Condensed interim consolidated financial statements of

MTY Food Group Inc.

For the nine-month periods ended August 31, 2016 and August 31, 2015

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three and nine-month periods ended August 31, 2016 and August 31, 2015
(unaudited)
(In thousands of Canadian dollars, except per share amounts)

Notice : The condensed interim consolidated financial statements of MTY Food Group Inc. for the nine-month periods ended August 31, 2016 and August 31, 2015 have not been reviewed by an external auditor.

	Notes	**Three months ended August 31, 2016**	**Nine months ended August 31, 2016**	Three months ended August 31, 2015	Nine months ended August 31, 2015
		$	**$**	$	$
Revenue	19 and 25	**52,886**	**123,568**	35,003	105,722
Expenses					
Operating expenses	20 and 25	**34,933**	**80,689**	21,663	68,515
Depreciation – property, plant and equipment	9	**490**	**1,219**	365	1,138
Amortization – intangible assets	10	**2,589**	**5,824**	1,722	5,117
Interest on long-term debt		**958**	**1,061**	108	341
		38,970	**88,793**	23,858	75,111
Other income (charges)					
Foreign exchange loss		**(687)**	**(729)**	(185)	(27)
Interest income		**82**	**213**	(31)	11
Realized gain on foreign exchange derivative		**7,980**	**7,980**	—	—
Impairment of goodwill		**—**	**—**	—	(200)
Gain (loss) on disposal of property, plant and equipment and intangibles		**(137)**	**1,448**	494	1,362
		7,238	**8,912**	278	1,146
Income before taxes		**21,154**	**43,687**	11,423	31,757
Income taxes	24				
Current		**3,588**	**9,106**	2,946	7,736
Deferred		**919**	**1,391**	257	988
		4,507	**10,497**	3,203	8,724
Net income		**16,647**	**33,190**	8,220	23,033
Net income attributable to:					
Owners		**16,519**	**32,781**	8,176	22,896
Non-controlling interests		**128**	**409**	44	137
		16,647	**33,190**	8,220	23,033
Earnings per share	16				
Basic and diluted		**0.82**	**1.69**	0.43	1.20

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

MTY Food Group Inc.

Condensed interim consolidated statements of comprehensive income

For the three and nine-month periods ended August 31, 2016 and August 31, 2015

(unaudited)

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

	Notes	**Three months ended August 31, 2016**	**Nine months ended August 31, 2016**	Three months ended August 31, 2015	Nine months ended August 31, 2015
		$	**$**	$	$
Net income		**16,647**	**33,190**	8,220	23,033
Items that may be reclassified subsequently to profit or loss					
Unrealized gain (loss) on translation of foreign operations		**(3,263)**	**(2,845)**	160	(134)
Other comprehensive income (loss)		**(3,263)**	**(2,845)**	160	(134)
Total comprehensive income		**13,384**	**30,345**	8,380	22,899
Total comprehensive income attributable to:					
Owners		**13,256**	**29,936**	8,336	22,762
Non-controlling interest		**128**	**409**	44	137
		13,384	**30,345**	8,380	22,899

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

MTY Food Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity

For the three and six-month periods ended August 31, 2016 and August 31, 2015

(unaudited)

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

	Equity attributable to owners						
	Capital stock	**Contributed surplus**	**Accumulated other comprehensive income**	**Retained earnings**	**Total**	**Equity attributable to non-controlling interest**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Balance as at November 30, 2014	19,792	481	(14)	124,331	144,590	4,881	149,471
Net income and comprehensive income for the nine-month period ended August 31, 2015	—	—	—	22,896	22,896	137	23,033
Other comprehensive income	—	—	(134)	—	(134)	—	(134)
Acquisition of a portion of the non-controlling interest in 7687567 Canada Inc.	—	—	—	(23)	(23)	123	100
Acquisition of non-controlling interest in 9286-5591 Quebec Inc. (Note 3)	—	—	—	3,817	3,817	(4,617)	(800)
Dividends	—	—	—	(5,736)	(5,736)	(30)	(5,766)
Balance as at August 31, 2015	19,792	481	(148)	145,285	165,410	494	165,904
Net income and comprehensive income for the three-month period from September 1, 2015 to November 30, 2015	—	—	—	3,119	3,119	71	3,190
Other comprehensive income	—	—	37	—	37	—	37
Acquisition of 9410198 Canada Inc. (Note 5)	—	—	—	—	—	2,000	2,000
Dividends	—	—	—	(1,912)	(1,912)	(10)	(1,922)
Balance as at November 30, 2015	19,792	481	(111)	146,492	166,654	2,555	169,209
Net income and comprehensive income for the nine-month period ended August 31, 2016	**—**	**—**	**—**	**32,781**	**32,781**	**409**	**33,190**
Other comprehensive loss	**—**	**—**	**(2,845)**	**—**	**(2,845)**	**—**	**(2,845)**
Dividends	**—**	**—**	**—**	**(6,856)**	**(6,856)**	**(100)**	**(6,956)**
Issuance of capital (Note 16)	**94,753**	**—**	**—**	**—**	**94,753**	**—**	**94,753**
Balance as at August 31, 2016	**114,545**	**481**	**(2,956)**	**172,417**	**284,487**	**2,864**	**287,351**

The following dividends were declared and paid by the Company:

	August 31, 2016	August 31, 2015
	$	$
$0.335 per common share (2015 - $0.300 per common share)	**6,856**	5,736

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, 2016 and November 30, 2015

(unaudited)

