Condensed interim consolidated financial statements of MTY Food Group Inc.

For the three and nine-month periods ended August 31, 2019 and August 31, 2018

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three and nine-month periods ended August 31, 2019 and August 31, 2018
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	Notes	Three months ended August 31 2019	Three months ended August 31 2018	Nine months ended August 31 2019	Nine months ended August 31 2018
		$	$ *Restated (note 3)*	**$**	$ *Restated (note 3)*
Revenue	10 and 12	**163,057**	113,006	**400,938**	295,858
Expenses					
Operating expenses	11 and 12	**121,210**	74,247	**296,570**	204,001
Depreciation – property, plant and equipment		**1,020**	674	**2,556**	2,056
Amortization – intangible assets		**7,676**	6,620	**21,323**	18,148
Interest on long-term debt		**5,264**	3,096	**11,949**	8,762
Impairment charge – property, plant and equipment		**—**	—	**958**	1,515
		135,170	84,637	**333,356**	234,482
Other income (expenses)					
Unrealized and realized foreign exchange gain (loss)		**35**	(22)	**407**	27
Interest income		**319**	171	**558**	493
Gain on disposal of property, plant and equipment and intangible assets		**119**	317	**1,685**	498
Gain (loss) on revaluation of financial liabilities recorded at fair value	9	**394**	(280)	**2,263**	(1,229)
		867	186	**4,913**	(211)
Income before taxes		**28,754**	28,555	**72,495**	61,165
Income tax (recovery) expense					
Current		**6,754**	5,649	**16,751**	16,419
Deferred		**(1,069)**	607	**(1,442)**	(38,189)
		5,685	6,256	**15,309**	(21,770)
Net income		**23,069**	22,299	**57,186**	82,935
Net income attributable to:					
Owners		**22,902**	22,077	**56,987**	82,536
Non-controlling interests		**167**	222	**199**	399
		23,069	22,299	**57,186**	82,935
Income per share	8				
Basic		**0.91**	0.88	**2.26**	3.45
Diluted		**0.91**	0.88	**2.26**	3.45

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, 2019 and August 31, 2018
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	Three months ended August 31		Nine months ended August 31	
	2019	2018	**2019**	2018
	$	$ *Restated (Note 3)*	**$**	$ *Restated (Note 3)*
Net income	**23,069**	22,299	**57,186**	82,935
Items that may be reclassified subsequently to net income				
Unrealized (loss) gain on translation of foreign operations	**(13,340)**	3,595	**(3,525)**	6,404
Deferred tax expense (recovery) on foreign currency translation adjustments	**907**	(265)	**140**	(414)
Other comprehensive (loss) income	**(12,433)**	3,330	**(3,385)**	5,990
Total comprehensive income	**10,636**	25,629	**53,801**	88,925
Comprehensive income attributable to:				
Owners	**10,469**	25,407	**53,602**	88,526
Non-controlling interest	**167**	222	**199**	399
	10,636	25,629	**53,801**	88,925

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 nine-month periods ended August 31, 2019 and August 31, 2018

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

(Unaudited)

	Capital stock	Reserves: Other	Reserves: Contributed surplus	Reserves: Foreign currency translation	Total reserves	Retained earnings	Total	Equity attributabe to non-controlling interests	Total
	$	$	$	$	$	$	$	$	$
Balance as at November 30, 2017 (Restated, note 3)	114,545	(850)	882	(13,101)	(13,069)	215,352	316,828	1,702	318,530
Net income for the nine-month period ended August 31, 2018	—	—	—	—	—	82,536	82,536	399	82,935
Other comprehensive income	—	—	—	5,990	5,990	—	5,990	—	5,990
Issuance of shares on acquisition of Imvescor Restaurant Group	197,144	—	—	—	—	—	197,144	—	197,144
Dividends	—	—	—	—	—	(10,754)	(10,754)	(30)	(10,784)
Share-based compensation	—	—	473	—	473	—	473	—	473
Balance as at August 31, 2018	311,689	(850)	1,355	(7,111)	(6,606)	287,134	592,217	2,071	594,288
Net income for the three-month period from September 1, 2018 to November 30, 2018	—	—	—	—	—	13,240	13,240	12	13,252
Other comprehensive income	—	—	—	7,561	7,561	—	7,561	—	7,561
Acquisition of non-controlling interest in 8825726 Canada Inc.	—	—	—	—	—	(257)	(257)	(802)	(1,059)
Issuance of shares on acquisition of Imvescor Restaurant Group	472	—	—	—	—	—	472	—	472
Dividends	—	—	—	—	—	(3,776)	(3,776)	—	(3,776)
Share-based compensation	—	—	157	—	157	—	157	—	157
Balance as at November 30, 2018 (Restated, note 3)	312,161	(850)	1,512	450	1,112	296,341	609,614	1,281	610,895
Net income for the nine-month period ended August 31, 2019	**—**	**—**	**—**	**—**	**—**	**56,987**	**56,987**	**199**	**57,186**
Other comprehensive loss	**—**	**—**	**—**	**(3,385)**	**(3,385)**	**—**	**(3,385)**	**—**	**(3,385)**
Dividends	**—**	**—**	**—**	**—**	**—**	**(12,563)**	**(12,563)**	**(183)**	**(12,746)**
Share-based compensation	**—**	**—**	**409**	**—**	**409**	**—**	**409**	**—**	**409**
Acquisition of non-controlling interest in 9974644 Canada Inc.	**—**	**—**	**—**	**—**	**—**	**2**	**2**	**(112)**	**(110)**
Balance as at August 31, 2019	**312,161**	**(850)**	**1,921**	**(2,935)**	**(1,864)**	**340,767**	**651,064**	**1,185**	**652,249**

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, 2019, November 30, 2018 and December 1, 2017

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

(Unaudited)

	Notes	**August 31, 2019**	November 30, 2018	December 1, 2017
		$	$	$
			Restated (Notes 3 & 4)	*Restated (Note 3)*
Assets				
Current assets				
Cash		**43,687**	32,304	56,453
Accounts receivable	5	**60,363**	49,971	35,565
Inventories		**7,870**	4,029	3,593
Assets held for sale	4	**20,547**	—	—
Loans receivable		**2,204**	2,134	2,817
Income taxes receivable		**257**	—	1,408
Other assets		**459**	692	1,163
Prepaid expenses and deposits		**11,067**	7,915	5,901
		146,454	97,045	106,900
Loans receivable		**5,415**	5,970	3,109
Contract cost asset		**5,469**	3,717	2,062
Deferred income tax		**286**	114	351
Property, plant and equipment		**19,423**	17,333	13,081
Intangible assets		**945,092**	758,239	506,970
Goodwill	6	**532,832**	357,102	226,768
		1,654,971	1,239,520	859,241
Liabilities and Shareholders' equity				
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		**88,851**	67,812	56,947
Provisions		**101,582**	90,039	75,331
Income taxes payable		**19,503**	24,989	19,273
Deferred revenue and deposits		**20,388**	20,784	19,488
Current portion of long-term debt	7	**5,189**	7,416	4,240
		235,513	211,040	175,279
Long-term debt	7	**564,851**	268,200	223,567
Deferred revenue and deposits		**37,223**	33,385	31,851
Provisions		**1,522**	—	—
Deferred income taxes		**163,613**	116,000	110,014
		1,002,722	628,625	540,711

