Condensed interim consolidated financial statements of
MTY Food Group Inc.

For the three-month periods ended February 29, 2016 and February 28, 2015

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three-month periods ended February 29, 2016 and February 28, 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 three-month periods ended February 29, 2016 and February 28, 2015 have not been reviewed by an external auditor.

	Notes	**February 29, 2016**	February 28, 2015
		$	$
	3		*(Restated)*
Revenue	15 and 21	**35,320**	32,364
Expenses			
Operating expenses	16 and 21	**23,214**	21,941
Depreciation – property, plant and equipment		**364**	367
Amortization – intangible assets		**1,629**	1,679
Interest on long-term debt		**61**	89
		25,268	24,076
Other income			
Foreign exchange gain		**15**	192
Interest income		**52**	20
Gain on disposal of property, plant and equipment and intangible assets		**935**	165
		1,002	377
Income before taxes		**11,054**	8,665
Income taxes	20		
Current		**2,661**	1,998
Deferred		**412**	388
		3,073	2,386
Net income		**7,981**	6,279
Net income attributable to:			
Owners		**7,927**	6,219
Non-controlling interests		**54**	60
		7,981	6,279
Earnings per share	13		
Basic		**0.41**	0.33
Diluted		**0.41**	0.33

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-month periods ended February 29, 2016 and February 28, 2015
(unaudited)
(In thousands of Canadian dollars, except per share amounts)

	Notes	February 29, 2016	February 28, 2015
		$	$
	3		*(Restated)*
Net income		**7,981**	6,279
Items that may be reclassified subsequently to profit or loss			
Foreign exchange impact of foreign subsidiaries		**487**	(341)
Other comprehensive gain (loss)		**487**	(341)
Total comprehensive income		**8,468**	5,938
Total comprehensive income attributable to:			
Owners		**8,414**	5,878
Non-controlling interest		**54**	60
		8,468	5,938

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

MTY Food Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity

For the three-month periods ended February 29, 2016 and February 28, 2015

(unaudited)

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

	Equity attributable to owners						
	Capital stock	Contributed surplus	Accumulated other comprehen-sive income	Retained earnings	Total	Equity attributable to non-controlling interest	Total
	$	$	$	$ *(Restated, Note 3)*	$ *(Restated, Note 3)*	$ *(Restated, Note 3)*	$ *(Restated, Note 3)*
Balance as at November 30, 2014	19,792	481	(14)	124,331	144,590	4,881	149,471
Net income for the year ended November 30, 2015	—	—	—	26,015	26,015	208	26,223
Other comprehensive income	—	—	(97)	—	(97)	—	(97)
Acquisition of a portion of the non-controlling interest in 7687567 Canada Inc. (Note 3)	—	—	—	(23)	(23)	123	100
Acquisition of non-controlling interest in 9286-5591 Canada Inc. (Note 3)	—	—	—	3,817	3,817	(4,617)	(800)
Acquisition of 9410198 Canada Inc. (Note 5)	—	—	—	—	—	2,000	2,000
Dividends	—	—	—	(7,648)	(7,648)	(40)	(7,688)
Balance as at November 30, 2015	19,792	481	(111)	146,492	166,654	2,555	169,209
Net income for the period ended February 29, 2016	—	—	—	**7,927**	**7,927**	**54**	**7,981**
Other comprehensive income	—	—	**487**	**—**	**487**	**—**	**487**
Dividends	—	—	—	**(2,199)**	**(2,199)**	**(100)**	**(2,299)**
Balance as at February 29, 2016	**19,792**	**481**	**376**	**152,220**	**172,869**	**2,509**	**175,378**

The following dividends were declared and paid by the Company:

	February 29, 2016	February 28, 2015
	$	$
$0.115 per common share (2015 - $0.100 per common share)	**2,199**	1,912

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

MTY Food Group Inc.

Condensed interim consolidated statements of financial position

As at February 29, 2016 and February 28, 2015
(unaudited)
(In thousands of Canadian dollars, except per share amounts)

	Notes	**February 29, 2016**	November 30, 2015
		$	$
Assets			
Current assets			
Cash		**40,119**	33,417
Accounts receivable	6	**18,130**	18,734
Inventories	7	**2,502**	2,208
Loans receivable	8	**213**	240
Prepaid expenses and deposits		**872**	620
		61,836	55,219
Loans receivable	8	**163**	217
Property, plant and equipment		**10,287**	10,506
Intangible assets		**102,737**	103,925
Goodwill		**55,520**	55,520
		230,543	225,387
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Line of credit	9	**6,100**	6,300
Accounts payable and accrued liabilities		**25,809**	24,361
Provisions	10	**3,304**	3,468
Income taxes payable		**958**	2,334
Deferred revenue and deposits	11	**5,220**	5,660
Current portion of long-term debt	12	**6,302**	6,344
		47,693	48,467
Long-term debt	12	**957**	1,612
Deferred income taxes		**6,515**	6,099
		55,165	56,178
Commitments, guarantee and contingent liabilities	17, 18 and 19		

