
Condensed interim consolidated
financial statements of
MTY Food Group Inc.

For the six-month periods ended May 31, 2015 and May 31, 2014

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three and six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

Notice : The condensed interim consolidated financial statements of MTY Food Group Inc. for the six-month periods ended May 31, 2015 and May 31, 2014 have not been reviewed by an external auditor.

	Notes	Three months ended May 31, 2015	Six months ended May 31, 2015	Three months ended May 31, 2014	Six months ended May 31, 2014
		\$	\$	\$	\$
	4			(Restated)	(Restated)
Revenue	19 and 25	38,355	70,719	29,402	55,004
Expenses					
Operating expenses	20 and 25	24,911	46,852	17,997	34,113
Depreciation – property, plant and equipment		406	773	317	616
Amortization – intangible assets		1,716	3,395	1,434	2,886
Interest on long-term debt		144	233	88	230
		27,177	51,253	19,836	37,845
Other income (charges)					
Foreign exchange gain		(34)	158	(29)	29
Interest income		22	42	1	7
Impairment of goodwill	12	(200)	(200)	—	—
Gain on disposal of property, plant and equipment and intangibles		703	868	411	354
		491	868	383	390
Income before taxes		11,669	20,334	9,949	17,549
Income taxes	24				
Current		2,792	4,790	3,186	4,017
Deferred		343	731	(453)	783
		3,135	5,521	2,733	4,800
Net income		8,534	14,813	7,216	12,749
Net income attributable to:					
Owners		8,501	14,720	7,266	12,803
Non-controlling interests		33	93	(50)	(54)
		8,534	14,813	7,216	12,749
Earnings per share	17				
Basic		0.44	0.77	0.38	0.67
Diluted		0.44	0.77	0.38	0.67

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, 2015 and May 31, 2014

(unaudited)

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

	Three months ended May 31, 2015	Six months ended May 31, 2015	Three months ended May 31, 2014	Six months ended May 31, 2014
Notes				
	\$	\$	\$	\$
4			(Restated)	(Restated)
Net income	8,534	14,813	7,216	12,749
Items that may be reclassified subsequently to profit or loss				
Foreign exchange impact of foreign subsidiaries	47	(294)	12	(6)
Other comprehensive income (loss)	47	(294)	12	(6)
Total comprehensive income	8,581	14,519	7,228	12,743
Total comprehensive income attributable to:				
Owners	8,548	14,426	7,278	12,797
Non-controlling interest	33	93	(50)	(54)
	8,581	14,519	7,228	12,743

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

MTY Food Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity

For the three and six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

	Equity attributable to owners					Equity attributable to non-controlling interest	
	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total		Total
	\$	\$	\$	\$	\$	\$	\$
				(Restated, Note 4)	(Restated, Note 4)	(Restated, Note 4)	(Restated, Note 4)
Balance as at December 1, 2013	19,792	481	6	106,035	126,314	4,549	130,863
Net income and comprehensive income for the six-month period ended May 31, 2014	—	—	—	12,803	12,803	(54)	12,749
Other comprehensive income	—	—	(6)	—	(6)	—	(6)
Dividends	—	—	—	(3,250)	(3,250)	(30)	(3,280)
Balance as at May 31, 2014	19,792	481	—	115,588	135,861	4,465	140,326
Net income and comprehensive income for the six-month period from June 1, 2014 to November 30, 2014	—	—	—	12,401	12,401	34	12,435
Other comprehensive income	—	—	(14)	—	(14)	—	(14)
Acquisition of a portion of the non-controlling interest in 7687567 Canada Inc. (Note 4)	—	—	—	(407)	(407)	107	(300)
Acquisition of 8825726 Canada Inc.	—	—	—	—	—	300	300
Dividends	—	—	—	(3,251)	(3,251)	(25)	(3,276)
Balance as at November 30, 2014	19,792	481	(14)	124,331	144,590	4,881	149,471
Net income and comprehensive income for the six-month period ended May 31, 2015	—	—	—	14,720	14,720	93	14,813
Other comprehensive income	—	—	(294)	—	(294)	—	(294)
Acquisition of a portion of the non-controlling interest in 7687567 Canada Inc. (Note 4)	—	—	—	(23)	(23)	123	100
Acquisition of the non-controlling interest in 9286-5591 Quebec Inc. (Note 4)	—	—	—	3,817	3,817	(4,617)	(800)
Dividends	—	—	—	(3,824)	(3,824)	(30)	(3,854)
Balance as at May 31, 2015	19,792	481	(308)	139,021	158,986	450	159,436

The following dividends were declared and paid by the Company:

	May 31, 2015	May 31, 2014
	\$	\$
\$0.200 per common share (2014 - \$0.170 per common share)	3,824	3,250

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, 2015 and November 30, 2014

(unaudited)