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

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

	August 31, 2019	November 30, 2018	December 1, 2017
	$	$	
		Restated (Note 3 & 4)	*Restated (Note 3)*
Shareholders' equity			
Equity attributable to owners			
Capital stock	**312,161**	312,161	114,545
Reserves	**(1,864)**	1,112	(13,069)
Retained earnings	**340,767**	296,341	215,352
	651,064	609,614	316,828
Equity attributable to non-controlling interests	**1,185**	1,281	1,702
	652,249	610,895	318,530
	1,654,971	1,239,520	859,241

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

Approved by the Board on October 10, 2019

____, Director

____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three and nine-month periods ended August 31, 2019 and 2018

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

(Unaudited)

	Notes	Three months ended August 31		Nine months ended August 31	
		2019	2018	**2019**	2018
		$	$ *Restated (Note 3)*	**$**	$ *Restated (Note 3)*
Operating activities					
Net income		**23,069**	22,299	**57,186**	82,935
Adjusting items:					
Interest on long-term debt		**5,264**	3,096	**11,949**	8,762
Depreciation – property, plant and equipment		**1,020**	674	**2,556**	2,056
Amortization – intangible assets		**7,676**	6,620	**21,323**	18,148
Impairment charge – property, plant and equipment		**—**	—	**958**	1,515
Gain on disposal of property, plant and equipment and intangible assets		**(119)**	(317)	**(1,685)**	(498)
(Gain) loss on revaluation of financial liabilities recorded at fair value through profit or loss		**(394)**	280	**(2,263)**	1,229
Income tax expense (recovery)		**5,685**	6,256	**15,309**	(21,770)
Share based payments		**117**	159	**409**	473
		42,318	39,067	**105,742**	92,850
Income taxes paid		**(7,289)**	(3,522)	**(19,239)**	(11,087)
Interest paid		**(4,710)**	(2,513)	**(10,266)**	(7,037)
Changes in non-cash working capital items	13	**(3,200)**	(4,791)	**(1,284)**	(7,360)
Other		**101**	—	**101**	—
Cash flows provided by operating activities		**27,220**	28,241	**75,054**	67,366
Investing activities					
Net cash outflow on acquisitions	4	**(49,435)**	(790)	**(332,098)**	(85,727)
Cash acquired through acquisitions	4	**—**	—	**2,459**	4,652
Additions to property, plant and equipment		**(809)**	(1,357)	**(3,975)**	(2,736)
Additions to intangible assets		**(458)**	(380)	**(753)**	(1,104)
Proceeds on disposal of property, plant and equipment and intangible assets		**727**	1,229	**3,035**	1,614
Cash flows used in investing activities		**(49,975)**	(1,298)	**(331,332)**	(83,301)

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

	Notes	Three months ended August 31		Nine months ended August 31	
		2019	2018	**2019**	2018
		$	$ *Restated (Note3)*	**$**	$ *Restated (Note3)*
Financing activities					
Issuance of long-term debt		**49,004**	—	**327,399**	121,000
Repayment of long-term debt		**(25,058)**	(19,822)	**(46,097)**	(100,898)
Capitalized financing cost		**—**	(448)	**(314)**	(448)
Dividends paid to non-controlling shareholders of subsidiaries		**(18)**	—	**(183)**	(30)
Acquisition of non-controlling interest of 9974644 Canada Inc.		**—**	—	**(110)**	—
Dividends paid		**(4,153)**	(3,774)	**(12,563)**	(10,754)
Cash flows provided by (used in) financing activities		**19,775**	(24,044)	**268,132**	8,870
Net increase (decrease) in cash		**(2,980)**	2,899	**11,854**	(7,065)
Effect of foreign exchange rate changes on cash		**(814)**	466	**(471)**	(275)
Cash, beginning of period		**47,481**	45,748	**32,304**	56,453
Cash, end of period		**43,687**	49,113	**43,687**	49,113

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

Table of contents – Notes to the condensed interim consolidated financial statements

1. Description of the business

MTY Food Group Inc. (the "Company") is a franchisor in the quick service and casual dining food industry. Its activities consist of franchising and operating corporate-owned locations as well as the sale of retail products under a multitude of banners. The Company also operates distribution centers and food processing plants, all 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 unaudited condensed interim consolidated financial statements ("financial statements") have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

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

Prior period comparative figures have been restated to reflect adoption of IFRS 15 *Revenue from contracts with customers* as discussed in note 3. The company has determined that the impact for IFRS 9 *Financial Instruments* is not material.

Statement of compliance

The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting and apply the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended November 30, 2018, prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), with the exception of those disclosed in note 3 of the condensed interim consolidated financial statements.

2. Basis of preparation (continued)

Statement of compliance (continued)

These financial statements do not include all of the information required under IFRS for complete financial statements and should therefore be read in conjunction with the Company's annual consolidated financial statements for the year ended November 30, 2018.

The financial statements were authorized for issue by the Board of Directors on October 10, 2019.

3. Changes in accounting policies

Policies applicable beginning December 1, 2018

These financial statements have been prepared using the same accounting policies as those presented in the Company's audited annual consolidated financial statements for the year ended November 30, 2018, except as described below.

IFRS 9 – Financial Instruments

Beginning on December 1, 2018, the Company adopted IFRS 9 – *Financial Instruments*, issued in July 2014 and the related consequential amendments to IFRS 7 - *Financial Instruments: Disclosures*. IFRS 9 introduces new requirements for the classification of financial assets based on the business model used by an entity to manage financial assets and the characteristics of the contractual cash flows of those financial assets. IFRS 9 provides three classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL), replacing previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 also introduces a new expected credit loss model (ECL) for calculating impairment on financial assets replacing the incurred loss model in IAS 39. The ECL model applies to financial assets measured at amortized cost. Under IFRS 9, expected credit losses are recognized on initial recognition of financial assets which is earlier than under IAS 39. The adoption of IFRS 9 has not resulted in a material change to the Company's allowance for trade receivables and loans receivable.

The Company also adopted amendments to IFRS 9, issued in October 2017, effective in 2018. The component of the amendments relevant to the Company relates to clarifying the accounting for the modification of financial liabilities and requires the Company to recognize any adjustments to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange, regardless of whether the changes are substantial and result in derecognition. The Company previously modified the terms for the revolving credit facility debt, which did not result in the derecognition of the debts. However, there was no material impact on the carrying amount of the debt as a result of applying the amendments to IFRS 9.

IFRS 9 Transitional Adjustments

As a result of the Company electing not to restate comparative figures, the information presented in the consolidated financial statements for the prior year does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented in the current period under IFRS 9. As such, comparative figures have been reported in accordance with the accounting policies described in the Company's audited annual consolidated financial statements. The adoption of this standard had no material impact on the consolidated financial statements of the Company.

3. Changes in accounting policies (continued)

IFRS 9 – Financial Instruments (continued)

IFRS 9 Transitional Adjustments (continued)

The following table summarizes the change in classification

	Original classification under IAS 39	New classification under IFRS 9
Financial assets:		
Cash	Loans and receivable	Amortized cost
Accounts receivable	Loans and receivable	Amortized cost
Loans receivable	Loans and receivable	Amortized cost
Financial liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Revolving credit facility	Other financial liabilities	Amortized cost
Non-interest-bearing contract cancellation fees and holdbacks	Other financial liabilities	Amortized cost
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	FVTPL	FVTPL
Contingent consideration on acquisitions	FVTPL	FVTPL
Non-controlling interest buyback obligation	FVTPL	FVTPL
Non-controlling interest option	FVTPL	FVTPL

Following the adoption of IFRS 9, there were no further changes to the classification categories of financial assets and financial liabilities.