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

	Notes	August 31, 2016	November 30, 2015
		$	$
Assets			
Current assets			
Cash		**43,513**	33,417
Accounts receivable	6	**28,564**	18,734
Inventories	7	**3,247**	2,208
Loans receivable	8	**2,608**	240
Prepaid expenses and deposits		**11,635**	620
		89,567	55,219
Loans receivable	8	**2,805**	217
Property, plant and equipment	9	**12,858**	10,506
Intangible assets	10	**505,167**	103,925
Goodwill	11	**197,160**	55,520
		807,557	225,387
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Line of credit		**—**	6,300
Accounts payable and accrued liabilities		**47,498**	24,361
Provisions	13	**69,034**	3,468
Income taxes payable		**17,761**	2,334
Deferred revenue and deposits	14	**21,832**	5,660
Current portion of long-term debt	15	**62,014**	6,344
		218,139	48,467
Long-term debt	15	**176,351**	1,612
Deferred income taxes		**125,716**	6,099
		520,206	56,178
Commitments, guarantee and contingent liabilities	21, 22, 23		

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

	Notes	August 31, 2016	November 30, 2015
		$	$
Shareholders' equity			
Equity attributable to owners			
Capital stock		**114,545**	19,792
Contributed surplus		**481**	481
Accumulated other comprehensive income		**(2,956)**	(111)
Retained earnings		**172,417**	146,492
		284,487	166,654
Equity attributable to non-controlling interest		**2,864**	2,555
		287,351	169,209
		807,557	225,387

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

Approved by the Board on October 12, 2016

______________________________, Director

______________________________, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three and nine-month periods ended August 31, 2016 and August 31, 2015
(unaudited)
(In thousands of Canadian dollars, except per share amounts)

	Notes	**Three months ended August 31, 2016**	**Nine months ended August 31, 2016**	Three months ended August 31, 2015	Nine months ended August 31, 2015
		$	**$**	$	$
Operating activities					
Net income		**16,647**	**33,190**	8,220	23,033
Adjusting items:					
Interest on long-term debt		**958**	**1,061**	108	341
Depreciation – property, plant and equipment		**490**	**1,219**	365	1,138
Amortization – intangible assets		**2,589**	**5,824**	1,722	5,117
Loss (gain) on disposal of property, plant and equipment and intangibles		**137**	**(1,448)**	(494)	(1,362)
Unrealized foreign exchange loss (gain)		**2,982**	**3,015**	180	(178)
Realized gain on foreign exchange derivative		**(7,980)**	**(7,980)**	—	—
Impairment of goodwill		**—**	**—**	—	200
Income tax expense		**4,507**	**10,497**	3,203	8,724
Deferred revenue		**244**	**1,588**	(377)	2,445
		20,574	**46,966**	12,927	39,458
Income tax refunds received		**88**	**88**	25	25
Income taxes paid		**(2,463)**	**(8,604)**	(1,663)	(7,076)
Interest paid		**(774)**	**(805)**	(48)	(149)
Changes in non-cash working capital items	26	**(2,782)**	**(1,861)**	6,601	4,960
Cash flows provided by operating activities		**14,643**	**35,784**	17,842	37,218
Investing activities					
Net cash outflow on acquisitions	5	**(212,361)**	**(212,361)**	—	(4,977)
Additions to property, plant and equipment		**(981)**	**(2,064)**	(521)	(1,965)
Additions to intangible assets		**(177)**	**(238)**	(4)	(35)
Acquisition of additional interest in 7687567 Canada Inc.		**—**	**—**	—	100
Acquisition of the non-controlling interest in 9286-5591 Quebec Inc.	3	**—**	**—**	—	(800)
Realized gain on foreign exchange derivative		**7,980**	**7,980**	—	—
Proceeds on disposal of property, plant and equipment		**288**	**2,624**	706	2,765
Cash flows provided by (used in) investing activities		**(205,251)**	**(204,059)**	181	(4,912)

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows (continued)

For the three and nine-month periods ended August 31, 2016 and August 31, 2015

(unaudited)

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

	Notes	**Three months ended August 31, 2016**	**Nine months ended August 31, 2016**	Three months ended August 31, 2015	Nine months ended August 31, 2015
		$	**$**	$	$
Financing activities					
Issuance of banker's acceptance		**—**	**21,200**	3,500	15,500
Repayment of banker's acceptance		**(6,000)**	**(27,500)**	(4,000)	(20,750)
Issuance of long-term debt		**210,621**	**210,621**	—	—
Repayment of long-term debt		**(34,746)**	**(36,051)**	(141)	(1,018)
Write-off of long-term debt		**(4)**	**(4)**	—	—
Capitalized financing costs		**(2,299)**	**(2,299)**	—	—
Dividends paid to non-controlling shareholders of subsidiaries		**—**	**(100)**	—	(30)
Dividends paid		**(2,458)**	**(6,856)**	(1,912)	(5,736)
Cash flows provided by (used in) financing activities		**165,114**	**159,011**	(2,553)	(12,034)
Net increase (decrease) in cash		**(25,494)**	**(9,264)**	15,470	20,272
Cash, beginning of period		**49,647**	**33,417**	11,528	6,701
Cash acquired		**19,360**	**19,360**	—	25
Cash, end of period		**43,513**	**43,513**	26,998	26,998

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

Table of contents

1. Description of the business

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

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

2. Basis of preparation

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value and for provisions that have been measured at management's best estimate. The condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company, and tabular amounts are rounded to the nearest thousand ($000) except when otherwise indicated.

Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and apply the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended November 30, 2015, prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements do not include all of the information required under IFRS for complete financial statements and should therefore be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2015. The Company's annual consolidated financial statements are available on the SEDAR website at www.sedar.com and on the Company's website at www.mtygroup.com.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on October 12, 2016.

Seasonality of interim operations

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

2. Basis of preparation (continued)

Estimates, judgments and assumptions

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

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty are as those applied and described in the Company's audited annual consolidated financial statements for the year ended November 30, 2015.

3. Consolidation

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

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

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

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

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

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

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

4. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standard Board ("IASB") that are not yet effective for the period ended November 30, 2015, and have not been applied in preparing these condensed interim consolidated financial statements.

