Condensed
interim consolidated financial statements of
MTY Food Group Inc.

For the three and six-month periods ended May 31, 2019 and May 31, 2018

MTY Food Group Inc.

Condensed interim consolidated statements of income

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

	Notes	Three months ended May 31		Six months ended May 31	
		2019	2018	**2019**	2018
		$	$ *Restated, (note 3)*	**$**	$ *Restated, (note 3)*
Revenue	11 and 15	**130,584**	107,363	**237,881**	182,852
Expenses					
Operating expenses	12 and 15	**96,439**	73,633	**175,360**	129,754
Depreciation – property, plant and equipment		**797**	846	**1,536**	1,382
Amortization – intangible assets		**7,096**	6,466	**13,647**	11,528
Interest on long-term debt		**3,543**	3,219	**6,685**	5,666
Impairment charge – property, plant and equipment		**958**	1,515	**958**	1,515
		108,833	85,679	**198,186**	149,845
Other income (expenses)					
Unrealized and realized foreign exchange gain		**364**	89	**372**	49
Interest income		**74**	177	**239**	322
Gain on disposal of property, plant and equipment and intangible assets		**1,493**	172	**1,566**	181
Revaluation of financial liabilities recorded at fair value	10	**873**	(853)	**1,869**	(949)
		2,804	(415)	**4,046**	(397)
Income before taxes		**24,555**	21,269	**43,741**	32,610
Income tax (recovery) expense	14				
Current		**4,710**	4,278	**9,997**	10,770
Deferred		**512**	680	**(373)**	(38,796)
		5,222	4,958	**9,624**	(28,026)
Net income		**19,333**	16,311	**34,117**	60,636
Net income attributable to:					
Owners		**19,337**	16,183	**34,085**	60,459
Non-controlling interests		**(4)**	128	**32**	177
		19,333	16,311	**34,117**	60,636
Income per share	9				
Basic		**0.76**	0.64	**1.35**	2.60
Diluted		**0.76**	0.64	**1.35**	2.60

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 six-month periods ended May 31, 2019 and May 31, 2018
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	Three months ended May 31		Six months ended May 31	
	2019	2018	**2019**	2018
	$	$ *Restated (Note 3)*	**$**	$ *Restated (Note 3)*
Net income	**19,333**	16,311	**34,117**	60,636
Items that may be reclassified subsequently to net income				
Unrealized gain on translation of foreign operations	**14,229**	4,651	**9,815**	2,809
Deferred tax expense on foreign currency translation adjustments	**(1,090)**	(345)	**(767)**	(149)
Other comprehensive income	**13,139**	4,306	**9,048**	2,660
Total comprehensive income	**32,472**	20,617	**43,165**	63,296
Comprehensive income attributable to:				
Owners	**32,476**	20,489	**43,133**	63,119
Non-controlling interest	**(4)**	128	**32**	177
	32,472	20,617	**43,165**	63,296

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

MTY Food Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity

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

		Reserves							
	Capital stock	Other	Contributed surplus	Foreign currency translation	Total reserves	Retained earnings	Total	Equity attributable 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 six-month period ended May 31, 2018	—	—	—	—	—	60,459	60,459	177	60,636
Other comprehensive income	—	—	—	2,660	2,660	—	2,660	—	2,660
Share-based compensation	—	—	314	—	314	—	314	—	314
Issuance of shares on acquisition of Imvescor Restaurant Group (note 4)	197,144	—	—	—	—	—	197,144	—	197,144
Dividends	—	—	—	—	—	(6,980)	(6,980)	(30)	(7,010)
Balance as at May 31, 2018	311,689	(850)	1,196	(10,441)	(10,095)	268,831	570,425	1,849	572,274
Net income for the six-month period from June 1, 2018 to November 30, 2018	—	—	—	—	—	35,317	35,317	234	35,551
Other comprehensive income	—	—	—	10,891	10,891	—	10,891	—	10,891
Acquisition of non-controlling interest in 8825726 Canada Inc	—	—	—	—	—	(257)	(257)	(802)	(1,059)
Issuance of shares on acquisition of Imvescor Restaurant Group (note 4)	472	—	—	—	—	—	472	—	472
Dividends	—	—	—	—	—	(7,550)	(7,550)	—	(7,550)
Share-based compensation	—	—	316	—	316	—	316	—	316
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 six-month period ended May 31, 2019	**—**	**—**	**—**	**—**	**—**	**34,085**	**34,085**	**32**	**34,117**
Other comprehensive income	**—**	**—**	**—**	**9,048**	**9,048**	**—**	**9,048**	**—**	**9,048**
Dividends	**—**	**—**	**—**	**—**	**—**	**(8,410)**	**(8,410)**	**(165)**	**(8,575)**
Share-based compensation	**—**	**—**	**292**	**—**	**292**	**—**	**292**	**—**	**292**
Acquisition of non-controlling interest in 9974644 Canada Inc. (note 7)	**—**	**—**	**—**	**—**	**—**	**2**	**2**	**(112)**	**(110)**
Balance as at May 31, 2019	**312,161**	**(850)**	**1,804**	**9,498**	**10,452**	**322,018**	**644,631**	**1,036**	**645,667**

