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Condensed  
interim consolidated financial statements of  
**MTY Food Group Inc.**

For the three-month periods ended February 28, 2021 and February 29, 2020

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# MTY Food Group Inc.

## Condensed interim consolidated statements of income

For the three-month periods ended February 28, 2021 and February 29, 2020

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

(Unaudited)

	Notes	February 28, 2021	February 29, 2020
		\$	\$
<b>Revenue</b>	10 & 12	<b>118,960</b>	150,780
<b>Expenses</b>			
Operating expenses	11 & 12	<b>86,168</b>	110,049
Depreciation - property, plant and equipment and right-of-use assets		<b>3,889</b>	3,841
Amortization - intangible assets		<b>7,287</b>	7,155
Interest on long-term debt		<b>3,263</b>	5,178
Net interest expense on leases	5	<b>572</b>	602
Impairment charge - right-of-use assets	5	<b>453</b>	227
		<b>101,632</b>	127,052
Share of net (loss) profit of a joint venture accounted for using the equity method		<b>(155)</b>	306
<b>Other income (expenses)</b>			
Unrealized and realized foreign exchange gain (loss)		<b>1,347</b>	(100)
Interest income		<b>82</b>	182
Gain on de-recognition/lease modification of lease liabilities		<b>72</b>	—
Gain (loss) on disposal of property, plant and equipment and assets held for sale		<b>143</b>	(173)
Revaluation of financial liabilities recorded at fair value		<b>(1,217)</b>	197
		<b>427</b>	106
<b>Income before taxes</b>		<b>17,600</b>	24,140
<b>Income tax expense (recovery)</b>			
Current		<b>5,448</b>	3,962
Deferred		<b>(1,275)</b>	1,123
		<b>4,173</b>	5,085
<b>Net income</b>		<b>13,427</b>	19,055
<b>Net income attributable to:</b>			
<b>Owners</b>		<b>13,397</b>	19,008
<b>Non-controlling interests</b>		<b>30</b>	47
		<b>13,427</b>	19,055
Net income per share	7		
Basic		<b>0.54</b>	0.76
Diluted		<b>0.54</b>	0.76

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 (loss)**

For the three-month periods ended February 28, 2021 and February 29, 2020

(In thousands of Canadian dollars)

(Unaudited)

	<b>February 28, 2021</b>	February 29, 2020
	\$	\$
<b>Net income</b>	<b>13,427</b>	19,055
<b>Items that may be reclassified subsequently to net income</b>		
Unrealized (loss) gain on translation of foreign operations	(14,350)	8,006
Deferred tax expense on foreign currency translation adjustments	—	(538)
Other comprehensive (loss) income	(14,350)	7,468
<b>Total comprehensive (loss) income</b>	<b>(923)</b>	26,523
<b>Total comprehensive (loss) income attributable to:</b>		
<b>Owners</b>	<b>(953)</b>	26,476
<b>Non-controlling interests</b>	<b>30</b>	47
	<b>(923)</b>	26,523

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-month periods ended February 28, 2021 and February 29, 2020

(In thousands of Canadian dollars)

(Unaudited)

	Reserves					Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	Capital stock	Other	Contributed surplus	Foreign currency translation	Total reserves				
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>For the three months ended February 28, 2021</b>									
Balance, beginning of period	306,415	(850)	3,019	(13,354)	(11,185)	286,525	581,755	759	582,514
Net income	—	—	—	—	—	13,397	13,397	30	13,427
Other comprehensive loss	—	—	—	(14,350)	(14,350)	—	(14,350)	—	(14,350)
Total comprehensive (loss) income							(953)	30	(923)
Share-based compensation	—	—	217	—	217	—	217	—	217
<b>Balance, end of period</b>	<b>306,415</b>	<b>(850)</b>	<b>3,236</b>	<b>(27,704)</b>	<b>(25,318)</b>	<b>299,922</b>	<b>581,019</b>	<b>789</b>	<b>581,808</b>