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

	Notes	May 31, 2015	November 30, 2014	December 1, 2013
		\$	\$	\$
	4		<i>(Restated)</i>	<i>(Restated)</i>
Assets				
Current assets				
Cash		11,528	6,701	6,113
Accounts receivable	7	23,382	16,809	14,855
Inventories	8	2,131	2,294	2,231
Loans receivable	9	206	181	400
Prepaid expenses and deposits		919	1,045	492
		38,166	27,030	24,091
Loans receivable	9	403	505	578
Property, plant and equipment	10	10,272	9,855	9,355
Intangible assets	11	110,786	107,484	97,026
Goodwill	12	54,771	54,574	46,295
		214,398	199,448	177,345
Liabilities and Shareholders' equity				
Liabilities				
Current liabilities				
Line of credit	13	7,000	11,750	12,000
Accounts payable and accrued liabilities		19,592	14,151	13,453
Provisions	14	3,630	3,053	1,791
Income taxes payable		93	716	414
Deferred revenue and deposits	15	6,596	3,709	3,655
Current portion of long-term debt	16	6,770	6,854	5,914
		43,681	40,233	37,227
Long-term debt	16	4,332	3,814	3,979
Deferred income taxes		6,949	5,930	5,276
		54,962	49,977	46,482
Commitments, guarantee and contingent liabilities	21, 22, 23			

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

As at May 31, 2015 and November 30, 2014

(unaudited)

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

	Notes	May 31, 2015	November 30, 2014	December 1, 2013
		\$	\$	\$
	4		<i>(Restated)</i>	<i>(Restated)</i>
Shareholders' equity				
Equity attributable to owners				
Capital stock		19,792	19,792	19,792
Contributed surplus		481	481	481
Accumulated other comprehensive income		(308)	(14)	6
Retained earnings		139,021	124,331	106,035
		158,986	144,590	126,314
Equity attributable to non-controlling interest		450	4,881	4,549
		159,436	149,471	130,863
		214,398	199,448	177,345

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

Approved by the Board on July 8, 2015

_____, Director

_____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three and six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

	Notes	Three months ended May 31, 2015	Six months ended May 31, 2015	Three months ended May 31, 2014	Six months ended May 31, 2014
		\$	\$	\$	\$
	4			<i>(Restated)</i>	<i>(Restated)</i>
Operating activities					
Net income		8,534	14,813	7,216	12,749
Items not affecting cash:					
Interest on long-term debt		144	233	88	230
Depreciation – property, plant and equipment		406	773	317	616
Amortization – intangible assets		1,716	3,395	1,434	2,886
Gain on disposal of property, plant and equipment and intangibles		(703)	(868)	(411)	(354)
Unrealized foreign exchange gain (loss)		3	(64)	15	15
Unrealized foreign exchange gain (loss) on other comprehensive income		47	(294)	12	(6)
Impairment of goodwill		200	200	—	—
Income tax expense		3,135	5,521	2,733	4,800
Deferred revenue		2,923	2,822	(143)	(46)
		16,405	26,531	11,261	20,890
Income tax refunds received		—	—	150	175
Income taxes paid		(1,130)	(5,413)	(2,319)	(4,909)
Interest paid		(49)	(101)	(137)	(170)
Changes in non-cash working capital items	26	(3,808)	(1,641)	(2,954)	(989)
Cash flows provided by operating activities		11,418	19,376	6,001	14,997
Investing activities					
Net cash outflow on acquisitions		—	(4,977)	—	—
Additions to property, plant and equipment		(468)	(1,444)	(9)	(287)
Additions to intangible assets		(27)	(31)	(2)	(25)
Adjustment to price of acquisition		—	—	—	(207)
Acquisition of additional interest in 7687567 Canada Inc.	4	—	100	—	—
Acquisition of the non-controlling interest in 9286-5591 Quebec Inc.	4	(800)	(800)	—	—
Proceeds on disposal of property, plant and equipment		1,305	2,059	479	723
Cash flows provided by(used in) investing activities		10	(5,093)	468	204

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

For the three and six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

Notes	Three months ended May 31, 2015	Six months ended May 31, 2015	Three months ended May 31, 2014	Six months ended May 31, 2014
	\$	\$	\$	\$
4			<i>(Restated)</i>	<i>(Restated)</i>
Financing activities				
Issuance of banker's acceptance	10,126	12,000	—	—
Repayment of banker's acceptance	(12,000)	(16,750)	—	(12,000)
Repayment of long-term debt	(766)	(877)	(12)	(513)
Dividends paid to non-controlling shareholders of subsidiaries	—	(30)	—	(30)
Dividends paid	(1,912)	(3,824)	(1,625)	(3,250)
Cash flows used in financing activities	(4,552)	(9,481)	(1,637)	(15,793)
Net increase (decrease) in cash	6,876	4,802	4,832	(592)
Cash, beginning of period	4,652	6,701	689	6,113
Cash acquired	—	25	—	—
Cash, end of period	11,528	11,528	5,521	5,521

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

MTY Food Group Inc.