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

MTY Food Group Inc.
Condensed interim consolidated statements of financial position
As at May 31, 2019, November 30, 2018 and December 1, 2017
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	Notes	**May 31, 2019**	November 30, 2018	December 1, 2017
		$	$	$
			Restated (Note 3 & 4)	*Restated (Note 3)*
Assets				
Current assets				
Cash		**47,481**	32,304	56,453
Accounts receivable	5	**55,267**	49,971	35,565
Inventories		**8,211**	4,029	3,593
Loans receivable		**2,315**	2,134	2,817
Income taxes receivable		**165**	—	1,408
Other assets		**235**	692	1,163
Prepaid expenses and deposits		**10,572**	7,915	5,901
		124,246	97,045	106,900
Loans receivable		**5,637**	5,970	3,109
Contract cost asset		**4,833**	3,717	2,062
Deferred income tax		**251**	114	351
Property, plant and equipment		**22,798**	17,333	13,081
Intangible assets		**767,960**	756,403	506,970
Goodwill	6	**673,203**	358,938	226,768
		1,598,928	1,239,520	859,241
Liabilities and Shareholders' equity				
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		**90,937**	67,812	56,947
Provisions		**98,245**	90,039	75,331
Income taxes payable		**23,467**	24,989	19,273
Deferred revenue and deposits		**21,134**	20,784	19,488
Current portion of long-term debt	8	**7,462**	7,416	4,240
		241,245	211,040	175,279
Long-term debt	8	**526,545**	268,200	223,567
Deferred revenue and deposits		**35,691**	33,385	31,851
Provisions		**1,082**	—	—
Deferred income taxes		**148,698**	116,000	110,014
		953,261	628,625	540,711

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 (continued)
As at May 31, 2019, November 30, 2018 and December 1, 2017
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	May 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	**10,452**	1,112	(13,069)
Retained earnings	**322,018**	296,341	215,352
	644,631	609,614	316,828
Equity attributable to non-controlling interests	**1,036**	1,281	1,702
	645,667	610,895	318,530
	1,598,928	1,239,520	859,241

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

Approved by the Board on July 11, 2019

_______________________________, Director

_______________________________, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

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

	Notes	Three months ended May 31		Six months ended May 31	
		2019	2018	**2019**	2018
		$	$ *Restated (Note3)*	**$**	$ *Restated (Note3)*
Operating activities					
Net income		**19,333**	16,311	**34,117**	60,636
Adjusting items:					
Interest on long-term debt		**3,543**	3,219	**6,685**	5,666
Depreciation – property, plant and equipment		**797**	846	**1,536**	1,382
Amortization – intangible assets		**7,096**	6,466	**13,647**	11,528
Impairment charge – property, plant and equipment		**958**	1,515	**958**	1,515
Gain on disposal of property, plant and equipment and intangible assets		**(1,493)**	(172)	**(1,566)**	(181)
(Gain) loss on revaluation of financial liabilities recorded at fair value through profit or loss		**(873)**	853	**(1,869)**	949
Income tax expense (recovery)		**5,222**	4,958	**9,624**	(28,026)
Share based payments		**137**	159	**292**	314
		34,720	34,155	**63,424**	53,783
Income taxes paid		**(6,158)**	(3,082)	**(11,950)**	(7,565)
Interest paid		**(2,964)**	(2,632)	**(5,556)**	(4,524)
Changes in non-cash working capital items	16	**(4,521)**	(3,019)	**1,916**	(2,569)
Cash flows provided by operating activities		**21,077**	25,422	**47,834**	39,125
Investing activities					
Net cash outflow on acquisitions	4	**(265,939)**	(4,760)	**(286,845)**	(85,024)
Cash acquired through acquisitions	4	**6,641**	4,705	**6,641**	4,739
Additions to property, plant and equipment		**(1,212)**	(1,185)	**(3,166)**	(1,379)
Additions to intangible assets		**(231)**	(708)	**(295)**	(724)
Proceeds on disposal of property, plant and equipment and intangible assets		**2,133**	354	**2,308**	385
Cash flows used in investing activities		**(258,608)**	(1,594)	**(281,357)**	(82,003)

