
Condensed
interim consolidated financial statements of
MTY Food Group Inc.

For the three and nine-month periods ended August 31, 2021 and 2020

MTY Food Group Inc.

Condensed interim consolidated statements of income (loss)

For the three and nine-month periods ended August 31, 2021 and 2020

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

(Unaudited)

		Three months ended August 31		Nine months ended August 31	
	Notes	2021	2020	2021	2020
		\$	\$	\$	\$
Revenue	13 & 15	150,801	135,366	405,618	383,954
Expenses					
Operating expenses	14 & 15	101,015	92,147	279,445	281,815
Depreciation – property, plant and equipment and right-of-use assets		4,137	4,469	12,101	13,094
Amortization – intangible assets		7,027	7,316	21,480	22,863
Interest on long-term debt		2,102	3,522	8,387	13,002
Net interest expense on leases	6	610	619	1,734	1,896
Impairment charge – right-of-use assets	6	436	1,511	922	3,121
Impairment charge – property, plant and equipment, intangible assets and goodwill	7	80	—	5,354	120,266
		115,407	109,584	329,423	456,057
Share of net (loss) profit of a joint venture accounted for using the equity method		(113)	169	(382)	499
Other (expenses) income					
Unrealized and realized foreign exchange (loss) gain		(4,012)	2,146	1,458	2,631
Interest income (expense)		39	(100)	158	269
(Loss) gain on de-recognition/lease modification of lease liabilities		(27)	323	854	2,848
Gain (loss) on disposal of property, plant and equipment and assets held for sale		243	203	1,062	(169)
Revaluation of financial liabilities recorded at fair value		1,194	805	(1,119)	1,194
Other income		15	—	15	—
		(2,548)	3,377	2,428	6,773
Income (loss) before taxes		32,733	29,328	78,241	(64,831)
Income tax expense (recovery)					
Current		6,145	6,025	16,600	9,745
Deferred		2,160	294	664	(17,524)
		8,305	6,319	17,264	(7,779)
Net income (loss)		24,428	23,009	60,977	(57,052)
Net income (loss) attributable to:					
Owners		24,337	22,932	60,762	(57,186)
Non-controlling interests		91	77	215	134
		24,428	23,009	60,977	(57,052)
Net income (loss) per share	10				
Basic		0.99	0.93	2.46	(2.31)
Diluted		0.98	0.93	2.46	(2.31)

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 and nine-month periods ended August 31, 2021 and 2020

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended August 31		Nine months ended August 31	
	2021	2020	2021	2020
	\$	\$	\$	\$
Net income (loss)	24,428	23,009	60,977	(57,052)
Items that may be reclassified subsequently to net income (loss)				
Unrealized gain (loss) on translation of foreign operations	27,689	(35,578)	(17,277)	(7,493)
Deferred tax recovery on foreign currency translation adjustments	—	1,955	—	42
Other comprehensive income (loss)	27,689	(33,623)	(17,277)	(7,451)
Total comprehensive income (loss)	52,117	(10,614)	43,700	(64,503)
Total comprehensive income (loss) attributable to:				
Owners	52,026	(10,691)	43,485	(64,637)
Non-controlling interests	91	77	215	134
	52,117	(10,614)	43,700	(64,503)

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 nine-month periods ended August 31, 2021 and 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				
	\$	\$	\$	\$	\$	\$	\$	\$	\$
For the nine months ended August 31, 2021									
Balance, beginning of period	306,415	(850)	3,019	(13,354)	(11,185)	286,525	581,755	759	582,514
Net income	—	—	—	—	—	60,762	60,762	215	60,977
Other comprehensive loss	—	—	—	(17,277)	(17,277)	—	(17,277)	—	(17,277)
Total comprehensive income							43,485	215	43,700
Dividends	—	—	—	—	—	(4,571)	(4,571)	—	(4,571)
Share-based compensation	—	—	630	—	630	—	630	—	630
Disposal of interest in 10220396 Canada Inc. (Note 8)	—	—	—	—	—	(1,300)	(1,300)	196	(1,104)
Balance, end of period	306,415	(850)	3,649	(30,631)	(27,832)	341,416	619,999	1,170	621,169