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

Standard	Issue date	Effective date (1)	Impact
IFRS 9 Financial Instruments	July 2014	January 1, 2018	In assessment
IFRS 15 Revenue from contracts with customers	May 2014	January 1, 2018	In assessment
IFRS 16 Leases	January 2016	January 1, 2019	In assessment
IAS1 Presentation of financial statements	December 2014	January 1, 2016	In assessment
IAS 12 Income taxes	January 2016	January 1, 2017	In assessment
IAS 7 Statement of cash flows	January 2016	January 1, 2017	In assessment

(1) Applicable to fiscal years beginning on or after this date

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

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

On January 13, 2016, the IASB issued IFRS 16 that provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15, Revenue from Contracts with Customers.

IAS 1 provides further clarification and amendments on note disclosure requirements.

IAS 12 provides further clarification with regards to the recognition of deferred tax assets for unrealized losses.

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

4. Future accounting changes (continued)

The IASB amended IAS 7 as part of its initiative regarding the disclosure requirements on financing activities in the statement of cash flows. The Company does not foresee any material impact on the disclosure currently presented as a result of this amendment.

The Company is in the process of assessing the impact of these standards on its condensed interim consolidated financial statements. Although the extent of the impact has not yet been determined, the Company expects that the adoption of IFRS 15 and IFRS 16 will result in material changes to its consolidated statement of income and consolidated statement of financial position.

5. Business acquisitions

I) 2016 acquisition

On July 26, 2016, MTY announced it had completed the acquisition of Kahala Brands, Ltd. for a total consideration of $389,050, including $212,361 cash, and remains subject to post-closing working capital adjustments. The purpose of the transaction was to solidify its presence in the United States as this is expected to become one of the growth platforms.

	2016
	$
Consideration paid:	
Total cash consideration	317,016
Less: Indebtedness	(51,338)
Less: Working capital adjustment	(13,690)
	251,988
Less: Holdbacks	(39,627)
Total cash disbursed at closing	212,361
Shares issued	94,753
Holdback payable	39,627
Less: discount on holdbacks	(4,397)
Total cash and equity consideration	342,344
Assumed financial liabilities	46,706
Total merger consideration	389,050

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

5. Business acquisitions (continued)

I) 2016 acquisition (continued)

The preliminary purchase price allocation is as follows:

	2016
Net assets acquired:	$
Current assets	
Cash	19,360
Accounts receivable	13,588
Notes receivable	1,781
Prepaid expenses and deposits	4,120
	38,849
Notes receivable	3,045
Property, plant and equipment	2,681
Franchise rights	159,791
Trademark	253,416
Goodwill [1]	141,919
	599,701
Current liabilities	
Accounts payable and accrued liabilities	14,386
Notes payable	34,827
Income tax liability	3,329
Unredeemed gift card liability	70,499
Deferred revenue	14,584
Deferred income taxes	119,732
	257,357
Net purchase price	342,344

[1] Goodwill is deductible for tax purposes

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

Total expenses incurred related to acquisition and financing costs amounted to approximately $3,263. Of this amount, $2,299 was capitalized into long-term debt and the remaining balance is presented within operating expenses.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized. Adjustments are expected to be made that can impact the preliminary purchase price materially.

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

5. Business acquisitions (continued)

II) 2015 acquisition

On September 18, 2015, the Company acquired the assets of Big Smoke Burger for a total consideration of $5,000. The purpose of the transaction was to further diversify the Company's range of offering as well as to complement existing MTY brands.

	2015
	$
Consideration paid:	
Purchase price	5,000
Discount on non-interest bearing holdback	(38)
Net obligations assumed	(98)
Net purchase price	4,864
Issuance of shares to non-controlling interest	(2,000)
Holdback	(262)
Net cash outflow	2,602

The preliminary purchase price allocation is as follows:

Net assets acquired:	
Current assets	
Cash	3
Inventories	44
Prepaid expenses and deposits	33
	80
Property, plant and equipment	853
Franchise rights	852
Trademark	3,305
Goodwill [(1)]	840
	5,930
Current liabilities	
Accounts payable and accrued liabilities	18
Deferred revenue	447
Deferred income taxes	601
	1,066
Net purchase price	4,864

[(1)] Goodwill is deductible for tax purposes

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

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

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

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

5. Business acquisitions (continued)

III) 2015 acquisition

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

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

The purchase price allocation is as follows:

Net assets acquired:	
Current assets	
Cash	25
Inventories	145
Prepaid expenses and deposits	309
	479
Property, plant and equipment	930
Franchise rights	1,217
Trademark	5,529
Goodwill (1)	306
	8,461
Current liabilities	
Accounts payable and accrued liabilities	1,907
Deferred revenue	65
Deferred income taxes	343
	2,315
Net purchase price	6,146

(1) Goodwill is deductible for tax purposes

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

5. Business acquisitions (continued)

III) 2015 acquisition (continued)

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

Total expenses incurred related to acquisition costs amounted to $80 and were included in the Company's condensed interim consolidated statement of income in 2015.

6. Accounts receivable

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

	August 31, 2016	November 30, 2015
	$	$
Total accounts receivable	**37,475**	24,122
Less : Allowance for doubtful accounts	**8,911**	5,388
Total accounts receivable, net	**28,564**	18,734
Of which:		
Not past due	**15,941**	13,069
Past due for more than one day but for no more than 30 days	**4,856**	1,620
Past due for more than 31 days but for no more than 60 days	**4,199**	766
Past due for more than 61 days	**3,568**	3,279
Total accounts receivable, net	**28,564**	18,734

	August 31, 2016	November 30, 2015
	$	$
Allowance for doubtful accounts beginning of year	**5,388**	4,305
Additions	**2,335**	1,829
Additions through acquisition	**2,220**	—
Reversals	**—**	(233)
Write-off	**(1,032)**	(513)
Allowance for doubtful accounts end of period	**8,911**	5,388

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

6. Accounts receivable (continued)

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

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

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

7. Inventories

	August 31, 2016	November 30, 2015
	$	$
Raw materials	**2,025**	1,210
Work in progress	**67**	70
Finished goods	**1,155**	928
Total inventories	**3,247**	2,208

Inventories are presented net of a $22 allowance for obsolescence ($22 as at November 30, 2015). All of the inventories are expected to be sold within the next twelve months.