Table of contents

Table of contents	9
1. Description of the business	10
2. Basis of preparation	10
3. Adoption of IFRS standards	11
4. Consolidation	11
5. Future accounting changes	12
6. Business acquisitions	13
7. Accounts receivable	19
8. Inventories	20
9. Loans receivable	20
10. Property, plant and equipment	21
11. Intangible assets	23
12. Goodwill	25
13. Credit facilities	25
14. Provisions	26
15. Deferred revenue and deposits	27
16. Long-term debt	27
17. Earnings per share	28
18. Financial instruments	28
19. Revenues	29
20. Operating expenses	30
21. Operating lease arrangements	30
22. Guarantee	31
23. Contingent liabilities	31
24. Income taxes	31
25. Segmented information	32
26. Statement of cash flows	35
27. Related party transactions	35

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

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 and for provisions that have been measured at management's best estimate. 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, 2014, 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 should therefore be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2014. The Company's annual consolidated financial statements are available on the SEDAR website at www.sedar.com and on the Company's website at www.mtygroup.com.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on July 8, 2015.

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 six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

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 consolidated financial statements for the year ended November 30, 2014.

3. Adoption of IFRS standards

The following standards issued by the IASB were adopted by the Company on December 1, 2014.

Amendments to IAS 32, Financial Instruments: Presentation

The amendments to IAS32 clarify the requirements for offsetting a financial asset and liability in the financial statements. The implementation of these amendments did not have a significant impact on the Company's condensed interim consolidated financial statements.

4. Consolidation

a) Subsidiaries

An entity is considered as a subsidiary when it is controlled by the Company or indirectly through its subsidiaries. A Company controls an entity if and only if it has all of the following:

- Holds power over the entity;
- Is exposed or has rights to variable returns from its involvement with the entity; and
- Has the ability to use its power over the entity to affect the amount of returns it obtains.

Management must make significant judgments when it assesses these various elements and all related facts and circumstances as a whole to determine whether control exists.

The Company reassesses whether it controls an entity if facts and circumstances indicate that one or more of the above-listed points have changed. The consolidated financial statements include the Company's accounts and the accounts of its subsidiaries. Subsidiaries are consolidated from the date the Company obtains control until the date the Company ceases to have control. All intercompany balances, revenues and expenses and cash flows are fully eliminated upon consolidation. When necessary, adjustments are made to the financial statements of the subsidiaries in order to align their accounting policies with those of the Company.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

4. Consolidation (continued)

b) Non-controlling interests

Non-controlling interests are recognized in equity separately from the equity attributable to the Company's shareholders. Changes in the Company's ownership interests in a subsidiary that do not result in loss of control over that subsidiary are recognized in equity. The carrying amounts of equity attributable to the Company's shareholders and of non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Changes in non-controlling interests

In March, 2015, the Company acquired the remaining 20% non-controlling interests of 9286-5591 Quebec Inc. (Thai Zone), for \$800. Following the transaction, 9286-5591 Quebec Inc. has become a wholly-owned subsidiary.

Changes in basis of consolidation

In September, 2013, the Company put their 51% investment in 7687567 Canada Inc., a food processing plant in Saint-Romuald, Quebec, up for sale. The investment was then reclassified as an investment in subsidiary held-for-sale.

In July 2014, the Company acquired the interest of one of the minority shareholders for \$300 in order to facilitate a restructuring of the plant's operations. Following this transaction, the Company owned 91% of the shares of 7687567 Canada Inc.

In December, 2014, the Company increased its ownership of 7687567 Canada Inc. to 99% through the conversion of a \$750 investment, which diluted the minority shareholder's ownership. The cash call was required to help finance the operations of the subsidiary.

In May 2015, the Company deemed the future sale of 7657567 Canada Inc. no longer probable in the near future and as such, reclassified the investment from a subsidiary held-for-sale to a consolidated subsidiary. Prior period amounts, including those for the first quarter of 2015, on the condensed interim consolidated statements of income and of comprehensive income, and the statements of financial position have been restated for the change in classification.

5. 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 May 31, 2015, 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 Company:

Effective for annual periods beginning on or after:

IFRS 9 Financial Instruments	January 1, 2018	Early adoption permitted
IFRS 15 Revenue from contracts with customers	January 1, 2018	Early adoption permitted

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

5. Future accounting changes (continued)

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase. The version of IFRS 9 issued in 2014 supersedes all previous versions; however, for a limited period, previous versions of IFRS 9 may be adopted early if not already done so provided the relevant date of initial application is before May 1, 2015. IFRS 9 does not replace the requirement for portfolio fair value hedge accounting for interest risk since this phase of the project was separated from IFRS project due to the longer term nature of the macro hedging project which is currently at the discussion paper phase of the due process. Consequently, the exception in IAS 39 for fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply.

