

*Condensed interim consolidated financial statements of*

**MTY FOOD GROUP INC.**

*For the three-month periods ended February 28, 2014 and February 28, 2013*

# MTY FOOD GROUP INC.

## Condensed interim consolidated income statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

Notice: The condensed interim consolidated financial statements of MTY Food Group Inc. for the three-month periods ended February 28, 2014 and February 28, 2013 have not been reviewed by an external auditor.

	February 28, 2014	February 28, 2013
	\$	\$
<b>Revenue</b> (notes 17 and 24)	<b>25,602</b>	22,628
<b>Expenses</b>		
Operating expenses (notes 18 and 24)	<b>16,116</b>	13,825
Depreciation – property, plant and equipment	<b>245</b>	253
Amortization – intangible assets	<b>1,452</b>	973
Interest on long-term debt	<b>91</b>	78
	<b>17,904</b>	15,129
<b>Other income (charges)</b>		
Foreign exchange gain	<b>58</b>	46
Interest income	<b>6</b>	143
Gain (loss) on disposal of property, plant and equipment	<b>(57)</b>	9
Other income (charges)	<b>(52)</b>	-
	<b>(45)</b>	198
Income before taxes	<b>7,653</b>	7,697
<b>Income taxes (note 23)</b>		
Current	<b>831</b>	2,157
Deferred	<b>1,236</b>	(75)
	<b>2,067</b>	2,082
<b>Net income</b>	<b>5,586</b>	5,615
<b>Net income (loss) attributable to:</b>		
<b>Owners</b>	<b>5,537</b>	5,635
<b>Non controlling interest</b>	<b>49</b>	(20)
	<b>5,586</b>	5,615
Earnings per share (note 15)		
Basic	<b>0.29</b>	0.29
Diluted	<b>0.29</b>	0.29

See accompanying notes to the condensed interim consolidated financial statements

# MTY FOOD GROUP INC.

## Condensed interim consolidated statements of comprehensive income

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

	February 28, 2014	February 28, 2013
	\$	\$
<b>Net earnings</b>	<b>5,586</b>	5,615
<b>Other comprehensive loss, net of income taxes</b>		
Foreign exchange impact	(18)	-
<b>Other comprehensive loss</b>	<b>(18)</b>	-
<b>Total comprehensive income</b>	<b>5,568</b>	5,615
<b>Total comprehensive income (loss) attributable to:</b>		
<b>Owners</b>	<b>5,519</b>	5,635
<b>Non controlling interest</b>	<b>49</b>	(20)
	<b>5,568</b>	5,615

See accompanying notes to the condensed interim consolidated financial statements

# MTY FOOD GROUP INC.

## Condensed interim consolidated statements of financial position

as at February 28, 2014 and November 30, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

	February 28, 2014	November 30, 2013
	\$	\$
<b>Assets</b>		
Current assets		
Cash	600	6,136
Accounts receivable (note 7)	12,087	13,452
Income taxes receivable	399	-
Inventories (note 8)	1,003	1,029
Loans receivable (note 9)	324	400
Investment in subsidiary held-for-sale (note 10)	1,313	1,377
Prepaid expenses and deposits	714	430
	<b>16,440</b>	<b>22,824</b>
Loans receivable (note 9)	513	578
Property, plant and equipment	5,919	6,213
Intangible assets	95,588	96,978
Goodwill	46,658	46,451
	<b>165,118</b>	<b>173,044</b>
<b>Liabilities</b>		
Current liabilities		
Line of credit (note 11)	-	12,000
Accounts payable and accrued liabilities	11,833	11,903
Provisions (note 12)	2,305	1,791
Income taxes payable	-	414
Deferred revenue and deposits (note 13)	3,752	3,655
Current portion of long-term debt (note 14)	2,473	2,703
	<b>20,363</b>	<b>32,466</b>
Long-term debt (note 14)	4,415	4,466
Deferred income taxes	5,618	5,303
	<b>30,396</b>	<b>42,235</b>
<b>Commitments, guarantee and contingent liabilities</b> (notes 19, 20, 21 and 22)		
<b>Shareholders' equity</b>		
Equity attributable to owners		
Capital stock	19,792	19,792
Contributed surplus	481	481
Accumulated other comprehensive income	(12)	6
Retained earnings	109,905	105,993
	<b>130,166</b>	<b>126,272</b>
Equity attributable to non-controlling interest	4,556	4,537
	<b>134,722</b>	<b>130,809</b>
	<b>165,118</b>	<b>173,044</b>

