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# Consolidated financial statements of MTY Food Group Inc.

November 30, 2016 and 2015

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## Independent auditor's report

To the Shareholders of MTY Food Group Inc.

We have audited the accompanying consolidated financial statements of MTY Food Group Inc., which comprise the consolidated statements of financial position as at November 30, 2016 and November 30, 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MTY Food Group Inc. as at November 30, 2016 and November 30, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed,  
Deloitte LLP<sup>1</sup>

February 23, 2017

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A110972

# MTY Food Group Inc.

## Consolidated statements of income

Years ended November 30, 2016 and November 30, 2015

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

	Notes	2016 \$	2015 \$
<b>Revenue</b>	23 and 30	<b>196,382</b>	145,203
<b>Expenses</b>			
Operating expenses	24 and 30	<b>125,650</b>	94,521
Depreciation – property, plant and equipment	11	<b>2,065</b>	1,535
Amortization – intangible assets	12	<b>10,779</b>	6,744
Interest on long-term debt		<b>3,855</b>	436
		<b>142,349</b>	103,236
<b>Other income (charges)</b>			
Unrealized foreign exchange gain		<b>3,198</b>	64
Interest income		<b>287</b>	144
Other income	25	<b>13,959</b>	—
Impairment charge on intangible assets and goodwill	12 and 13	—	(8,093)
Gain on disposal of property, plant and equipment and intangible assets		<b>2,100</b>	1,821
		<b>19,544</b>	(6,064)
Income before taxes		<b>73,577</b>	35,903
<b>Income taxes</b>	29		
Current		<b>13,930</b>	10,454
Deferred		<b>1,806</b>	(774)
		<b>15,736</b>	9,680
<b>Net income</b>		<b>57,841</b>	26,223
<b>Net income attributable to:</b>			
<b>Owners</b>		<b>57,395</b>	26,015
<b>Non-controlling interests</b>		<b>446</b>	208
		<b>57,841</b>	26,223
Earnings per share	20		
Basic and diluted		<b>2.88</b>	1.36

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

**MTY Food Group Inc.****Consolidated statements of comprehensive income**

Years ended November 30, 2016 and November 30, 2015

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

	Notes	2016	2015
		\$	\$
<b>Net income</b>		<b>57,841</b>	26,223
<b>Items that may be reclassified subsequently to profit or loss</b>			
Unrealized gain (loss) on translation of foreign operations		<b>2,726</b>	(97)
Other comprehensive income (loss)		<b>2,726</b>	(97)
<b>Total comprehensive income</b>		<b>60,567</b>	26,126
 Total comprehensive income attributable to:			
 <b>Owners</b>		<b>60,121</b>	25,918
<b>Non-controlling interest</b>		<b>446</b>	208
		<b>60,567</b>	26,126

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

## MTY Food Group Inc.

### Consolidated statements of changes in shareholders' equity

Years ended November 30, 2016 and November 30, 2015

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

	Equity attributable to owners					Equity attributable to non-controlling interest	
	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2014	19,792	481	(14)	124,331	144,590	4,881	149,471
Net income for the year ended November 30, 2015	—	—	—	26,015	26,015	208	26,223
Other comprehensive income (loss)	—	—	(97)	—	(97)	—	(97)
Acquisition of a portion of the non-controlling interest in 7687567 Canada Inc. (note 5)	—	—	—	(23)	(23)	123	100
Acquisition of non-controlling interest in 9286-5591 Quebec Inc. (note 5)	—	—	—	3,817	3,817	(4,617)	(800)
Acquisition of 9410198 Canada Inc. (note 7)	—	—	—	—	—	2,000	2,000
Dividends	—	—	—	(7,648)	(7,648)	(40)	(7,688)
Balance as at November 30, 2015	19,792	481	(111)	146,492	166,654	2,555	169,209
Net income for the year ended November 30, 2016	—	—	—	57,395	57,395	446	57,841
Other comprehensive income (loss)	—	—	2,726	—	2,726	—	2,726
Acquisition of non-controlling interest in 9410198 Canada Inc. (note 5)	—	—	—	944	944	(2,194)	(1,250)
Dividends	—	—	—	(9,314)	(9,314)	(125)	(9,439)
Issuance of capital (note 18)	94,753	—	—	—	94,753	—	94,753
Balance as at November 30, 2016	114,545	481	2,615	195,517	313,158	682	313,840

The following dividends were declared and paid by the Company:

	2016	2015
	\$	\$
\$0.46 per common share (2015 - \$0.40 per common share)	9,314	7,648