IFRS 15 replaces the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. This new standard sets out the requirements for recognizing and disclosing revenue that apply to all contracts with customers.

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

6. Business acquisitions

I) 2015 acquisition

On December 18, 2014, the Company acquired the assets of Manchu Wok, Wasabi Grill & Noodle and SenseAsian for a total consideration of \$7,889. The purpose of the transaction was to further diversify the Company's range of offering.

	2015
	\$
Consideration paid:	
Purchase price	7,889
Discount on non-interest bearing holdback	(81)
Net obligations assumed	(1,662)
Net purchase price	6,146
Holdbacks (Note 16)	(1,169)
Net cash outflow	4,977

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

6. Business acquisitions (continued)

The preliminary purchase price allocation is as follows:

	2015
	\$
Net assets acquired:	
Current assets	
Cash	25
Inventories	146
Prepaid expense and deposits	309
	480
Property, plant and equipment	930
Franchise rights	1,003
Trademark	5,596
Goodwill ⁽¹⁾	397
	8,406
Current liabilities	
Security & construction deposits	1,768
Deferred revenues	65
Gift card liability	139
Deferred income taxes	288
	2,260
Net purchase price	6,146

⁽¹⁾ Goodwill is deductible for tax purposes

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

Total expenses incurred related to acquisition costs amounted to \$80 and are included in the Company's condensed interim consolidated statement of income.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

6. Business acquisitions (continued)

II) 2014 acquisition

On July 21, 2014, a 90% owned subsidiary of the Company acquired the Canadian assets of Madisons New York Grill & Bar. The total consideration for the transaction was \$12,925. The transaction was effective July 18, 2014. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

	2014
	\$
Consideration paid:	
Purchase price	12,925
Net obligations assumed	(284)
Net purchase price	12,641
Balance of sale (Note 16)	(1,250)
Net cash outflow	11,391
Sources of funds:	
Cash	2,700
Issuance of shares to non-controlling interest	300
Balance of sale (Note 16)	1,250
Line of credit (Note 13)	7,141
	11,391
	2014
	\$
The purchase price allocation is as follows:	
Net assets acquired:	
Assets	
Lease deposits	66
Franchise rights	6,846
Trademark	3,410
Goodwill ⁽¹⁾	2,895
	13,217
Current liabilities	
Gift card liability	350
Deferred income taxes	226
	576
Net purchase price	12,641

⁽¹⁾ Goodwill is deductible for tax purposes

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

6. Business acquisitions (continued)

II) 2014 acquisition (continued)

Goodwill reflects how Madisons acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

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

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized.

III) 2014 acquisition

On October 31, 2014, the Company acquired the assets of Café Dépôt, Muffin Plus, Sushi-Man and Fabrika for a total consideration of \$13,950. The purpose of the transaction was to further diversify the Company's range of offering.

	2014
	\$
Consideration paid:	
Purchase price	13,950
Discount on non-interest bearing holdback	(75)
Net obligations assumed	(10)
Net purchase price	13,865
Holdbacks	(975)
Net cash outflow	12,890

The preliminary purchase price allocation is as follows:

	2014
	\$
Net assets acquired:	
Current assets	
Cash	13
Accounts receivable	14
Inventories	77
Prepaid expense and deposits	116
	220
Property, plant and equipment	1,743
Franchise rights	3,717
Trademark	3,763
Goodwill ⁽¹⁾	5,127
	14,570

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

6. Business acquisitions (continued)

III) 2014 acquisition (continued)

	2014
	\$
Current liabilities	
Accrued liabilities	418
Deferred revenues	122
	<u>540</u>
Deferred income taxes	165
	<u>705</u>
Net purchase price	<u>13,865</u>

⁽¹⁾ Goodwill is deductible for tax purposes

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

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

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized.

IV) 2014 acquisition

On November 7, 2014, the Company acquired the franchising operations of Van Houtte Café Bistros for a total consideration of \$950. The purpose of the transaction was to further diversify the Company's range of offerings.

	2014
	\$
Consideration paid	
Purchase price	950
Net obligations assumed	(153)
Net purchase price	<u>797</u>
Payable to vendor after closing	(185)
Net cash outflow	<u>612</u>

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

6. Business acquisitions (continued)

IV) 2014 acquisition (continued)

The purchase price allocation is as follows:

	2014
Assets	\$
Accounts receivables	13
Inventories	1
	<hr/>
	14
Property, plant and equipment	45
Franchise rights	518
Perpetual license	347
Goodwill ⁽¹⁾	50
	<hr/>
	974
Gift cards	(19)
Accounts payable and accrued liabilities	(108)
Deferred Revenues	(27)
	<hr/>
	(154)
Deferred taxes	(23)
Net purchase price	<hr/>
	797