	Reserves					Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	Capital stock	Other	Contributed surplus	Foreign currency translation	Total reserves				
	\$	\$	\$	\$	\$	\$	\$	\$	\$
For the nine months ended August 31, 2020									
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)
Adjusted balance, beginning of period	310,939	(850)	2,095	(736)	509	342,608	654,056	732	654,788
Net (loss) income	—	—	—	—	—	(57,186)	(57,186)	134	(57,052)
Other comprehensive loss	—	—	—	(7,451)	(7,451)	—	(7,451)	—	(7,451)
Total comprehensive (loss) income							(64,637)	134	(64,503)
Shares repurchased and cancelled (Note 11)	(4,524)	—	—	—	—	(14,342)	(18,866)	—	(18,866)
Dividends	—	—	—	—	—	(4,633)	(4,633)	(100)	(4,733)
Share-based compensation	—	—	704	—	704	—	704	—	704
Balance, end of period	306,415	(850)	2,799	(8,187)	(6,238)	266,447	566,624	766	567,390

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 August 31, 2021 and November 30, 2020

(In thousands of Canadian dollars)

(Unaudited)

		August 31, 2021	November 30, 2020
	Notes	\$	\$
Assets			
Current assets			
Cash		56,393	44,302
Accounts receivable	5	54,769	55,886
Inventories		9,858	9,415
Current portion of loans and other receivables		1,289	1,527
Current portion of finance lease receivables	6	91,779	90,303
Income taxes receivable		357	420
Other assets		1,305	2,792
Prepaid expenses and deposits		8,130	6,750
		223,880	211,395
Loans and other receivables		3,109	3,233
Finance lease receivables	6	331,740	377,824
Contract cost asset		5,435	5,171
Deferred income taxes		199	207
Investment in a joint venture		26,238	26,612
Property, plant and equipment		17,898	16,551
Right-of-use assets	6	65,510	69,223
Intangible assets		820,432	864,029
Goodwill		425,095	439,452
		1,919,536	2,013,697
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		117,612	111,372
Provisions		1,590	3,065
Gift card and loyalty program liabilities		96,715	95,233
Income taxes payable		3,798	18,335
Current portion of deferred revenue and deposits		16,147	13,747
Current portion of long-term debt	9	15,683	12,888
Current portion of lease liabilities	6	106,451	114,915
		357,996	369,555
Long-term debt	9	371,637	447,654
Lease liabilities	6	398,976	443,834
Deferred revenue and deposits		41,798	41,367
Deferred income taxes		126,945	128,773
Other liabilities		1,015	—
		1,298,367	1,431,183

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

As at August 31, 2021 and November 30, 2020

(In thousands of Canadian dollars)

(Unaudited)

		August 31, 2021	November 30, 2020
	Notes	\$	\$
Shareholders' equity			
Equity attributable to owners			
Capital stock	11	306,415	306,415
Reserves		(27,832)	(11,185)
Retained earnings		341,416	286,525
		619,999	581,755
Equity attributable to non-controlling interests		1,170	759
		621,169	582,514
		1,919,536	2,013,697

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

Approved by the Board on October 7, 2021

_____, Director

_____, Director

Condensed interim consolidated statements of cash flows

For the three and nine-month periods ended August 31, 2021 and 2020

(In thousands of Canadian dollars)

(Unaudited)