Inventories expensed during the three and nine-month periods ended August 31, 2016 were $4,065 and $16,369 (2015 - $5,326 and $17,025).

8. Loans receivable

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

	August 31, 2016	November 30, 2015
	$	$
Loans receivable, carrying no interest and without terms of repayment	**—**	15
Loans receivable bearing interest between nil and 11% per annum, receivable in monthly instalments of $218 in aggregate, including principal and interest, ending in 2024	**5,413**	442
	5,413	457
Current portion	**(2,608)**	(240)
	2,805	217

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

8. Loans receivable (continued)

The capital repayments in subsequent years will be:

	$
2017	2,608
2018	629
2019	597
2020	387
2021	365
Thereafter	827
	5,413

9. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance at November 30, 2014	1,825	3,621	3,223	4,777	548	72	14,066
Additions	—	124	1,936	1,281	85	—	3,426
Disposals	(589)	(447)	(1,494)	(1,406)	(143)	—	(4,079)
Additions through business combinations	—	—	768	1,015	—	—	1,783
Balance at November 30, 2015	1,236	3,298	4,433	5,667	490	72	15,196
Additions	**—**	**459**	**675**	**731**	**113**	**86**	**2,064**
Disposals	**—**	**—**	**(927)**	**(745)**	**—**	**—**	**(1,672)**
Foreign exchange	**—**	**—**	**18**	**(16)**	**(1)**	**(2)**	**(1)**
Additions through business combinations	**—**	**—**	**49**	**2,409**	**154**	**69**	**2,681**
Balance at August 31, 2016	**1,236**	**3,757**	**4,248**	**8,046**	**756**	**225**	**18,268**

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

9. Property, plant and equipment (continued)

Accumulated depreciation	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance at November 30, 2014	—	594	1,654	1,614	318	31	4,211
Eliminated on disposal of assets	—	(77)	(497)	(343)	(142)	—	(1,059)
Foreign exchange	—	—	1	2	—	—	3
Depreciation expense	—	138	567	744	81	5	1,535
Balance at November 30, 2015	—	655	1,725	2,017	257	36	4,690
Eliminated on disposal of assets	**—**	**—**	**(320)**	**(176)**	**—**	**—**	**(496)**
Foreign exchange	**—**	**—**	**(1)**	**(2)**	**—**	**—**	**(3)**
Depreciation expense	**—**	**111**	**401**	**617**	**82**	**8**	**1,219**
Balance at August 31, 2016	**—**	**766**	**1,805**	**2,456**	**339**	**44**	**5,410**

Carrying amounts	Land	Buildings	Leasehold improve-mes	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
November 30, 2015	1,236	2,643	2,708	3,650	233	36	10,506
August 31, 2016	**1,236**	**2,991**	**2,443**	**5,590**	**417**	**181**	**12,858**

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

10. Intangible assets

Cost	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other(1)	Total
	$	$	$	$	$	$
Balance at November 30, 2014	69,718	63,084	1,199	1,000	703	135,704
Additions	—	12	—	—	36	48
Disposals	—	—	—	(92)	(132)	(224)
Foreign exchange	177	—	—	—	—	177
Impairment	(2,962)	(4,931)	—	—	—	(7,893)
Acquisition through business combinations	2,069	8,834	—	—	—	10,903
Balance at November 30, 2015	69,002	66,999	1,199	908	607	138,715
Additions	**—**	**1**	**—**	**—**	**237**	**238**
Acquisition through business combinations	**159,791**	**253,416**	**—**	**—**	**—**	**413,207**
Transfer of master franchise rights to goodwill	**(1,500)**	**—**	**—**	**—**	**—**	**(1,500)**
Foreign exchange	**(1,988)**	**(2,897)**	**—**	**—**	**—**	**(4,885)**
Balance at August 31, 2016	**225,305**	**317,519**	**1,199**	**908**	**844**	**545,775**

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

10. Intangible assets (continued)

Accumulated amortization	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
Balance at December 1, 2014	27,046	—	140	923	111	28,220
Eliminated on disposal of assets	—	—	—	(92)	(125)	(217)
Foreign exchange	43	—	—	—	—	43
Amortization	6,464	—	120	54	106	6,744
Balance at November 30, 2015	33,553	—	260	885	92	34,790
Foreign exchange	**(6)**	**—**	**—**	**—**	**—**	**(6)**
Amortization	**5,626**	**—**	**90**	**18**	**90**	**5,824**
Balance at August 31, 2016	**39,173**	**—**	**350**	**903**	**182**	**40,608**

Carrying amounts	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
November 30, 2015	35,449	66,999	939	23	515	103,925
August 31, 2016	**186,132**	**317,519**	**849**	**5**	**662**	**505,167**

[1] Other items include $347 ($347 as at November 30, 2015) of unamortizable licenses with an indefinite term.