⁽¹⁾ Goodwill is deductible for tax purposes

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

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

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

7. Accounts receivable

The following table provides details on trade accounts receivable not past due, past due and the related allowance for doubtful accounts:

	May 31, 2015	November 30, 2014
	\$	\$ <i>(Restated, Note 4)</i>
Total accounts receivable	28,406	21,114
Less : Allowance for doubtful accounts	5,024	4,305
Total accounts receivable, net	23,382	16,809
Of which:		
Not past due	16,730	11,692
Past due for more than one day but for no more than 30 days	1,501	635
Past due for more than 31 days but for no more than 60 days	419	914
Past due for more than 61 days	4,732	3,568
Total accounts receivable, net	23,382	16,809
Allowance for doubtful accounts beginning of year	4,305	2,287
Additions	832	2,937
Write-off	(113)	(919)
Allowance for doubtful accounts end of period	5,024	4,305

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 six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

8. Inventories

	May 31, 2015	November 30, 2014
	\$	\$ <i>(Restated, Note 4)</i>
Raw materials	1,712	1,531
Finished goods	419	763
Total inventories	2,131	2,294

Inventories are presented net of a \$6 allowance for obsolescence (\$13 as at November 30, 2014). All of the inventories are expected to be sold within the next twelve months.

Inventories expensed during the three and six-month periods ended May 31, 2015 were \$6,492 and \$11,699 (2014 - \$6,102 and \$12,997).

9. Loans receivable

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

	May 31, 2015	November 30, 2014
	\$	\$
Loans receivable, carrying no interest and without terms of repayment	50	15
Loans receivable bearing interest between nil and 11% per annum, receivable in monthly instalments of \$20 in aggregate, including principal and interest, ending in March 2021	559	671
	609	686
Current portion	(206)	(181)
	403	505

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

9. Loans receivable (continued)

The capital repayments in subsequent years will be:

	\$
2016	206
2017	256
2018	98
2019	15
2020	10
Thereafter	24
	<u>609</u>

10. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
	<i>(restated, note 4)</i>	<i>(restated, note 4)</i>	<i>(restated, note 4)</i>	<i>(restated, note 4)</i>	<i>(restated, note 4)</i>		<i>(restated, note 4)</i>
Balance at December 1, 2013	1,825	3,584	3,232	4,142	435	30	13,248
Additions	—	37	123	301	131	42	634
Disposals	—	—	(914)	(672)	(18)	—	(1,604)
Additions through business combinations	—	—	782	1,006	—	—	1,788
Balance at November 30, 2014	1,825	3,621	3,223	4,777	548	72	14,066
Additions	—	37	952	379	76	—	1,444
Disposals	(375)	(219)	(346)	(661)	(143)	—	(1,744)
Additions through business combinations	—	—	418	512	—	—	930
Balance at May 31, 2015	1,450	3,439	4,247	5,007	481	72	14,696

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

10. Property, plant and equipment (continued)

Accumulated depreciation	Land	Buildings	Leasehold improvements	Equipment	Computer hardware	Rolling stock	Total
	\$	\$ <i>(restated, note 4)</i>	\$ <i>(restated, note 4)</i>	\$ <i>(restated, note 4)</i>	\$ <i>(restated, note 4)</i>	\$	\$ <i>(restated, note 4)</i>
Balance at December 1, 2013	—	454	1,738	1,399	274	28	3,893
Eliminated on disposal of assets	—	—	(508)	(247)	(18)	—	(773)
Depreciation expense	—	140	424	462	62	3	1,091
Balance at November 30, 2014	—	594	1,654	1,614	318	31	4,211
Eliminated on disposal of assets	—	(31)	(160)	(227)	(142)	—	(560)
Depreciation expense	—	70	287	375	39	2	773
Balance at May 31, 2015	—	633	1,781	1,762	215	33	4,424

Carrying amounts	Land	Buildings	Leasehold improvements	Equipment	Computer hardware	Rolling stock	Total
	\$ <i>(restated, note 4)</i>	\$ <i>(restated, note 4)</i>	\$ <i>(restated, note 4)</i>	\$ <i>(restated, note 4)</i>	\$ <i>(restated, note 4)</i>	\$	\$ <i>(restated, note 4)</i>
November 30, 2014	1,825	3,027	1,569	3,163	230	41	9,855
May 31, 2015	1,450	2,806	2,466	3,245	266	39	10,272

Land, buildings and equipment with a carrying amount of \$3,167 as at May 31, 2015 (\$3,114 as at November 30, 2014) have been pledged as security to secure borrowings of the Company's food processing division.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