	Reserves					Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	Capital stock	Other	Contributed surplus	Foreign currency translation	Total reserves				
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>For the three months ended February 29, 2020</b>									
Balance, beginning of period	310,939	(850)	2,095	(736)	509	353,300	664,748	732	665,480
Adjustment on adoption of IFRS 16 (net of tax)	—	—	—	—	—	(10,692)	(10,692)	—	(10,692)
<b>Adjusted balance, beginning of period</b>	<b>310,939</b>	<b>(850)</b>	<b>2,095</b>	<b>(736)</b>	<b>509</b>	<b>342,608</b>	<b>654,056</b>	<b>732</b>	<b>654,788</b>
Net income	—	—	—	—	—	19,008	19,008	47	19,055
Other comprehensive income	—	—	—	7,468	7,468	—	7,468	—	7,468
Total comprehensive income							26,476	47	26,523
Shares repurchased and cancelled (Note 8)	(2,245)	—	—	—	—	(7,415)	(9,660)	—	(9,660)
Dividends	—	—	—	—	—	(4,633)	(4,633)	—	(4,633)
Share-based compensation	—	—	246	—	246	—	246	—	246
<b>Balance, end of period</b>	<b>308,694</b>	<b>(850)</b>	<b>2,341</b>	<b>6,732</b>	<b>8,223</b>	<b>349,568</b>	<b>666,485</b>	<b>779</b>	<b>667,264</b>

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 February 28, 2021 and November 30, 2020

(In thousands of Canadian dollars)

(Unaudited)

		February 28, 2021	November 30, 2020
	Notes	\$	\$
<b>Assets</b>			
Current assets			
Cash		39,000	44,302
Accounts receivable	4	57,452	55,886
Inventories		10,169	9,415
Current portion of loans receivable		1,588	1,527
Current portion of finance lease receivables	5	98,282	90,303
Income taxes receivable		604	420
Other assets		1,872	2,792
Prepaid expenses and deposits		8,832	6,750
		<b>217,799</b>	<b>211,395</b>
Loans receivable		2,988	3,233
Finance lease receivables	5	362,185	377,824
Contract cost asset		5,194	5,171
Deferred income taxes		162	207
Investment in a joint venture		26,465	26,612
Property, plant and equipment		16,616	16,551
Right-of-use assets	5	71,057	69,223
Intangible assets		844,876	864,029
Goodwill		434,182	439,452
		<b>1,981,524</b>	<b>2,013,697</b>
<b>Liabilities and Shareholders' equity</b>			
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		115,511	111,372
Provisions		1,743	3,065
Gift card and loyalty program liabilities		97,954	95,233
Income taxes payable		9,629	18,335
Current portion of deferred revenue and deposits		15,326	13,747
Current portion of long-term debt	6	20,676	12,888
Current portion of lease liabilities	5	115,168	114,915
		<b>376,007</b>	<b>369,555</b>
Long-term debt	6	420,725	447,654
Lease liabilities	5	436,414	443,834
Deferred revenue and deposits		41,204	41,367
Deferred income taxes		125,366	128,773
		<b>1,399,716</b>	<b>1,431,183</b>

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

As at February 28, 2021 and November 30, 2020

(In thousands of Canadian dollars)

(Unaudited)

		<b>February 28, 2021</b>	November 30, 2020
	Notes	\$	\$
<b>Shareholders' equity</b>			
Equity attributable to owners			
Capital stock	8	<b>306,415</b>	306,415
Reserves		<b>(25,318)</b>	(11,185)
Retained earnings		<b>299,922</b>	286,525
		<b>581,019</b>	581,755
Equity attributable to non-controlling interests		<b>789</b>	759
		<b>581,808</b>	582,514
		<b>1,981,524</b>	2,013,697

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

Approved by the Board on April 8, 2021

\_\_\_\_\_, Director

\_\_\_\_\_, Director

# MTY Food Group Inc.

## Condensed interim consolidated statements of cash flows

For the three-month periods ended February 28, 2021 and February 29, 2020

(In thousands of Canadian dollars)

(Unaudited)