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

	Notes	February 29, 2016	November 30, 2015
		$	$
Shareholders' equity			
Equity attributable to owners			
Capital stock		**19,792**	19,792
Contributed surplus		**481**	481
Accumulated other comprehensive income		**376**	(111)
Retained earnings		**152,220**	146,492
		172,869	166,654
Equity attributable to non-controlling interest		**2,509**	2,555
		175,378	169,209
		230,543	225,387

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

Approved by the Board on April 7, 2016

____, Director

____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three-month periods ended February 29, 2016 and February 28, 2015

(unaudited)

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

	Notes	**February 29, 2016**	February 28, 2015
		$	$
	3		*(Restated)*
Operating activities			
Net income		**7,981**	6,279
Items not affecting cash:			
Interest on long-term debt		**61**	89
Depreciation – property, plant and equipment		**364**	367
Amortization – intangible assets		**1,629**	1,679
(Gain) on disposal of property, plant and equipment and intangible assets		**(935)**	(165)
Unrealized foreign exchange (loss)		**(464)**	(67)
Unrealized foreign exchange gain (loss) on other comprehensive income		**487**	(341)
Income tax expense		**3,073**	2,386
Deferred revenue		**(440)**	(101)
		11,756	10,126
Income taxes paid		**(4,012)**	(4,283)
Interest paid		**(16)**	(52)
Changes in non-cash working capital items	22	**1,423**	(2,167)
Cash flows provided by operating activities		**9,151**	7,958
Investing activities			
Net cash outflow on acquisitions	5	**—**	(4,977)
Acquisition of a portion of the non-controlling interest in 7687567 Canada Inc.	3	**—**	100
Additions to property, plant and equipment		**(402)**	(976)
Additions to intangible assets		**(43)**	(4)
Proceeds on disposal of property, plant and equipment		**1,238**	754
Cash flows used in investing activities		**793**	(5,103)

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

	Notes	**February 29, 2016**	February 28, 2015
		$	$
	3		*(Restated)*
Financing activities			
Issuance of banker's acceptances		**9,100**	1,874
Repayment of banker's acceptances		**(9,300)**	(4,750)
Repayment of long-term debt		**(743)**	(111)
Dividends paid to non-controlling shareholders of subsidiaries		**(100)**	(30)
Dividends paid		**(2,199)**	(1,912)
Cash flows used in financing activities		**(3,242)**	(4,929)
Net increase (decrease) in cash		**6,702**	(2,074)
Cash, beginning of period		**33,417**	6,701
Cash acquired		**—**	25
Cash, end of period		**40,119**	4,652

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

Table of contents

1. Description of the business

MTY Food Group Inc. (the “Company”) is a franchisor of restaurants in the food service 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 April 7, 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.

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

3. Consolidation (continued)

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.

Changes in basis of consolidation
In September, 2013, the Company put their 51% investment in 7687567 Canada Inc., a food processing plant in Saint-Romuald, Quebec, up for sale. The investment was then reclassified as an investment in subsidiary held-for-sale.

In July 2014, the Company acquired the interest of one of the minority shareholders for $300 in order to facilitate a restructuring of the plant's operations. Following this transaction, the Company owned 91% of the shares of 7687567 Canada Inc.

In December, 2014, the Company increased its ownership of 7687567 Canada Inc. to 99% through the conversion of a $750 investment, which diluted the minority shareholder's ownership. The cash call was required to help finance the operations of the subsidiary.

In May 2015, the Company deemed the future sale of 7687567 Canada Inc. no longer probable in the near future and as such, reclassified the investment from a subsidiary held-for-sale to a consolidated subsidiary. Prior period amounts, including those for the first quarter of 2015, on the condensed interim consolidated statements of income and of comprehensive income, and the statements of financial position have been restated for the change in classification.

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

4. Future accounting changes (continued)

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.

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.

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

5. Business acquisitions

I) 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:

	2015
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.

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

5. Business acquisitions (continued)

I) 2015 acquisition (continued)

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

II) 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:

	2015
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)

II) 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:

	February 29, 2016	November 30, 2015
	$	$
Total accounts receivable	**23,278**	24,122
Less : Allowance for doubtful accounts	**5,148**	5,388
Total accounts receivable, net	**18,130**	18,734
Of which:		
Not past due	**14,109**	13,069
Past due for more than one day but for no more than 30 days	**1,183**	1,620
Past due for more than 31 days but for no more than 60 days	**448**	766
Past due for more than 61 days	**2,390**	3,279
Total accounts receivable, net	**18,130**	18,734
Allowance for doubtful accounts beginning of year	**5,388**	4,305
Additions	**590**	1,829
Reversals	**—**	(233)
Write-off	**(830)**	(513)
Allowance for doubtful accounts end of period	**5,148**	5,388

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.