Financial instruments

Classification of financial assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in profit or loss.

On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost, FVOCI or FVTPL, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is subsequently measured at amortized cost if the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest. Unless a financial asset is designated at FVTPL, a financial asset is subsequently measured at FVOCI if the asset is held within a business model in order to collect contractual cash flows and sell financial assets and the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest. Financial assets that do not meet either the contractual cash flow characteristics of solely payments of principal and interest or the business model of held to collect or held to collect and sell are measured at FVTPL. Financial assets measured at FVTPL and any subsequent changes therein are recognized in net income.

The Company currently classifies its cash, accounts receivable and loans receivable as assets measured at amortized cost.

3. Changes in accounting policies (continued)

IFRS 9 – Financial Instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Impairment of financial assets

On adoption of IFRS 9, the Company is required to assess the ECL associated with financial assets measured at amortized cost. ECL is calculated as the product of the probability of default, exposure at default and loss given default over the remaining expected life of the loans and discounted to the reporting date. The ECL model also incorporates forward-looking information, which increases the degree of judgment required as to how changes in macroeconomic factors will affect ECL.

The Company has adopted the simplified ECL model for its trade receivables, as permitted by IFRS 9. The simplified approach under IFRS 9 permits the use of the lifetime expected loss provision for all trade receivables and also incorporates forward-looking information. Lifetime ECL represents the ECL that will result from all probable default events over the expected life of a financial instrument.

For its loans receivable balance carried at amortized cost, the Company has applied the general ECL model. Unlike the simplified approach, the general ECL model depends on whether there has been a significant increase in credit risk. The Company considers the probability of default upon initial recognition of the financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition of the financial asset.

A significant increase in credit risk is assessed based on changes in the probability of default since initial recognition along with borrower-specific qualitative information, or when loans are more than 30 days past due. Loans are considered impaired and in default when they are 90 days past due or there is sufficient doubt regarding the ultimate collectability of principal and/or interest. Loans that are 180 days past due are written down to the present value of the expected future cash flows. Impairment under the IFRS 9 general ECL model is assessed on an individual basis. In assessing the risk of default, the Company also incorporates available reasonable and supportive forward-looking information.

When credit risk is assessed as being low or when there has not been a significant increase in credit risk since initial recognition, the ECL is based on a 12-month ECL which represents the portion of lifetime ECL expected to occur from default events that are possible within 12 months after the reporting date. If a significant increase in credit risk has occurred throughout a reporting period, impairment is based on lifetime ECL.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3. Changes in accounting policies (continued)

IFRS 9 – Financial Instruments (continued)

Classification of financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL. These financial liabilities, including derivative liabilities and certain obligations, are subsequently measured at fair value with changes in fair value recorded in net income in the period in which they arise. Financial liabilities designated as FVTPL are recorded at fair value with changes in fair value attributable to changes in the Company's own credit risk recorded in net income.

IFRS 15 – Revenue from Contracts with Customers

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. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

On December 1, 2018, the Company adopted IFRS 15 retrospectively in accordance with IAS 8 Accounting Policies, Changes in Estimates and Errors with restatement of comparative amounts.

The adoption of the new standard had the following impacts:

Initial franchise fees, master franchise fees, transfer fees and renewal fees: Under previous guidance, the Company recognized these fees when all material obligations and services were performed. Under the new guidance, the Company defers these fees and recognizes them over the term of the related franchise agreement. This has no impact on the amount or timing of cash flows.

Promotional funds: Under the previous guidance, the Company did not reflect promotional funds collected from franchisees and the related promotional expenditures in the consolidated statements of income. Under the new standard, the promotional funds collected, and the related expenditures are reported on a gross basis in the consolidated statements of income. To the extent that promotional funds received exceed the related promotional expenditures, the excess contributions will be recorded in accounts payable and accrued liabilities.

Costs to obtain a contract: Under the new guidance, incremental costs to obtain a contract have to be deferred if they are expected to be recoverable, unless their amortization period would be less than one year, in which case a practical expedient can be used to expense them as incurred. Accordingly, the Company now recognizes those costs as an asset when incurred and amortizes this asset over the term of the related franchise agreement.

Gift cards: There is a change for some of the gift card programs which were being accounted for based on the remote likelihood of a gift card being redeemed. Following the adoption of the new standard, all of the gift card programs now record expected breakage income proportionately as gift cards are redeemed.

Restaurant construction and renovation: Restaurant construction and renovation revenue were previously recognized by reference to the stage of completion of the contract activity; under the new standard, the criteria for recognizing revenue over time are not met, and therefore, the Company now recognizes the revenue for these services at a point in time, when the construction and renovation are completed.

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

3. Changes in accounting policies (continued)

IFRS 15 – Revenue from Contracts with Customers (continued

Impact on the financial statements

The following tables show the adjustments recognized for each line item impacted by the change.

Condensed interim consolidated statements of income

	Three months ended August 31, 2018				Nine months ended August 31, 2018			
	As previously reported	IFRS 15 Adjust-ments	Retail reassess-ment	**As restated**	**As previously reported**	IFRS 15 Adjust-ments	Retail reassess-ment	**As restated**
	$	$	$ *(See "Other" below)*	**$**	**$**	$	**$** *(See "Other" below)*	$
Revenue	**91,236**	16,609	5,161	**113,006**	**244,780**	42,523	8,555	**295,858**
Operating expenses	**51,658**	17,428	5,161	**74,247**	**149,784**	45,662	8,555	**204,001**
Income before taxes	**29,374**	(819)	—	**28,555**	**64,304**	(3,139)	—	**61,165**
Income tax expense (recovery)								
Deferred	**1,228**	(621)	—	**607**	**(38,161)**	(28)	—	**(38,189)**
Net income	**22,497**	(198)	—	**22,299**	**86,046**	(3,111)	—	**82,935**
Income per share – basic	**0.89**	(0.01)	—	**0.88**	**3.58**	0.13	—	**3.45**
Income per share – diluted	**0.88**	0.00	—	**0.88**	**3.58**	0.13	—	**3.45**

Condensed interim consolidated statements of comprehensive income

	Three months ended August 31, 2018			Nine months ended August 31, 2018		
	As previously reported	IFRS 15 Adjust-ments	**As restated**	**As previously reported**	IFRS 15 Adjust-ments	**As restated**
	$	$	$	**$**	$	**$**
Unrealized gain (loss) on translation of foreign operations	**3,537**	58	**3,595**	**6,426**	(22)	**6,404**
Total comprehensive income	**25,769**	(140)	**25,629**	**92,058**	(3,133)	**88,925**

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

3. Changes in accounting policies (continued)

IFRS 15 – Revenue from Contracts with Customers (continued)

Impact on the financial statements (continued)

Consolidated statement of financial position	**As at November 30, 2018**		
	As previously reported	IFRS 15 adjustments	**As restated**
	$	$	**$**
Assets			
Current assets			
Accounts receivable	**49,168**	803	**49,971**
Inventories	**3,574**	455	**4,029**
Prepaid expenses and deposits [(1)]	**7,291**	624	**7,915**
Contract cost asset	**—**	3,717	**3,717**
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**68,700**	(888)	**67,812**
Deferred revenue and deposits	**20,122**	662	**20,784**
Deferred revenue and deposits	**705**	32,680	**33,385**
Deferred income taxes [(2)]	**123,078**	(7,078)	**116,000**
Reserves	**1,245**	(133)	**1,112**
Retained earnings	**315,985**	(19,644)	**296,341**

(1) Relates to current portion of the contract costs assets.
(2) As previously reported balance was restated in the condensed interim consolidated financial statements for the three-month period ended February 28, 2019. Refer to adjustment in Note 4 – Business acquisitions for more detail.

