

*Condensed interim consolidated financial statements of*

**MTY FOOD GROUP INC.**

*For the three-month periods ended February 28, 2013 and February 29, 2012*

# MTY FOOD GROUP INC.

## Condensed interim consolidated statements of comprehensive income

For the three-month periods ended February 28, 2013 and February 29, 2012

(unaudited)

(in thousands of Canadian dollars except per share amounts)

Notice: The condensed interim consolidated financial statements of MTY Food Group Inc. for the three-month periods ended February 28, 2013 and February 29, 2012 have not been reviewed by an external auditor.

	February 28, 2013	February 29, 2012
	\$	\$
<b>Revenue</b> (notes 14 and 21)	<b>22,628</b>	21,945
<b>Expenses</b>		
Operating expenses (notes 15 and 21)	13,825	14,565
Depreciation of property, plant and equipment	253	295
Amortization of intangible assets	973	961
Interest on long-term debt	78	73
	<b>15,129</b>	15,894
<b>Other income (charges)</b>		
Foreign exchange gain (loss)	46	(40)
Interest income	143	50
Gain on disposal of property, plant and equipment	9	102
	<b>198</b>	112
Income before taxes	<b>7,697</b>	6,163
<b>Income taxes (note 20)</b>		
Current	2,157	2,030
Deferred	(75)	(206)
	<b>2,082</b>	1,824
<b>Net income and comprehensive income</b>	<b>5,615</b>	4,339
<b>Net income (loss) and comprehensive income (loss) attributable to:</b>		
<b>Owners</b>	<b>5,635</b>	4,392
<b>Non controlling interest</b>	<b>(20)</b>	(53)
	<b>5,615</b>	4,339

Earnings per share (note 13)

Basic	0.29	0.23
Diluted	0.29	0.23

See accompanying notes to the condensed interim consolidated financial statements

# MTY FOOD GROUP INC.

## Condensed interim consolidated statements of financial position

as at February 28, 2013 and November 30, 2012

(unaudited)

(in thousands of Canadian dollars except per share amounts)

	February 28, 2013	November 30, 2012
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 5)	35,380	33,036
Accounts receivable (note 6)	11,930	13,631
Income taxes receivable	201	-
Inventories (note 7)	1,768	1,609
Loans receivable (note 8)	237	358
Prepaid expenses and deposits	440	338
	49,956	48,972
Loans receivable (note 8)	567	561
Property, plant and equipment	9,377	9,382
Intangible assets	56,307	57,213
Deferred income taxes	158	167
Goodwill	20,266	20,266
	136,631	136,561
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	10,927	13,426
Provisions (note 10)	2,534	2,266
Income taxes payable	-	2,863
Deferred revenue and deposits (note 11)	3,199	2,169
Current portion of long-term debt (note 12)	7,164	7,199
	23,824	27,923
Long-term debt (note 12)	278	277
Deferred income taxes	2,214	2,298
	26,316	30,498
<b>Commitments, guarantee and contingent liabilities</b> (notes 16, 17, 18 and 19)		
<b>Shareholders' equity</b>		
Equity attributable to owners		
Capital stock	19,792	19,792
Contributed surplus	481	481
Retained earnings	89,932	85,635
	110,205	105,908
Equity attributable to non-controlling interest	110	155
	110,315	106,063
	136,631	136,561

See accompanying notes to the condensed interim consolidated financial statements

Approved by the Board on April 4, 2013

..... "Stanley Ma" ..... Director      ..... "Claude St-Pierre" ..... Director

# MTY FOOD GROUP INC.

## Condensed interim consolidated statements of changes in shareholders' equity

For the three-month periods ended February 28, 2013 and February 29, 2012

(unaudited)

(in thousands of Canadian dollars except per share amounts)

	Equity attributable to owners				Equity attributable to non-controlling interest	Total
	Share capital	Contributed surplus	Retained earnings	Total		
	\$	\$	\$	\$		
Balance as at November 30, 2011	19,792	481	67,800	88,073	37	88,110
Net income and comprehensive income for the three-month period ended February 29, 2012	-	-	4,392	4,392	(53)	4,339
Dividends	-	-	(1,052)	(1,052)	-	(1,052)
Balance as at February 29, 2012	19,792	481	71,140	91,413	(16)	91,397
Net income and comprehensive income for the nine-month period from March 1, 2012 to November 30, 2012	-	-	17,675	17,675	40	17,715
Investment in common stock of a subsidiary by non-controlling interest	-	-	-	-	147	147
Equity transaction with non-controlling interest	-	-	(26)	(26)	34	8
Dividends	-	-	(3,154)	(3,154)	(50)	(3,204)
Balance as at November 30, 2012	19,792	481	85,635	105,908	155	106,063
Net income and comprehensive income for the three-month period ended February 28, 2013	-	-	5,635	5,635	(20)	5,615
Dividends	-	-	(1,338)	(1,338)	(25)	(1,363)
<b>Balance as at February 28, 2013</b>	<b>19,792</b>	<b>481</b>	<b>89,932</b>	<b>110,205</b>	<b>110</b>	<b>110,315</b>

