Condensed
interim consolidated financial statements of
MTY Food Group Inc.

For the three and six-month periods ended May 31, 2021 and 2020

MTY Food Group Inc.

Condensed interim consolidated statements of income (loss)

For the three and six-month periods ended May 31, 2021 and 2020

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

(Unaudited)

	Notes	Three months ended May 31		Six months ended May 31	
		2021	2020	**2021**	2020
		$	$	**$**	$
Revenue	13 & 15	**135,857**	97,808	**254,817**	248,588
Expenses					
Operating expenses	14 & 15	**92,262**	79,619	**178,430**	189,668
Depreciation - property, plant and equipment and right-of-use assets		**4,075**	4,784	**7,964**	8,625
Amortization - intangible assets		**7,166**	8,392	**14,453**	15,547
Interest on long-term debt		**3,022**	4,302	**6,285**	9,480
Net interest expense on leases	6	**552**	675	**1,124**	1,277
Impairment charge - right-of-use assets	6	**33**	1,383	**486**	1,610
Impairment charge - property, plant and equipment, intangible assets and goodwill	7	**5,274**	120,266	**5,274**	120,266
		112,384	219,421	**214,016**	346,473
Share of net (loss) profit of a joint venture accounted for using the equity method		**(114)**	24	**(269)**	330
Other income (expenses)					
Unrealized and realized foreign exchange gain		**4,123**	585	**5,470**	485
Interest income		**37**	187	**119**	369
Gain on de-recognition/lease modification of lease liabilities		**809**	2,525	**881**	2,525
Gain (loss) on disposal of property, plant and equipment and assets held for sale		**676**	(199)	**819**	(372)
Revaluation of financial liabilities recorded at fair value		**(1,096)**	192	**(2,313)**	389
		4,549	3,290	**4,976**	3,396
Income (loss) before taxes		**27,908**	(118,299)	**45,508**	(94,159)
Income tax expense (recovery)					
Current		**5,007**	(242)	**10,455**	3,720
Deferred		**(221)**	(18,941)	**(1,496)**	(17,818)
		4,786	(19,183)	**8,959**	(14,098)
Net income (loss)		**23,122**	(99,116)	**36,549**	(80,061)
Net income (loss) attributable to:					
Owners		**23,028**	(99,126)	**36,425**	(80,118)
Non-controlling interests		**94**	10	**124**	57
		23,122	(99,116)	**36,549**	(80,061)
Net income (loss) per share	10				
Basic		**0.93**	(4.01)	**1.47**	(3.23)
Diluted		**0.93**	(4.01)	**1.47**	(3.23)

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 six-month periods ended May 31, 2021 and 2020
(In thousands of Canadian dollars)
(Unaudited)

	Three months ended May 31		Six months ended May 31	
	2021	2020	**2021**	2020
	$	$	**$**	$
Net income (loss)	**23,122**	(99,116)	**36,549**	(80,061)
Items that may be reclassified subsequently to net income (loss)				
Unrealized (loss) gain on translation of foreign operations	**(30,616)**	20,079	**(44,966)**	28,085
Deferred tax expense on foreign currency translation adjustments	**—**	(1,375)	**—**	(1,913)
Other comprehensive (loss) income	**(30,616)**	18,704	**(44,966)**	26,172
Total comprehensive loss	**(7,494)**	(80,412)	**(8,417)**	(53,889)
Total comprehensive loss attributable to:				
Owners	**(7,588)**	(80,422)	**(8,541)**	(53,946)
Non-controlling interests	**94**	10	**124**	57
	(7,494)	(80,412)	**(8,417)**	(53,889)

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 six-month periods ended May 31, 2021 and 2020
(In thousands of Canadian dollars)
(Unaudited)