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

3. Changes in accounting policies (continued)

IFRS 15 – Revenue from Contracts with Customers (continued)

Impact on the financial statements (continued)

Consolidated statement of financial position	As at December 1, 2017		
	As previously reported	IFRS 15 adjustments	**As restated**
	$	$	**$**
Assets			
Current assets			
Accounts receivable	**34,151**	1,414	**35,565**
Inventories	**3,281**	312	**3,593**
Prepaid expenses and deposits	**5,461**	440	**5,901**
Contract cost asset	**—**	2,062	**2,062**
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**57,555**	(608)	**56,947**
Deferred revenue and deposits	**20,844**	(1,356)	**19,488**
Deferred revenue	**1,946**	29,905	**31,851**
Deferred income taxes	**116,931**	(6,917)	**110,014**
Reserves	**(13,113)**	44	**(13,069)**
Retained earnings	**232,192**	(16,840)	**215,352**

The Company's accounting policies are summarized below:

Revenue from franchise locations

i) Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, as they are earned.

ii) Promotional fund contributions are based on a percentage of gross sales as reported by the franchisees. Corresponding promotional fund transfers to the promotional funds are reported separately and included in accounts payable and accrued liabilities. The Company is not entitled to retain these promotional fund payments received and is obligated to transfer these funds to be used solely for use in promotional and marketing-related costs for specific restaurant banners. The Company sometimes charges a fee for the administration of the promotional funds.

iii) Initial franchise fees are recognized on a straight-line basis over the term of the franchise agreement as the performance obligation relating to franchise rights is fulfilled. Amortization begins once the restaurant has opened.

iv) Upfront fees related to master license agreements are recognized over the term of the master license agreements on a straight-line basis.

3. Changes in accounting policies (continued)

IFRS 15 – Revenue from Contracts with Customers (continued)

Revenue from franchise locations (continued)

v) Renewal fees and transfer fees are recognized on a straight-line basis over the term of the related franchise agreement.

vi) Restaurant construction and renovation revenue is recognized when the construction and renovation are completed.

vii) The Company earns rent revenue on certain leases it holds and sign rental revenue. Rental income is recognized on a straight-line basis over the term of the relevant lease in accordance with IAS 17 Leases.

viii) The Company recognizes breakage income proportionately as each gift card is redeemed, based on the historical redemption pattern of the gift cards. The Company also charges various program fees to its franchisees as gift cards are redeemed. Notably, this does not apply to gift card liabilities assumed in a business acquisition, which are accounted for at fair value at acquisition date.

ix) The Company receives considerations from certain suppliers. Fees are generally earned based on the value of purchases during the period. Agreements that contain an initial upfront fee, in addition to ongoing fees, are recognized on a straight-line basis over the term of the respective agreement. Supplier contributions are recognized as revenue as they are earned and are recorded in franchising revenue.

Revenue from food processing, distribution and retail

i) Food processing, distribution and retail revenue is recognized when the customer takes control of the product, which usually occurs upon shipment or receipt of the goods by the customer, depending on the specific terms of the agreement.

Revenue from corporate-owned locations

i) Revenue from corporate-owned locations is recorded when goods are delivered to customers.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB issued IFRIC 22 which provides an interpretation on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income. This Interpretation provides guidance for when a single payment or receipt is made, as well as for situations where multiple payments or receipts are made, and aims to reduce diversity in practice. These interpretations did not have a significant impact on the Company’s financial statements.

3. Changes in accounting policies (continued)

Other

The Company has reassessed the accounting of some of the processing, distribution and retail segment expenses totalling $5,161 and $8,555 for the three and nine-month periods ended August 31, 2018. These costs were previously reported within Revenue and are now reported under Operating expenses since they are necessary for bringing finished goods to their present location and condition. As a result of this change, the Company's revenues and operating expenses increased by $5,161 and $8,555 for the comparative three and nine-month periods.

Assets held for sale

Judgment is required in determining whether an asset meets the criteria for classification as “assets held for sale” in the condensed consolidated interim statements of financial position. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the expected timeframe of the completion of the anticipated sale and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this category as appropriate. In addition, there is a requirement to periodically evaluate and record assets held for sale at the lower of their carrying value and fair value less costs to sell.

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

4. Business acquisitions

I) Allô! Mon Coco (2019)

On July 21, 2019, the Company's Canadian operations completed its acquisition of the assets of Allô! Mon Coco for a total consideration of $31,196. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

	2019
	$
Consideration paid:	
Purchase price	30,000
Contingent consideration	1,919
Working capital	(242)
Discount on non-interest-bearing holdback	(481)
Net purchase price	31,196
Contingent consideration	(1,919)
Holdback	(5,206)
Net consideration paid/cash outflow	24,071

The preliminary purchase price allocation is as follows:

	2019
Net assets acquired:	$
Current assets	
Accounts Receivable	47
	47
Goodwill (1 & 2)	31,426
	31,473
Current liabilities	
Accounts payable and accrued liabilities	185
Gift card liability	92
	277
Net purchase price	31,196

(1) Goodwill is deductible for tax purposes.

(2) Giving the timing of the acquisition, the Company has not completed its fair value assessment of the intangible assets and goodwill acquired. Consequently, part of the fair value adjustments, mainly relating to franchise rights, trademark and deferred income tax, related to this acquisition are included in goodwill in the preliminary fair value assessment of the assets acquired.

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

There are no significant lease commitments that have been acquired as part of the acquisition.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized, and as such, material adjustments will be made.

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

4. Business acquisitions (continued)

II) Yuzu Sushi (2019)

On July 15, 2019, the Company's Canadian operations completed its acquisition of the assets of Yuzu Sushi for a total consideration of $27,332. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

	2019
	$
Consideration paid:	
Purchase price	25,389
Settlement of obligations	260
Contingent consideration	1,968
Working capital	(285)
Net purchase price	27,332
Contingent consideration	(1,968)
Net consideration paid/cash outflow	25,364

The preliminary purchase price allocation is as follows:

	2019
Net assets acquired:	$
Current assets	
Prepaid expenses	6
	6
Goodwill (1 & 2)	27,617
	27,623
Current liabilities	
Accounts payable and accrued liabilities	102
Gift card liability and loyalty program liability	189
	291
Net purchase price	27,332

(1) Goodwill is deductible for tax purposes.

(2) Giving the timing of the acquisition, the Company has not completed its fair value assessment of the intangible assets and goodwill acquired. Consequently, part of the fair value adjustments, mainly relating to franchise rights, trademark and deferred income tax, related to this acquisition are included in goodwill in the preliminary fair value assessment of the assets acquired.