		Three months ended August 31		Nine months ended August 31	
		2021	2020	2021	2020
	Notes	\$	\$	\$	\$
Operating activities					
Net income (loss)		24,428	23,009	60,977	(57,052)
Adjusting items:					
Interest on long-term debt		2,102	3,522	8,387	13,002
Net interest expense on leases	6	610	619	1,734	1,896
Depreciation – property, plant and equipment and right-of-use assets		4,137	4,469	12,101	13,094
Amortization – intangible assets		7,027	7,316	21,480	22,863
Impairment charge – property, plant and equipment	7	80	—	80	2,030
Impairment charge – right-of-use assets	6	436	1,511	922	3,121
Impairment charge – intangible assets and goodwill	7	—	—	5,274	118,236
Share of net loss (profit) of a joint venture accounted for using the equity method		113	(169)	382	(499)
Loss (gain) on de-recognition/lease modification of lease liabilities		27	(323)	(854)	(2,848)
(Gain) loss on disposal of property, plant and equipment and assets held for sale		(243)	(203)	(1,062)	169
Revaluation of financial liabilities recorded at fair value through profit or loss		(1,194)	(805)	1,119	(1,194)
Other income		(15)	—	(15)	—
Income tax expense (recovery)		8,305	6,319	17,264	(7,779)
Share-based compensation payments		201	223	630	704
		46,014	45,488	128,419	105,743
Income taxes paid		(7,975)	(3,548)	(19,721)	(9,607)
Interest paid		(2,203)	(3,218)	(8,528)	(12,150)
Other		(910)	(208)	(3,063)	(1,627)
Changes in non-cash working capital items	16	11,627	110	10,294	6,452
Cash flows provided by operating activities		46,553	38,624	107,401	88,811
Investing activities					
Proceeds on disposal of interest in 10220396 Canada Inc.	8	7,500	—	7,500	—
Additions to property, plant and equipment		(1,248)	(1,764)	(4,762)	(3,199)
Additions to intangible assets		(65)	(63)	(268)	(1,330)
Proceeds on disposal of property, plant and equipment and assets held for sale		361	281	1,027	12,460
Investment in a joint venture		—	—	—	(19,105)
Cash flows provided by (used in) investing activities		6,548	(1,546)	3,497	(11,174)

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows (continued)

For the three and nine-month periods ended August 31, 2021 and 2020

(In thousands of Canadian dollars)

(Unaudited)

		Three months ended August 31		Nine months ended August 31	
		2021	2020	2021	2020
Notes		\$	\$	\$	\$
Financing activities					
		—	—	—	20,000
		(35,210)	(38,023)	(79,546)	(71,510)
	6	(3,605)	(2,703)	(11,308)	(9,614)
	11	—	—	—	(18,866)
		—	—	(665)	(525)
		(4,571)	—	(4,571)	(4,633)
		(43,386)	(40,726)	(96,090)	(85,148)
Cash flows used in financing activities					
		9,715	(3,648)	14,808	(7,511)
		(131)	—	(131)	—
		5,278	(2,422)	(2,586)	617
		41,531	49,913	44,302	50,737
		56,393	43,843	56,393	43,843
Cash, end of period					

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

MTY Food Group Inc.

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MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2021 and 2020

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

(Unaudited)

1. Description of the business

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

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

2. Basis of preparation

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

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

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

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

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

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

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

Statement of compliance

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

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 October 7, 2021.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2021 and 2020

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

(Unaudited)

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 third quarter of 2021, the COVID-19 pandemic continued to impact the markets in which MTY and its franchise partners and suppliers operate. Canada and certain parts of the United States ("US") continued to be impacted by the continuation of government-imposed restrictions including restrictions on dine-in guests, reduced operating hours and/or temporary closures. The third quarter saw the ramp-up of the global vaccination campaign, which led to the gradual lifting of restrictions in some territories, including the resumption of indoor and outdoor dining, and the reopening of a number of restaurants. However, the end of the third quarter saw the rise of a fourth wave driven by the Delta variant, resulting in more infections and certain additional public health measures, including the mandatory presentation of a vaccine passport for seated dining in restaurants in some territories. The disruptions are expected to persist into the fourth quarter with uncertainty surrounding the rollout of the vaccines and the new variants of the virus as well as the longer-term impact on the economy and the rules that will apply to MTY's restaurants as more sheltering measures are gradually reduced. The impact of the virus and the efforts to stop it continue to 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 and nine-month periods ended August 31, 2021, the Company determined that there was no indication of impairment. Accordingly, the Company did not record impairment charges on its property, plant and equipment, intangible assets, and goodwill attributable to COVID-19. 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:

- Changes to lease liabilities and finance lease receivables were made to reflect changes in lease payment terms;
- Reduction in wage expense, presented in Wage and rent subsidies in Note 14 of the financial statements, for the three and nine-month periods ending August 31, 2021 of \$371 and \$3,603, respectively (2020 – \$2,580 and \$5,419, respectively) resulting from the Canadian Employment Wage Subsidies, and of nil and \$291, respectively (2020 – nil and nil, respectively) resulting from the Employee Retention Credit available to US taxpayers under the Coronavirus Aid, Relief and Economic Security Act; and
- Reduction in rent expense, presented in Wage and rent subsidies in Note 14 of the financial statements, for the three and nine-month periods ending August 31, 2021 of \$412 and \$1,460, respectively (2020 – nil and nil, respectively) resulting from the Canadian Emergency Rent Subsidies.