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

	Notes	Three months ended May 31 2019	Three months ended May 31 2018	Six months ended May 31 2019	Six months ended May 31 2018
		$	$ *Restated (Note3)*	**$**	$ *Restated (Note3)*
Financing activities					
Issuance of long-term debt		**255,395**	66,000	**278,395**	121,000
Repayment of long-term debt		**(6,681)**	(81,073)	**(21,039)**	(81,076)
Capitalized financing cost		**(314)**	—	**(314)**	—
Dividends paid to non-controlling shareholders of subsidiaries		**(140)**	—	**(165)**	(30)
Acquisition of the non-controlling interest of 9974644 Canada Inc.	7	**(110)**	—	**(110)**	—
Dividends paid		**(4,153)**	(3,774)	**(8,410)**	(6,980)
Cash flows provided by (used in) financing activities		**243,997**	(18,847)	**248,357**	32,914
Net increase (decrease) in cash		**6,466**	4,981	**14,834**	(9,964)
Effect of foreign exchange rate changes on cash		**658**	(43)	**343**	(741)
Cash, beginning of period		**40,357**	40,810	**32,304**	56,453
Cash end of period		**47,481**	45,748	**47,481**	45,748

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

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1. Description of the business

MTY Food Group Inc. (the "Company") is a franchisor in the quick service and casual dining food industry. Its activities consist of franchising and operating corporate-owned locations as well as the sale of retail products under a multitude of banners. The Company also operates 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 opted to not restate comparative figures for IFRS 9 *Financial Instruments* as it was determined to not be 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 IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers.

2. Basis of preparation (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.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on July 11, 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)

The following table summarized 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
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 macro-economic 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 using the retrospective transition method with the cumulative effect of initially applying the standard recognized at the date of initial application (December 1, 2017). Prior year comparatives have been restated.

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 was 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 is 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 May 31, 2018				Six months ended May 31, 2018			
	As previously reported	IFRS 15 Adjust-ments	Retail restate-ment	**As restated**	**As previously reported**	IFRS 15 Adjust-ments	Retail Restate-ment	**As restated**
	$	$	$ *(See "other" below)*	**$**	**$**	$	**$** *(See "other" below)*	$
Revenues	**89,829**	14,140	3,394	**107,363**	**153,544**	25,914	3,394	**182,852**
Operating expenses	**54,323**	15,916	3,394	**73,633**	**98,126**	28,234	3,394	**129,754**
Income before taxes	**23,045**	(1,776)	—	**21,269**	**34,930**	(2,320)	—	**32,610**
Income tax expense (recovery)								
Deferred	**599**	81	—	**680**	**(39,389)**	593	—	**(38,796)**
Net income	**18,168**	(1,857)	—	**16,311**	**63,549**	(2,913)	—	**60,636**
Income per share – basic & diluted	**0.72**	(0.08)	—	**0.64**	**2.72**	(0.12)	—	**2.60**

Condensed interim consolidated statements of comprehensive income

	Three months ended May 31, 2018			Six months ended May 31, 2018		
	As previously reported	IFRS 15 Adjustments	**As restated**	**As previously reported**	IFRS 15 Adjustments	**As restated**
	$	$	$	**$**	$	**$**
Unrealized gain (loss) on translation of foreign operations	**4,565**	86	**4,651**	**2,889**	(80)	**2,809**
Total comprehensive income	**22,388**	(1,771)	**20,617**	**66,289**	(2,993)	**63,296**

(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 short-term portion of 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 is 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 Transaction 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.

Other

The Company has re-assessed the accounting of some of the processing, distribution and retail segment expenses totalling $3,394 for the three and six-month periods ended May 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 $3,394 for the comparative three and six-month period.

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

4. Business acquisitions

I) 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
	$
Consideration paid:	
Cash and amount paid for early settlement of options	261,778
Less: cash acquired	(6,617)
Net consideration paid/cash outflow	255,161

The preliminary purchase price allocation is as follows:

	2019
Net assets acquired:	$
Current assets	
Cash	6,617
Accounts receivable	3,873
Inventory	1,195
Prepaid expenses and deposits	1,992
	13,677
Property, plant and equipment	5,031
Other intangible assets	1,277
Goodwill (1 & 2)	301,311
	321,296
Current liabilities	
Accounts payable and accrued liabilities	24,923
Gift card liability	2,840
	27,763
Other long-term liabilities	1,083
Deferred income taxes	30,672
	59,518
Net purchase price	261,778

(1) Goodwill is not deductible for tax purposes.

(2) Given the complexity of the transaction, 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 $4,037.