See accompanying notes to the condensed interim consolidated financial statements

Approved by the Board on April 8, 2014

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

# MTY FOOD GROUP INC.

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

For the three-month periods ended February 28, 2014 and February 28, 2013

(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		Total	Equity attributable to non-controlling interest	Total
			Other Comprehensive income	Retained earnings			
	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2012	19,792	481	-	85,635	105,908	155	106,063
Net income for the three-month period ended February 28, 2013	-	-	-	5,635	5,635	(20)	5,615
Dividends	-	-	-	(1,338)	(1,338)	(25)	(1,363)
Balance as at February 28, 2013	19,792	481	-	89,932	110,205	110	110,315
Net income for the nine-month period from March 1, 2013 to November 30, 2013	-	-	-	20,077	20,077	(31)	20,046
Other comprehensive income	-	-	6	-	6	-	6
Reclassification of investment in subsidiary now held-for-sale	-	-	-	-	-	69	69
Acquisition of 9286-5591 Quebec Inc.	-	-	-	-	-	4,425	4,425
Investment in common stock of a subsidiary by non-controlling interest	-	-	-	-	-	49	49
Dividends	-	-	-	(4,016)	(4,016)	(85)	(4,101)
Balance as at November 30, 2013	19,792	481	6	105,993	126,272	4,537	130,809
Net income for the three-month period ended February 28, 2014	-	-	-	5,537	5,537	49	5,586
Other comprehensive income	-	-	(18)	-	(18)	-	(18)
Dividends	-	-	-	(1,625)	(1,625)	(30)	(1,655)
<b>Balance as at February 28, 2014</b>	<b>19,792</b>	<b>481</b>	<b>(12)</b>	<b>109,905</b>	<b>130,166</b>	<b>4,556</b>	<b>134,722</b>

The following dividends were declared and paid by the Company:

	February 28, 2014	February 28, 2013
	\$	\$
\$0.085 per common share (2013 - \$0.070 per common share)	<b>1,625</b>	1,338

See accompanying notes to the condensed interim consolidated financial statements

# MTY FOOD GROUP INC.

## Condensed interim consolidated statements of cash flows

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

	February 28, 2014	February 28, 2013
	\$	\$
<b>Operating activities</b>		
Net income and comprehensive income	5,586	5,615
Items not affecting cash:		
Interest on long-term debt	91	78
Depreciation – property, plant and equipment	245	253
Amortization – intangible assets	1,452	973
Loss (gain) on disposal of property, plant and equipment	57	(9)
Unrealized foreign exchange loss	(5)	-
Unrealized foreign exchange loss on other comprehensive income	(18)	-
Other income	52	-
Income tax expense	2,067	2,082
Deferred revenue	97	1,030
	9,624	10,022
Income tax refunds received	25	402
Income taxes paid	(2,590)	(5,624)
Interest paid	(23)	(38)
Changes in non-cash working capital items (note 25)	1,692	(676)
<b>Cash flows provided by operating activities</b>	<b>8,728</b>	<b>4,086</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(252)	(284)
Additions to intangible assets	(23)	(67)
Adjustment to price of acquisition	(207)	
Proceeds on disposal of property, plant and equipment	244	45
<b>Cash flows used in by investing activities</b>	<b>(238)</b>	<b>(306)</b>
<b>Financing activities</b>		
Repayment of line of credit	(12,000)	-
Repayment of long-term debt	(371)	(73)
Dividends paid to non-controlling shareholders of subsidiaries	(30)	(25)
Dividends paid	(1,625)	(1,338)
<b>Cash flows used in financing activities</b>	<b>(14,026)</b>	<b>(1,436)</b>
Net (decrease) increase in cash and cash equivalents	(5,536)	2,344
Cash and cash equivalents, beginning of period	6,136	33,036
<b>Cash and cash equivalents, end of period</b>	<b>600</b>	<b>35,380</b>