Total expenses incurred related to acquisition costs amounted to $139.

There are no significant lease commitments that have been acquired as part of the acquisition.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized, and as such, material adjustments will be made.

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

4. Business acquisitions (continued)

III) Papa Murphy's (2019)

On May 23, 2019, the Company's, through the merger of a wholly owned United States (US) subsidiary with Papa Murphy's Inc. ("PM"), acquired all the outstanding shares of PM.

The purpose of the transaction was to diversify the Company's range of offering in the US with a new concept of strength offering take-and-bake freshly made pizza.

			2019
	As previously reported	Adjustments	Adjusted Purchase price allocation
	$	$	$
Consideration paid:			
Cash and amount paid for early settlement of options	261,778	(4,182)	257,596
Less: cash acquired (2)	(6,617)	4,182	(2,435)
Net consideration paid/cash outflow	255,161	—	255,161

The preliminary purchase price allocation is as follows:

			2019
	As previously reported	Adjustments	Adjusted Purchase price allocation
Net assets acquired:	$	$	$
Current assets			
Cash (2)	6,617	(4,182)	2,435
Accounts receivable	3,873	—	3,873
Inventory	1,195	—	1,195
Prepaid expenses and deposits	1,992	—	1,992
Assets held for sale (2)	—	20,724	20,724
	13,677	16,542	30,219
Property, plant and equipment (2)	5,031	(4,101)	930
Other intangible assets	1,277	—	1,277
Franchise right (2)	—	51,216	51,216
Trademark (2)	—	137,561	137,561
Goodwill (1 & 2)	301,311	(186,299)	115,012
	321,296	14,919	336,215
Current liabilities			
Accounts payable and accrued liabilities	24,923	1,208	26,131
Gift card liability	2,840	—	2,840
	27,763	1,208	28,971
Other long-term liabilities	1,083	—	1,083
Deferred income taxes	30,672	17,893	48,565
	59,518	19,101	78,619
Net purchase price	261,778	(4,182)	257,596

(1) Goodwill is not deductible for tax purposes.

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

4. Business acquisitions (continued)

III) Papa Murphy's (2019) (continued)

(2) The Company has recorded adjustments to its previously reported preliminary purchase price allocation reported in the prior quarter. The adjustments relate to the fair value relating to cash, assets held for sale, property, plant and equipment, franchise rights, and trademark.

Total expenses incurred related to acquisition costs amounted to $4,209.

As a result of the acquisition of Papa Murphy's the Company's operating lease arrangements increased by $23,655 for lease commitments and $394 for sub-leases, for a total increase in net commitments of $23,261. These 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.

IV) South Street Burger (2019)

On March 21, 2019, the Company's Canadian operations completed its acquisition of the assets of South Street Burger for a total consideration of $4,857. The purpose of the transaction was to solidify the Company's position in the fast-casual restaurants segment and to complement the company's current offering in the gourmet burger category.

	2019
	$
Consideration paid:	
Purchase price	5,100
Working capital	(204)
Discount on non-interest-bearing holdback	(39)
Net purchase price	4,857
Holdback	(696)
Less: cash acquired	(24)
Net consideration paid/cash outflow	4,137

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

4. Business acquisitions (continued)

IV) South Street Burger (2019) (continued)

The preliminary purchase price allocation is as follows:

			2019
	As previously reported	Adjustments	Adjusted Purchase price allocation
Net assets acquired:	$	$	$
Current assets			
Cash	24	—	24
Inventory	163	—	163
Prepaid expenses and deposits	186	—	186
	373	—	373
Property, plant and equipment	—	1,626	1,626
Franchise right (2)	—	395	395
Trademark (2)	—	2,649	2,649
Goodwill (1&2)	4,799	(4,670)	129
	5,172	—	5,172
Current liabilities			
Accounts payable and accrued liabilities	304	—	304
Gift card liability	11	—	11
	315	—	315
Net purchase price	4,857	—	4,857

(1) Goodwill is deductible for tax purposes.

(2) The Company has recorded adjustments to its previously reported preliminary purchase price allocation reported in the prior quarter. The adjustments relate to the fair value relating to property, plant and equipment, the franchise right and trademark.

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

There are no significant lease commitments that have been acquired as part of the acquisition.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized, and as such, further adjustments may still be made.

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

4. Business acquisitions (continued)

V) Casa Grecque (2019)

On December 10, 2018, the Company's Canadian operations completed its acquisition of the assets of Casa Grecque. The total consideration for the transaction was $22,023. The purpose of the transaction was to diversify the Company's range of offering as well as add to its current distribution portfolio.

	2019
	$
Consideration paid:	
Purchase price	22,350
Working capital	(194)
Discount on non-interest-bearing holdback	(133)
Net purchase price	22,023
Holdback	(1,117)
Net consideration paid/cash outflow	20,906

The preliminary purchase price allocation is as follows:

	2019
Net assets acquired:	$
Current assets	
Inventory	3,229
Prepaid expenses and deposits	2
	3,231
Property, plant and equipment	150
Trademark	4,859
Customer List	11,623
Goodwill (1)	2,333
	22,196
Current liabilities	
Accounts payable and accrued liabilities	3
Unredeemed gift card liability	170
	173
Net purchase price	22,023

(1) Goodwill is deductible for tax purposes.

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

There are no significant lease commitments that have been acquired as part of the acquisition.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized, and as such, further adjustments may be made.

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

4. Business acquisitions (continued)

VI) Acquisition of SweetFrog (2018)

On September 25, 2018, the Company's US operations completed its acquisition of the assets of SweetFrog Premium Frozen Yogurt ("SweetFrog"). The total consideration for the transaction was $41,507 (US$32,064). The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

	2018
	$
Consideration paid:	
Purchase price	45,307
Net obligations assumed	(3,383)
Discount on non-interest-bearing holdback	(417)
Net purchase price	41,507
Holdback	(4,113)
Net consideration paid/cash outflow	37,394

The final purchase price allocation is as follows:

	2018		
	As previously reported	Adjustments	Final Purchase price allocation
Net assets acquired:	$	$	$
Current assets			
Inventory	254	—	254
Prepaid expenses	30	—	30
	284	—	284
Franchise right [2]	9,159	428	9,587
Trademark [2]	12,976	1,359	14,335
Goodwill [1 & 2]	22,020	(1,787)	20,233
	44,439	—	44,439
Current liabilities			
Accounts payable and accrued liabilities	146	—	146
Unredeemed gift card liability	2,757	—	2,757
Deferred revenue	29	—	29
	2,932	—	2,932
Net purchase price	41,507	—	41,507

(1) Goodwill is deductible for tax purposes.

(2) The Company has recorded adjustments to its previously reported preliminary purchase price allocation reported in the prior quarter. The adjustments relate to the fair value relating to the franchise right and trademark.

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

There are no lease commitments that have been acquired as part of the acquisition.

The purchase price allocation is final.