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) 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

The preliminary purchase price allocation is as follows:

	2019
Net assets acquired:	$
Current assets	
Cash	24
Inventory	163
Prepaid expenses and deposits	186
	373
Goodwill (1 & 2)	4,799
	5,172
Current liabilities	
Accounts payable and accrued liabilities	304
Gift card liability	11
	315
Net purchase price	4,857

(1) Goodwill is deductible for tax purposes.

(2) Given the complexity of the transaction, 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.

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

4. Business acquisitions (continued)

II) South Street Burger (2019) (continued)

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

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

III) 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:

	As previously reported	Adjustment	Adjusted Purchase price allocation
Net assets acquired:	$	$	$
Current assets			
Inventory	3,229	—	3,229
Prepaid expenses and deposits	2	—	2
	3,231	—	3,231
Property, plant and equipment	150	—	150
Trademark (2)	—	4,859	4,859
Customer List (2)	—	11,623	11,623
Goodwill (1&2)	18,815	(16,482)	2,333
	22,196	—	22,196
Current liabilities			
Accounts payable and accrued liabilities	3	—	3
Unredeemed gift card liability	170	—	170
	173	—	173
Net purchase price	22,023	—	22,023

4. Business acquisitions (continued)

III) Casa Grecque (2019)

(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 customer list and trademark.

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

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

IV) Acquisition of Imvescor Restaurant Group Inc. (2018)

On March 1, 2018, the Company, through the merger of a wholly-owned subsidiary with Imvescor Restaurant Group Inc. ("IRG"), acquired all the outstanding shares of IRG.

The purpose of the transaction was to diversify the Company's range of offering with a highly scalable portfolio of recognized restaurant brands and concepts.

	2018
	$
Consideration paid:	
Cash and amount paid for early settlement of options	53,198
Shares issued	197,616
Total consideration	250,814
Less cash acquired	(4,615)
Total merger consideration	**246,199**

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

4. Business acquisitions (continued)

IV) Acquisition of Imvescor Restaurant Group Inc. (2018) (continued)

The purchase price allocation is as follows:

	2018
Net assets acquired:	$
Current assets	
Cash	4,615
Accounts receivable	9,788
Notes receivable	367
Inventory	214
Prepaid expenses and deposits	204
	15,188
Notes receivable	1,134
Projects under construction	1,242
Property, plant and equipment	3,525
Other intangible assets	347
Franchise rights	70,200
Trademarks	140,600
Goodwill [(1)]	98,063
	330,299
Current liabilities	
Accounts payable and accrued liabilities	14,610
Unredeemed gift card liability and loyalty points	5,157
Deferred revenues	539
Income tax payable	175
	20,481
Credit facility	20,000
Deferred revenues	138
Deferred income tax	38,866
	79,485
Net purchase price	250,814

[(1)] Goodwill is not deductible for tax purposes.

Total expenses incurred related to acquisition costs amounted to approximately $1,720 and are recorded as an operating expense on the condensed interim consolidated statements of income.

The purchase price allocation is final.

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

4. Business acquisitions (continued)

V) 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 preliminary purchase price allocation is as follows:

	2018
Net assets acquired:	$
Current assets	
Inventory	254
Prepaid expenses	30
	284
Franchise right	9,159
Trademark	12,976
Goodwill [(1)]	22,020
	44,439
Current liabilities	
Accounts payable and accrued liabilities	146
Unredeemed gift card liability	2,757
Deferred revenue	29
	2,932
Net purchase price	41,507

[(1)] Goodwill is deductible for tax purposes.

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

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

(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.

	May 31, 2019				
	Not past due	**1-30 days past due**	**31-60 days past due**	**61 or more days past due**	**Total**
Expected loss rate	**2.1%**	**6.3%**	**9.1%**	**44.7%**	**12.4%**
Total accounts receivable	**42,252**	**4,407**	**1,907**	**14,547**	**63,113**
Loss allowance	**(886)**	**(278)**	**(174)**	**(6,508)**	**(7,846)**
Balance	**41,366**	**4,129**	**1,733**	**8,039**	**55,267**

6. Goodwill

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

	May 31, 2019	November 30, 2018
	$	$
Balance, beginning of year	**358,938**	226,768
Additional amounts recognized from business acquisitions (note 4)	**308,443**	126,311
Foreign exchange	**5,822**	5,859
Balance, end of period	**673,203**	358,938

7. Acquisition of non-controlling interest

In March 2019, the Company acquired 5% of non-controlling interest of 9974644 Canada Inc. (La Diperie) for a cash consideration of $110. Following the transaction, the Company now owns 65% of the subsidiary.