		February 28, 2021	February 29, 2020
	Notes	\$	\$
<b>Operating activities</b>			
Net income		13,427	19,055
Adjusting items:			
Interest on long-term debt		3,263	5,178
Net interest expense on leases	5	572	602
Depreciation - property, plant and equipment and right-of-use assets	5	3,889	3,841
Amortization - intangible assets		7,287	7,155
Impairment charge - right-of-use assets	5	453	227
Share of net (loss) profit of a joint venture accounted for using the equity		155	(306)
Gain on de-recognition/lease modification of lease liabilities		(72)	—
(Gain) loss on disposal of property, plant and equipment and assets held for sale		(143)	173
Revaluation of financial liabilities recorded at fair value through profit or loss		1,217	(197)
Income tax expense		4,173	5,085
Share-based compensation payments		217	246
		<b>34,438</b>	<b>41,059</b>
Income taxes paid		(2,651)	(6,094)
Interest paid		(3,268)	(4,768)
Other		(1,252)	(290)
Changes in non-cash working capital items	13	4,040	1,073
Cash flows provided by operating activities		<b>31,307</b>	<b>30,980</b>
<b>Investing activities</b>			
Additions to property, plant and equipment		(1,213)	(1,119)
Additions to intangible assets		(47)	(649)
Proceeds on disposal of property, plant and equipment and assets held for sale		253	1,526
Investment in a joint venture		—	(19,105)
Cash flows used in investing activities		<b>(1,007)</b>	<b>(19,347)</b>

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

For the three-month periods ended February 28, 2021 and February 29, 2020

(In thousands of Canadian dollars)

(Unaudited)

		<b>February 28, 2021</b>	February 29, 2020
	Notes	\$	\$
<b>Financing activities</b>			
Issuance of long-term debt		—	20,000
Repayment of long-term debt		<b>(29,086)</b>	(8,487)
Net lease payments	5	<b>(3,776)</b>	(3,618)
Shares repurchased and cancelled	8	—	(9,660)
Dividends paid		—	(4,633)
Cash flows used in financing activities		<b>(32,862)</b>	(6,398)
Net (decrease) increase in cash		<b>(2,562)</b>	5,235
Effect of foreign exchange rate changes on cash		<b>(2,740)</b>	808
Cash, beginning of period		<b>44,302</b>	50,737
<b>Cash, end of period</b>		<b>39,000</b>	56,780

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



## MTY Food Group Inc.

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# MTY Food Group Inc.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2021 and February 29, 2020

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

(Unaudited)

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### 1. Description of the business

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

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

### 2. Basis of preparation

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

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

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

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

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

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

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

### Statement of compliance

The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and apply the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended November 30, 2020, prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

These 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, 2020.

The financial statements were authorized for issue by the Board of Directors on April 8, 2021.

## MTY Food Group Inc.

### Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2021 and February 29, 2020

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

(Unaudited)

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#### 2. Basis of preparation (continued)

##### Seasonality

Results of operations for any interim period are not necessarily indicative of the results of operations for the full year. The Company expects that seasonality will continue to be a factor in the quarterly variation of its results. For example, the Frozen treat category, which is a significant category in the US market, varies significantly during the winter season as a result of weather conditions. This risk is offset by other brands that have better performance during winter seasons such as Papa Murphy's, which typically does better during winter months. Sales for shopping mall locations are also higher than average in December during the holiday shopping period. For 2021, the normal seasonal trends might be affected by the shifts in consumer behavior caused by the pandemic or government regulations.

##### Impact of COVID-19

During the first quarter of 2021, the COVID-19 pandemic continued to impact the markets in which MTY and its franchise partners and suppliers operate. A second wave to hit Canada resulted in additional government imposed restrictions including restrictions on dine-in guests, reduced operating hours and/or temporary closures. Further, while the disruption is currently expected to come in waves, there continues to be uncertainty around the duration of the pandemic, its medium to longer term impact on the economy and the rules that will apply to MTY's restaurants as sheltering measures are gradually reduced. The impact of the virus and the efforts to stop it impact MTY and many of its franchisees materially.

As a result of the continued and uncertain economic and business impacts of the COVID-19 pandemic, the Company continues to monitor the estimates, judgments and assumptions used in the financial statements. For the three months ended February 28, 2021, the Company determined that there was no indication of impairment, with the exception of right-of-use assets. Accordingly, the Company did not record impairment charges on its property, plant and equipment, intangible assets, and goodwill. These estimates, judgments and assumptions are subject to change and could be materially different at year end.

The financial statements have been impacted with respect to the following as a result of COVID-19:

- Impairment testing on right-of-use assets related to closed stores was carried out, resulting in impairment charges;
- Changes to lease liabilities and finance lease receivables were made to reflect changes in lease payment terms;
- Reduction in wage expense for the three-month period ending February 28, 2021 of \$1,836 (2020 – nil) resulting from the Canadian Employment Wage Subsidies;
- Reduction in rent expense for the three-month period ending February 28, 2021 of \$517 (2020 – nil) resulting from the Canadian Emergency Rent Subsidies; and
- Reduction in current income tax provision for the three-month period ending February 28, 2021 of \$228 (2020 – nil) resulting from the Internal Revenue Service's Employee Retention Credit.