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

5. Accounts receivable

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

	August 31, 2019				
(In $ except where indicated otherwise)	Not past due	1-30 days past due	31-60 days past due	61 or more days past due	Total
Expected loss rate	**2.9%**	**3.2%**	**7.4%**	**42.2%**	**12.7%**
Total accounts receivable	**44,308**	**5,213**	**2,677**	**16,970**	**69,168**
Loss allowance	**(1,273)**	**(167)**	**(197)**	**(7,168)**	**(8,805)**
Balance	**43,035**	**5,046**	**2,480**	**9,802**	**60,363**

6. Goodwill

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

	August 31, 2019	November 30, 2018
	$	$
Balance, beginning of year	**357,102**	226,768
Additional amounts recognized from business acquisitions (note 4)	**176,517**	124,524
Foreign exchange	**(787)**	5,810
Balance, end of period	**532,832**	357,102

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

7. Long-term debt

	August 31, 2019	November 30, 2018
	$	$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions	**14,627**	11,898
Contingent consideration related to the acquisition of Yuzu Sushi (repayable August 2021) and Allô! Mon Coco (repayable October 2020 and January 2022) (note 9)	**3,887**	—
Fair value of promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar, repayable October 2019 and June 2022 (note 9)	**5,084**	7,034
Fair value non-controlling interest buyback obligation in 10220396 Canada Inc. (note 9) (1)	**1,162**	1,501
Fair value non-controlling interest option in 9974644 Canada Inc. (note 9) (2)	**1,020**	994
Revolving credit facility payable to a syndicate of lenders (3)	**545,922**	256,143
Credit facility financing costs	**(1,662)**	(1,954)
	570,040	275,616
Current portion	**(5,189)**	(7,416)
	564,851	268,200

(1) Payable at the earlier of three years from the date the option is exercised or June 2022
(2) Payable on demand
(3) 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, 2021 and must be repaid in full at that time. As at August 31, 2019, the Company had drawn CA$545,922, (November 30, 2018 – CA$237,522 and US$14,000 (CA$18,621)) and had elected to pay interest based on LIBOR and bankers' acceptances plus the applicable margins.

During the second quarter, the Company modified its existing credit facilities payable to a syndicate of lenders. The modification resulted in an increase to the revolving credit facility which now has an authorized amount of $650,000 (November 30, 2018 - $500,000).

8. Income per share

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

	Three months ended August 31		Nine months ended August 31	
	2019	**2018**	**2019**	**2018**
Weighted daily average number of common shares – basic	**25,169,778**	25,160,493	**25,169,778**	23,916,917
Assumed exercise of stock options	**48,816**	22,222	**43,557**	—
Weighted daily average number of common shares – diluted	**25,218,594**	25,182,715	**25,213,335**	23,916,917

9. 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

Promissory notes

The Company issued as part of its consideration for the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar promissory notes to the vendors and the minority shareholders of 10220396 Canada Inc. These promissory notes are subject to earn-out provisions, which are based on future earnings. These promissory notes are repayable in October 2019 and June 2022. These promissory notes have been recorded at fair value and are remeasured on a recurring basis. Of the $5,084 promissory notes, $2,010 is subject to an earn-out provision.

A discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company, with respect to these promissory notes. These notes are subject to significant unobservable inputs such as discount rates and projected revenues and EBITDA. An increase or decrease by 1% in the discount rates used would have an impact of $89 on the fair value, as at August 31, 2019 (November 30, 2018 – $145).

A fair value remeasurement loss of $307 (2018 – gain of $468) was recorded for these promissory notes for the three-month period ended August 31, 2019 and a gain of $1,950 (2018 – loss of $838) for the nine-month period ended August 31, 2019.

Contingent consideration on acquisitions

The Company issued as part of its consideration for the acquisition of Yuzu Sushi and Allô! Mon Coco contingent considerations to the vendors. These contingent considerations are subject to earn-out provisions, which are based on future earnings and are repayable in August 2021 for Yuzu Sushi and October 2020 and January 2022 for Allô! Mon Coco. These contingent considerations have been recorded at fair value and are remeasured on a recurring basis.

Obligations to repurchase non-controlling interests

The Company has entered into an agreement to purchase the shares of a minority interest shareholder of 9974644 Canada Inc. at the option of the holder at any time after December 9, 2017. The consideration is based on a multiplier of EBITDA, as prescribed by the terms of the shareholder agreement. The Company records a liability at fair value (note 7) which is remeasured at each reporting period.

A fair value remeasurement loss of $90 for the three-month period (2018 – loss of $345) and loss of $26 for the nine-month period ended August 31, 2019 (2018 – gain of $22) was recorded for this non-controlling interest obligation.

The Company, in conjunction with the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar, entered into an agreement to acquire the non-controlling interest in 10220396 Canada Inc. in June 2022. The consideration to be paid for this acquisition will be based on future earnings. The Company recorded a liability at fair value (note 7) which is remeasured at each reporting period.

A discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company with respect to this obligation. The non-controlling interest buyback obligation is subject to significant unobservable inputs such as a discount rate and projected EBITDA. An increase or decrease by 1% in the discount rates used would have an impact on the carrying amount of $32 as at August 31, 2019 (November 30, 2018 – $52).

A fair value re-measurement gain of $791 for the three-month ended (2018 – loss of $403) and gain of $339 for the nine-month period ended August 31, 2019 (2018 – loss of $413) was recorded for this non-controlling interest obligation.

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

9. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Fair value hierarchy

	Level 3	
	August 31, 2019	**November 30, 2018**
Financial liabilities		
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	**5,084**	7,034
Contingent consideration on acquistions	**3,887**	—
Non-controlling interest options and buyback obligations	**2,182**	2,495
Financial liabilities	**11,153**	9,529

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash, accounts receivable, accounts payable and accrued liabilities and deposits. The table below shows the fair value and the carrying value of other financial instruments for which the carrying value does not approximate fair value as at August 31, 2019 and November 30, 2018. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	August 31, 2019		November 30, 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Loans receivable	**7,619**	**7,619**	8,104	8,104
Financial liabilities				
Long-term debt (1)	**558,887**	**560,494**	266,087	268,954

(1) Excludes promissory notes, contingent consideration and obligations to repurchase non-controlling interests

Determination of fair value

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

Loans receivable – The loans receivable generally bear interest at market rates, and therefore it is management's estimate 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.

The Company, through its financial assets and financial liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at August 31, 2019.

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

9. Financial instruments (continued)

Liquidity risk

Liquidity risk refers to the possibility of the Company will not be 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 its credit facility to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

As at August 31, 2019, the Company had an authorized revolving credit facility for which the available amount may not exceed $650,000 (November 30, 2018 – $500,000) to ensure that sufficient funds are available to meet its financial requirements.