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

**MTY Food Group Inc.****Consolidated statements of financial position**

As at November 30, 2016 and November 30, 2015

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

	Notes	2016	2015
		\$	\$
<b>Assets</b>			
Current assets			
Cash		36,260	33,417
Accounts receivable	8	36,420	18,734
Inventories	9	3,298	2,208
Loans receivable	10	3,320	240
Prepaid expenses and deposits		7,900	620
		<b>87,198</b>	55,219
Loans receivable	10	4,866	217
Property, plant and equipment	11	14,087	10,506
Intangible assets	12	526,067	103,925
Goodwill	13	218,887	55,520
		<b>851,105</b>	225,387
<b>Liabilities and Shareholders' equity</b>			
<b>Liabilities</b>			
Current liabilities			
Line of credit		—	6,300
Accounts payable and accrued liabilities		44,288	24,361
Provisions	15	74,659	3,468
Income taxes payable		20,793	2,334
Deferred revenue and deposits	16	18,080	5,660
Current portion of long-term debt	17	15,041	6,344
		<b>172,861</b>	48,467
Long-term debt	17	238,692	1,612
Deferred revenue and deposits	16	2,481	—
Deferred income taxes	29	123,231	6,099
		<b>537,265</b>	56,178
Commitments, guarantee and contingent liabilities	26, 27, 28		

**MTY Food Group Inc.****Consolidated statements of financial position (continued)**

As at November 30, 2016 and November 30, 2015

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

	Note	2016	2015
		\$	\$
<b>Shareholders' equity</b>			
Equity attributable to owners			
Capital stock	18	114,545	19,792
Contributed surplus		481	481
Accumulated other comprehensive income		2,615	(111)
Retained earnings		195,517	146,492
		<b>313,158</b>	166,654
Equity attributable to non-controlling interest			
		682	2,555
		<b>313,840</b>	169,209
		<b>851,105</b>	225,387

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

Approved by the Board on February 23, 2017

\_\_\_\_\_, Director

\_\_\_\_\_, Director



# MTY Food Group Inc.

## Consolidated statements of cash flows

Years ended November 30, 2016 and November 30, 2015

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

	Notes	2016	2015
		\$	\$
<b>Operating activities</b>			
Net income		57,841	26,223
Adjusting items:			
Interest on long-term debt		3,855	436
Depreciation – property, plant and equipment		2,065	1,535
Amortization – intangible assets		10,779	6,744
Gain on disposal of property, plant and equipment and intangibles		(2,100)	(1,821)
Impairment of intangible assets		—	8,093
Unrealized foreign exchange gain		(4,675)	(145)
Realized gain on foreign exchange derivative	21 and 25	(7,980)	—
Realized gain on settlement of holdbacks	25	(2,335)	—
Realized gain on Taco Time contract termination upon acquisition of Kahala Brands Ltd.	25	(3,644)	—
Income tax expense		15,736	9,680
Deferred revenue		(118)	1,439
Other		—	100
		69,424	52,284
Income tax refunds received		88	25
Income taxes paid		(11,164)	(8,930)
Interest paid		(2,775)	(188)
Changes in non-cash working capital items	31	(3,843)	8,046
Cash flows provided by operating activities		51,730	51,237
<b>Investing activities</b>			
Net cash outflow on acquisitions	7	(247,763)	(7,579)
Additions to property, plant and equipment	11	(2,789)	(3,426)
Additions to intangible assets	12	(692)	(48)
Acquisition of the non-controlling interest in 9286-5591 Quebec Inc.	5	—	(800)
Acquisition of the non-controlling interest in 9410198 Canada Inc.	5	(1,250)	—
Realized gain on foreign exchange derivative		7,980	—
Proceeds on disposal of property, plant and equipment		3,971	4,853
Cash flows used in investing activities		(240,543)	(7,000)

**MTY Food Group Inc.****Consolidated statements of cash flows (continued)**

Years ended November 30, 2016 and November 30, 2015

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

	Note	2016	2015
		\$	\$
<b>Financing activities</b>			
Issuance of banker's acceptance		21,200	17,300
Repayment of banker's acceptance		(27,500)	(22,750)
Issuance of long-term debt		245,808	—
Repayment of long-term debt		(55,965)	(4,411)
Capitalized financing costs		(2,674)	—
Dividends paid to non-controlling shareholders of subsidiaries		(125)	(40)
Dividends paid		(9,314)	(7,648)
Cash flows provided by (used in) financing activities		171,430	(17,549)
Net increase (decrease) in cash		(17,383)	26,688
Cash, beginning of period		33,417	6,701
Cash acquired	7	20,226	28
<b>Cash, end of period</b>		<b>36,260</b>	<b>33,417</b>

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

# MTY Food Group Inc.

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# MTY Food Group Inc.

## Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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### 1. Description of the business

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

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

### 2. Basis of preparation

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

#### Statement of compliance

The Company’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were authorized for issue by the Board of Directors on February 23, 2017.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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### 3. Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

#### *Basis of consolidation*

The consolidated financial statements include the accounts of the Company and entities (including special purpose entities) controlled by the Company and its subsidiaries.

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Principal subsidiaries are as follows:

Principal subsidiaries	Percentage of equity interest
	%
MTY Tiki Ming Enterprises Inc.	100
MTY Franchising USA, Inc.	100
9286-5591 Quebec Inc.	100
9410198 Canada Inc.	100
BF Acquisition Holdings, LLC	100
Kahala Brands Ltd.	100
8825726 Canada Inc.	90
7687561 Canada Inc.	99
154338 Canada Inc.	50

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

# MTY Food Group Inc.

## Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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### 3. Accounting policies (continued)

#### *Basis of consolidation (continued)*

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of income and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

All intercompany transactions, balances, revenue and expenses are eliminated in full on consolidation.

#### *Changes in the Company's ownership interests in existing subsidiaries*

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### *Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. This is calculated as the sum of the acquisition date fair values of the assets transferred by the Company and liabilities incurred by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except for deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements, which are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively.

# MTY Food Group Inc.

## Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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### 3. Accounting policies (continued)

#### *Business combinations (continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. These may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: recognition and measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 3. Accounting policies (continued)

##### *Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Where goodwill forms part of a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the cash-generating unit retained.

##### *Revenue recognition*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty.

Revenue is generally recognized on the sale of products or services when the products are delivered or the services are performed, all significant contractual obligations have been satisfied and the collection is reasonably assured.

##### i) Revenue from franchise locations

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, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Initial franchise fees are recognized when substantially all of the initial services as required by the franchise agreement have been performed. This usually occurs when the location commences operations.

Revenue from the sale of franchise locations is recognized at the time the franchisee assumes control of the franchise location.

Restaurant construction and renovation revenue is recognized by reference to the stage of completion of the contract activity at the end of the reporting period. This is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.

When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense immediately. When the outcome of the project cannot be estimated reliably, revenue is recognized to the extent of expenses recognized in the period. The excess of revenue recognized over amounts billed is recorded as part of accounts receivable.

Master license fees are recognized when the Company has performed substantially all material initial obligations under the agreement, which usually occurs when the agreement is signed, which is recorded in franchise and transfer fees (note 23).

Renewal and transfer fees are recognized when substantially all applicable services required by the Company under the franchise agreement have been performed. This generally occurs when the agreement is signed. This revenue is recorded in franchise and transfer fees (note 23).



## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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### 3. Accounting policies (continued)

#### *Revenue recognition (continued)*

#### i) Revenue from franchise locations (continued)

Revenue from equipment sale is recognized when the risk and rewards of ownership and title pass to buyer, generally upon the shipment of the equipment. This revenue is recorded in sale of goods, including construction revenues (note 23).

Based on historical redemption patterns, the Company estimates the portion of gift cards that have a remote likelihood of being redeemed and recognizes the amount in its consolidated statements of income as breakage. The Company also charges various program fees to its franchisees as gift cards are redeemed. Both items are disclosed under gift cards revenue (note 23).

The Company earns rent revenue on certain leases it holds and sign rental revenue; the Company's policy is described below.

The Company receives considerations from certain suppliers. Supplier contributions are recognized as revenue as they are earned and are recorded in other franchising revenue (note 23).

#### ii) Revenue from distribution center

Distribution revenue is recognized when goods have been delivered or when significant risks and rewards of ownership have been transferred and it is probable that the economic benefit associated with the transaction will flow to the Company.

#### iii) Revenue from food processing

Food processing revenue is recognized when goods have been delivered to end-users or when significant risks and rewards of ownership have been transferred to distributors and it is probable that the economic benefit associated with the transaction will flow to the Company.

#### iv) Revenue from corporate-owned locations

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

#### *Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

#### The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 3. Accounting policies (continued)

##### *Functional and presentation currency*

These consolidated financial statements are presented using the Company's functional currency, which is the Canadian dollar. Each entity of the Company determines its own functional currency, and the financial statement items of each entity are measured using that functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.

##### *Foreign currencies*

At the end of each reporting period, the Company's monetary assets and liabilities that are denominated in a currency other than the Company's functional currency are translated using the exchange rate prevailing at that date. Non-monetary items are translated using historical exchange rates. Revenue and expenses are translated at the exchange rate in effect on the transaction date, except for depreciation and amortization, which are translated using historical exchange rates. Exchange gains and losses are recognized in profit or loss in the period in which they arise in foreign exchange gain (loss). The assets and liabilities of a foreign operation with a functional currency different from that of the Company are translated using the exchange rate in effect on the reporting date. Revenue and expenses are translated using the exchange rate in effect on the transaction date. Exchange differences arising from the translation of a foreign operation are recognized in other comprehensive income. Upon complete or partial disposal of the investment in the foreign operation, the foreign currency translation reserve or a portion of it will be recognized in the consolidated statement of income in other income (charges).