See accompanying notes to the condensed interim consolidated financial statements

# MTY FOOD GROUP INC.

## Table of Contents

---

1.	DESCRIPTION OF THE BUSINESS .....	8
2.	BASIS OF PREPARATION.....	8
3.	CONSOLIDATION .....	9
4.	ADOPTION OF IFRS STANDARDS .....	10
5.	FUTURE ACCOUNTING CHANGES .....	10
6.	BUSINESS ACQUISITION .....	11
7.	ACCOUNTS RECEIVABLE .....	13
8.	INVENTORIES.....	14
9.	LOANS RECEIVABLE.....	14
10.	INVESTMENT IN SUBSIDIARY HELD-FOR-SALE.....	15
11.	CREDIT FACILITIES.....	15
12.	PROVISIONS .....	15
13.	DEFERRED REVENUE AND DEPOSITS .....	16
14.	LONG-TERM DEBT.....	17
15.	EARNINGS PER SHARE .....	17
16.	REVENUES .....	18
17.	OPERATING EXPENSES .....	20
18.	OPERATING LEASE ARRANGEMENTS .....	20
19.	COMMITMENTS.....	21
20.	GUARANTEE .....	21
21.	CONTINGENT LIABILITIES .....	21
22.	INCOME TAXES .....	22
23.	SEGMENTED INFORMATION .....	22
24.	STATEMENT OF CASH FLOWS.....	24
25.	RELATED PARTY TRANSACTIONS.....	25

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

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### 1. Description of the business

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

The Company is incorporated under the Canada Business Corporations Act and is listed on the Toronto Stock Exchange. The Company’s head office is located at 8150, Autoroute Transcanadienne, Suite 200, Ville Saint-Laurent, Quebec.

### 2. Basis of preparation

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value 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, 2013, prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”).

These condensed interim consolidated financial statements do not include all of the information required under IFRS for complete financial statements and they should therefore be read in conjunction with the Company’s annual consolidated financial statements for the year ended November 30, 2013. The Company’s annual consolidated financial statements are available on the SEDAR website at [www.seadar.com](http://www.seadar.com) and on the Company’s website at [www.mtygroup.com](http://www.mtygroup.com).

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on April 8, 2014.

#### Seasonality of interim operations

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



# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

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## 2. Basis of preparation (continued)

### Estimates, judgments and assumptions

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

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty are as those applied and described in the Company's audited annual financial statements for the year ended November 30, 2013.

## 3. 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.

### 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.

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

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### 4. Adoption of IFRS standards

On December 1, 2013, the Company adopted the new standards IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IFRS 13 Fair Value Measurement and the amended versions of the standards IAS 1 Presentation of Financial Statements, IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation. All of these standards apply to fiscal years beginning on or after January 1, 2013.

The adoption of these new standards or their amended version did not have an impact on the condensed interim consolidated financial statements of the Company for the first quarter of 2014, except for the new disclosure requirements by amended versions of IAS 1 and IAS 34 Interim Financial Reporting that were applied in these financial statements.

### 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 February 28, 2014, and have not been applied in preparing these condensed interim consolidated financial statements.

The following standards may have an impact on the condensed interim consolidated financial statements of the Company:

<b>Standard</b>	<b>Effective date <sup>1</sup></b>	<b>Impact <sup>2</sup></b>
IFRS 9 <i>Financial Instruments</i>	To be determined	In assessment
Amendments to IAS 32 Financial Instruments: Presentation	January 1, 2014	No financial impact
IAS 19 Employee benefits	July 2014	No financial impact
IAS 39 <i>Financial instrument : Recognition and Measurement</i>	January 1, 2014	No financial impact
Annual Improvement to IFRS (2010-2012 cycle)	July 2014	In assessment <sup>3</sup>

1) Effective for annual periods starting on or after:

2) Impact on the consolidated financial statements estimated by the Company.