	Capital stock	Reserves: Other	Reserves: Contributed surplus	Reserves: Foreign currency translation	Total reserves	Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	$	$	$	$	$	$	$	$	$
For the six months ended May 31, 2021									
Balance, beginning of period	**306,415**	**(850)**	**3,019**	**(13,354)**	**(11,185)**	**286,525**	**581,755**	**759**	**582,514**
Net income	**—**	**—**	**—**	**—**	**—**	**36,425**	**36,425**	**124**	**36,549**
Other comprehensive loss	**—**	**—**	**—**	**(44,966)**	**(44,966)**	**—**	**(44,966)**	**—**	**(44,966)**
Total comprehensive (loss) income							**(8,541)**	**124**	**(8,417)**
Share-based compensation	**—**	**—**	**429**	**—**	**429**	**—**	**429**	**—**	**429**
Balance, end of period	**306,415**	**(850)**	**3,448**	**(58,320)**	**(55,722)**	**322,950**	**573,643**	**883**	**574,526**

	Capital stock	Reserves: Other	Reserves: Contributed surplus	Reserves: Foreign currency translation	Total reserves	Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	$	$	$	$	$	$	$	$	$
For the six months ended May 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	—	—	—	—	—	(80,118)	(80,118)	57	(80,061)
Other comprehensive income	—	—	—	26,172	26,172	—	26,172	—	26,172
Total comprehensive (loss) income							(53,946)	57	(53,889)
Shares repurchased and cancelled (Note 11)	(4,524)	—	—	—	—	(14,342)	(18,866)	—	(18,866)
Dividends	—	—	—	—	—	(4,633)	(4,633)	—	(4,633)
Share-based compensation	—	—	481	—	481	—	481	—	481
Balance, end of period	306,415	(850)	2,576	25,436	27,162	243,515	577,092	789	577,881

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

MTY Food Group Inc.

Condensed interim consolidated statements of financial position

As at May 31, 2021 and November 30, 2020
(In thousands of Canadian dollars)
(Unaudited)

	Notes	May 31, 2021 $	November 30, 2020 $
Assets			
Current assets			
Cash		**41,531**	44,302
Accounts receivable	5	**58,593**	55,886
Inventories		**10,900**	9,415
Current portion of loans receivable		**1,353**	1,527
Current portion of finance lease receivables	6	**92,306**	90,303
Income taxes receivable		**848**	420
Other assets		**2,697**	2,792
Prepaid expenses and deposits		**10,650**	6,750
		218,878	211,395
Loans receivable		**2,765**	3,233
Finance lease receivables	6	**346,908**	377,824
Contract cost asset		**5,167**	5,171
Deferred income taxes		**166**	207
Investment in a joint venture		**26,351**	26,612
Property, plant and equipment		**17,537**	16,551
Right-of-use assets	6	**64,571**	69,223
Intangible assets		**806,800**	864,029
Goodwill		**422,642**	439,452
		1,911,785	2,013,697
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**111,845**	111,372
Provisions		**1,548**	3,065
Gift card and loyalty program liabilities		**94,135**	95,233
Income taxes payable		**5,582**	18,335
Current portion of deferred revenue and deposits		**15,662**	13,747
Current portion of long-term debt	9	**19,972**	12,888
Current portion of lease liabilities	6	**107,126**	114,915
		355,870	369,555
Long-term debt	9	**406,107**	447,654
Lease liabilities	6	**412,648**	443,834
Deferred revenue and deposits		**40,209**	41,367
Deferred income taxes		**120,786**	128,773
Other liabilities		**1,639**	—
		1,337,259	1,431,183

MTY Food Group Inc.

Condensed interim consolidated statements of financial position (continued)

As at May 31, 2021 and November 30, 2020

(In thousands of Canadian dollars)

(Unaudited)

	Notes	**May 31, 2021**	November 30, 2020
		$	$
Shareholders' equity			
Equity attributable to owners			
Capital stock	11	**306,415**	306,415
Reserves		**(55,722)**	(11,185)
Retained earnings		**322,950**	286,525
		573,643	581,755
Equity attributable to non-controlling interests		**883**	759
		574,526	582,514
		1,911,785	2,013,697

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

Approved by the Board on July 8, 2021

____, Director

____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three and six-month periods ended May 31, 2021 and 2020

(In thousands of Canadian dollars)