COVID-19 accounting implications on leases

In response to the COVID-19 pandemic, in May 2020 and in March 2021 the IASB 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, 2022; and
- no other substantive changes have been made to the terms of the lease.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2021 and 2020

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

(Unaudited)

2. Basis of preparation (continued)

COVID-19 accounting implications on leases (continued)

The Company has adopted these amendments and applied the practicable expedient to all eligible rent concessions. The Company has recognized for the three and nine-month periods ended August 31, 2021, negative variable lease payments of \$298 and \$923, respectively (2020 – \$226 for both periods) as part of rent expense, presented in Cost of goods sold and rent in Note 14 of the financial statements.

Deferred consideration receivable

The Company's deferred consideration receivable consists of a deferred consideration in conjunction with the sale of its interest in 10220396 Canada Inc. The deferred consideration is a financial instrument measured at amortized cost and is included in Loans and other receivables.

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. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the IASB that are not yet effective for the period ended August 31, 2021 and have not been applied in preparing these condensed interim consolidated financial statements.

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

Standard	Issue date	Effective date for the Company	Impact
IAS 1, Presentation of Financial Statements	February 2021	December 1, 2023	In assessment
IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors	February 2021	December 1, 2023	In assessment
IAS 12, Income Taxes	May 2021	December 1, 2023	In assessment

IAS 1, Presentation of Financial Statements

In February 2021, the IASB issued *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2021 and 2020

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

(Unaudited)

4. Future accounting changes (continued)

IAS 1, Presentation of Financial Statements (continued)

An entity is now required to disclose its material accounting policy information instead of its significant accounting policies and several paragraphs are added to IAS 1 to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. The amendments also clarify that: accounting policy information may be material because of its nature, even if the related amounts are immaterial; accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company will adopt the amendments on December 1, 2023.

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

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

IAS 12, Income Taxes

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

5. Accounts receivable

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

	August 31, 2021	November 30, 2020
	\$	\$
Total accounts receivable	64,573	68,417
Less: Allowance for credit losses	9,804	12,531
Total accounts receivable, net	54,769	55,886
Of which:		
Not past due	37,707	35,946
Past due for more than one day but no more than 30 days	2,899	3,818
Past due for more than 31 days but no more than 60 days	1,853	2,731
Past due for more than 61 days	12,310	13,391
Total accounts receivable, net	54,769	55,886

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2021 and 2020

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

(Unaudited)

6. 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.

Right-of-use assets

The following table provides the net carrying amounts of the right-of-use assets by class of underlying asset and the changes in the nine-month period ended August 31, 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	69,223
Additions	10,306	—	697	11,003
Depreciation expense	(7,796)	(1,095)	(365)	(9,256)
Impairment charge	(922)	—	—	(922)
De-recognition/lease modification of lease liabilities	(7,997)	4,265	97	(3,635)
Foreign exchange	(892)	(5)	(6)	(903)
Balance as at August 31, 2021	51,035	13,443	1,032	65,510

Finance lease receivables and lease liabilities

The following table provides the carrying amounts of the finance lease receivables and lease liabilities, and the changes in the nine-month period ended August 31, 2021:

	Finance lease receivables	Lease liabilities
	\$	\$
Balance as at December 1, 2020	468,127	(558,749)
Additions	5,661	(9,018)
Lease renewals and modifications	37,492	(37,113)
Lease terminations	(12,501)	9,511
Other adjustments	1,343	2,671
Interest income (expense) ⁽¹⁾	8,863	(10,597)
(Receipts) payments	(82,091)	93,399
Foreign exchange	(3,375)	4,469
Balance as at August 31, 2021	423,519	(505,427)

⁽¹⁾ During the three and nine-month periods ended August 31, 2021, the Company recorded interest income on finance lease receivables of \$2,763 and \$8,863, respectively (2020 – \$3,352 and \$10,185, respectively), and interest expense on lease liabilities of \$3,373 and \$10,597, respectively (2020 – \$3,971 and \$12,081, respectively).