The following are the contractual maturities of financial liabilities as at August 31, 2019

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	Thereafter
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**88,851**	**88,851**	**88,851**	**—**	**—**	**—**
Long-term debt (note 7) [1]	**570,040**	**571,647**	**5,776**	**4**	**552,535**	**13,332**
Interest on long-term debt [1]	**n/a**	**36,152**	**9,431**	**9,431**	**17,290**	**—**
	658,891	**696,650**	**104,058**	**9,435**	**569,825**	**13,332**

[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)

10. Revenue

	Three months ended					
	August 31, 2019			August 31, 2018		
	Canada	US & International	**TOTAL**	Canada	US & International	**TOTAL**
	$	$	**$**	$	$	**$**
						Restated (Note 3)
Royalties	22,022	32,205	**54,227**	20,769	19,562	**40,331**
Franchise and transfer fees	1,382	792	**2,174**	1,266	655	**1,921**
Rent	202	—	**202**	423	—	**423**
Sale of goods, including construction revenues	38,592	21,084	**59,676**	22,255	9,446	**31,701**
Gift card breakage income	49	1,722	**1,873**	92	1,706	**1,798**
Promotional funds	10,861	14,148	**25,009**	10,028	8,093	**18,121**
Other franchising revenue	10,051	7,328	**17,379**	9,733	6,140	**15,873**
Other	1,005	1,614	**2,517**	2,100	738	**2,838**
	84,164	78,893	**163,057**	66,666	46,340	**113,006**

	Nine months ended					
	August 31, 2019			August 31, 2018		
	Canada	US & International	**TOTAL**	Canada	US & International	**TOTAL**
	$	$	**$**	$	$	**$**
						Restated (Note 3)
Royalties	62,069	69,306	**131,375**	54,048	51,084	**105,132**
Franchise and transfer fees	4,026	2,614	**6,640**	3,253	1,760	**5,013**
Rent	994	—	**994**	1,341	—	**1,341**
Sale of goods, including construction revenues	107,177	34,953	**142,130**	58,068	27,177	**85,245**
Gift card breakage income	289	4,817	**5,208**	478	4,866	**5,344**
Promotional funds	31,443	30,577	**62,020**	25,606	22,129	**47,735**
Other franchising revenue	27,658	19,365	**47,023**	24,272	16,122	**40,394**
Other	2,278	3,372	**5,548**	3,749	1,905	**5,654**
	235,934	165,004	**400,938**	170,815	125,043	**295,858**

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

11. Operating expenses

Three months ended

	August 31, 2019			August 31, 2018		
	Canada	US & International	**TOTAL**	Canada	US & International	**TOTAL**
	$	$	**$**	$	$	**$**
						Restated (Note 3)
Cost of goods sold, retail costs and rent	30,045	13,055	**43,100**	18,167	3,166	**21,333**
Wages and benefits	13,447	20,877	**34,324**	12,092	7,993	**20,085**
Consulting and professional fees	2,293	2,541	**4,834**	1,949	976	**2,925**
Gift cards – related costs	—	2,180	**2,180**	—	1,444	**1,444**
Royalties	20	2,253	**2,273**	20	2,043	**2,063**
Promotional funds	10,861	14,148	**25,009**	10,028	8,093	**18,121**
Other (1)	4,712	4,778	**9,490**	1,383	6,893	**8,276**
	61,378	59,832	**121,210**	43,639	30,608	**74,247**

Nine months ended

	August 31, 2019			August 31, 2018		
	Canada	US & International	**TOTAL**	Canada	US & International	**TOTAL**
	$	$	**$**	$	$	**$**
						Restated (Note 3)
Cost of goods sold, retail costs and rent	82,932	23,330	**106,262**	41,862	12,483	**54,345**
Wages and benefits	39,606	40,806	**80,412**	31,409	27,471	**58,880**
Consulting and professional fees	7,513	8,647	**16,160**	5,713	3,173	**8,886**
Gift cards – related costs	—	6,757	**6,757**	—	5,851	**5,851**
Royalties	280	4,903	**5,183**	54	5,122	**5,176**
Promotional funds	31,443	30,577	**62,020**	25,606	22,129	**47,735**
Other (1)	12,789	6,987	**19,776**	8,900	14,228	**23,128**
	174,563	122,007	**296,570**	113,544	90,457	**204,001**

(1) Other operating expenses are composed mainly of travel and advertising costs, credit loss expense and other office administration expenses.

12. Segmented information

Management monitors and evaluates results of the Company based on geographical segments; these two segments being Canada and US & International. The Company and its chief operating decision maker assess the performance of each operating segment based on its segment profit and loss which is equal to revenue less operating expenses. Within those geographical segments, the Company's chief decision maker also assesses the performance of subdivisions based on the type of product or service provided. These subdivisions include franchising, corporate stores, food processing, retail and distribution and promotional fund revenues and expenses. This information is disclosed below.

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

12. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the three-month period ended August 31, 2019.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total US & International	Total Consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	36,653	10,804	26,602	10,930	(825)	84,164	42,279	21,479	996	14,229	(90)	78,893	163,057
Operating expenses	16,760	10,705	23,898	10,930	(915)	61,378	24,166	21,437	—	14,229	—	59,832	121,210
Segment profit (loss)	19,893	99	2,704	—	90	22,786	18,113	42	996	—	(90)	19,061	41,847
Other expenses													
Depreciation – property, plant and equipment	462	348	—	—	—	810	4	206	—	—	—	210	1,020
Amortization – intangible assets	2,869	—	—	—	—	2,869	4,807	—	—	—	—	4,807	7,676
Interest on long-term debt	5,264	—	—	—	—	5,264	—		—	—	—	—	5,264
Impairment charge – property, plant and equipment	—	—	—	—	—	—	—	—	—	—	—	—	—
Other income (expense)													
Unrealized and realized foreign exchange gain (loss)	16	—	(2)	—	—	14	21	—	—	—	—	21	35
Interest income	238	—	2	—	—	240	70	9	—	—	—	79	319
Gain on disposal of property, plant and equipment and intangible assets	119	—	—	—	—	119	—	—	—	—	—	—	119
Gain on revaluation on financial liabilities recorded at fair value	394	—	—	—	—	394	—	—	—	—	—	—	394
Income (loss) before taxes	12,065	(249)	2,704	—	90	14,610	13,394	(155)	996	—	(90)	14,145	28,754
Current income taxes	3,851	(67)	721	—	—	4,505	2,034	(40)	255	—	—	2,249	6,754
Deferred income taxes	(493)	—	—	—	—	(493)	(576)	—	—	—	—	(576)	(1,069)
Net income (loss)	8,707	(182)	1,983	—	90	10,598	11,936	(115)	741	—	(90)	12,471	23,069

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

12. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the three-month period ended August 31, 2018. Note that amounts have been restated to reflect change in IFRS 15, detail of which can be found in note 3.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total US & International	Total Consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	30,154	9,618	17,322	10,028	(456)	66,666	29,961	7,546	826	8,093	(86)	46,340	113,006
Operating expenses	11,745	8,150	14,258	10,028	(542)	43,639	14,697	7,818	—	8,093	—	30,608	74,247
Segment profit (loss)	18,409	1,468	3,064	—	86	23,027	15,264	(272)	826	—	(86)	15,732	38,759
Other expenses													
Depreciation – property, plant and equipment	221	260	83	—	—	564	21	89	—	—	—	110	674
Amortization – intangible assets	2,942	—	—	—	—	2,942	3,678	—	—	—	—	3,678	6,620
Interest on long-term debt	2,703	—	—	—	—	2,703	393	—	—	—	—	393	3,096
Other income (expense)													
Unrealized and realized foreign exchange loss	(15)	—	—	—	—	(15)	(7)	—	—	—	—	(7)	(22)
Interest income	93	—	—	—	—	93	78	—	—	—	—	78	171
Gain on disposal of property, plant and equipment and intangible assets	308	—	—	—	—	308	9	—	—	—	—	9	317
Loss on revaluation on financial liabilities recorded at fair value	(280)	—	—	—	—	(280)	—	—	—	—	—	—	(280)
Income (loss) before taxes	12,649	1,208	2,981	—	86	16,924	11,252	(361)	826	—	(86)	11,631	28,555
Current income taxes	3,956	—	710	—	—	4,666	769	—	214	—	—	983	5,649
Deferred income taxes	(177)	—	—	—	—	(177)	784	—	—	—	—	784	607
Net income (loss)	8,870	1,208	2,271	—	86	12,435	9,699	(361)	612	—	(86)	9,864	22,299