(Unaudited)

	Notes	Three months ended May 31 2021	Three months ended May 31 2020	Six months ended May 31 2021	Six months ended May 31 2020
		$	$	$	$
Operating activities					
Net income (loss)		**23,122**	(99,116)	**36,549**	(80,061)
Adjusting items:					
Interest on long-term debt		**3,022**	4,302	**6,285**	9,480
Net interest expense on leases	6	**552**	675	**1,124**	1,277
Depreciation - property, plant and equipment and right-of-use assets		**4,075**	4,784	**7,964**	8,625
Amortization - intangible assets		**7,166**	8,392	**14,453**	15,547
Impairment charge - property, plant and equipment		**—**	2,030	**—**	2,030
Impairment charge - right-of-use assets	6	**33**	1,383	**486**	1,610
Impairment charge - intangible assets and goodwill	7	**5,274**	118,236	**5,274**	118,236
Share of net (loss) profit of a joint venture accounted for using the equity method		**114**	(24)	**269**	(330)
Gain on de-recognition/lease modification of lease liabilities		**(809)**	(2,525)	**(881)**	(2,525)
(Gain) loss on disposal of property, plant and equipment and assets held for sale		**(676)**	199	**(819)**	372
Revaluation of financial liabilities recorded at fair value through profit or loss		**1,096**	(192)	**2,313**	(389)
Income tax expense (recovery)		**4,786**	(19,183)	**8,959**	(14,098)
Share-based compensation payments		**212**	235	**429**	481
		47,967	19,196	**82,405**	60,255
Income taxes (paid) received		**(9,095)**	35	**(11,746)**	(6,059)
Interest paid		**(3,057)**	(4,164)	**(6,325)**	(8,932)
Other		**(901)**	(1,129)	**(2,153)**	(1,419)
Changes in non-cash working capital items	16	**(5,373)**	5,269	**(1,333)**	6,342
Cash flows provided by operating activities		**29,541**	19,207	**60,848**	50,187
Investing activities					
Additions to property, plant and equipment		**(2,301)**	(316)	**(3,514)**	(1,435)
Additions to intangible assets		**(156)**	(618)	**(203)**	(1,267)
Proceeds on disposal of property, plant and equipment and assets held for sale		**413**	10,653	**666**	12,179
Investment in a joint venture		**—**	—	**—**	(19,105)
Cash flows (used in) provided by investing activities		**(2,044)**	9,719	**(3,051)**	(9,628)

(In thousands of Canadian dollars)

		Three months ended May 31		Six months ended May 31	
		2021	2020	**2021**	2020
	Notes	**$**	$	**$**	$
Financing activities					
Issuance of long-term debt		**—**	—	**—**	20,000
Repayment of long-term debt		**(15,250)**	(25,000)	**(44,336)**	(33,487)
Net lease payments	6	**(3,927)**	(3,293)	**(7,703)**	(6,911)
Shares repurchased and cancelled	11	**—**	(9,206)	**—**	(18,866)
Capitalized financing costs	8	**(665)**	(525)	**(665)**	(525)
Dividends paid		**—**	—	**—**	(4,633)
Cash flows used in financing activities		**(19,842)**	(38,024)	**(52,704)**	(44,422)
Net increase (decrease) in cash		**7,655**	(9,098)	**5,093**	(3,863)
Effect of foreign exchange rate changes on cash		**(5,124)**	2,231	**(7,864)**	3,039
Cash, beginning of period		**39,000**	56,780	**44,302**	50,737
Cash, end of period		**41,531**	49,913	**41,531**	49,913

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

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1. Description of the business

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

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

2. Basis of preparation

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

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

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

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

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

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

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

Statement of compliance

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

These financial statements do not include all of the information required under IFRS for complete financial statements and should therefore be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2020.