##### COVID-19 accounting implications on leases

In response to the COVID-19 pandemic, in May 2020 the IASB has issued amendments to IFRS 16 to allow entities to not account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before June 30, 2021; and
- no other substantive changes have been made to the terms of the lease.

The Company has adopted this amendment and applied the practicable expedient to all eligible rent concessions. The Company has recognized for the three-month period ended February 28, 2021, negative variable lease payments of \$317 (2020 – nil) as part of rent expense, presented in Cost of goods sold and rent in Note 11 of the financial statements.

## MTY Food Group Inc.

### Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2021 and February 29, 2020

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

(Unaudited)

#### 3. Changes in accounting policies

##### Policies applicable beginning December 1, 2020

###### IFRS 3, Business Combinations

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments to IFRS 3 were adopted effective December 1, 2020 and did not result in any adjustment.

###### IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures

In September 2019, the IASB published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) as a first reaction to the potential effects the Interbank offered rates ("IBOR") reform could have on financial reporting. Recent market developments have brought into question the long-term viability of the IBOR benchmarks. The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 and IAS 39, which require forward-looking analysis. There are also amendments to IFRS 7 regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

The amendments to IFRS 9, IAS 39 and IFRS 7 were adopted effective December 1, 2020 and resulted in no significant adjustment.

#### 4. Accounts receivable

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

	February 28, 2021	November 30, 2020
	\$	\$
Total accounts receivable	69,252	68,417
Less: Allowance for credit losses	11,800	12,531
Total accounts receivable, net	57,452	55,886
Of which:		
Not past due	36,204	35,946
Past due for more than one day but no more than 30 days	4,365	3,818
Past due for more than 31 days but no more than 60 days	4,949	2,731
Past due for more than 61 days	11,934	13,391
Total accounts receivable, net	57,452	55,886

#### 5. Leases

Leases as a lessee relate primarily to leases of premises in relation to the Company's operations and its corporate store locations. For many of the leases related to its franchised locations, the Company is on the head lease of the premises and a corresponding sublease contract was entered into between the Company and its unrelated franchisee. The sublease contract is substantially based on the same terms and conditions as the head lease.

Leases and subleases typically have terms ranging between five and 10 years at inception. The Company does not have options to purchase the premises on any of its leases.

## MTY Food Group Inc.

### Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2021 and February 29, 2020

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

(Unaudited)

#### 5. Leases (continued)

##### Right-of-use assets

The following table provides the net carrying amount of the right-of-use assets by class of underlying asset and the changes in the three-month period ended February 28, 2021:

	Offices, corporate and dark stores	Store locations subject to operating subleases	Other	Total
	\$	\$	\$	\$
Balance as at December 1, 2020	58,336	10,278	609	<b>69,223</b>
Additions	6,498	—	82	<b>6,580</b>
Depreciation expense	(2,639)	(165)	(74)	<b>(2,878)</b>
Impairment charge	(453)	—	—	<b>(453)</b>
De-recognition/lease modification of lease liabilities	(770)	(21)	49	<b>(742)</b>
Foreign exchange	(669)	—	(4)	<b>(673)</b>
<b>Balance as at February 28, 2021</b>	<b>60,303</b>	<b>10,092</b>	<b>662</b>	<b>71,057</b>

##### Finance lease receivables and lease liabilities

The following table provides the net carrying amounts of the finance lease receivables and lease liabilities, and the changes in the three-month period ended February 28, 2021:

	Finance lease receivables	Lease liabilities
	\$	\$
Balance as at December 1, 2020	468,127	(558,749)
Additions	3,617	(6,069)
Lease renewals and modifications	19,154	(21,764)
Lease terminations	(5,512)	5,138
Other adjustments	2,879	(1,953)
Interest income (expense) <sup>(1)</sup>	3,132	(3,704)
(Receipts) payments	(28,248)	32,024
Foreign exchange	(2,682)	3,495
<b>Balance as at February 28, 2021</b>	<b>460,467</b>	<b>(551,582)</b>

<sup>(1)</sup> During the three months ended February 29, 2020, the Company recorded interest income on finance lease receivables of \$3,437 and interest expense on lease liabilities of \$4,039.

