,761	120,926	240,055	1,312	37,881	(713)	399,461	591,222
Operating expenses	38,379	15,894	71,230	22,196	(921)	146,778	59,040	210,363	175	37,881	(526)	306,933	453,711
Segment profit (loss)	36,327	(110)	8,579	—	187	44,983	61,886	29,692	1,137	—	(187)	92,528	137,511

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

	CANADA						US & INTERNATIONAL						Total consolidated
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total US &	
												International	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	61,973	13,534	78,599	19,657	(714)	173,049	86,856	9,773	2,874	30,901	(441)	129,963	303,012
Operating expenses	33,184	13,810	71,279	19,657	(887)	137,043	40,456	11,594	—	30,901	(268)	82,683	219,726
Segment profit (loss)	28,789	(276)	7,320	—	173	36,006	46,400	(1,821)	2,874	—	(173)	47,280	83,286

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Notes to the condensed interim consolidated financial statements

For the three and six-month periods ended May 31, 2023 and 2022

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

(Unaudited)

19. Condensed interim consolidated statement of cash flows

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

	Three months ended May 31		Six months ended May 31	
	2023	2022	2023	2022
	\$	\$	\$	\$
Accounts receivable	(1,017)	(4,044)	(5,931)	(8,088)
Inventories	(200)	(620)	333	(561)
Loans receivable	161	(17)	237	(6)
Other assets	439	(761)	(730)	(1,229)
Prepaid expenses and deposits	(203)	274	(1,452)	(1,302)
Accounts payable and accrued liabilities	4,252	(6,503)	(4,432)	1,605
Provisions	(382)	215	1,102	(83)
Gift card and loyalty program liabilities	(2,419)	(879)	6,525	6,065
Deferred revenue and deposits	(172)	389	2,872	1,084
	459	(11,946)	(1,476)	(2,515)

For the three and six-month periods ended May 31, 2023, non-cash items amounting to \$163 and \$1,304, respectively (2022 – nil and nil, respectively) are included in proceeds on disposal of property, plant and equipment, primarily related to commitments made as part of the disposal of a portfolio of corporately-owned locations in the US segment.