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

8. Long-term debt

	May 31, 2019	November 30, 2018
	$	$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions	**14,555**	11,898
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 10)	**4,777**	7,034
Fair value non-controlling interest buyback obligation in 10220396 Canada Inc (note 10) (1)	**1,953**	1,501
Fair value non-controlling interest option in 9974644 Canada Inc. (note 10) (2)	**930**	994
Revolving credit facility payable to a syndicate of lenders (3)	**513,671**	256,143
Credit facility financing costs	**(1,879)**	(1,954)
	534,007	275,616
Current portion	**(7,462)**	(7,416)
	526,545	268,200

(1) Payable at the earlier of 3 years from the date 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 May 31, 2019, the Company had drawn CA$505,913 and US$5,735 (CA$7,758), (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 period 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).

9. 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 May 31		**Six months ended May 31**	
	2019	**2018**	**2019**	**2018**
Weighted daily average number of common shares – basic	**25,169,778**	25,160,493	**25,169,778**	23,288,297
Assumed exercise of stock options	**6,687**	—	**40,742**	—
Weighted daily average number of common shares – diluted	**25,176,465**	25,160,493	**25,210,520**	23,288,297

10. 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 $4,777 promissory note, $2,140 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 $105 on the fair value, as at May 31, 2019 (November 30, 2018 – $145).

A fair value re-measurement gain of $1,118 (2018 – $1,315) was recorded for these promissory notes for the three-month period ended May 31, 2019 and of $2,257 (2018 – $1,306) for the six-month period ended May 31, 2019.

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 8) which is remeasured at each reporting period.

A fair value remeasurement loss of $6 for the three-month period (2018 – loss of $415) and a gain of $64 for the six-month period ended May 31st, 2019 (2018 – loss of $367) 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 8) 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 $115 for the three-month period ended (2018-$47) and $58 for the six-month ended as at May 31, 2019 (2018 – $10).

A fair value re-measurement loss of $239 for the three-month ended (2018 – loss of $47) and $452 for the six-month period ended May 31, 2019 (2018 – gain of $10) was recorded for this non-controlling interest obligation.

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

10. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Fair value hierarchy as at May 31, 2018

	Level 3	
	May 31, 2019	**November 30, 2018**
Financial liabilities		
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	**4,777**	7,034
Non-controlling interest options	**2,883**	2,495
Financial liabilities	**7,660**	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 May 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.

	May 31, 2019		November 30, 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Loans receivable	**7,952**	**7,952**	8,104	8,104
Financial liabilities				
Long-term debt [(1)]	**526,347**	**528,511**	266,087	268,954

(1) Excludes promissory notes 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 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.

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

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

10. Financial instruments (continued)

Liquidity risk

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

As at May 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 May 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	**90,937**	**90,937**	**90,937**	**—**	**—**	**—**
Long-term debt (note 8) (1)	**534,007**	**536,171**	**6,858**	**1,533**	**5,104**	**522,676**
Interest on long-term debt (1)	**n/a**	**45,231**	**9,374**	**9,374**	**18,747**	**7,736**
	624,944	**672,339**	**107,169**	**10,907**	**23,851**	**530,412**

(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)

11. Revenue

	Three months ended					
	May 31, 2019			May 31, 2018		
	Canada	US & International	**TOTAL**	Canada	US & International	**TOTAL**
	$	$	**$**	$	$	**$**
						Restated, (note 3)
Royalties	20,931	21,701	**42,632**	19,662	17,812	**37,474**
Franchise and transfer fees	1,338	1,031	**2,369**	838	153	**991**
Rent	391	—	**391**	444	—	**444**
Sale of goods, including construction revenues	38,001	8,229	**46,230**	23,386	9,807	**33,193**
Gift card breakage income	—	1,523	**1,523**	203	1,525	**1,728**
Promotional funds	10,161	9,759	**19,920**	9,599	7,642	**17,241**
Other franchising revenue	8,938	6,903	**15,841**	8,715	5,830	**14,545**
Other	586	1,092	**1,678**	1,329	418	**1,747**
	80,346	50,238	**130,584**	64,176	43,187	**107,363**

	Six months ended					
	May 31, 2019			May 31, 2018		
	Canada	US & International	**TOTAL**	Canada	US & International	**TOTAL**
	$	$	**$**	$	$	**$**
						Restated, (note 3)
Royalties	40,047	37,101	**77,148**	33,279	31,522	**64,801**
Franchise and transfer fees	2,644	1,822	**4,466**	1,987	1,105	**3,092**
Rent	792	—	**792**	918	—	**918**
Sale of goods, including construction revenues	68,585	13,869	**82,454**	35,813	17,731	**53,544**
Gift card breakage income	240	3,095	**3,335**	386	3,160	**3,546**
Promotional funds	20,582	16,429	**37,011**	15,578	14,036	**29,614**
Other franchising revenue	17,607	12,037	**29,644**	14,539	9,982	**24,521**
Other	1,273	1,758	**3,031**	1,649	1,167	**2,816**
	151,770	86,111	**237,881**	104,149	78,703	**182,852**