The following dividends were declared and paid by the Company:

	February 28, 2013	February 29, 2012
	\$	\$
\$0.070 per common share (2012 - \$0.055 per common share)	1,338	1,052

See accompanying notes to the condensed interim consolidated financial statements

# MTY FOOD GROUP INC.

## Condensed interim consolidated statements of cash flows

For the three-month periods ended February 28, 2013 and February 29, 2012

(unaudited)

(in thousands of Canadian dollars except per share amounts)

	February 28, 2013	February 29, 2012
	\$	\$
<b>Operating activities</b>		
Net income and comprehensive income	5,615	4,339
Items not affecting cash:		
Interest on long-term debt	78	73
Depreciation of property, plant and equipment	253	295
Amortization of intangible assets	973	961
Gain on disposal of property, plant and equipment	(9)	(102)
Income tax expense	2,082	1,824
Deferred revenue	1,030	1,269
	<b>10,022</b>	<b>8,658</b>
Income tax refunds received	402	-
Income taxes paid	(5,624)	(1,454)
Interest paid	(38)	(40)
Changes in non-cash working capital items (note 22)	(676)	(811)
<b>Cash flows provided by operating activities</b>	<b>4,086</b>	<b>6,353</b>
<b>Investing activities</b>		
Temporary investments	-	(4,522)
Additions to property, plant and equipment	(284)	(46)
Additions to intangible assets	(67)	-
Proceeds on disposal of property, plant and equipment	45	201
<b>Cash flows used in investing activities</b>	<b>(306)</b>	<b>(4,367)</b>
<b>Financing activities</b>		
Issuance of long-term debt	-	7
Repayment of long-term debt	(73)	(1)
Dividends paid to non-controlling shareholders of subsidiaries	(25)	-
Dividends paid	(1,338)	(1,052)
<b>Cash flows used in financing activities</b>	<b>(1,436)</b>	<b>(1,046)</b>
Net increase in cash and cash equivalents	2,344	940
Cash and cash equivalents, beginning of period	33,036	5,995
<b>Cash and cash equivalents, end of period</b>	<b>35,380</b>	<b>6,935</b>

See accompanying notes to the condensed interim consolidated financial statements

# MTY FOOD GROUP INC.

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# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

(unaudited)

(in thousands of Canadian dollars except per share amounts)

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### 1. Description of the business

MTY Food Group Inc. (the "Company") is a franchisor in the quick service food industry. Its activities consist of franchising and operating corporate-owned locations 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. The Company's head office is located at 8150, Autoroute Transcanadienne, Suite 200, Ville Saint-Laurent, Quebec.

### 2. Basis of preparation

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The condensed interim consolidated 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 condensed interim consolidated financial statements have been prepared in accordance with 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, 2012, prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements do not include all of the information required under IFRS for complete financial statements and they should therefore be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2012. The Company's annual consolidated financial statements are available on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.mtygroup.com](http://www.mtygroup.com).

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on April 4, 2013.

#### Seasonality of interim operations

The operations of the Company can be seasonal and the results of operations for any interim period are not necessarily indicative of the results of operation for the full fiscal year or any future period.

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

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### 2. Basis of preparation (continued)

#### Estimates, judgments and assumptions

The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. These estimates and assumptions are based on historical experience, other relevant factors and expectations of the future and are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty are as those applied and described in the Company's audited annual financial statements for the year ended November 30, 2012.

### 3. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standard Board (IASB) that are not yet effective for the period ended February 28, 2013, and have not been applied in preparing these condensed interim consolidated financial statements.