3) The Company will present the required disclosures in its annual consolidated financial statements for the year ending November 30, 2015.

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

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### 5. Future accounting changes (continued)

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

IAS 32 was amended by the IASB to clarify certain requirements and address inconsistencies encountered upon practical application of this standard.

IAS 19 modifies the accounting treatment of employee or third-party contributions to a defined benefit plan.

IAS 39 was amended by the IASB to modify the identified criteria in the standard to be met in hedge accounting of a derivative financial instrument designated as a hedging instrument

Annual improvement to IFRS (2010-2012 cycle) was performed by IASB as part of its annual improvement process. Several standards were amended:

- IFRS 3: *Business Combinations*: Accounting for contingent consideration in business combination
- IFRS 8: *Operating segments*: Disclosure for aggregation of operating segments; and
- IAS 24: *Related Party Disclosures*: Disclosures related to key management personnel.

### 6. Business acquisition

#### 2013 acquisition

On September 24, 2013, the Company's wholly-owned subsidiary, MTY Tiki-Ming Enterprises Inc., acquired the assets of Extreme Pita, PurBlendz and Mucho Burrito ("Extreme Brandz") [www.extremebrandz.com](http://www.extremebrandz.com) for a consideration of \$45 million, paid from MTY's cash on hand. The transaction is effective September 24, 2013. The purpose of the acquisition was to diversify the Company's range of offering as well as to complement existing MTY brands.

<u>Consideration paid</u>	\$
Purchase price	45,000
Discount on non-interest bearing holdback	(364)
Net obligations assumed	(537)
Post-closing adjustments	528
<hr/>	
Net purchase price	44,625
Holdbacks	(4,136)
Post-closing adjustments payable at year-end	(528)
<hr/>	
Net cash outflow	39,963
<hr/>	

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

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### 6. Business acquisitions (continued)

#### 2013 acquisition (continued)

The preliminary purchase price allocation is as follows:

<u>Net assets acquired:</u>	\$
<b>Current assets</b>	
Cash and cash equivalents	300
Accounts receivable	68
Inventories	28
Income taxes receivable	33
Prepaid expense and deposits	165
	<hr/> 594
Property, plant and equipment	500
Franchise rights	11,499
Trademark	17,792
Goodwill <sup>(1)</sup>	17,903
	<hr/> 48,288
<b>Current Liabilities</b>	
Accounts payable	294
Deferred revenues	1,525
	<hr/> 1,819
Long-term debt	554
Deferred income taxes	1,290
	<hr/> 3,663
Net purchase price	<hr/> 44,625

<sup>(1)</sup> Of the total goodwill, only \$12,130 is deductible for tax purposes.

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 three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

### 7. Accounts receivable

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

	<b>February 28, 2014</b>	November 30, 2013
	\$	\$
Total accounts receivable	<b>14,798</b>	15,739
Less : Allowance for doubtful accounts	<b>2,711</b>	2,287
<b>Total accounts receivable, net</b>	<b>12,087</b>	13,452
Of which:		
Not past due	<b>7,931</b>	8,245
Past due for more than one day but for no more than 30 days	<b>600</b>	1,917
Past due for more than 31 days but for no more than 60 days	<b>620</b>	633
Past due for more than 61 days	<b>2,936</b>	2,657
<b>Total accounts receivable, net</b>	<b>12,087</b>	13,452
Allowance for doubtful accounts beginning of year	<b>2,287</b>	1,168
Additions	<b>424</b>	1,449
Write-off	-	(330)
<b>Allowance for doubtful accounts end of period</b>	<b>2,711</b>	2,287

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

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

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

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

### 8. Inventories

	February 28, 2014	November 30, 2013
	\$	\$
Raw materials	949	998
Work in progress	54	31
<b>Total inventories</b>	<b>1,003</b>	<b>1,029</b>

Inventories are presented net of a \$39 allowance for obsolescence (\$7 as at November 30, 2013). All of the inventories are expected to be sold within the next twelve months.