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

12. Operating expenses

	Three months ended					
	May 31, 2019			May 31, 2018		
	Canada	US & International	**TOTAL**	Canada	US & International	**TOTAL**
	$	$	**$**	$	$	**$**
						Restated, (note 3)
Cost of goods sold, retail costs and rent	28,662	6,471	**35,133**	15,662	4,667	**20,329**
Wages and benefits	13,969	11,086	**25,055**	11,359	10,529	**21,888**
Consulting and professional fees	3,149	4,678	**7,827**	1,704	1,080	**2,784**
Gift cards – related costs	—	2,020	**2,020**	—	1,689	**1,689**
Royalties	142	1,745	**1,887**	20	1,647	**1,667**
Promotional funds	10,161	9,759	**19,920**	9,599	7,642	**17,241**
Other [(1)]	4,005	592	**4,597**	5,121	2,914	**8,035**
	60,088	36,351	**96,439**	43,465	30,168	**73,633**

	Six months ended					
	May 31, 2019			May 31, 2018		
	Canada	US & International	**TOTAL**	Canada	US & International	**TOTAL**
	$	$	**$**	$	$	**$**
						Restated, (note 3)
Cost of goods sold, retail costs and rent	52,887	10,275	**63,162**	23,695	9,317	**33,012**
Wages and benefits	26,159	19,929	**46,088**	19,317	19,478	**38,795**
Consulting and professional fees	5,220	6,106	**11,326**	3,764	2,197	**5,961**
Gift cards – related costs	—	4,577	**4,577**	**—**	4,407	**4,407**
Royalties	260	2,650	**2,910**	34	3,079	**3,113**
Promotional funds	20,582	16,429	**37,011**	15,578	14,036	**29,614**
Other [(1)]	8,077	2,209	**10,286**	7,517	7,335	**14,852**
	113,185	62,175	**175,360**	69,905	59,849	**129,754**

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

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

13. 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 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
	$	$	$
2020	140,276	123,972	16,304
2021	125,961	111,154	14,807
2022	111,310	97,721	13,589
2023	93,090	81,634	11,456
2024	75,628	67,175	8,453
Thereafter	195,285	171,800	23,485
	741,550	653,456	88,094

Payments recognized as a net expense during the three and six-month periods ended May 31, 2019 amounted to $4,815 and $9,201 (2018 - $4,818 and $9,966).

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.

The Company has recognized a liability of $1,192 (November 30, 2018 – $1,250) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement.

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

14. 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:

	May 31, 2019		May 31, 2018	
	$	%	$ *Restated, (note 3)*	%
Combined income tax rate	**11,635**	**26.6**	8,707	26.7
Add effect of:				
Difference between Canadian and foreign statutory rate	**(2,016)**	**(4.6)**	(529)	(1.6)
Non-taxable portion of capital gains	**38**	**0.1**	—	—
Permanent differences	**386**	**0.9**	379	1.2
Recognition of previously unrecognized losses	**(23)**	**(0.1)**	(148)	(0.5)
Losses in a subsidiary for which no deferred income tax asset was recorded	**159**	**0.4**	29	0.1
Variation in current and deferred taxes attributable to foreign exchange	**—**	**—**	850	2.6
Adjustment to prior year provisions	**(127)**	**(0.3)**	(57)	(0.2)
Rate variation on deferred income tax	**(25)**	**(0.1)**	(37,168)	(114.0)
Other – net	**(403)**	**(0.9)**	(89)	(0.3)
Provision for (recovery of) income taxes	**9,624**	**22.0**	(28,026)	(86.0)

15. Segmented information

Management monitors and evaluates results of the Company based on geographical segments; these two segments being Canada and US & International. The Company and its chief operating decision maker assesses 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 assess the performance of subdivisions based on the type of product or service provided. These subdivisions include franchising, corporate store, 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)

15. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the three-month period ended May 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
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenues	35,396	10,893	24,337	10,262	(542)	80,346	32,679	6,803	990	9,850	(84)	50,238	130,584
Operating expenses	17,463	11,534	21,455	10,262	(626)	60,088	19,813	6,688	—	9,850	—	36,351	96,439
Segment profit (loss)	17,933	(641)	2,882	—	84	20,258	12,866	115	990	—	(84)	13,887	34,145
Other expenses													
Depreciation – property, plant and equipment	449	253	—	—	—	702	28	67	—	—	—	95	797
Amortization – intangible assets	3,120	—	—	—	—	3,120	3,976	—	—	—	—	3,976	7,096
Interest on long-term debt	3,188	—	—	—	—	3,188	355	—	—	—	—	355	3,543
Impairment charge – property, plant and equipment	—	958	—	—	—	958	—	—	—	—	—	—	958
Other income (expense)													
Unrealized and realized foreign exchange gain (loss)	382	—	—	—	—	382	(18)	—	—	—	—	(18)	364
Interest income	102	—	1	—	—	103	(39)	10	—	—	—	(29)	74
Gain (loss) on disposal of property, plant and equipment and intangible assets	1,514	—	—	—	—	1,514	(21)	—	—	—	—	(21)	1,493
Gain on revaluation on financial liabilities recorded at fair value	873	—	—	—	—	873	—	—	—	—	—	—	873
Income (loss) before taxes	14,047	(1,852)	2,883	—	84	15,162	8,429	58	990	—	(84)	9,393	24,555
Current income taxes	2,543	(494)	769	—	—	2,818	1,624	15	253	—	—	1,892	4,710
Deferred income taxes	976	—	—	—	—	976	(464)	—	—	—	—	(464)	512
Net income (loss)	10,528	(1,358)	2,114	—	84	11,368	7,269	43	737	—	(84)	7,965	19,333

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

15. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the three-month period ended May 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
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenues	36,278	9,815	9,230	9,599	(746)	64,176	27,462	7,326	836	7,642	(79)	43,187	107,363
Operating expenses	15,411	11,352	7,928	9,599	(825)	43,465	14,245	8,281	—	7,642	—	30,168	73,633
Segment profit (loss)	20,867	(1,537)	1,302	—	79	20,711	13,217	(955)	836	—	(79)	13,019	33,730
Other expenses													
Depreciation – property, plant and equipment	343	323	84	—	—	750	20	76	—	—	—	96	846
Amortization – intangible assets	2,888	—	—	—	—	2,888	3,578	—	—	—	—	3,578	6,466
Interest on long-term debt	2,792	—	—	—	—	2,792	427	—	—	—	—	427	3,219
Impairment charge – property, plant and equipment	—	1,515	—	—	—	1,515	—	—	—	—	—	—	1,515
Other income (expense)													
Unrealized and realized foreign exchange gain (loss)	99	—	—	—	—	99	(10)	—	—	—	—	(10)	89
Interest income	102	—	—	—	—	102	75	—	—	—	—	75	177
Gain (loss) on disposal of property, plant and equipment and intangible assets	(3)	—	—	—	—	(3)	175	—	—	—	—	175	172
Loss on revaluation on financial liabilities recorded at fair value	(853)	—	—	—	—	(853)	—	—	—	—	—	—	(853)
Income (loss) before taxes	14,189	(3,375)	1,218	—	79	12,111	9,432	(1,031)	836	—	(79)	9,158	21,269
Current income taxes	3,538	75	248	—	—	3,861	(327)	528	216	—	—	417	4,278
Deferred income taxes	(937)	—	—	—	—	(937)	1,617	—	—	—	—	1,617	680
Net income (loss)	11,588	(3,450)	970	—	79	9,187	8,142	(1,559)	620	—	(79)	7,124	16,311

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

15. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the six-month period ended May 31, 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
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenues	67,787	18,566	45,821	20,683	(1,087)	151,770	57,163	10,517	2,072	16,520	(161)	86,111	237,881
Operating expenses	32,779	19,997	40,974	20,683	(1,248)	113,185	34,561	11,094	—	16,520	—	62,175	175,360
Segment profit (loss)	35,008	(1,431)	4,847	—	161	38,585	22,602	(577)	2,072	—	(161)	23,936	62,521
Other expenses													
Depreciation – property, plant and equipment	778	477	99	—	—	1,354	46	136	—	—	—	182	1,536
Amortization – intangible assets	5,757	—	—	—	—	5,757	7,890	—	—	—	—	7,890	13,647
Interest on long-term debt	5,984	—	—	—	—	5,984	701	—	—	—	—	701	6,685
Impairment charge – property, plant and equipment	—	958	—	—	—	958	—	—	—	—	—	—	958
Other income (expense)													
Unrealized and realized foreign exchange gain (loss)	401	—	—	—	—	401	(29)	—	—	—	—	(29)	372
Interest income	233	—	2	—	—	235	(16)	20	—	—	—	4	239
Gain (loss) on disposal of property, plant and equipment and intangible assets	1,642	—	—	—	—	1,642	(76)	—	—	—	—	(76)	1,566
Gain on revaluation on financial liabilities recorded at fair value	1,869	—	—	—	—	1,869	—	—	—	—	—	—	1,869
Income (loss) before taxes	26,634	(2,866)	4,750	—	161	28,679	13,844	(693)	2,072	—	(161)	15,062	43,741
Current income taxes	5,963	(764)	1,267	—	—	6,466	3,178	(177)	530	—	—	3,531	9,997
Deferred income taxes	1,126	—	—	—	—	1,126	(1,499)	—	—	—	—	(1,499)	(373)
Net income (loss)	19,545	(2,102)	3,483	—	161	21,087	12,165	(516)	1,542	—	(161)	13,030	34,117