Recorded in the consolidated statement of financial position as follows:

	Finance lease receivables	Lease liabilities
	\$	\$
Current portion	98,282	(115,168)
Long-term portion	362,185	(436,414)
	<b>460,467</b>	<b>(551,582)</b>

## MTY Food Group Inc.

### Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2021 and February 29, 2020

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

(Unaudited)

#### 6. Long-term debt

	February 28, 2021	November 30, 2020
	\$	\$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions <sup>(1)</sup>	18,273	12,500
Contingent consideration on acquisitions and investment in a joint venture <sup>(2)</sup>	8,865	8,075
Fair value of promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar <sup>(3)</sup>	2,980	2,928
Fair value of non-controlling interest option in 9974644 Canada Inc. <sup>(4)</sup>	1,383	1,171
Fair value of obligation to repurchase partner in a joint venture <sup>(5)</sup>	3,500	3,364
Fair value of interest rate swap <sup>(6)</sup>	726	1,152
Revolving credit facility payable to a syndicate of lenders <sup>(7)</sup>	407,000	433,000
Credit facility financing costs	(1,326)	(1,648)
	<b>441,401</b>	460,542
Less: Current portion	<b>(20,676)</b>	(12,888)
	<b>420,725</b>	447,654

(1) During the three months ended February 28, 2021, the Company reclassified non-interest-bearing holdbacks acquired on acquisition of Kahala Brands Ltd. that were previously being applied to an income tax payable related to the acquisition of Kahala Brands Ltd. The holdbacks will be repaid within the next 12 months.

(2) Yuzu Sushi (payable August 2021) and joint venture interest (payable December 2022)

(3) Payable June 2022.

(4) Payable on demand.

(5) Maximum maturity date of December 2025.

(6) Interest rate swap is fixing the interest rate at 2.273% on \$100,000 of the outstanding revolving credit facility until July 21, 2021.

(7) Under the revolving credit facility, the Company has the option to draw funds in Canadian or in US dollars, at its discretion. The facility's maturity is September 23, 2022 and must be repaid in full at that time. The revolving credit facility has an authorized amount of \$700,000 (November 30, 2020 – \$700,000). As at February 28, 2021, the Company had drawn US\$241,700 and CA\$102,000 (November 30, 2020 – US\$233,010 and CA\$128,000) and has elected to pay interest based on the Canadian prime rate plus applicable margins.

Until May 31, 2021, the Company's credit agreement contains various limitations on distributions and on the usage of the proceeds from the disposal of assets. The main limitations on distributions impose restrictions on the issuance of dividends and the repurchase of MTY's common shares through its normal course issuer bid ("NCIB") process. The limitations restrict the Company's distributions if it exceeds a debt-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio of 3.50:1.00.

The revolving facility is repayable without penalty with the balance due on the date of maturity September 23, 2022.

As at February 28, 2021, the Company was in compliance with its financial covenants.

## MTY Food Group Inc.

### Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2021 and February 29, 2020

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

(Unaudited)

#### 7. Net income per share

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

	February 28, 2021	February 29, 2020
Weighted daily average number of common shares - basic	24,706,461	24,890,191
Assumed exercise of stock options <sup>(1)</sup>	7,527	29,843
Weighted daily average number of common shares - diluted	24,713,988	24,920,034

<sup>(1)</sup> The calculation of the assumed exercise of stock options includes the effect of the average unrecognized future compensation cost of dilutive options. The number of excluded options was 311,112 (2020 – 288,890)

#### 8. Capital stock

On June 29, 2020, the Company announced the renewal of the NCIB. The NCIB began on July 3, 2020 and will end on July 2, 2021 or on such earlier date when the Company completes its purchases or elects to terminate the NCIB. The renewed period allows the Company to purchase 1,235,323 of its common shares. These purchases will be made on the open market plus brokerage fees through the facilities of the TSX and/or alternative trading systems at the prevailing market price at the time of the transaction, in accordance with the TSX's applicable policies. All common shares purchased pursuant to the NCIB will be cancelled.