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

10. Intangible assets (continued)

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

	August 31, 2016	November 30, 2015
	$	$
Taco Time	—	1,500
La Crémière	9	9
Cultures	500	500
Thai Express	145	145
Mrs Vanelli's	2,700	2,700
Sushi Shop	1,600	1,600
Tutti Frutti	1,100	1,100
Koya	1,253	1,253
Country Style	1,740	1,740
Valentine	3,338	3,338
Jugo Juice	5,425	5,425
Mr. Sub	11,320	11,319
Koryo	1,135	1,135
Mr. Souvlaki	300	300
Extreme Pita	3,198	3,194
Mucho Burrito	9,816	9,816
ThaïZone	7,417	7,417
Madisons New York Grill & Bar	3,410	3,410
Café Dépôt	2,959	2,959
Muffin Plus	371	371
Sushi-Man	434	434
Van Houtte	347	347
Manchu Wok	5,794	5,529
Big Smoke Burger	3,305	3,305
America's Taco Shop (1)	2,079	—
Blimpie (1)	9,525	—
Cereality (1)	18	—
Cold Stone Creamery (1)	168,497	—
Frullati (1)	1,101	—
Great Steak (1)	6,086	—
Kahala Coffee Traders (1)	209	—
Maui Wowi (1)	1,611	—
Nrgize (1)	2,653	—
Pinkberry (1)	7,202	—

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

10. Intangible assets (continued)

	August 31, 2016	November 30, 2015
	$	$
Planet Smoothie [1]	9,890	—
Ranch 1 [1]	237	—
Rollerz [1]	140	—
Samurai Sam's [1]	1,938	—
Surf City Squeeze [1]	3,338	—
Taco Time [1]	34,578	—
Tasti D-Lite [1]	1,148	—
	317,866	68,846

[1] As indicated in note 5, the purchase price allocation is still preliminary and is subject to change.

11. Goodwill

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

	August 31, 2016	November 30, 2015
	$	$
Balance, beginning of year	**55,520**	54,574
Impairment of 7687567 Canada Inc. goodwill	**—**	(200)
Additional amounts recognized from business acquisitions (Note 5)	**141,919**	1,146
Transfer of master franchise rights from intangible assets	**1,500**	—
Foreign Exchange	**(1,779)**	—
Balance, end of year	**197,160**	55,520

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

In 2015, an impairment was taken for the goodwill associated with 7687567 Canada Inc. upon the re-consolidation of the subsidiary. The original valuation of the goodwill was primarily associated to a contract that was contributed to the business by one of the minority shareholders at inception.

12. Credit facilities

In connection with the acquisition of Kahala Brands Limited on July 26, 2016 the company has contracted two new credit facilities totalling $325,000; a Revolving Credit facility with an authorized amount of $150,000 and a Term Credit Commitment of $175,000. The loans have been provided by a syndicate of banks and other institutional lenders.

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

12. Credit facilities (continued)

Interest rates are variable and are based on various financing instruments that have maturities from 1 to 180 days. Interest rates also depend on the Company's debt-to-equity ratio, where a lower indebtedness results in more favorable terms.

For amounts drawn in US dollars, the Company has the option to pay interest based on US base rates (4.00% as at August 31, 2016), plus a margin not exceeding 2.25%, or based on LIBOR plus a margin not exceeding 3.25%. For amounts drawn in Canadian dollars, the Company has the option to pay interest based on the Canada Prime rate (2.70% as at August 31, 2016), as determined by the Toronto-Dominion Bank of Canada, plus a margin not exceeding 2.25% or based on Banker's Acceptances, plus a margin not exceeding 3.25%.

Under those facilities, the Company is required to comply with certain financial covenants, including a debt to earnings before interest, taxes and amortization ratio and a fixed charges coverage ratio. As at August 31, 2016, the Company was in compliance with those financial covenants.

Costs of $2,299 have been incurred in relation to the new facilities. These costs have been capitalized into long-term debt and will be amortized over five years.

Revolving Credit Facility

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 July 21, 2020 and must be repaid in full at that time. As at August 31, 2016, the Company had drawn US$27,300 (C$35,610) and had elected to pay interest based on LIBOR plus the applicable margin.

Term Credit Facility

The Term Credit facility is repayable in quarterly instalments of $2,187 beginning on November 30, 2016. The remainder of the capital balance is repaid at the maturity of the loan, on July 21, 2019. As at August 31, 2016, the facility was fully drawn and the Company had elected to pay interest based on the Banker's Acceptances option.

13. Provisions

Included in provisions are the following amounts:

	August 31, 2016	November 30, 2015
	$	$
Litigations and disputes	**1,683**	1,329
Closed stores	**961**	804
	2,644	2,133
Gift card liabilities/loyalty programs liabilities	**66,390**	1,335
Total	**69,034**	3,468

The provision for litigation and disputes represent management's best estimate of the outcome of litigations and disputes that are on-going at the date of the statement of financial position. This provision is made of multiple items; the timing of the settlement of this provision is unknown given its nature, as the Company does not control the litigation timelines.

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

13. Provisions (continued)

The payables related to closed stores mainly represent amounts that are expected to be disbursed to exit leases of underperforming or closed stores. The negotiations with the various stakeholders are typically short in duration and are expected to be settled within a few months following the recognition of the provision.

In the litigation and disputes and closed store provisions above, $431 (2015 - $95) was unused and reversed into income. The amounts used in the year include $1,140 (2015 - $789) of the provisions for disputes and closed stores; this amount was used for the settlement of litigation and for the termination of the leases of closed stores.

Additions during the period include $2,082 (2015 - $1,396) to the litigation and closed stores provisions. Of this amount, $1,421 was added as a result of the acquisition of Kahala. The remaining increase reflects new information available to management.

The gift card and loyalty programs liabilities are the estimated fair value in gift cards and points outstanding at the date of the statement of financial position. The timing of the reversal of this provision is dependent on customer behaviour and therefore outside of the Company's control. During the quarter, the gift card liability increased by $65,156 as a result of the Kahala acquisition. This provision is presented net of accumulated gift card breakage of $66,363 ($610 in 2015).