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6. Leases (continued)

Finance lease receivables and lease liabilities (continued)

Recorded in the consolidated statement of financial position as follows:

	Finance lease receivables	Lease liabilities
	\$	\$
Current portion	91,779	(106,451)
Long-term portion	331,740	(398,976)
	423,519	(505,427)

7. Impairment charge – property, plant and equipment, intangible assets and goodwill

During the third quarter of 2021, the Company recorded \$80 of impairment on its property, plant and equipment. During the second quarter of 2021, there were indicators of impairment that led the Company to carry out a review of the recoverable amount allocated to the intangible assets associated with the “Houston Avenue Bar & Grill” and “Industria Pizza + Bar” brands. The recoverable amount was measured at fair value less costs of disposal. The review led to the recognition of a non-cash impairment loss of \$5,274 (comprised of \$2,229 and \$3,045 of impairment of franchise rights and trademarks, respectively) for the Canada geographical segment, which has been recognized in the condensed interim consolidated statements of comprehensive income (loss).

During the third quarter of 2020, there were no indicators of impairment identified. During the second quarter of 2020, impairment indicators were identified due to the adverse impact of COVID-19, which resulted in temporary store closures and reduction in sales at franchised and corporately-owned locations. Accordingly, the Company performed impairment testing, which resulted in the recognition of impairment charges of:

- \$2,030 against property, plant and equipment;
- \$50,269 against intangible assets (comprised of \$16,827 and \$33,442 of impairment of franchise rights and trademarks, respectively); and
- \$67,967 against goodwill.

8. Disposal of interest in 10220396 Canada Inc.

During the third quarter of 2021, the Company sold its 80% interest in 10220396 Canada Inc., whose activities consist of franchising for the banners “Houston Avenue Bar & Grill” and “Industria Pizza + Bar”, for a cash consideration of \$7,500 and a deferred consideration of \$1,693. The deferred consideration has a contractual amount of up to \$3,000, to be repaid in two tranches: the first tranche of \$1,500 will be repaid in variable instalments based on royalties collected, beginning in July 2022; the second tranche will also be repaid in variable instalments based on royalties collected, which will begin once the first tranche is fully repaid, and will end on the earlier of such time \$1,500 is repaid, or a period of 10 years has elapsed. The Company recorded a gain on the disposal of its shares of 10220396 Canada Inc. of \$141, presented in Other income in the condensed interim consolidated statement of income (loss).

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9. Long-term debt

	August 31, 2021	November 30, 2020
	\$	\$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions ⁽¹⁾	14,754	12,500
Contingent consideration on acquisitions and investment in a joint venture ⁽²⁾	4,304	8,075
Fair value of promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	—	2,928
Fair value of non-controlling interest option in 9974644 Canada Inc. ⁽³⁾	1,559	1,171
Fair value of obligation to repurchase partner in a joint venture ⁽⁴⁾	3,243	3,364
Fair value of interest rate swap	—	1,152
Revolving credit facility payable to a syndicate of lenders ⁽⁵⁾	365,000	433,000
Credit facility financing costs	(1,540)	(1,648)
	387,320	460,542
Less: Current portion	(15,683)	(12,888)
	371,637	447,654

(1) During the nine months ended August 31, 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) The balance as at August 31, 2021, consisted of a joint venture interest (payable December 2022).

(3) Payable on demand.

(4) Maximum maturity date of December 2024.

(5) 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 April 22, 2024 and must be repaid in full at that time. The revolving credit facility has an authorized amount of \$600,000 (November 30, 2020 – \$700,000). As at August 31, 2021, the Company had drawn US\$288,644 (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.