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

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 second 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. However, the second quarter saw the gradual lifting of restrictions in some territories, including the resumption of indoor and outdoor dining, and the reopening of a number of restaurants, following vaccination milestones. The disruptions are expected to persist into the third and 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 six-month periods ended May 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 for the three and six-month periods ending May 31, 2021 of $1,396 and $3,232, respectively (2020 – $2,839 for both periods) 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 for the three and six-month periods ending May 31, 2021 of $531 and $1,048, 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 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, 2021; and
- no other substantive changes have been made to the terms of the lease.

In March 2021, the IASB published *COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)*, extending the May 2020 amendments by one year. Accordingly, the amendment permits a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

The Company has adopted these amendments and applied the practicable expedient to all eligible rent concessions. The Company has recognized for the three and six-month periods ended May 31, 2021, negative variable lease payments of $308 and $625, respectively (2020 – nil and nil, respectively) as part of rent expense, presented in Cost of goods sold and rent in Note 14 of the financial statements.

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

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 May 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 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. 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 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.

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

5. Accounts receivable

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

	May 31, 2021	November 30, 2020
	$	$
Total accounts receivable	**69,698**	68,417
Less: Allowance for credit losses	**11,105**	12,531
Total accounts receivable, net	**58,593**	55,886
Of which:		
Not past due	**40,757**	35,946
Past due for more than one day but no more than 30 days	**3,360**	3,818
Past due for more than 31 days but no more than 60 days	**2,365**	2,731
Past due for more than 61 days	**12,111**	13,391
Total accounts receivable, net	**58,593**	55,886

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 six-month period ended May 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	7,510	—	672	**8,182**
Depreciation expense	(5,336)	(411)	(272)	**(6,019)**
Impairment charge	(486)	—	—	**(486)**
De-recognition/lease modification of lease liabilities	(4,252)	(21)	105	**(4,168)**
Foreign exchange	(2,112)	(37)	(12)	**(2,161)**
Balance as at May 31, 2021	**53,660**	**9,809**	**1,102**	**64,571**

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

6. Leases (continued)

Finance lease receivables and lease liabilities

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

	Finance lease receivables	Lease liabilities
	$	$
Balance as at December 1, 2020	468,127	(558,749)
Additions	4,240	(7,773)
Lease renewals and modifications	30,441	(29,962)
Lease terminations	(7,654)	7,850
Other adjustments	1,348	2,415
Interest income (expense) [1]	6,100	(7,224)
(Receipts) payments	(55,123)	62,826
Foreign exchange	(8,265)	10,843
Balance as at May 31, 2021	**439,214**	**(519,774)**

[1] During the three and six-month periods ended May 31, 2021, the Company recorded interest income on finance lease receivables of $2,968 and $6,100, respectively (2020 – $3,396 and $6,833, respectively), and interest expense on lease liabilities of $3,520 and $7,224, respectively (2020 – $4,071 and $8,110, respectively).

Recorded in the consolidated statement of financial position as follows:

	Finance lease receivables	Lease liabilities
	$	$
Current portion	92,306	(107,126)
Long-term portion	346,908	(412,648)
	439,214	**(519,774)**

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

During the period ended May 31, 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 (see Note 18 of the financial statements). The recoverable amount was measured at fair value less costs of disposal as at May 31, 2021. 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 for both the three and six-month periods ended May 31, 2021, which has been recognized in the condensed interim consolidated statements of comprehensive income (loss).

During the three-month period ended May 31, 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, for both the three and six-month periods ended May 31, 2020, 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.

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

8. Credit facility amendment

During the quarter ended May 31, 2021, the Company modified its existing credit facility payable to a syndicate of lenders. The modification 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. Transaction costs of $665 were incurred and will be deferred and amortized over the remaining three years of the life of the revolving credit facility. As at May 31, 2021, $393,000 was drawn from the revolving credit facility (November 30, 2020 – $433,000).

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 May 31, 2021, the Company was in compliance with its financial covenants.