Inventories expensed during the three-month period ended February 28, 2014 was \$5,558 (2013 - \$5,947).

### 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:

	February 28, 2014	November 30, 2013
	\$	\$
Loans receivable, carrying no interest and without terms of repayment	13	16
Loans receivable bearing interest between nil and 8% per annum, receivable in monthly instalments of \$34 in aggregate, including principal and interest, ending in October 2018	824	962
	837	978
Current portion	(324)	(400)
	513	578

The capital repayments in subsequent years will be:

	\$
2015	324
2016	180
2017	163
2018	133
2019	10
Thereafter	27
	<u>837</u>

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

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### 10. Investment in subsidiary held-for-sale

In September, 2013, the Company put their 51% investment in 7687567 Canada Inc. (Aliment Flavio), a food processing plant in Saint-Romuald, Quebec, up for sale.

On November 5, 2013, the Company received a letter of intent subject to conditions to be validated in 2014. The value of the investment in subsidiary held-for-sale reported in the condensed interim consolidated statement of financial position is equal to 7687567 Canada Inc.'s net carrying value of assets less liabilities plus the value of a loan from the Company to 7687567 Canada Inc. No gains or losses were recognized in the Company's profit or loss. This investment represents a segment of the Company.

As at February 28, 2014, total assets and total liabilities for the investment were \$6,037 and \$5,937 respectively.

### 11. Credit facilities

As at February 28, 2014, the Company has access to an authorized revolving credit facility of \$30,000 and a treasury risk facility of \$1,000. 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 February 28, 2014, the bank's prime rate was 3.00%.

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

Under the terms of the credit facilities, the Company must satisfy a funded debt to EBITDA ratio of 2 to 1 and a minimum interest coverage ratio of 4.5:1. The credit facility is payable on demand and is renewable annually. As at February 28, 2014, \$4,352 (\$12,000 as at November 30, 2013) was drawn from the facilities and was netted with the Company's cash position. The Company is in compliance with the facility's covenants.

### 12. Provisions

Included in provisions are the following amounts:

	<b>February 28, 2014</b>	November 30, 2013
	\$	\$
Litigations and disputes	<b>320</b>	420
Closed stores	<b>556</b>	306
	<b>876</b>	726
Gift card liabilities/loyalty programs liabilities	<b>1,428</b>	1,065
<b>Total</b>	<b>2,305</b>	1,791

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

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### 12. Provisions (continued)

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, no amount was unused and reversed into income. The amounts used in the period include \$110 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 \$260 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.

### 13. Deferred revenue and deposits

	February 28, 2014	November 30, 2013
	\$	\$
Franchise fee deposits	2,013	2,570
Deferred landlord lease incentives	20	-
Supplier contributions and other allowances	1,719	1,085
	<u>3,752</u>	<u>3,655</u>
Current portion	<u>(3,752)</u>	<u>(3,655)</u>
	-	-



# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

### 14. Long-term debt

	February 28, 2014	November 30, 2013
	\$	\$
Non-interest bearing holdbacks on acquisition of Valentine, repayable January 2014. The effective interest rate is 4.50%.	-	364
Non-interest bearing holdbacks on acquisition of Jugo Juice, repayable August 2014. The effective interest rate is 4.50%.	130	129
Non-interest bearing holdbacks on acquisition of Mr. Souvlaki, repayable September 2014	165	165
Non-interest bearing holdbacks on acquisition of SushiGo, repayable December 2014	105	105
Non-interest bearing holdbacks on acquisition of Extreme Brandz, repayable between September 2014 and March 2016. The effective interest rate is 4.50%.	4,214	4,167
Non-interest bearing holdbacks on acquisition of ThaiZone, repayable between September 2014 and September 2015. The effective interest rate is 4.50%.	1,696	1,677
Non-interest bearing contract cancellation fees	578	562
	<b>6,888</b>	7,169
Current portion	<b>(2,473)</b>	(2,703)
	<b>4,415</b>	4,466