The following standards may have a material impact on the condensed interim consolidated financial statements of the Corporation:

Effective for annual periods starting on or after:

Amendment to IFRS 7 Financial Instruments:

Disclosures	January 1, 2013	Early adoption permitted
IFRS 9 Financial Instruments	January 1, 2015	Early adoption permitted
IFRS 10 Consolidated Financial Statements	January 1, 2013	Early adoption permitted
IFRS 12 Disclosure of Interests in Other Entities	January 1, 2013	Early adoption permitted
IFRS 13 Fair Value Measurement	January 1, 2013	Early adoption permitted
Amendments to IAS 1 Presentation of Financial Statements	January 1, 2013	Early adoption permitted
Amendments to IAS 19 Employee Benefits	January 1, 2013	Early adoption permitted
Amendments to IAS 32 Financial Instruments: Presentation	January 1, 2014	Early adoption permitted

IFRS 7 was amended to harmonize the disclosure requirements with those of the Financial Accounting Standard Board (FASB).



# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

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### 3. Future accounting changes (continued)

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. This is the first phase of that project.

IFRS 10 replaces the consolidation requirements in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation of Special Purpose Entities. It provides a single model to be applied in the control analysis for all investees.

IFRS 12 establishes disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard clarifies the definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

The Company is in the process of determining the extent of the impact of these standards on its consolidated financial statements.

### 4. Business acquisitions

#### 2012 acquisition

On September 26, 2012, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired the assets of Mr. Souvlaki Ltd. for a total consideration of \$0.9 million. The acquisition was effective September 26, 2012. The purpose of the acquisition was to diversify the Company's range of offering as well as to complement existing MTY brands.

	\$
<u>Consideration paid</u>	
Purchase price	915
Net obligations assumed	(2)
<hr/>	
Net purchase price	913
Holdbacks	165
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Net cash outflow	748
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# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

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### 4. Business acquisitions (continued)

#### 2012 acquisitions (continued)

The preliminary purchase price allocation is as follows:

	\$
<u>Net assets acquired:</u>	
<b>Current assets</b>	
Franchise rights	629
Trademark	300
	<u>929</u>
<b>Current liabilities</b>	
Accounts payable	2
	<u>2</u>
Deferred income taxes	14
	<u>16</u>
<b>Net purchase price</b>	<u>913</u>

Included in the above-mentioned results are \$nil in expensed acquisition-related costs.

From September 26 to November 30, 2012, the business has generated \$43 in revenues and \$27 in pre-tax profits. Had the acquisition occurred December 1, 2011, interim consolidated revenues and pre-tax profits for the first quarter of 2012 would have been \$22,009 and \$6,211 respectively.

### 5. Cash and cash equivalents

	February 28, 2013	November 30, 2012
	\$	\$
Cash	15,595	13,345
Cash equivalents	19,785	19,691
<b>Total cash and cash equivalents</b>	<u>35,380</u>	<u>33,036</u>

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

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### 6. Accounts receivable

The following table sets forth details of the age of receivables that are not overdue as well as an analysis of overdue amounts and the related allowance for doubtful accounts:

	February 28, 2013	November 30, 2012
	\$	\$
Total accounts receivable	13,245	14,799
Less : Allowance for doubtful accounts	1,315	1,168
<b>Total accounts receivable, net</b>	<b>11,930</b>	<b>13,631</b>
Of which:		
Not past due	6,501	8,045
Past due for more than one day but for no more than 30 days	2,037	2,579
Past due for more than 31 days but for no more than 60 days	778	676
Past due for more than 61 days	2,614	2,331
<b>Total accounts receivable, net</b>	<b>11,930</b>	<b>13,631</b>
Allowance for doubtful accounts beginning of year	1,168	856
Additions	241	692
Write-off	(94)	(380)
<b>Allowance for doubtful accounts end of period</b>	<b>1,315</b>	<b>1,168</b>

The Company has recognized an allowance for doubtful accounts based on past experience, outlet-specific situation, counterparty's current financial situation and age of the receivables.

Trade receivables disclosed above include amounts that are past due at the end of the reporting period and for which the Company has not recognized an allowance for doubtful accounts because there was no significant change in the credit quality of the counterparty and the amounts are therefore considered recoverable. The Company does not hold any collateral or other credit enhancements over these balances nor does it have the legal right of offset against any amounts owed by the Company to the counterparty.

The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

(unaudited)

(in thousands of Canadian dollars except per share amounts)

### 7. Inventories

	February 28, 2013	November 30, 2012
	\$	\$
Raw materials	1,425	1,363
Work in progress	32	34
Finished goods	311	212
<b>Total inventories</b>	<b>1,768</b>	<b>1,609</b>

Inventories are presented net of a \$9 allowance for obsolescence (\$11 as at November 30, 2012). All of the inventories are expected to be sold within the next twelve months.