9. Long-term debt

	May 31, 2021	November 30, 2020
	$	$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions (1)	**16,663**	12,500
Contingent consideration on acquisitions and investment in a joint venture (2)	**9,925**	8,075
Fair value of promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar (3)	**3,032**	2,928
Fair value of non-controlling interest option in 9974644 Canada Inc. (4)	**1,640**	1,171
Fair value of obligation to repurchase partner in a joint venture (5)	**3,243**	3,364
Fair value of interest rate swap (6)	**260**	1,152
Revolving credit facility payable to a syndicate of lenders (7)	**393,000**	433,000
Credit facility financing costs	**(1,684)**	(1,648)
	426,079	460,542
Less: Current portion	**(19,972)**	(12,888)
	406,107	447,654

(1) During the six months ended May 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) Yuzu Sushi (payable August 2021) and joint venture interest (payable December 2022)
(3) Payable June 2022.
(4) Payable on demand.
(5) Maximum maturity date of December 2025.
(6) Interest rate swap is fixing the interest rate at 2.273% on $100,000 of the outstanding revolving credit facility until July 21, 2021.
(7) Under the revolving credit facility, the Company has the option to draw funds in Canadian or in US dollars, at its discretion. The facility's maturity is 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 May 31, 2021, the Company had drawn US$325,500 (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.

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

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

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 May 31		Six months ended May 31	
	2021	2020	**2021**	2020
Weighted daily average number of common shares - basic	**24,706,461**	24,719,227	**24,706,461**	24,804,242
Assumed exercise of stock options [(1)]	**15,905**	—	**11,431**	—
Weighted daily average number of common shares - diluted	**24,722,366**	24,719,227	**24,717,892**	24,804,242

(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 six-month periods ended May 31, 2021 was 266,668 and 288,890, respectively (2020 – nil and nil, respectively).

11. Capital stock

On June 29, 2020, the Company announced the renewal of the normal course issuer bid (“NCIB”) to purchase up to 1,235,323 of its common shares. The NCIB began on July 3, 2020 and ended on July 2, 2021. The NCIB was again renewed on June 28, 2021 for a period beginning on July 3, 2021 and ending 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 six-month periods ended May 31, 2021, the Company repurchased and cancelled a total of nil common shares (2020 – 183,730 and 364,774 common shares, respectively) under the current NCIB, at a weighted average price of nil per common share (2020 – $50.11 and $51.72 per common share, respectively), for a total consideration of nil (2020 – $9,206 and $18,866, respectively). An excess of nil (2020 – $6,927 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.

Fair value of recognized financial instruments

Interest rate swap

The Company holds an interest rate swap that is contracted to a fix rate on a notional amount of $100,000 and is maturing on July 21, 2021. The fair value of this interest rate swap amounted to $260 (November 30, 2020 – $1,152) and the Company recorded a fair value re-measurement gain of $18 for the three-month period ended May 31, 2021 (2020 – loss of $1,947), and a loss of $11 for the six-month period ended May 31, 2021 (2020 – loss of $1,774). The Company has classified this as level 2 in the fair value hierarchy.

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

12. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Cross currency interest rate swaps

On May 21, 2021 and May 28, 2021, the Company entered into two floating to floating 1-month cross currency interest rate swaps. A fair value of nil was recorded as at May 31, 2021 (November 30, 2020 – nil). The Company has classified this as level 2 in the fair value hierarchy.

Receive-Notional	Receive-Rate	Pay-Notional	Pay-Rate
US$242,800	1.79%	CA$293,000	1.85%
US$82,700	1.79% (1)	CA$100,000	1.84% (1)

(1) Comprised of interest rate swap fixed rate of 1.70% and spread on the cross currency interest rate swap.

Fair value hierarchy	Level 3	
	May 31, 2021	November 30, 2020
	$	$
Promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	**3,032**	2,928
Contingent consideration on acquisitions and investment in a joint venture	**9,925**	8,075
Non-controlling interest buyback options	**1,640**	1,171
Obligation to repurchase partner in a joint venture	**3,243**	3,364
Financial liabilities	**17,840**	15,538

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

	May 31, 2021		November 30, 2020	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Loans receivable	**4,118**	**4,118**	4,760	4,760
Finance lease receivables	**439,214**	**439,214**	468,127	468,127
Financial liabilities				
Long-term debt (1)	**409,663**	**409,775**	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.