14. Deferred revenue and deposits

	August 31, 2016	November 30, 2015
	$	$
Franchise fee deposits	**6,040**	2,633
Supplier contributions and other allowances	**12,275**	3,027
Unearned rent	**3,517**	—
	21,832	5,660
Current portion	**(21,832)**	(5,660)
	—	—

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

15. Long-term debt

	August 31, 2016	November 30, 2015
	$	$
Non-interest bearing holdbacks on acquisition of Extreme Brandz. This obligation was settled in October 2016 (note 28).	**4,460**	4,430
Non-interest bearing contract cancellation fees, payable in US dollars based on the performance of certain stores.	**70**	88
Non-interest bearing holdbacks on acquisition of Café Dépôt, repayable October 2016.	**496**	1,021
Balance of sale on acquisition of Madisons, bearing interest at 7.00%, repaid in September 2016.	**750**	937
Non-interest bearing holdbacks on acquisition of Manchu Wok, repayable December 2016.	**613**	1,216
Non-interest bearing holdbacks on acquisition of Big Smoke Burger, repayable September 2018.	**273**	264
Non-interest bearing holdbacks on acquisition of Kahala Brands, repayable July 2017, July 2018 and July 2019.	**23,202**	—
Non-interest bearing loan payable during 2016.	**152**	—
Revolving credit facility payable to a syndicate of lenders (note 12), expiring in July 2020. This outstanding balance of this facility is classified as current portion of long-term debt.	**35,610**	—
Term loan payable to a syndicate of lenders (note 12) in quarterly instalments of $2,187, expiring in July 2019. This item is presented net of financing costs of $2,261	**172,739**	—
	238,365	7,956
Current portion	**(62,014)**	(6,344)
	176,351	1,612

16. Earnings per share

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

	Three months ended August 31, 2016	**Nine months ended August 31, 2016**	Three months ended August 31, 2015	Nine months ended August 31, 2015
Weighted daily average number of common shares	**20,027,039**	**19,423,823**	19,120,567	19,120,567

On July 26, 2016, as part of the acquisition of Kahala Brands, 2,253,930 shares were issued as consideration for the purchase price. The shares were valued at $94,753 at the closing of the transaction.

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

17. Financial instruments

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

Fair value of recognized financial instruments

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

	August 31, 2016		November 30, 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Cash	**43,513**	**43,513**	33,417	33,417
Accounts receivable	**28,564**	**28,564**	18,734	18,734
Loans receivable	**5,413**	**5,413**	457	457
Deposits	**1,254**	**1,254**	242	242
Financial liabilities				
Line of credit	**—**	**—**	6,300	6,300
Accounts payable and accrued liabilities	**47,498**	**47,498**	24,361	24,361
Long-term debt	**238,365**	**240,626**	7,956	7,956

Determination of fair value

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

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

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

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

Risk management policies

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at August 31, 2016.

17. Financial instruments (continued)

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the consolidated statement of financial position are net of allowances for bad debts, estimated by the Company's management based on past experience and counterparty specific circumstances. The Company believes that the credit risk of accounts receivable is limited for the following reasons:

- Other than receivables from international locations, the Company's broad client base is spread mostly across Canada and USA, which limits the concentration of credit risk.
- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable.

The credit risk on cash is limited because the Company invests its excess liquidity in high quality financial instruments and with credit-worthy counterparties.

The credit risk on the loans receivable is similar to that of accounts receivable. There is currently an allowance for doubtful accounts recorded for loans receivable of $908 (2015 - $9).

Foreign exchange risk

Foreign exchange risk is the Company's exposure to decreases or increases in financial instrument values caused by fluctuations in exchange rates. The Company's exposure to foreign exchange risk mainly comes from sales denominated in foreign currencies. The Company's USA and foreign operations use the U.S. dollar as functional currency. The Company's exposure to foreign exchange risk stems mainly from cash, accounts receivable, USD long-term debt, other working capital items and financial obligations from its USA operations.

Fluctuations in USD exchange rate are deemed to have minimal risk as they are mostly offset by the stand-alone operations of the Company's US entities.

As of August 31, 2016, the Company carried US$ cash of C$28,952, net accounts receivable of C$11,178 and net accounts payable of C$18,992 (C$1,511, C$874 and C$954 as at November 30, 2015). The Company also has a US revolving credit facility of C$35,610. All other factors being equal, a reasonable possible 1% rise in foreign currency exchange rates per Canadian dollar would result in a change on profit or loss and net comprehensive income of $145 (2015 - $15) Canadian dollars.

Total US net income represents for the three and nine-month periods were C$2,329 and C$3,420 respectively. A 1% change to foreign exchange would represent a gain or loss to the Company of C$23 and C$34 respectively.

On June 22, 2016, the Company entered into International Swaps & Derivatives Association, Inc. ("ISDA") enforceable agreement for an amount of US$200,000 convertible at an exchange rate of 1.281. The agreement end date was July 25, 2016. At the end date, a gain of $7,980 was realized as a result of favourable foreign exchange variances.

Interest rate risk

Interest rate risk is the Company's exposure to increases and decreases in financial instrument values caused by the fluctuation in interest rates. The Company is exposed to cash flow risk due to the interest rate fluctuation in its floating-rate interest-bearing financial obligations.

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

17. Financial instruments (continued)

Interest rate risk (continued)

Furthermore, upon refinancing of a borrowing, depending on the availability of funds in the market and lender perception of the Company's risk, the margin that is added to the reference rate, such as LIBOR or prime rates, could vary and thereby directly influence the interest rate payable by the Company.

Long-term debt stems mainly from acquisitions of long-term assets and business combinations. The Company is exposed to interest rate risk with its revolving credit facility and term credit facility which were used to finance the Company's acquisitions. Both facilities bear interest at a variable rate and as such the interest burden could change materially. $210,621 (2015 - $6,300) of the credit facilities were used as at August 31, 2016. A 100 basis points increase in the bank's prime rate would result in additional interest of $2,106 per annum (2015 - $63) on the outstanding credit facility.