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

12. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the nine-month period ended August 31, 2019.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total US & International	Total Consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	104,440	29,370	72,423	31,613	(1,912)	235,934	99,442	31,996	3,068	30,749	(251)	165,004	400,938
Operating expenses	49,539	30,702	64,872	31,613	(2,163)	174,563	58,727	32,531	—	30,749	—	122,007	296,570
Segment profit (loss)	54,901	(1,332)	7,551	—	251	61,371	40,715	(535)	3,068	—	(251)	42,997	104,368
Other expenses													
Depreciation – property, plant and equipment	1,240	825	99	—	—	2,164	50	342	—	—	—	392	2,556
Amortization – intangible assets	8,626	—	—	—	—	8,626	12,697	—	—	—	—	12,697	21,323
Interest on long-term debt	11,248	—	—	—	—	11,248	701	—	—	—	—	701	11,949
Impairment charge – property, plant and equipment	—	958	—	—	—	958	—	—	—	—	—	—	958
Other income (expense)													
Unrealized and realized foreign exchange gain (loss)	417	—	(2)	—	—	415	(8)	—	—	—	—	(8)	407
Interest income	471	—	4	—	—	475	54	29	—	—	—	83	558
Gain (loss) on disposal of property, plant and equipment and intangible assets	1,761	—	—	—	—	1,761	(76)	—	—	—	—	(76)	1,685
Gain on revaluation on financial liabilities recorded at fair value	2,263	—	—	—	—	2,263	—	—	—	—	—	—	2,263
Income (loss) before taxes	38,699	(3,115)	7,454	—	251	43,289	27,237	(848)	3,068	—	(251)	29,206	72,495
Current income taxes	9,814	(831)	1,988	—	—	10,971	5,212	(217)	785	—	—	5,780	16,751
Deferred income taxes	633	—	—	—	—	633	(2,075)	—	—	—	—	(2,075)	(1,442)
Net income (loss)	28,252	(2,284)	5,466	—	251	31,685	24,100	(631)	2,283	—	(251)	25,501	57,186

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

12. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the nine-month period ended August 31, 2018. Note that amounts have been restated to reflect change in IFRS 15, detail of which can be found in note 3.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total US & International	Total Consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	89,962	25,342	31,815	25,606	(1,910)	170,815	80,023	20,633	2,495	22,129	(237)	125,043	295,858
Operating expenses	37,744	25,468	26,873	25,606	(2,147)	113,544	44,510	23,818	—	22,129	—	90,457	204,001
Segment profit (loss)	52,218	(126)	4,942	—	237	57,271	35,513	(3,185)	2,495	—	(237)	34,586	91,857
Other expenses													
Depreciation – property, plant and equipment	701	804	250	—	—	1,755	60	241	—	—	—	301	2,056
Amortization – intangible assets	7,342	—	—	—	—	7,342	10,806	—	—	—	—	10,806	18,148
Interest on long-term debt	7,541	—	—	—	—	7,541	1,221	—	—	—	—	1,221	8,762
Impairment charge – property, plant and equipment	—	1,515	—	—	—	1,515	—	—	—	—	—	—	1,515
Other income (expense)													
Unrealized and realized foreign exchange gain (loss)	38	—	—	—	—	38	(11)	—	—	—	—	(11)	27
Interest income	263	—	—	—	—	263	230	—	—	—	—	230	493
Gain on disposal of property, plant and equipment and intangible assets	322	—	—	—	—	322	176	—	—	—	—	176	498
Loss on revaluation on financial liabilities recorded at fair value	(1,229)	—	—	—	—	(1,229)	—	—	—	—	—	—	(1,229)
Income (loss) before taxes	36,028	(2,445)	4,692	—	237	38,512	23,821	(3,426)	2,495	—	(237)	22,653	61,165
Current income taxes	9,669	—	1,022	—	—	10,691	5,082	—	646	—	—	5,728	16,419
Deferred income taxes	(188)	—	—	—	—	(188)	(38,001)	—	—	—	—	(38,001)	(38,189)
Net income (loss)	26,547	(2,445)	3,670	—	237	28,009	56,740	(3,426)	1,849	—	(237)	54,926	82,935

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

13. Interim consolidated statement of cash flows

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

	Three months ended August 31		Nine months ended August 31	
	2019	**2018**	**2019**	2018
	$	**$** *Restated (note 3)*	**$**	$ *Restated (note 3)*
Accounts receivable	**(5,341)**	1,461	**(6,482)**	2,209
Inventories	**332**	(1,756)	**732**	(5,089)
Loans receivable	**285**	2,007	**484**	(920)
Other assets	**(224)**	523	**233**	716
Prepaid expenses and deposits	**(1,285)**	(3,012)	**(2,721)**	(3,474)
Accounts payable and accrued liabilities	**2,971**	(3,001)	**394**	(3,444)
Provisions	**(1,240)**	(118)	**2,645**	(936)
Deferred revenue and deposits	**1,302**	(895)	**3,431**	3,578
	(3,200)	(4,791)	**(1,284)**	(7,360)

14. 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		**Nine months ended August 31**	
	2019	2018	**2019**	2018
	$	$	**$**	$
Short-term benefits	**468**	480	**1,931**	1,321
Share-based payment	**141**	159	**464**	473
Board member fees	**24**	12	**60**	37
Total remuneration of key management personnel	**633**	651	**2,455**	1,831

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

Given its widely held share base, the Company does not have an ultimate controlling party; its most important shareholder is its Chair of the Board of Directors, who controls 19.41% of the outstanding shares.

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

14. 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		Nine months ended August 31	
	2019	2018	**2019**	2018
	$	$	**$**	$
Short-term benefits	**131**	222	**362**	559
Share-based payment	**6**	10	**16**	25
Consulting services	**—**	—	**38**	—
Total remuneration of individuals related to key management personnel	**137**	232	**416**	584

15. Subsequent events

Amendment to credit facilities

On September 23, 2019, the Company amended its credit agreement with a syndicate of lenders. Pursuant to this amendment the Company will have an unsecured revolving credit facility with an authorized amount of $700,000. Maturity and pricing terms have changed in conjunction with this amendment, with the remaining terms mostly unchanged.

Acquisition of Turtle Jack's Muskoka Grill, COOP Wicked Chicken and Frat's Cucina

On October 2, 2019, the Company announced that one of its wholly-owned subsidiaries has signed an agreement to acquire a 70% interest in Turtle's Jack's Muskoka Grill, COOP Wicked Chicken and Frat's Cucina (together "Tortoise Group"), three casual dinning concepts operating in the province of Ontario. There are currently 19 franchised Turtle Jack's restaurants in operation. The two COOP Wicked Chicken and the Frat's Cucina restaurants are company-owned, both concepts being in their start-up period. The acquisition is expected to be completed within 45 days of the announcement.