Inventories expensed during the three-month period ended February 28, 2013 was \$5,947 (2012 - \$6,025).

### 8. Loans receivable

The loans receivable generally result from the sales of franchises and of various advances to certain franchisees and consist of the following:

	February 28, 2013	November 30, 2012
	\$	\$
Loans receivable, carrying no interest and without terms of repayment	28	31
Loans receivable bearing interest between nil and 10% per annum, receivable in monthly instalments of \$28 in aggregate, including principal and interest, ending in April 2017	776	888
	<b>804</b>	919
Current portion	<b>(237)</b>	<b>(358)</b>
	<b>567</b>	<b>561</b>

The capital repayments in subsequent years will be:

	\$
2014	237
2015	278
2016	122
2017	69
2018	29
Thereafter	69
	<b>804</b>

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

(unaudited)

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### 9. Credit facilities

As at February 28, 2013, the Company has access to an authorized revolving credit facility of \$10,000 and a treasury risk facility of \$1,000. Bank indebtedness is secured by a moveable hypothec on all the assets of the Company.

The revolving credit facility bears interest at the bank's prime rate for advances in C\$ (or the bank's U.S. base rate for advance in US\$) plus a margin not exceeding 0.5% established based on the Company's funded debt/EBITDA ratio. As at February 28, 2013, the bank's prime rate was 3.25%.

The treasury risk facility bears interest at the market rate as determined by the lender's treasury department.

Under the terms of the credit facilities, the Company must satisfy a funded debt to EBITDA ratio of 2 to 1 and a minimum interest coverage ratio of 4.5:1. The credit facility is payable on demand and is renewable annually. As at February 28, 2013, no amounts were drawn from the facilities and the Company is in compliance with the facility's covenants.

### 10. Provisions

Included in provisions are the following amounts:

	February 28, 2013	November 30, 2012
	\$	\$
Litigations and disputes	458	433
Closed stores	1,069	923
Gift card liabilities/loyalty programs liabilities	1,007	910
<b>Total</b>	<b>2,534</b>	<b>2,266</b>

The provision for litigation and disputes represent management's best estimate of the outcome of litigations and disputes that are on-going or that are expected to happen 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 gift card and loyalty programs liabilities are the estimated value in gift cards and points outstanding at the date of the statement of financial position. The timing of the reversal of this provision is dependent on customer behaviour and therefore outside of the Company's control.

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

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### 10. Provisions (continued)

In the provisions above, \$53 was unused and reversed into income. The amounts used in the period include \$26 of the provisions for disputes and closed stores; this amount was used for the settlement of litigation and for the termination of the leases of closed stores.

Additions during the year include \$250 to the litigation and closed stores provisions. The provisions were increased to reflect new information available to management.

### 11. Deferred revenue and deposits

	February 28, 2013	November 30, 2012
	\$	\$
Franchise fee deposits	1,954	1,825
Deferred landlord lease incentives	69	72
Supplier contributions and other allowances	1,176	272
	<u>3,199</u>	<u>2,169</u>
Current portion	<u>(3,199)</u>	<u>(2,169)</u>
	<u>-</u>	<u>-</u>

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

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### 12. Long-term debt

	February 28, 2013	November 30, 2012
	\$	\$
Non-interest bearing holdbacks on acquisition, repayable September 2013. The effective interest rate is 4.50%.	355	351
Non-interest bearing holdbacks on acquisition, repayable between March 2013 and August 2014. The effective interest rate is 4.50%.	818	810
Non-interest bearing holdback on acquisition, repayable in November 2013. The effective interest rate is 4.50%.	2,426	2,399
Non-interest bearing holdback on acquisition, repayable between March 2013 and November 2013	248	248
Non-interest bearing holdbacks on acquisition of Mr. Souvlaki, repayable September 2014	165	165
Bank loan <sup>(i)</sup> bearing interest at the bank's prime plus 0.50%, secured by the property, plant and equipment of a subsidiary, repayable in fixed monthly capital repayments at \$24 plus interest with a maturity date of November 1, 2015. As of February 28, 2013, the bank's prime rate is 4.50%	3,330	3,403
Mandatorily redeemable preferred shares, non-cumulative, redeemable in three yearly instalments beginning December 2011, with redemption value based on the performance of a subsidiary	100	100
	<u>7,442</u>	<u>7,476</u>
Current portion	<u>(7,164)</u>	<u>(7,199)</u>
	<u>278</u>	<u>277</u>

<sup>(i)</sup> This loan is subject to restrictive covenants that have to be respected as at February 28, 2013. The requirements are for a subsidiary of the corporation to maintain certain working capital, interest coverage and debt to equity ratios. As of February 28, 2013, two of the covenants were not met. As a result of the breach in covenant, the debt was classified as current on the consolidated statement of financial position.