During the second quarter of 2021, the Company modified its existing credit facility, which resulted in: a decrease to the revolving credit facility, which now has an authorized amount of \$600,000 (November 30, 2020 – \$700,000); an increase to the accordion feature, which now amounts to \$300,000 (November 30, 2020 – \$200,000); and an extension of its maturity by three years, until April 22, 2024.

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

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

As at August 31, 2021, the Company was in compliance with its financial covenants.

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10. Net income (loss) per share

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

	Three months ended August 31		Nine months ended August 31	
	2021	2020	2021	2020
Weighted daily average number of common shares – basic	24,706,461	24,706,461	24,706,461	24,771,530
Assumed exercise of stock options ⁽¹⁾	83,942	—	30,839	—
Weighted daily average number of common shares – diluted	24,790,403	24,706,461	24,737,300	24,771,530

⁽¹⁾ The calculation of the assumed exercise of stock options includes the effect of the average unrecognized future compensation cost of dilutive options. The number of excluded options for the three and nine-month periods ended August 31, 2021 was nil and 200,000, respectively (2020 – 400,000 and 400,000, respectively).

11. Capital stock

On June 28, 2021, the Company announced the renewal of the normal course issuer bid (“NCIB”). The NCIB began on July 3, 2021 and will end on July 2, 2022 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.

During the three and nine-month periods ended August 31, 2021, the Company repurchased and cancelled a total of nil common shares (2020 – nil and 364,774 common shares, respectively) under the current NCIB, at a weighted average price of nil per common share (2020 – nil and \$51.72 per common share, respectively), for a total consideration of nil (2020 – nil and \$18,866, respectively). An excess of nil (2020 – nil and \$14,342, respectively) of the shares’ repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

12. 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.

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12. Financial instruments (continued)

Fair value of recognized financial instruments

Cross currency interest rate swaps

On August 23, 2021 and August 31, 2021, the Company entered into three (November 30, 2020 – two) floating to floating 1-month cross currency interest rate swaps. A fair value of nil was recorded as at August 31, 2021 (November 30, 2020 – nil). The Company has classified this as level 2 in the fair value hierarchy.

	August 31, 2021			November 30, 2020	
Receive – Notional	US\$150,000	US\$79,271	US\$59,373	US\$137,600	US\$95,410
Receive – Rate	0.08%	1.54%	1.53%	2.44%	1.85%
Pay – Notional	CA\$190,000	CA\$100,000	CA\$75,000	CA\$180,000	CA\$125,000
Pay – Rate	0.21%	1.63%	1.68%	2.45%	1.94%

Fair value hierarchy

	Level 3	
	August 31, 2021	November 30, 2020
	\$	\$
Promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	—	2,928
Contingent consideration on acquisitions and investment in a joint venture	4,304	8,075
Non-controlling interest buyback options	1,559	1,171
Obligation to repurchase partner in a joint venture	3,243	3,364
Financial liabilities	9,106	15,538

The Company has determined that the fair values of its financial assets and financial liabilities with short-term and long-term maturities approximate their carrying value. These financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, deposits and other liabilities. The table below shows the fair value and the carrying amount of other financial instruments as at August 31, 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.

	August 31, 2021		November 30, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Loans and other receivables	4,398	4,398	4,760	4,760
Finance lease receivables	423,519	423,519	468,127	468,127
Financial liabilities				
Long-term debt ⁽¹⁾	379,754	379,802	443,852	453,397

⁽¹⁾ 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.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

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(Unaudited)

12. Financial instruments (continued)

Determination of fair value

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

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

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

13. Revenue

Three months ended

	August 31, 2021			August 31, 2020		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
Royalties	19,459	31,626	51,085	15,546	30,195	45,741
Franchise and transfer fees	1,176	1,119	2,295	1,482	1,104	2,586
Retail, food processing and distribution revenues	29,823	1,223	31,046	29,399	1,723	31,122
Sale of goods, including construction revenue	8,220	11,261	19,481	4,888	10,527	15,415
Gift card breakage income	62	1,304	1,366	65	1,224	1,289
Promotional funds	9,604	17,058	26,662	7,764	14,602	22,366
Other franchising revenue	8,260	8,421	16,681	7,183	6,158	13,341
Other	770	1,415	2,185	788	2,718	3,506
	77,374	73,427	150,801	67,115	68,251	135,366