Liquidity risk

Liquidity risk refers to the possibility of the Company not being able to meet its financial obligations when they become due. The Company has contractual and fiscal obligations as well as financial liabilities and is therefore exposed to liquidity risk. Such risk can result, for example, from a market disruption or a lack of liquidity. The Company actively maintains credit facilities to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

As at August 31, 2016, the Company had authorized revolving credit facilities for which the available amount may not exceed, respectively, $175,000 and $150,000 to ensure that sufficient funds are available to meet its financial requirements. The terms and conditions related to these revolving credit facilities are described in Note 12.

The following are the contractual maturities of financial liabilities as at August 31, 2016:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	thereafter
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**47,498**	**47,498**	**47,498**	—	—	—
Long-term debt	**238,365**	**242,591**	**16,774**	**10,697**	**15,201**	**199,919**
Interest on long-term debt (1)	**n/a**	**19,406**	**3,318**	**3,244**	**6,268**	**6,576**
	285,863	**309,495**	**67,590**	**13,941**	**21,469**	**206,495**

(1) When future interest cash flows are variable, they are calculated using the interest rates prevailing at the end of the reporting period.

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

18. Capital disclosures

The Company's objectives when managing capital are:

(a) To safeguard the Company's ability to obtain financing should the need arise;

(b) To provide an adequate return to its shareholders;

(c) To maintain financial flexibility in order to have access to capital in the event of future acquisitions.

The Company defines its capital as follows:

(a) Shareholders' equity;

(b) Long-term debt including the current portion;

(c) Deferred revenue including the current portion;

(d) Cash

The Company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Company may invest in longer or shorter-term investments depending on eventual liquidity requirements.

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at August 31, 2016 and November 30, 2015 were as follows:

	August 31, 2016	November 30, 2015
	$	$
Debt	**520,206**	56,178
Equity	**287,351**	169,209
Debt-to-equity ratio	**1.81**	0.33

The increase in debt-to-equity ratio is due to the new financing structure established for the acquisition of Kahala Brands. Maintaining a low debt to equity ratio is a priority in order to preserve the Company's ability to secure financing at a reasonable cost for future acquisitions. MTY expects to repay the outstanding credit facility in a relatively short period of time using the expected cash flows from the newly acquired US operations and the existing cash flows in Canada.

The Company's credit facilities impose a maximum debt-to-EBITDA ratio of 4:1 until July 21, 2017. This maximum debt-to-equity ratio decreases afterwards.

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

19. Revenues

The Company's revenues include:

	Three months ended August 31, 2016	**Nine months ended August 31, 2016**	Three months ended August 31, 2015 [2]	Nine months ended August 31, 2015[2]
	$	**$**	$	$
Royalties	**20,996**	**48,390**	14,134	40,383
Franchise and transfer fees	**2,296**	**5,274**	512	1,966
Gift cards [1]	**919**	**1,078**	407	610
Rent	**827**	**2,473**	962	3,023
Sale of goods, including construction revenues	**19,766**	**47,328**	12,429	40,870
Other franchising revenue	**7,404**	**17,468**	5,422	15,853
Other	**678**	**1,557**	1,137	3,017
	52,886	**123,568**	35,003	105,722

(1) The Company estimates and recognizes as revenue the amount of unredeemed gift cards that are likely not to be redeemed. The estimate is based on all unredeemed balances that have had no activity on the gift card for over three years.
(2) Certain figures have been reclassified to better isolate the gift card revenues. Prior to this quarter, gift card revenue was included in "Other" revenue.

20. Operating expenses

Operating expenses are broken down as follows:

	Three months ended August 31, 2016	**Nine months ended August 31, 2016**	Three months ended August 31, 2015	Nine months ended August 31, 2015
	$	**$**	$	$
Cost of goods sold and rent	**10,157**	**33,183**	10,851	35,133
Wages and benefits	**12,425**	**27,777**	7,337	23,400
Consulting and professional fees	**3,626**	**6,381**	1,827	3,366
Gift cards costs	**1,682**	**1,682**	—	—
Royalties	**2,855**	**3,358**	285	818
Other [1]	**4,188**	**8,308**	1,363	5,798
	34,933	**80,689**	21,663	68,515

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

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

21. Operating lease arrangements

Operating leases as lessee relate to leases of premises in relation to the Company's operations. Leases typically have terms ranging between 5 and 10 years at inception. The Company does not have options to purchase the premises on any of its operating leases.

The Company has entered into various long term leases and has sub leased substantially all of the premises based on the same terms and conditions as the original lease to unrelated franchisees. The minimum rentals, exclusive of occupancy and escalation charges, and additional rent paid on a percentage of sales basis, payable under the leases are as follows:

	Lease commitments	Sub-leases	Net commitments
	$	$	$
2017	115,045	105,965	9,080
2018	105,933	98,347	7,586
2019	96,117	90,128	5,989
2020	82,937	77,660	5,277
2021	70,589	66,057	4,532
Thereafter	208,164	198,207	9,957
	678,785	**636,364**	**42,421**

Payments recognized as a net expense during the three and nine-month periods ended August 31, 2016 amount to $7,872 and $13,831 (2015 - $3,946 and $11,796).

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

During the three and nine-month period, the Company earned rental revenue of $828 and $2,474 (2015 - $962 and $3,023).

The Company has recognized a liability of $961 (November 30, 2015 - $804) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (Note 13).

22. Guarantee

The Company has provided a guarantee in the form of a letter of credit for an amount of $66 (November 30, 2015 - $66).

23. Contingent liabilities

The Company is involved in legal claims associated with its current business activities. The Company's estimate of the outcome of these claims is disclosed in Note 13. The timing of the outflows, if any, is out of the control of the Company and is as a result undetermined at the moment.