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

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

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

13. Revenue

Three months ended

	May 31, 2021			May 31, 2020		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	$	$	$	$	$	$
Royalties	13,137	31,433	44,570	7,017	21,334	28,351
Franchise and transfer fees	1,173	927	2,100	1,404	1,052	2,456
Retail, food processing and distribution revenues	31,580	1,254	32,834	24,160	606	24,766
Sale of goods, including construction revenue	5,007	11,558	16,565	3,292	9,979	13,271
Gift card breakage income	42	1,150	1,192	25	787	812
Promotional funds	7,119	14,927	22,046	3,918	12,907	16,825
Other franchising revenue	6,905	6,702	13,607	4,318	3,973	8,291
Other	875	2,068	2,943	323	2,713	3,036
	65,838	70,019	135,857	44,457	53,351	97,808

Six months ended

	May 31, 2021			May 31, 2020		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	$	$	$	$	$	$
Royalties	23,535	58,112	81,647	27,950	49,104	77,054
Franchise and transfer fees	2,412	1,862	4,274	3,032	2,069	5,101
Retail, food processing and distribution revenues	60,100	2,469	62,569	49,798	1,753	51,551
Sale of goods, including construction revenue	8,719	23,384	32,103	13,651	25,290	38,941
Gift card breakage income	116	2,303	2,419	199	2,348	2,547
Promotional funds	13,027	28,937	41,964	14,652	27,621	42,273
Other franchising revenue	12,205	11,607	23,812	14,861	10,677	25,538
Other	1,663	4,366	6,029	1,571	4,012	5,583
	121,777	133,040	254,817	125,714	122,874	248,588

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

14. Operating expenses

Three months ended

	May 31, 2021			May 31, 2020		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	$	$	$	$	$	$
Cost of goods sold and rent	2,694	4,826	7,520	3,617	3,775	7,392
Retail, food processing and distribution costs	28,352	—	28,352	20,947	—	20,947
Wages and benefits	10,743	14,363	25,106	8,354	14,281	22,635
Wage and rent subsidy	(1,927)	—	(1,927)	(2,839)	—	(2,839)
Consulting and professional fees	1,545	1,693	3,238	1,221	2,084	3,305
Gift cards - related costs	—	1,418	1,418	—	798	798
Royalties	2	2,024	2,026	1	978	979
Promotional funds	7,119	14,927	22,046	3,918	12,907	16,825
(Reversal of) impairment for expected credit losses	(855)	(430)	(1,285)	2,429	1,211	3,640
Other [(1)]	2,109	3,659	5,768	2,006	3,931	5,937
	49,782	42,480	92,262	39,654	39,965	79,619

Six months ended

	May 31, 2021			May 31, 2020		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	$	$	$	$	$	$
Cost of goods sold and rent	4,414	10,196	14,610	9,080	9,990	19,070
Retail, food processing and distribution costs	54,254	—	54,254	44,029	—	44,029
Wages and benefits	20,465	28,301	48,766	20,517	32,396	52,913
Wage and rent subsidy	(4,280)	(291)	(4,571)	(2,839)	—	(2,839)
Consulting and professional fees	3,238	3,241	6,479	3,972	4,142	8,114
Gift cards - related costs	—	2,876	2,876	—	3,241	3,241
Royalties	3	3,440	3,443	10	2,427	2,437
Promotional funds	13,027	28,937	41,964	14,652	27,621	42,273
(Reversal of) impairment for expected credit losses	(609)	(1,188)	(1,797)	2,734	1,697	4,431
Other [(1)]	4,686	7,720	12,406	6,041	9,958	15,999
	95,198	83,232	178,430	98,196	91,472	189,668

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

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

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 May 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	23,057	4,318	31,723	7,119	(379)	65,838	43,998	10,375	1,254	14,927	(535)	70,019	135,857
Operating expenses	11,365	3,466	28,297	7,119	(465)	49,782	17,845	10,157	—	14,927	(449)	42,480	92,262
Segment profit (loss)	11,692	852	3,426	—	86	16,056	26,153	218	1,254	—	(86)	27,539	43,595