Until May 31, 2021, the Company's credit agreement contains limitations on distributions that include restrictions on the repurchase of MTY's common shares through its NCIB process. The limitations restrict the Company's distributions if it exceeds a debt-to-EBITDA ratio of 3.50:1.00.

During the three months ended February 28, 2021, the Company repurchased and cancelled a total of nil common shares (2020 – 181,044 common shares) under the current NCIB, at a weighted average price of nil per common share (2020 – \$53.36 per common share), for a total consideration of nil (2020 – \$9,660). An excess of nil (2020 – \$7,415) of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

#### 9. Financial instruments

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

##### *Fair value of recognized financial instruments*

##### **Interest rate swap**

The Company holds an interest rate swap that is contracted to a fix rate on a notional amount of \$100,000 and is maturing on July 21, 2021. The fair value of this interest rate swap amounted to \$726 (November 30, 2020 – \$1,152) and the Company recorded a fair value remeasurement loss of \$29 for the three-month period ended February 28, 2021 (2020 – gain of \$173). The Company has classified this as level 2 in the fair value hierarchy.

##### **Cross currency interest rate swap**

On February 26, 2021, the Company entered into a floating to floating 1-month cross currency interest rate swap. A fair value of nil was recorded as at February 28, 2021 (November 30, 2020 – nil).

Receive-Notional	Receive-rate	Pay-Notional	Pay-rate
US\$241,700	2.37%	CA\$305,000	2.45%

## MTY Food Group Inc.

### Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2021 and February 29, 2020

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

(Unaudited)

#### 9. Financial instruments (continued)

*Fair value of recognized financial instruments (continued)*

##### Fair value hierarchy

	Level 3	
	February 28, 2021	November 30, 2020
	\$	\$
Promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	2,980	2,928
Contingent consideration on acquisitions and investment in a joint venture	8,865	8,075
Non-controlling interest buyback options	1,383	1,171
Obligation to repurchase partner in a joint venture	3,500	3,364
<b>Financial liabilities</b>	<b>16,728</b>	<b>15,538</b>

The Company has determined that the fair values of its financial assets and financial liabilities with short-term maturities approximate their carrying value. These financial instruments include cash, accounts receivable, accounts payable and accrued liabilities and deposits. The table below shows the fair value and the carrying amount of other financial instruments as at February 28, 2021 and November 30, 2020. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	February 28, 2021		November 30, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Loans receivable	4,576	4,576	4,760	4,760
Finance lease receivables	460,467	460,467	468,127	468,127
Financial liabilities				
Long-term debt <sup>(1)</sup>	425,273	425,494	443,852	453,397

<sup>(1)</sup> Excludes promissory notes, contingent consideration on acquisitions, interest rate swap, cross currency interest rate swaps, credit facility financing costs and obligations to repurchase non-controlling interests.

##### Determination of fair value

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

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

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



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### Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2021 and February 29, 2020

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(Unaudited)

#### 10. Revenue

	Three months ended					
	February 28, 2021			February 29, 2020		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
Royalties	10,398	26,679	37,077	20,933	27,770	48,703
Franchise and transfer fees	1,239	935	2,174	1,628	1,017	2,645
Retail, food processing and distribution revenues	28,520	1,215	29,735	25,638	1,147	26,785
Sale of goods, including construction revenue	3,712	11,826	15,538	10,359	15,311	25,670
Gift card breakage income	74	1,153	1,227	174	1,561	1,735
Promotional funds	5,908	14,010	19,918	10,734	14,714	25,448
Other franchising revenue	5,300	4,905	10,205	10,543	6,704	17,247
Other	788	2,298	3,086	1,248	1,299	2,547
	<b>55,939</b>	<b>63,021</b>	<b>118,960</b>	<b>81,257</b>	<b>69,523</b>	<b>150,780</b>

#### 11. Operating expenses

	Three months ended					
	February 28, 2021			February 29, 2020		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
Cost of goods sold and rent	1,720	5,370	7,090	5,463	6,215	11,678
Retail, food processing and distribution costs	25,902	—	25,902	23,168	—	23,168
Wages and benefits	9,722	13,647	23,369	12,163	18,115	30,278
Wage and rent subsidy	(2,353)	—	(2,353)	—	—	—
Consulting and professional fees	1,693	1,548	3,241	2,751	2,058	4,809
Gift cards - related costs	—	1,458	1,458	—	2,443	2,443
Royalties	1	1,416	1,417	9	1,449	1,458
Promotional funds	5,908	14,010	19,918	10,734	14,714	25,448
Impairment for expected credit losses	246	(758)	(512)	305	486	791
Other <sup>(1)</sup>	2,577	4,061	6,638	3,949	6,027	9,976
	<b>45,416</b>	<b>40,752</b>	<b>86,168</b>	<b>58,542</b>	<b>51,507</b>	<b>110,049</b>

<sup>(1)</sup> Other operating expenses are composed mainly of travel and promotional costs, and other office administration expenses.