Nine months ended

	August 31, 2021			August 31, 2020		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
Royalties	42,994	89,738	132,732	43,496	79,299	122,795
Franchise and transfer fees	3,588	2,981	6,569	4,514	3,173	7,687
Retail, food processing and distribution revenues	89,923	3,692	93,615	79,197	3,476	82,673
Sale of goods, including construction revenue	16,939	34,645	51,584	18,539	35,817	54,356
Gift card breakage income	178	3,607	3,785	264	3,572	3,836
Promotional funds	22,631	45,995	68,626	22,416	42,223	64,639
Other franchising revenue	20,465	20,028	40,493	22,044	16,835	38,879
Other	2,433	5,781	8,214	2,359	6,730	9,089
	199,151	206,467	405,618	192,829	191,125	383,954

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14. Operating expenses

	Three months ended					
	August 31, 2021			August 31, 2020		
	US &		TOTAL	US &		TOTAL
	Canada	International		Canada	International	
	\$	\$	\$	\$	\$	\$
Cost of goods sold and rent	4,021	5,310	9,331	3,411	4,318	7,729
Retail, food processing and distribution costs	27,740	—	27,740	25,973	—	25,973
Wages and benefits	11,043	12,874	23,917	9,113	14,356	23,469
Wage and rent subsidies (Note 2)	(783)	—	(783)	(2,580)	—	(2,580)
Consulting and professional fees	1,544	1,655	3,199	1,429	1,589	3,018
Gift cards – related costs	—	1,542	1,542	—	1,243	1,243
Royalties	36	2,307	2,343	4	1,873	1,877
Promotional funds	9,604	17,058	26,662	7,764	14,602	22,366
(Reversal of) impairment for expected credit losses	(165)	114	(51)	2,620	1,005	3,625
Other ⁽¹⁾	3,216	3,899	7,115	1,894	3,533	5,427
	56,256	44,759	101,015	49,628	42,519	92,147

	Nine months ended					
	August 31, 2021			August 31, 2020		
	US &		TOTAL	US &		TOTAL
	Canada	International		Canada	International	
	\$	\$	\$	\$	\$	\$
Cost of goods sold and rent	8,435	15,506	23,941	12,491	14,308	26,799
Retail, food processing and distribution costs	81,994	—	81,994	70,002	—	70,002
Wages and benefits	31,508	41,175	72,683	29,630	46,752	76,382
Wage and rent subsidies (Note 2)	(5,063)	(291)	(5,354)	(5,419)	—	(5,419)
Consulting and professional fees	4,782	4,896	9,678	5,401	5,731	11,132
Gift cards – related costs	—	4,418	4,418	—	4,484	4,484
Royalties	39	5,747	5,786	14	4,300	4,314
Promotional funds	22,631	45,995	68,626	22,416	42,223	64,639
(Reversal of) impairment for expected credit losses	(774)	(1,074)	(1,848)	5,354	2,702	8,056
Other ⁽¹⁾	7,902	11,619	19,521	7,935	13,491	21,426
	151,454	127,991	279,445	147,824	133,991	281,815

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

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15. 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 August 31, 2021.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Total US &		Total consolidated
											International		
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Revenue	32,185	5,868	29,964	9,604	(247)	77,374	45,423	10,096	1,223	17,058	(373)	73,427	150,801
Operating expenses	14,202	5,051	27,741	9,604	(342)	56,256	17,282	10,697	—	17,058	(278)	44,759	101,015
Segment profit (loss)	17,983	817	2,223	—	95	21,118	28,141	(601)	1,223	—	(95)	28,668	49,786

Below is a summary of each geographical and operating segment's performance for the three-month period ended August 31, 2020.