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

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### 13. Earnings per share

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

	February 28, 2013	November 30, 2012
Weighted daily average number of common shares	19,120,567	19,120,567

### 14. Revenues

The Company's revenues include:

	February 28, 2013	February 29, 2012
	\$	\$
Royalties	7,989	8,156
Initial franchise fees	1,171	544
Rent	1,352	1,295
Sale of goods, including construction revenues	7,879	8,126
Other franchising revenue	3,515	3,472
Other	722	352
	<b>22,628</b>	<b>21,945</b>

### 15. Operating expenses

Operating expenses are broken down as follows:

	February 28, 2013	February 29, 2012
	\$	\$
Cost of goods sold and rent	8,277	8,314
Wages and benefits	2,990	3,349
Consulting and professional fees	713	928
Royalties	198	201
Other	1,647	1,773
	<b>13,825</b>	<b>14,565</b>

### 16. Operating lease arrangements

Operating leases as lessee relate to leases of premises in relation to the Company's operations. Leases typically have terms ranging between 5 and 10 years at inception. The Company does not have options to purchase the premises on any of its operating leases.



# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

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### 16. Operating lease arrangements (continued)

The Company has entered into various long-term leases and has sub-leased substantially all of the premises based on the same terms and conditions as the original lease to unrelated franchisees. The minimum rentals, exclusive of occupancy and escalation charges, and additional rent paid on a percentage of sales basis, payable under the leases are as follows:

	Lease commitments	Sub-leases	Net commitments
	\$	\$	\$
2014	49,931	47,144	2,787
2015	47,205	44,340	2,865
2016	42,751	40,319	2,432
2017	38,321	36,163	2,158
2018	32,503	30,723	1,780
Thereafter	84,505	78,166	6,339
	<u>295,216</u>	<u>276,855</u>	<u>18,361</u>

Payments recognized as a net expense during the three-month period ended February 28, 2013 amount to \$1,797 (2012 - \$1,928).

Operating leases as lessor relate to the properties leased or owned by the Company, with lease terms ranging between 5 to 10 years. Some have options to extend the duration of the agreements, for periods ranging between 1 and 15 years. None of the agreements contain clauses that would enable the lessee or sub-lessee to acquire the property.

During the period, the company has earned rental income of \$1,352 (2012 - \$1,295).

The Company has recognized a liability of \$1,069 (November 30, 2012 - \$923) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (Note 10).

### 17. Commitments

The Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery dates ranging from March 2013 to December 2013. The total commitment amounts to approximately \$1,311.

### 18. Guarantee

The Company has provided a guarantee in the form of a letter of credit for an amount of \$45 (\$45 as at November 30, 2012).

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

(unaudited)

(in thousands of Canadian dollars except per share amounts)

### 19. 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 10. The timing of the outflows, if any, is out of the control of the Company and is as a result undetermined at the moment.

### 20. 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:

	February 28, 2013		February 29, 2012	
	\$	%	\$	%
Combined income tax rate	2,047	26.6	1,670	27.1
Add effect of:				
Impact of disposition of capital property	(1)	(0.0)	(28)	(0.4)
Non-deductible items	12	0.1	3	0.1
Variation in tax reserves	-	-	62	1.0
Losses in a subsidiaries for which no deferred income tax asset was recorded	-	-	59	0.9
Adjustment to prior year provisions	-	-	37	0.6
Other ó net	24	0.3	21	0.3
<b>Provision for income taxes</b>	<b>2,082</b>	<b>27.0</b>	<b>1,824</b>	<b>29.6</b>

### 21. Segmented information

The Company's activities are comprised of Franchise operations, Corporate store operations, Distribution operations and Food processing operations. Operating segments were established based on the differences in the types of products or services offered by each division.

The products and services offered by each segment are as follows:

#### *Franchising operations*

The franchising business mainly generates revenues from royalties, supplier contributions, franchise fees, rent and the sale of turnkeys.