11. Intangible assets

Cost	Franchise and master franchise rights ⁽¹⁾	Trademarks	Step-in rights	Leases	Other ⁽²⁾	Total
	\$	\$	\$	\$	\$	\$
Balance at December 1, 2013	58,423	58,242	1,199	1,000	349	119,213
Additions	215	25	—	—	7	247
Impairment	—	(2,356)	—	—	—	(2,356)
Acquisition through business combinations	11,080	7,173	—	—	347	18,600
Balance at November 30, 2014	69,718	63,084	1,199	1,000	703	135,704
Additions	—	3	—	—	28	31
Disposals	—	—	—	(92)	(132)	(224)
Foreign exchange	100	—	—	—	—	100
Acquisition through business combinations	1,003	5,596	—	—	—	6,599
Balance at May 31, 2015	70,821	68,683	1,199	908	599	142,210
Accumulated amortization						
	Franchise and master franchise rights ⁽¹⁾	Trademarks	Step-in rights	Leases	Other ⁽²⁾	Total
	\$	\$	\$	\$	\$	\$
Balance at December 1, 2013	21,342	—	20	840	33	22,235
Amortization	5,704	—	120	83	78	5,985
Balance at November 30, 2014	27,046	—	140	923	111	28,220
Eliminated on disposal of assets	—	—	—	(92)	(125)	(217)
Foreign exchange	26	—	—	—	—	26
Amortization	3,248	—	60	33	54	3,395
Balance at May 31, 2015	30,320	—	200	864	40	31,424

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

11. Intangible assets (continued)

Carrying amounts	Franchise and master franchise rights ⁽¹⁾	Trademarks	Step-in rights	Leases	Other ⁽²⁾	Total
	\$	\$	\$	\$	\$	\$
November 30, 2014	42,672	63,084	1,059	77	592	107,484
May 31, 2015	40,501	68,683	999	44	559	110,786

(1) Franchise and master franchise rights include an amount of \$1,500 (\$1,500 as at November 30, 2014) of unamortizable master franchise right. The master franchise right has no specific terms and is valid for as long as the Company does not default on the agreement.

(2) Other items include \$347 (\$347 as at November 30, 2014) of unamortizable licenses with an indefinite term.

Indefinite life intangibles, which consist of trademarks, master franchise rights and perpetual licenses have been allocated for impairment testing purposes to the following cash generating units:

	May 31, 2015	November 30, 2014
	\$	\$
Taco Time	1,500	1,500
La Crémère	9	9
Croissant Plus	125	125
Cultures	500	500
Thai Express	145	145
Mrs Vanelli's	2,700	2,700
Sushi Shop	1,600	1,600
Tutti Frutti	1,100	1,100
Koya	1,253	1,253
Country Style	1,740	1,740
Valentine	3,338	3,338
Jugo Juice	5,425	5,425
Mr. Sub	11,310	11,307
Koryo	1,135	1,135
Mr. Souvlaki	300	300
Extreme Pita	8,001	8,001
Mucho Burrito	9,816	9,816
ThaiZone	7,417	7,417
Madisons New York Grill & Bar	3,410	3,410
Café Dépôt	2,959	2,959
Muffin Plus	371	371
Sushi-Man	434	434

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

11. Intangible assets (continued)

	May 31, 2015	November 30, 2014
	\$	\$
Van Houtte	347	347
Manchu Wok	5,596	—
	70,530	64,931

12. Goodwill

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

	May 31, 2015	November 30, 2014
	\$	\$
		(restated, note 4)
Balance, beginning of year	54,574	46,295
Impairment of 7687567 Canada Inc. goodwill	(200)	
Additional amounts recognized from business acquisitions (Note 6)	397	8,279
Balance, end of period	54,771	54,574

Goodwill was not allocated to individual CGUs; the Company has determined that the valuation of goodwill cannot be done at the CGU level, since the strength of the network comes from grouping the many banners from which the goodwill arose from. As a result, goodwill is tested as a whole, at the franchising operating segment level.

An impairment was taken for the goodwill associated with 7687567 Canada Inc. upon the re-consolidation of the subsidiary (note 4). The original valuation of the goodwill was primarily associated to a contract that was contributed to the business by one of the minority shareholders at inception. This contract was terminated in 2015.

13. Credit facilities

As at May 31, 2015, the Company has access to an authorized revolving credit facility of \$30,000 and a treasury risk facility of \$1,000. One of the Company's subsidiaries also has access to a \$10,000 credit facility under the same terms and conditions. Bank indebtedness's are 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 May 31, 2015, the bank's prime rate was 2.85%.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

13. Credit facilities (continued)

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 to 1. The credit facilities are payable on demand and is renewable annually. As at May 31, 2015, \$7,000 was drawn from the facilities in the form of banker's acceptance, with maturity dates ranging from June 2015 to August 2015. The Company is in compliance with the facilities covenants.

14. Provisions

Included in provisions are the following amounts:

	May 31, 2015	November 30, 2014
	\$	\$
Litigations and disputes	801	546
Closed stores	930	768
	1,731	1,314
Gift card liabilities/loyalty programs liabilities	1,899	1,739
Total	3,630	3,053

The provision for litigation and disputes represent management's best estimate of the outcome of litigations and disputes that are on-going 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.