### 15. Earnings per share

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

	February 28, 2014	November 30, 2013
Weighted daily average number of common shares	19,120,567	19,120,567

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

### 16. Financial instruments

#### a) Classification

The classification, carrying value and fair value of financial instruments are as follows:

#### As at February 28, 2014

	Loans and receivables	Other financial liabilities at amortized cost	Total carrying Value	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	600	-	600	600
Accounts receivable	12,087	-	12,087	12,087
Loans receivable	837	-	837	837
	<b>13,524</b>	<b>-</b>	<b>13,524</b>	<b>13,524</b>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	-	11,833	11,833	11,833
Long-term debt <sup>1</sup>	-	6,888	6,888	6,888
	<b>-</b>	<b>18,721</b>	<b>18,721</b>	<b>18,721</b>

#### As at November 30, 2013

	Loans and receivables	Other financial liabilities at amortized cost	Total carrying Value	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	6,136	-	6,136	6,136
Accounts receivable	13,452	-	13,452	13,452
Loans receivable	978	-	978	978
	<b>20,566</b>	<b>-</b>	<b>20,566</b>	<b>20,566</b>
<b>Financial liabilities</b>				
Line of credit	-	12,000	12,000	12,000
Accounts payable and accrued liabilities	-	11,903	11,903	11,903
Long-term debt <sup>1</sup>	-	7,169	7,169	7,169
	<b>-</b>	<b>31,072</b>	<b>31,072</b>	<b>31,072</b>

<sup>1</sup> Includes the current portion of long-term debt.

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

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### 16. Financial instruments (continued)

#### b) Fair Value

The fair value of a financial instrument 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. It is established based on market information available at the date of the consolidated statement of financial position. In the absence of an active market for a financial instrument, the Company uses the valuation methods described below to determine the fair value of the instrument. To make the assumptions required by certain valuation models, the Company relies mainly on external, readily observable market inputs. Assumptions or inputs that are not based on observable market data are used in the absence of external data. These assumptions or factors represent management's best estimates of the assumptions or factors that would be used by market participants for these instruments. The credit risk of the counterparty and the Company's own credit risk have been taken into account in estimating the fair value of all financial assets and financial liabilities, including derivatives.

The following valuation assumptions and/or methods were used to estimate the fair value of financial instruments:

- The fair values of cash, line of credit, accounts receivable, and accounts payable and accrued liabilities is approximately equal to their carrying values due to their short-term maturities. The loans receivable generally bear interest at market rates and therefore it is management's opinion that the carrying value approximates the fair value;
- The fair value of long-term debt, including finance lease obligations, 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.

### 17. Revenues

The Company's revenues include:

	February 28, 2014	February 28, 2013
	\$	\$
Royalties	10,234	7,989
Initial franchise fees	1,354	1,171
Rent	1,214	1,352
Sale of goods, including construction revenues	8,030	7,879
Other franchising revenue	3,951	3,515
Other	819	722
	<b>25,602</b>	<b>22,628</b>

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# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

### 18. Operating expenses

Operating expenses are broken down as follows:

	February 28, 2014	February 28, 2013
	\$	\$
Cost of goods sold and rent	8,146	8,277
Wages and benefits	4,580	2,990
Consulting and professional fees	772	713
Royalties	248	198
Other <sup>(1)</sup>	2,370	1,647
	<b>16,116</b>	<b>13,825</b>

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

### 19. 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
	\$	\$	\$
2015	62,731	59,624	3,107
2016	58,057	54,954	3,103
2017	53,046	50,423	2,623
2018	46,902	44,374	2,528
2019	40,286	38,449	1,837
Thereafter	98,362	92,431	5,931
	<b>359,384</b>	<b>340,255</b>	<b>19,129</b>

# **MTY FOOD GROUP INC.**

## **Notes to the condensed interim consolidated financial statements**

**For the three-month periods ended February 28, 2014 and February 28, 2013**

**(unaudited)**

**(in thousands of Canadian dollars except per share amounts)**

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### **19. Operating lease arrangements (continued)**

Payments recognized as rent expense during the three-month period ended February 28, 2014 amount to \$2,027 (2013 - \$1,797).