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

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising (1)	Corporate (1)	Processing, distribution and retail	Promotional funds	Interco	Total US & International	Total consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	14,375	2,231	24,193	3,918	(260)	44,457	30,437	9,848	606	12,907	(447)	53,351	97,808
Operating expenses	12,160	2,668	21,215	3,918	(307)	39,654	16,908	10,550	—	12,907	(400)	39,965	79,619
Segment profit (loss)	2,215	(437)	2,978	—	47	4,803	13,529	(702)	606	—	(47)	13,386	18,189

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

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

15. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the six-month period ended May 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	**41,406**	**7,660**	**60,440**	**13,027**	**(756)**	**121,777**	**82,047**	**20,674**	**2,469**	**28,937**	**(1,087)**	**133,040**	**254,817**
Operating expenses	**22,421**	**6,403**	**54,264**	**13,027**	**(917)**	**95,198**	**34,869**	**20,352**	**—**	**28,937**	**(926)**	**83,232**	**178,430**
Segment profit (loss)	**18,985**	**1,257**	**6,176**	**—**	**161**	**26,579**	**47,178**	**322**	**2,469**	**—**	**(161)**	**49,808**	**76,387**

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

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total Canada	Franchising (1)	Corporate (1)	Processing, distribution and retail	Promotional funds	Interco	Total US & International	Total consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	51,117	10,644	50,161	14,652	(860)	125,714	69,683	24,901	1,753	27,621	(1,084)	122,874	248,588
Operating expenses	29,060	10,891	44,577	14,652	(984)	98,196	38,764	26,047	—	27,621	(960)	91,472	189,668
Segment profit (loss)	22,057	(247)	5,584	—	124	27,518	30,919	(1,146)	1,753	—	(124)	31,402	58,920

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

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

16. Interim consolidated statement of cash flows

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

	Three months ended May 31		Six months ended May 31	
	2021	2020	**2021**	2020
	$	$	**$**	$
Accounts receivable	**(2,473)**	6,032	**(7,048)**	1,585
Inventories	**(843)**	(298)	**(1,660)**	(2,303)
Loans receivable	**235**	(369)	**174**	1,843
Other assets	**(825)**	348	**95**	148
Prepaid expenses and deposits	**(2,286)**	1,961	**(4,558)**	154
Accounts payable and accrued liabilities	**(353)**	1,031	**5,077**	(2,258)
Provisions	**(146)**	(3,124)	**(1,439)**	(5,660)
Gift card and loyalty program liabilities	**405**	1,942	**5,003**	8,883
Deferred revenue and deposits	**913**	(2,254)	**3,023**	3,950
	(5,373)	5,269	**(1,333)**	6,342

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 was as follows:

	Three months ended May 31		Six months ended May 31	
	2021	2020	**2021**	2020
	$	$	**$**	$
Short-term benefits	**685**	573	**1,355**	1,310
Share-based payments	**233**	240	**472**	508
Board member fees	**23**	18	**42**	37
Total remuneration of key management personnel and directors	**941**	831	**1,869**	1,855

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

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 was as follows:

	Three months ended May 31		Six months ended May 31	
	2021	2020	**2021**	2020
	$	$	**$**	$
Short-term benefits	**132**	125	**260**	256
Share-based payments	**6**	2	**12**	8
Total remuneration of individuals related to key management personnel	**138**	127	**272**	264

The Company has entered into a consulting agreement with one of its joint venture associates to perform corporate business development and management consulting services, and paid consulting fees to this associate of $38 for the three-month period ended May 31, 2021 (2020 – $38) and $76 for the six-month period ended May 31, 2021 (2020 – $75). The Company has a current net payable due to its joint venture associate of $52 as at May 31, 2021 (November 30, 2020 – net receivable of $135).

18. Subsequent event

On June 15, 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 up to $3,000.