In the litigation and disputes and closed store provisions above, \$64 (2014 - \$nil) was unused and reversed into income. The amounts used in the year include \$376 (2014 - \$533) 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 period include \$857 (2014 - \$404) to the litigation and closed stores provisions. The provisions were increased to reflect new information available to management.

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 six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

15. Deferred revenue and deposits

	May 31, 2015	November 30, 2014
	\$	\$
Franchise fee deposits	2,695	2,388
Supplier contributions and other allowances	3,901	1,321
	6,596	3,709
Current portion	(6,596)	(3,709)
	—	—

16. Long-term debt

	May 31, 2015	November 30, 2014
	\$	\$ <i>(restated, note 4)</i>
Non-interest bearing holdbacks on acquisition of Mr. Souvlaki, repayable September 2015	88	88
Non-interest bearing holdbacks on acquisition of Extreme Brandz, repayable between June 2015 and March 2016.	4,412	4,347
Non-interest bearing holdbacks on acquisition of ThaiZone, repayable between June 2015 and September 2015.	584	1,156
Non-interest bearing contract cancellation fees, payable in US dollars based on the performance of certain stores	92	96
Non-interest bearing holdbacks on acquisition of Café Dépôt, repayable between July 2015 and October 2016.	999	974
Balance of sale on acquisition of Madisons, bearing interest at 7.00%, repayable in quarterly capital payments of \$62 and expiring in July 2019	1,062	1,188
Bank loan ⁽ⁱ⁾ 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 May 31, 2015, the bank's prime rate is 4.50%	2,674	2,819
Non-interest bearing holdbacks on acquisition of Manchu Wok, repayable between December 2015 and December 2016.	1,191	—
	11,102	10,668
Current portion	(6,770)	(6,854)
	4,332	3,814

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

16. Long-term debt (continued)

- ⁽ⁱ⁾ This loan is subject to restrictive covenants that have to be respected as at May 31, 2015. The requirements are for a subsidiary of the corporation to maintain certain working capital, interest coverage and debt to equity ratios. As of May 31, 2015, 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.

17. 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:

	May 31, 2015	November 30, 2014
Weighted daily average number of common shares	19,120,567	19,120,567

18. 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 as well as monitoring procedures.

Fair value of recognized financial instruments

Following is a table which sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below:

	May 31, 2015		November 30, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets			<i>(restated, note 4)</i>	<i>(restated, note 4)</i>
Cash	11,528	11,528	6,701	6,701
Accounts receivable	23,382	23,382	16,809	16,809
Loans receivable	609	609	686	686
Financial liabilities				
Line of credit	7,000	7,000	11,750	11,750
Accounts payable and accrued liabilities	19,592	19,592	14,151	14,151
Long-term debt	11,102	11,102	10,668	10,668

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

18. Financial instruments (continued)

Determination of fair value

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

Cash, accounts receivable, accounts payable and accrued liabilities – The carrying amounts approximate fair values due to the short maturity of these financial instruments.

Loans receivable – The loans receivable generally bear interest at market rates and therefore it is management's opinion that the carrying value approximates the fair value.

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 a similar debt.

19. Revenues

The Company's revenues include:

	Three months ended May 31, 2015	Six months ended May 31, 2015	Three months ended May 31, 2014	Six months ended May 31, 2014
	\$	\$	\$	\$
Royalties	13,843	26,249	11,341	21,575
Initial franchise fees	883	1,454	743	2,097
Rent	1,018	2,061	895	2,109
Sale of goods, including construction revenues	15,962	28,441	9,948	17,978
Other franchising revenue	5,546	10,431	5,248	9,199
Other	1,103	2,083	1,227	2,046
	38,355	70,719	29,402	55,004

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

20. Operating expenses

Operating expenses are broken down as follows:

	Three months ended May 31, 2015	Six months ended May 31, 2015	Three months ended May 31, 2014	Six months ended May 31, 2014
	\$	\$	\$	\$
			(restated, note 4)	(restated, note 4)
Cost of goods sold and rent	13,848	24,282	10,016	18,162
Wages and benefits	8,477	16,063	4,989	9,569
Consulting and professional fees	768	1,539	830	1,602
Royalties	263	533	208	456
Other ⁽¹⁾	1,555	4,435	1,954	4,324
	24,911	46,852	17,997	34,113

⁽¹⁾ Other operating expenses are comprised mainly of rental assistance, travel & promotional costs, bad debt expense and other office administration expenses

21. 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.

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
	\$	\$	\$
2016	78,375	73,064	5,311
2017	73,051	68,138	4,913
2018	65,409	61,505	3,904
2019	58,357	55,302	3,055
2020	49,007	46,299	2,708
Thereafter	115,492	106,599	8,893
	439,691	410,907	28,784

Payments recognized as a net expense during the three and six-month periods ended May 31, 2015 amount to \$3,971 and \$7,850 (2014 - \$1,981 and \$4,008).