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

24. Income taxes

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

	August 31, 2016		August 31, 2015	
	$	**%**	$	%
Combined income tax rate	**12,232**	**28.0**	8,542	26.9
Add effect of:				
Non-taxable portion of capital gains	**(1,073)**	**(2.5)**	(102)	(0.3)
Permanent differences	**(128)**	**(0.3)**	10	0.0
Usage of previously unrecognized tax losses	**(877)**	**(2.0)**	192	0.6
Variation in current and deferred taxes attributable to foreign exchange	**83**	**0.2**	—	—
Impact of investment in subsidiaries	**(248)**	**(0.6)**	—	—
Adjustment to prior year provisions	**504**	**1.2**	51	0.2
Other – net	**4**	**0.0**	31	0.1
Provision for income taxes	**10,497**	**24.0**	8,724	27.5

25. Segmented information

Prior to the third quarter of 2016, the Company presented four operating segments, consisting of Franchise operations, Corporate store operations, Distribution operations and Food Processing operations. These reportable operating segments were established based on the differences in the types of products or services offered by each division.

Following the acquisition of Kahala Brands and the expansion of MTY into the USA, it was determined that these operating segments no longer reflected how management monitored and evaluated the results. The Company concluded that based on information provided to senior management, that two primary geographical segments exist, that being Canada and USA/International. This conclusion was based on how the brands in each geographical area are managed by their respective Chief Operating Officers (COO) and how brand leaders report to each of their respective COO's to account for the results of their operations.

Due to the change in reportable segments, prior year information has been restated to reflect the changes in operating segments mentioned above.

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

25. Segmented information (continued)

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

	Canada	USA & International	Total 2016	Canada	USA & International	Total 2015
	$	$	$	$		$
Operating revenues	**103,658**	**19,910**	**123,568**	100,268	5,454	105,722
Operating expenses	**66,791**	**13,898**	**80,689**	65,087	3,428	68,515
	36,867	**6,012**	**42,879**	35,181	2,026	37,207
Other expenses						
Depreciation – property, plant and equipment	**1,034**	**185**	**1,219**	1,094	44	1,138
Amortization – intangible assets	**4,653**	**1,171**	**5,824**	5,015	102	5,117
Interest on long-term debt	**892**	**169**	**1,061**	341	—	341
Other income						
Foreign exchange gain (loss)	**(731)**	**2**	**(729)**	(27)	—	(27)
Interest income	**213**	**—**	**213**	11	—	11
Impairment of goodwill	**—**	**—**	**—**	(200)	—	(200)
Realized gain on foreign exchange derivatives	**7,980**	**—**	**7,980**	—	—	—
Gain on disposal of property, plant and equipment	**1,447**	**1**	**1,448**	1,362	—	1,362
Operating income	**39,197**	**4,490**	**43,687**	29,877	1,880	31,757
Current income taxes	**7,975**	**1,131**	**9,106**	7,329	407	7,736
Deferred income taxes	**1,452**	**(61)**	**1,391**	988	—	988
Net income	**29,770**	**3,420**	**33,190**	21,560	1,473	23,033

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

26. Statement of cash flows

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

	Three months ended August 31, 2016	**Nine months ended August 31, 2016**	Three months ended August 31, 2015	Nine months ended August 31, 2015
	$	**$**	$	$
Accounts receivable	**2,388**	**3,761**	4,634	(1,939)
Inventories	**(705)**	**(1,039)**	(119)	190
Loans receivable	**(24)**	**(77)**	105	182
Prepaid expenses and deposits	**(5,253)**	**(5,402)**	62	497
Accounts payable and accrued liabilities	**5,297**	**5,829**	2,448	5,982
Provisions	**(4,485)**	**(4,933)**	(529)	48
	(2,782)	**(1,861)**	6,601	4,960

27. Related party transactions

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

Compensation of key management personnel

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

	Three months ended August 31, 2016	**Nine months ended August 31, 2016**	Three months ended August 31, 2015	Nine months ended August 31, 2015
	$	**$**	$	$
Short-term benefits	**293**	**709**	236	638
Board member fees	**17**	**39**	11	31
Total remuneration of key management personnel	**310**	**748**	247	669

Key management personnel is composed of the Company's CEO, COO, CFO as well as the COO of the US operations. The remuneration of directors and key executives is determined by the Board of directors having regard to the performance of individuals and market trends.

Given its widely held share base, the Company does not have an ultimate controlling party; its most important shareholder is its CEO, who controls 23% of the outstanding shares.

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

27. Related party transactions (continued)

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

	Three months ended August 31, 2016	**Nine months ended August 31, 2016**	Three months ended August 31, 2015	Nine months ended August 31, 2015
	$	**$**	$	$
Short-term benefits	**165**	**455**	99	279
Total remuneration of individuals related to key management personnel	**165**	**455**	99	279

28. Subsequent events

On October 5, 2016, the Company acquired all of the equity ownership of BF Acquisition Holdings, LLC, also known as Baja Fresh Mexican Grill and La Salsa Mexican Grill for a total consideration of approximately US$27,000 financed using MTY's existing credit facility. Baja Fresh Mexican Grill and La Salsa Mexican Grill operate 162 and 23 locations respectively.

The Company signed a settlement agreement on October 5, 2016 with Extreme Brands Inc. for 50% of the fair value of the outstanding holdback related to the acquisition. This settlement represents a gain of approximately $2,250.

On September 30, the Company also purchased the remaining 40% non-controlling interests of 9410198 Canada Inc. (Big Smoke Burger) for a purchase price of $1,250. Following the transaction, 9410198 Canada Inc. has become a wholly-owned subsidiary. The closing is effective September 30 and will be reported in the year-end financial statements.