## MTY Food Group Inc.

### Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2021 and February 29, 2020

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

(Unaudited)

#### 12. Segmented information

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

Below is a summary of each geographical and operating segment's performance for the three-month period ended February 28, 2021.

	CANADA						US & INTERNATIONAL						Total consolidated
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total US & International	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Revenue	18,349	3,342	28,717	5,908	(377)	55,939	38,049	10,299	1,215	14,010	(552)	63,021	118,960
Operating expenses	11,056	2,937	25,967	5,908	(452)	45,416	17,024	10,195	—	14,010	(477)	40,752	86,168
Segment profit (loss)	7,293	405	2,750	—	75	10,523	21,025	104	1,215	—	(75)	22,269	32,792

Below is a summary of each geographical and operating segment's performance for the three-month period ended February 29, 2020.

	CANADA						US & INTERNATIONAL						Total consolidated
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising <sup>(1)</sup>	Corporate <sup>(1)</sup>	Processing, distribution and retail	Promotional funds	Interco	Total US & International	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Revenue	36,742	8,413	25,968	10,734	(600)	81,257	39,246	15,053	1,147	14,714	(637)	69,523	150,780
Operating expenses	16,900	8,223	23,362	10,734	(677)	58,542	21,856	15,497	—	14,714	(560)	51,507	110,049
Segment profit (loss)	19,842	190	2,606	—	77	22,715	17,390	(444)	1,147	—	(77)	18,016	40,731

<sup>(1)</sup> Prior year amounts have been restated to reflect a reclassification between franchise operations and corporate stores subdivisions.

## MTY Food Group Inc.

### Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2021 and February 29, 2020

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

(Unaudited)

#### 13. Interim consolidated statement of cash flows

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

	February 28, 2021	February 29, 2020
	\$	\$
Accounts receivable	(4,575)	(4,447)
Inventories	(817)	(2,005)
Loans receivable	(61)	2,212
Other assets	920	(1,807)
Prepaid expenses and deposits	(2,272)	(200)
Accounts payable and accrued liabilities	5,430	(3,289)
Provisions	(1,293)	(2,536)
Gift card and loyalty program liabilities	4,598	6,941
Deferred revenue and deposits	2,110	6,204
	<b>4,040</b>	<b>1,073</b>

#### 14. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation. Details of transactions between the Company and other related parties are disclosed below.

##### *Remuneration of key management personnel and directors*

The remuneration of key management personnel and directors during the three-month periods ended was as follows:

	February 28, 2021	February 29, 2020
	\$	\$
Short-term benefits	670	737
Share-based payments	239	268
Board member fees	19	19
Total remuneration of key management personnel and directors	<b>928</b>	<b>1,024</b>

## MTY Food Group Inc.

### Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2021 and February 29, 2020

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

(Unaudited)

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#### 14. Related party transactions (continued)

Key management personnel is composed of the Company's CEO, COOs and CFO. The remuneration of directors and key executives is determined by the Board of Directors having regard to the performance of individuals and market conditions.

Given its widely held share base, the Company does not have an ultimate controlling party; its most important shareholder is its Chair of the Board of Directors, who controls 19.77% of the outstanding shares.

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

	<b>February 28, 2021</b>	February 29, 2020
	\$	\$
Short-term benefits	<b>128</b>	131
Share-based payments	<b>6</b>	6
Total remuneration of individuals related to key management personnel	<b>134</b>	137

The Company has entered into a consulting agreement with one of its joint venture associates to perform corporate business development and management consulting services, and paid consulting fees to this associate of \$38 for the three-month period ended February 28, 2021 (2020 – \$42). The Company has a current net receivable due from its joint venture associate of \$269 as at February 28, 2021 (November 30, 2020 – net receivable of \$135).