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

21. Operating lease arrangements (continued)

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 three and six-month period, the Company earned rental revenue of \$1,018 and \$2,061 (2014 - \$895 and \$2,109).

The Company has recognized a liability of \$930 (November 30, 2014 - \$768) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (Note 14).

22. Guarantee

The Company has provided a guarantee in the form of a letter of credit for an amount of \$45 (November 30, 2014 - \$45).

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

24. 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:

	May 31, 2015		May 31, 2014 (restated, note 4)	
	\$	%	\$	%
Combined income tax rate	5,449	26.8	4,650	26.5
Add effect of:				
Disposition of capital property	(80)	(0.4)	(47)	(0.3)
Non-deductible items	7	0.0	20	0.1
Losses of a subsidiary for which no future tax assets are recognized	126	0.6	80	0.5
Adjustment to prior year provisions	29	0.1	92	0.5
Other – net	(10)	(0.0)	5	0.0
Provision for income taxes	5,521	27.2	4,800	27.4

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

25. 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 construction and renovation of restaurants.

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.

Food processing operations

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

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

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

25. Segmented information (continued)

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

For the six-month period ended May 31, 2015:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	\$	\$	\$	\$	\$	\$
Operating revenues	48,670	15,937	2,858	4,037	(783)	70,719
Operating expenses	25,554	15,430	2,583	4,068	(783)	46,852
	23,116	507	275	(31)	—	23,867
Other expenses						
Depreciation - property, plant and equipment	229	416	3	125	—	773
Amortization – intangible assets	3,395	—	—	—	—	3,395
Interest on long-term debt	173	—	—	60	—	233
Other income						
Foreign exchange gain (loss)	211	—	—	(53)	—	158
Interest income	41	—	1	—	—	42
Impairment of goodwill	—	—	—	(200)	—	(200)
Gain on disposal of property, plant and equipment and intangibles	868	—	—	—	—	868
Operating income	20,439	91	273	(469)	—	20,334
Current income taxes	4,693	24	73	—	—	4,790
Deferred income taxes	731	—	—	—	—	731
Net income	15,015	67	200	(469)	—	14,813

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

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

25. Segmented information (continued)

For the six-month period ended May 31, 2014:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	\$	\$	\$	\$	\$	\$
<i>Restated (note 4)</i>						
Operating revenues	43,400	4,975	2,655	4,291	(317)	55,004
Operating expenses	22,749	4,851	2,437	4,393	(317)	34,113
	20,651	124	218	(102)	—	20,891
Other expenses						
Depreciation – property, plant and equipment	212	293	1	110	—	616
Amortization – intangible assets	2,886	—	—	—	—	2,886
Interest on long-term debt	162	—	—	68	—	230
Other income						
Foreign exchange gain (loss)	47	—	—	(18)	—	29
Interest income	7	—	—	—	—	7
Gain on disposal of property, plant and equipment	354	—	—	—	—	354
Operating income	17,799	(169)	217	(298)	—	17,549
Current income taxes	4,004	(45)	58	—	—	4,017
Deferred income taxes	783	—	—	—	—	783
Net income	13,012	(124)	159	(298)	—	12,749

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

26. Statement of cash flows

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

	Three months ended May 31, 2015	Six months ended May 31, 2015	Three months ended May 31, 2014	Six months ended May 31, 2014
	\$	\$	\$	\$
			(restated, note 4)	(restated, note 4)
Accounts receivable	(6,471)	(6,573)	(3,230)	(1,776)
Inventories	8	309	36	214
Loans receivable	20	77	35	176
Prepaid expenses and deposits	109	435	146	(140)
Accounts payable and accrued liabilities	1,970	3,534	302	266
Provisions	556	577	(243)	271
	(3,808)	(1,641)	(2,954)	(989)

27. 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 periods was as follows:

	Three months ended May 31, 2015	Six months ended May 31, 2015	Three months ended May 31, 2014	Six months ended May 31, 2014
	\$	\$	\$	\$
Short-term benefits	217	402	217	400
Board member fees	10	20	3	14
Total remuneration of key management personnel	227	422	220	414

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

For the six-month periods ended May 31, 2015 and May 31, 2014

(unaudited)

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

27. 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:

	Three months ended May 31, 2015	Six months ended May 31, 2015	Three months ended May 31, 2014	Six months ended May 31, 2014
	\$	\$	\$	\$
Short-term benefits	74	180	138	249
Total remuneration of individuals related to key management personnel	74	180	138	249

A corporation owned by individuals related to key management personnel has non-controlling participation in two of the Company's subsidiaries. During the period ended May 31, 2015, dividends of \$nil (2014 - \$nil) were paid by those subsidiaries to the above-mentioned company.