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

During the period, the Company has earned rental income of \$1,214 (2013 - \$1,352).

The Company has recognized a liability of \$556 (November 30, 2013 - \$306) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (Note 12).

### **20. Commitments**

The Company has entered into supplier agreements for purchases of coffee beans, wheat, sugar and shortening for delivery in 2014. The total commitment amounts to approximately \$115.

### **21. Guarantee**

The Company has provided a guarantee in the form of a letter of credit for an amount of \$45 (\$45 as at November 30, 2013).

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

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

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### 23. Income taxes

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

	February 28, 2014		February 28, 2013	
	\$	%	\$	%
Combined income tax rate	2,028	26.5	2,047	26.6
Add effect of:				
Impact of disposition of capital				
Property	7	0.1	(1)	(0.0)
Non-deductible items	10	0.1	12	0.1
Adjustment to prior year provision	47	0.6	-	-
Other – net	(25)	(0.3)	24	0.3
<b>Provision for income taxes</b>	<b>2,067</b>	<b>27.0</b>	<b>2,082</b>	<b>27.0</b>

### 24. Segmented information

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

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

#### *Franchising operations*

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

#### *Corporate store operations*

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

#### *Distribution operations*

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

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

### 24. Segmented information (continued)

#### *Food processing operations*

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

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

For the three-month period ended February 28, 2014:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	\$	\$	\$	\$	\$	\$
Operating revenues	19,388	2,765	1,274	2,327	(152)	25,602
Operating expenses	10,096	2,669	1,184	2,319	(152)	16,116
	9,292	96	90	8	-	9,486
Other expenses						
Depreciation - property, plant and equipment	87	158	-	-	-	245
Amortization - intangible assets	1,452	-	-	-	-	1,452
Interest on long-term debt	91	-	-	-	-	91
Other income						
Foreign exchange gain (loss)	58	-	-	-	-	58
Interest income	6	-	-	-	-	6
Other income (charges)	(52)	-	-	-	-	(52)
Loss on disposal of property, plant and equipment	(57)	-	-	-	-	(57)
Operating income	7,617	(62)	90	8	-	7,653
Current income taxes	824	(17)	24	-	-	831
Deferred income taxes	1,236	-	-	-	-	1,236
Net income	5,557	(45)	66	8	-	5,586

# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

### 24. Segmented information (continued)

For the three month period ended February 28, 2013:

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

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

### 25. Statement of cash flows

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

	February 28, 2014	February 28, 2013
	\$	\$
Accounts receivable	1,365	1701
Inventories	26	(159)
Loans receivable	141	115
Prepaid expenses and deposits	(284)	(102)
Accounts payable and accrued liabilities	(70)	(2,499)
Provisions	514	268
	1,692	(676)



# MTY FOOD GROUP INC.

## Notes to the condensed interim consolidated financial statements

For the three-month periods ended February 28, 2014 and February 28, 2013

(unaudited)

(in thousands of Canadian dollars except per share amounts)

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### 26. Related party transactions

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

Compensation of key management personnel

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

	<b>February 28, 2014</b>	February 28, 2013
	\$	\$
Short-term benefits	<b>183</b>	199
Board member fees	<b>11</b>	11
<b>Total remuneration of key management personnel</b>	<b>194</b>	210

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 30% 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 was as follows:

	<b>February 28, 2014</b>	February 28, 2013
	\$	\$
Short-term benefits	<b>111</b>	80
<b>Total remuneration of individuals related to key management personnel</b>	<b>111</b>	80

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 February 28, 2014, dividends of nil (2013-nil) were paid by those subsidiaries to the above-mentioned company.