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

7. Inventories

	February 29, 2016	November 30, 2015
	$	$
Raw materials	**1,334**	1,210
Work in progress	**158**	70
Finished goods	**1,010**	928
Total inventories	**2,502**	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-month periods ended February 29, 2016 were $6,429 (2015 - $5,231).

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:

	February 29, 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 $16 in aggregate, including principal and interest, ending in March 2021	**376**	442
	376	457
Current portion	**(213)**	(240)
	163	217

The capital repayments in subsequent years will be:

	$
2016	213
2017	119
2018	19
2019	10
2020	11
Thereafter	4
	376

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

9. Credit facilities

As at February 29, 2016, the Company has access to an authorized revolving credit facility of $30,000 and a treasury risk facility of $1,000. One of the Company's subsidiaries also has access to a $10,000 credit facility under the same terms and conditions. Bank indebtedness's are secured by a moveable hypothec on all the assets of the Company.

The revolving credit facility bears interest at the bank's prime rate for advances in C$ (or the bank's U.S. base rate for advance in US$) plus a margin not exceeding 0.5% established based on the Company's funded debt/EBITDA ratio. As at February 29, 2016, the bank's prime rate was 2.70%.

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

Under the terms of the credit facilities, the Company must satisfy a funded debt to EBITDA ratio of 2 to 1 and a minimum interest coverage ratio of 4.5 to 1. The credit facilities are payable on demand and is renewable annually. As at February 29, 2016, $6,100 was drawn from the facilities in the form of banker's acceptance, with maturity dates ranging from March to May 2016. The Company is in compliance with the facilities covenants.

10. Provisions

Included in provisions are the following amounts:

	February 29, 2016	November 30, 2015
	$	$
Litigations and disputes	**706**	1,329
Closed stores	**1,087**	804
	1,793	2,133
Gift card liabilities/loyalty programs liabilities	**1,511**	1,335
Total	**3,304**	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.

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, $10 (2015 - $34) was unused and reversed into income. The amounts used in the period include $534 (2015 - $91) 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 $204 (2015 - $282) to the litigation and closed stores provisions. The provisions were increased to reflect new information available to management.

The gift card and loyalty programs liabilities are the estimated value in gift cards and points outstanding at the date of the statement of financial position. The timing of the reversal of this provision is dependent on customer behaviour and therefore outside of the Company's control.

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

11. Deferred revenue and deposits

	February 29, 2016	November 30, 2015
	$	$
Franchise fee deposits	**2,796**	2,633
Supplier contributions and other allowances	**2,424**	3,027
	5,220	5,660
Current portion	**(5,220)**	(5,660)
	—	—

12. Long-term debt

	February 29, 2016	November 30, 2015
	$	$
Non-interest bearing holdbacks on acquisition of Extreme Brandz, repayable March 2016	**4,452**	4,430
Non-interest bearing contract cancellation fees, payable in US dollars based on the performance of certain stores	**83**	88
Non-interest bearing holdbacks on acquisition of Café Dépôt, repayable between May 2016 and October 2016.	**982**	1,021
Balance of sale on acquisition of Madisons, bearing interest at 7.00%, repayable in quarterly capital payments of $62 and expiring in July 2019	**875**	937
Non-interest bearing holdbacks on acquisition of Manchu Wok, repayable December 2016	**600**	1,216
Non-interest bearing holdbacks on acquisition of Big Smoke Burger, repayable September 2018	**267**	264
	7,259	7,956
Current portion	**(6,302)**	(6,344)
	957	1,612

13. Earnings per share

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

	February 29, 2016	November 30, 2015
Weighted daily average number of common shares	**19,120,567**	19,120,567

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

14. 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:

	February 29, 2016		November 30, 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair Value
	$	**$**	$	$
Financial assets				
Cash	**40,119**	**40,119**	33,417	33,417
Accounts receivable	**18,130**	**18,130**	18,734	18,734
Loans receivable	**376**	**376**	457	457
Deposits	**233**	**233**	242	242
Financial liabilities				
Line of credit	**6,100**	**6,100**	6,300	6,300
Accounts payable and accrued liabilities	**25,809**	**25,809**	24,361	24,361
Long-term debt	**7,259**	**7,259**	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.