	CANADA						US & INTERNATIONAL						Total consolidated
	Franchising (1)	Corporate	Processing, distribution and retail	Promotional funds	Interco (1)	Total Canada	Franchising (1)	Corporate (1)	Processing, distribution and retail	Promotional funds	Interco (1)	Total US & International	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Revenue	26,811	3,657	29,241	7,764	(358)	67,115	42,125	10,275	1,724	14,602	(475)	68,251	135,366
Operating expenses	12,950	3,229	26,116	7,764	(431)	49,628	17,859	10,447	13	14,602	(402)	42,519	92,147
Segment profit (loss)	13,861	428	3,125	—	73	17,487	24,266	(172)	1,711	—	(73)	25,732	43,219

⁽¹⁾ Prior year amounts have been restated to reflect a reclassification between franchise operations and corporate stores subdivisions, as well as intercompany transactions.

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15. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the nine-month period ended August 31, 2021.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total US & International	Total consolidated
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Revenue	73,591	13,528	90,404	22,631	(1,003)	199,151	127,470	30,770	3,692	45,995	(1,460)	206,467	405,618
Operating expenses	36,623	11,454	82,005	22,631	(1,259)	151,454	52,151	31,049	—	45,995	(1,204)	127,991	279,445
Segment profit (loss)	36,968	2,074	8,399	—	256	47,697	75,319	(279)	3,692	—	(256)	78,476	126,173

Below is a summary of each geographical and operating segment's performance for the nine-month period ended August 31, 2020.

	CANADA						US & INTERNATIONAL						
	Franchising (1)	Corporate	Processing, distribution and retail	Promotional funds	Interco (1)	Total Canada	Franchising (1)	Corporate	Processing, distribution and retail	Promotional funds	Interco (1)	Total US & International	Total consolidated
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Revenue	77,928	14,301	79,402	22,416	(1,218)	192,829	111,808	35,176	3,477	42,223	(1,559)	191,125	383,954
Operating expenses	42,010	14,120	70,693	22,416	(1,415)	147,824	56,623	36,494	13	42,223	(1,362)	133,991	281,815
Segment profit (loss)	35,918	181	8,709	—	197	45,005	55,185	(1,318)	3,464	—	(197)	57,134	102,139

⁽¹⁾ Prior year amounts have been restated to reflect a reclassification between franchise operations and intercompany transactions.

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16. Interim consolidated statement of cash flows

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

	Three months ended August 31		Nine months ended August 31	
	2021	2020	2021	2020
	\$	\$	\$	\$
Accounts receivable	3,807	402	(3,241)	1,987
Inventories	1,095	(326)	(565)	(2,629)
Loans receivable	64	126	238	1,969
Other assets	1,392	92	1,487	240
Prepaid expenses and deposits	2,693	1,077	(1,865)	1,231
Accounts payable and accrued liabilities	2,804	10,165	7,881	8,190
Provisions	6	(7,147)	(1,433)	(9,813)
Gift card and loyalty program liabilities	(1,147)	(1,783)	3,856	3,823
Deferred revenue and deposits	913	(2,496)	3,936	1,454
	11,627	110	10,294	6,452

17. 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, presented in Wages and benefits and Other in Note 14 of the financial statements, was as follows:

	Three months ended August 31		Nine months ended August 31	
	2021	2020	2021	2020
	\$	\$	\$	\$
Short-term benefits	684	620	2,039	1,930
Share-based payments	224	223	696	731
Board member fees	12	19	54	56
Total remuneration of key management personnel and directors	920	862	2,789	2,717

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17. 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; one of its most important shareholders is its Chair of the Board of Directors, who controls 16.21% 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, presented in Wages and benefits in Note 14 of the financial statements, was as follows:

	Three months ended August 31		Nine months ended August 31	
	2021	2020	2021	2020
	\$	\$	\$	\$
Short-term benefits	120	122	380	378
Share-based payments	4	—	16	8
Total remuneration of individuals related to key management personnel	124	122	396	386

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 \$37 for the three-month period ended August 31, 2021 (2020 – \$39) and \$113 for the nine-month period ended August 31, 2021 (2020 – \$114), presented in Consulting and professional fees in Note 14 of the financial statements. The Company has a current net payable due to its joint venture associate of \$18 as at August 31, 2021 (November 30, 2020 – net receivable of \$135), included in Accounts payable and accrued liabilities.