#### *Corporate store operations*

Corporate stores generate revenues from the direct sale of prepared food to customers.

#### *Distribution operations*

The distribution operations generate revenues by distributing raw materials to restaurants of our Valentine and Franx banners.

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2013 and February 29, 2012

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### 21. Segmented information (continued)

#### *Food processing operations*

The Food processing plant generates revenues from the sale of ingredients and prepared food to restaurant chains, distributors and retailers.

Below is a summary of each segment's performance during the periods.

For the three-month period ended February 28, 2013:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	\$	\$	\$	\$	\$	\$
Operating revenues	16,680	2,447	1,301	2,292	(92)	22,628
Operating expenses	7,764	2,583	1,220	2,350	(92)	13,825
	8,916	(136)	81	(58)	-	8,803
Other expenses						
Depreciation - property, plant and equipment	100	101	-	52	-	253
Amortization of intangible assets	973	-	-	-	-	973
Interest on long-term debt	40	-	-	38	-	78
Other income						
Foreign exchange gain	46	-	-	-	-	46
Interest income	143	-	-	-	-	143
Gain on disposal of property, plant and equipment	9	-	-	-	-	9
Operating income	8,001	(237)	81	(148)	-	7,697
Current income taxes	2,199	(64)	22	-	-	2,157
Deferred income taxes	(36)	-	-	(39)	-	(75)
Net income and comprehensive income	5,838	(173)	59	(109)	-	5,615

# MTY FOOD GROUP INC.

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### 21. Segmented information (continued)

For the three-month period ended February 29, 2012:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	\$	\$	\$	\$	\$	\$
Operating revenues	15,459	3,350	1,273	2,005	(142)	21,945
Operating expenses	8,079	3,441	1,214	1,973	(142)	14,565
	7,380	(91)	59	32	ó	7,380
Other expenses						
Depreciation - property, plant and equipment	165	72	2	56	ó	295
Amortization ó intangible assets	961	ó	ó	ó	ó	961
Interest on long-term debt	34	ó	ó	39	ó	73
Other income						
Foreign exchange loss	(40)	ó	ó	ó	ó	(40)
Interest income	50	ó	ó	ó	ó	50
Gain on disposal of property, plant and equipment	102	ó	ó	ó	ó	102
Operating income	6,332	(163)	57	(63)	ó	6,163
Current income taxes	2,053	(39)	16	ó	ó	2,030
Deferred income taxes	(235)	ó	ó	29	ó	(206)
Net income and comprehensive income	4,514	(124)	41	(92)	ó	4,339

During the three-month period ended February 28, 2013, three customers of the food processing segment respectively accounted for 25%, 19% and 13% of the revenues of the segment.

None of the other segments had customers who represented more than 10% of their revenues.

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

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### 22. Statement of cash flows

Net changes in non-cash working capital balances relating to continuing operations are as follows:

	February 28, 2013	February 29, 2012
	\$	\$
Accounts receivable	1,701	898
Inventories	(159)	(46)
Loans receivable	115	40
Prepaid expenses and deposits	(102)	(102)
Accounts payable and accrued liabilities	(2,499)	(1,518)
Provisions	268	(83)
	<u>(676)</u>	<u>(811)</u>

### 23. 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.

#### Compensation of key management personnel

The remuneration of key management personnel and directors during the period was as follows:

	February 28, 2013	February 29, 2012
	\$	\$
Short-term benefits	199	139
Post-employment benefits, share-based payments and other long-term benefits	6	6
Board member fees	11	11
Total remuneration of key management personnel and directors	<u>210</u>	<u>150</u>

Key management personnel is composed of the Company's CEO, COO 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 trends.

Given its widely held share base, the Company does not have an ultimate controlling party; its most important shareholder is its CEO, who controls 26% of the outstanding shares.

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

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### 23. Related party transactions (continued)

The Company also pays employment benefits to individuals related to members of the key management personnel described above. Their total remuneration was as follows:

	February 28, 2013	February 29, 2012
	\$	\$
Short-term benefits	80	98
Post-employment benefits, share-based payments and other long-term benefits	ó	ó
<b>Total remuneration of individuals related to key management personnel</b>	<b>80</b>	<b>98</b>

A corporation owned by individuals related to key management personnel has participation in two of the Company's subsidiaries. During the period ended February 28, 2013, dividends of nil (2012- nil) were paid by those subsidiaries to the above-mentioned company, and advances of nil (2012- nil) were repaid.