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

15. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the six-month period ended May 31, 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
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenues	59,808	15,724	14,493	15,578	(1,454)	104,149	50,062	13,087	1,669	14,036	(151)	78,703	182,852
Operating expenses	25,999	17,318	12,615	15,578	(1,605)	69,905	29,813	16,000	—	14,036	—	59,849	129,754
Segment profit (loss)	33,809	(1,594)	1,878	—	151	34,244	20,249	(2,913)	1,669	—	(151)	18,854	53,098
Other expenses													
Depreciation – property, plant and equipment	480	544	167	—	—	1,191	39	152	—	—	—	191	1,382
Amortization – intangible assets	4,400	—	—	—	—	4,400	7,128	—	—	—	—	7,128	11,528
Interest on long-term debt	4,838	—	—	—	—	4,838	828	—	—	—	—	828	5,666
Impairment charge – property, plant and equipment	—	1,515	—	—	—	1,515	—	—	—	—	—	—	1,515
Other income (expense)													
Unrealized and realized foreign exchange gain (loss)	53	—	—	—	—	53	(4)	—	—	—	—	(4)	49
Interest income	170	—	—	—	—	170	152	—	—	—	—	152	322
Gain (loss) on disposal of property, plant and equipment and intangible assets	14	—	—	—	—	14	167	—	—	—	—	167	181
Loss on revaluation on financial liabilities recorded at fair value	(949)	—	—	—	—	(949)	—	—	—	—	—	—	(949)
Income (loss) before taxes	23,379	(3,653)	1,711	—	151	21,588	12,569	(3,065)	1,669	—	(151)	11,022	32,610
Current income taxes	5,713	—	312	—	—	6,025	4,313	—	432	—	—	4,745	10,770
Deferred income taxes	(11)	—	—	—	—	(11)	(38,785)	—	—	—	—	(38,785)	(38,796)
Net income (loss)	17,677	(3,653)	1,399	—	151	15,574	47,041	(3,065)	1,237	—	(151)	45,062	60,636

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

16. Interim consolidated statement of cash flows

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

	Three months ended May 31		Six months ended May 31	
	2019	2018	**2019**	2018
	$	$ Restated (note 3)	**$**	$ Restated (note 3)
Accounts receivable	**(1,870)**	(1,653)	**(1,141)**	748
Inventories	**36**	(2,862)	**400**	(3,333)
Loans receivable	**(727)**	(1,124)	**199**	(2,927)
Other assets	**402**	338	**457**	193
Prepaid expenses and deposits	**(368)**	2,041	**(1,436)**	(462)
Accounts payable and accrued liabilities	**(1,904)**	1,802	**(2,577)**	(443)
Provisions	**(747)**	(5,212)	**3,885**	(818)
Deferred revenue and deposits	**657**	3,651	**2,129**	4,473
	(4,521)	(3,019)	**1,916**	**(2,569)**

17. Related party transactions

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

Compensation of key management personnel

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

	Three months ended May 31		Six months ended May 31	
	2019	2018	**2019**	2018
	$	$	**$**	$
Short-term benefits	**673**	457	**1,463**	841
Share based payment	**152**	159	**323**	314
Board member fees	**18**	13	**36**	25
Total remuneration of key management personnel	**843**	629	**1,822**	1,180

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)

17. 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 May 31		**Six months ended May 31**	
	2019	2018	**2019**	2018
	$	$	**$**	$
Short-term benefits	**119**	153	**231**	337
Share based payment	**5**	7	**10**	15
Consulting services	**20**	—	**38**	—
Total remuneration of individuals related to key management personnel	**144**	160	**279**	352

18. Subsequent Events

Acquisition of Allô! Mon Coco

On April 30, 2019, the Company signed an agreement to acquire the assets of Allô! Mon Coco, a chain of gourmet breakfast and lunch restaurants. The Allô! Mon Coco network currently has 39 franchised restaurants in operation, 38 of which are located in the province of Quebec and 1 in the Province of Ontario.

Acquisition of Yuzu Sushi

On June 6, 2019, the Company signed an agreement to acquire the assets of Yuzu Sushi, a chain of sushi restaurants. The Yuzu Sushi network currently has 132 points of sale in operation, including 68 restaurant franchises, 30 franchised express counters, and 34 complementary grocery outlets. The acquisition is expected to be completed within 45 days of the announcement.