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

15. Revenues

The Company's revenues include:

	February 29, 2016	February 28, 2015
	$	$
Royalties	**13,344**	12,406
Initial franchise fees	**752**	571
Rent	**832**	1,043
Sale of goods, including construction revenues	**14,483**	12,479
Other franchising revenue	**4,917**	4,885
Other	**992**	980
	35,320	32,364

16. Operating expenses

Operating expenses are broken down as follows:

	February 29, 2016	February 28, 2015
	$	$
Cost of goods sold and rent	**11,785**	10,434
Wages and benefits	**7,800**	7,586
Consulting and professional fees	**1,234**	771
Royalties	**244**	270
Other (1)	**2,151**	2,880
	23,214	21,941

(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)

17. 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
	$	$	$
2016	80,543	75,266	5,277
2017	73,638	69,153	4,485
2018	66,371	62,887	3,484
2019	58,558	55,744	2,814
2020	46,875	44,679	2,196
Thereafter	118,972	112,757	6,215
	444,957	**420,486**	**24,471**

Payments recognized as a net expense during the three-month periods ended February 29, 2016 amount to $3,060 (2015 - $3,879).

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-month periods, the Company earned rental revenue of $832 (2015 - $1,043).

The Company has recognized a liability of $1,087 (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 10).

18. Guarantee

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

19. 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 10. 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)

20. Income taxes

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

	February 29, 2016		February 28, 2015	
	$	**%**	$	%
Combined income tax rate	**3,007**	**27.2**	2,338	27.0
Add effect of:				
Disposition of capital property	**1**	**0.0**	—	—
Non-deductible items	**3**	**0.0**	4	0.0
Losses of a subsidiary for which no future tax assets are recognized	**—**	**—**	40	0.5
Variation in current and deferred taxes attributable to foreign exchange	**(23)**	**(0.2)**	—	—
Adjustment to prior year provisions	**33**	**0.3**	—	—
Other – net	**52**	**0.5**	4	0.0
Provision for income taxes	**3,073**	**27.8**	2,386	27.5

21. Segmented information

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

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

Franchising operations

The franchising business mainly generates revenues from royalties, supplier contributions, franchise fees, rent and the construction and renovation of restaurants.

Corporate store operations

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

Distribution operations

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

Food processing operations

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

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

21. Segmented information (continued)

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

For the three-month period ended February 29, 2016:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	$	$	$	$	$	$
Operating revenues	24,498	6,816	1,479	3,046	(519)	35,320
Operating expenses	12,570	6,987	1,370	2,806	(519)	23,214
	11,928	(171)	109	240	—	12,106
Other expenses						
Depreciation - property, plant and equipment	97	201	1	65	—	364
Amortization – intangible assets	1,629	—	—	—	—	1,629
Interest on long-term debt	61	—	—	—	—	61
Other income						
Foreign exchange gain	15	—	—	—	—	15
Interest income	51	—	1	—	—	52
Gain on disposal of property, plant and equipment and intangibles	935	—	—	—	—	935
Operating income	11,142	(372)	109	175	—	11,054
Current income taxes	2,732	(100)	29	—	—	2,661
Deferred income taxes	412	—	—	—	—	412
Net income	7,998	(272)	80	175	—	7,981

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

21. Segmented information (continued)

For the three-month period ended February 28, 2015:

	Franchising	Corporate	Distribution	Processing	Inter-company	Total
	$	$	$	$	$	$
Restated (note 3)						
Operating revenues	22,250	7,306	1,353	1,875	(420)	32,364
Operating expenses	11,986	7,244	1,235	1,896	(420)	21,941
	10,264	62	118	(21)	—	10,423
Other expenses						
Depreciation – property, plant and equipment	136	171	—	60	—	367
Amortization – intangible assets	1,679	—	—	—	—	1,679
Interest on long-term debt	89	—	—	—	—	89
Other income						
Foreign exchange gain (loss)	213	—	—	(21)	—	192
Interest income	9	—	—	11	—	20
Gain on disposal of property, plant and equipment	165	—	—	—	—	165
Operating income	8,747	(109)	118	(91)	—	8,665
Current income taxes	1,995	(29)	32	—	—	1,998
Deferred income taxes	388	—	—	—	—	388
Net income	6,364	(80)	86	(91)	—	6,279

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

22. Statement of cash flows

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

	February 29, 2016	February 28, 2015
	$	$ *(restated, note 3)*
Accounts receivable	**604**	(102)
Inventories	**(294)**	301
Loans receivable	**81**	57
Prepaid expenses and deposits	**(252)**	326
Accounts payable and accrued liabilities	**1,448**	1,564
Provisions	**(164)**	21
	1,423	2,167

23. 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:

	February 29, 2016	February 28, 2015
	$	$
Short-term benefits	**237**	185
Board member fees	**12**	10
Total remuneration of key management personnel	**249**	195

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

Given its widely held share base, the Company does not have an ultimate controlling party; its most important shareholder is its CEO, who controls 26% of the outstanding shares.

23. 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:

	February 29, 2016	February 28, 2015
	$	$
Short-term benefits	**152**	106
Total remuneration of individuals related to key management personnel	**152**	106