##### *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

##### *Deferred tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

# MTY Food Group Inc.

## Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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### 3. Accounting policies (continued)

#### Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

#### Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### *Property, plant and equipment*

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their historical costs less accumulated depreciation (buildings) and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use.

Equipment, leasehold improvements, rolling stock and computer hardware are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is based on the following terms:

Buildings	Straight-line	25 to 50 years
Equipment	Straight-line	3 to 10 years
Leasehold improvements	Straight-line	Term of the lease
Rolling stock	Straight-line	5 to 7 years
Computer hardware	Straight-line	3 to 7 years

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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### 3. Accounting policies (continued)

#### *Intangible assets*

##### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if applicable. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses, if applicable.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets having a finite life acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, if applicable, on the same basis as intangible assets that are acquired separately. Intangible assets having an indefinite life are not amortized and are therefore carried at cost less accumulated impairment losses, if applicable.

##### Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

The Company currently carries the following intangible assets in its books:

#### *Franchise rights and master franchise rights*

The franchise rights and master franchise rights acquired through business combinations were recognized at the fair value of the estimated future cash inflows related to the acquisition of franchises. The franchise rights and master franchise rights are generally amortized on a straight line basis over the term of the agreements which typically range between 10 to 20 years.

Some master franchise rights have no specific terms; as a result, those are not amortized as they have an indefinite life.

#### *Step-in rights*

Step-in rights are the rights of the Company to take over the premises and associated lease of a franchised location in the event the franchise is in default of payments. These are acquired through business combinations and are recognized at their fair value at the time of the acquisition. They are amortized over the term of the franchise agreement.

#### *Trademarks*

Trademarks acquired through business combinations were recognized at their fair value at the time of the acquisition and are not amortized. Trademarks were determined to have an indefinite useful life based on their strong brand recognition and their ability to generate revenue through changing economic conditions with no foreseeable time limit.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 3. Accounting policies (continued)

##### *Intangible assets (continued)*

##### *Leases*

Leases, which represent the value associated to preferential terms or locations, are amortized on a straight-line basis over the term of the leases.

##### *Other*

Included in other intangible assets are primarily purchased software, which are being amortized over their expected useful life on a straight-line basis.

##### *Impairment of tangible and intangible assets other than goodwill*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. A majority of the Company's intangible assets do not have cash inflows independent of those from other assets and as such are tested within their respective cash generating units.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. The Company does not reduce the carrying value of an asset below the highest of its fair value less cost to sell and its value in use.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

##### *Impairment of goodwill*

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 3. Accounting policies (continued)

##### *Impairment of goodwill (continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

##### *Cash and cash equivalents*

Cash and cash equivalents item includes cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant. As at November 30, 2016, cash and cash equivalents included \$297 in restricted cash (2015 - \$nil).

##### *Inventories*

Inventories are measured at the lower of cost and net realizable value. Costs of inventories are determined on a first-in-first-out basis and include acquisition costs, conversion costs and other costs incurred to bring inventories to their present location and condition. The cost of finished goods includes a pro rata share of production overhead based on normal production capacity.

In the normal course of business, the Company enters into contracts for the construction and sale of franchise locations. The related work in progress inventory includes all direct costs relating to the construction of these locations, and is recorded at the lower of cost and net realizable value.

Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

##### *Provisions*

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at the present value of the cash flows expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This is recorded in cost of goods sold and rent (note 24) on the consolidated statement of income.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 3. Accounting policies (continued)

##### *Provisions (continued)*

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

##### Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

##### Gift card and loyalty program liabilities

Gift card liability represents liabilities related to unused balances on reloadable payment cards. Loyalty program liabilities represent the dollar value of the loyalty points earned and unused by customers.

The Company's various franchised and corporate owned locations, in addition to third party companies, sell gift cards to be redeemed at the Company's corporate and franchised locations for food and beverages only. Proceeds from the sale of gift cards are included in provisions until redeemed by the gift cardholder as a method of payment for good and beverage purchases.

Based on historical redemption patterns, the Company estimates the portion of gift cards that have a remote likelihood of being redeemed and recognizes the amount in its consolidated statements of income.

Due to the inherent nature of gift cards, it is not possible for the Company to determine what portion of the provision related to gift cards will be redeemed in the next 12 months and, therefore, the entire unredeemed liability is considered to be a current liability.

##### Litigation, disputes and closed stores

Provisions for the expected cost of litigation, disputes and the cost of settling leases for closed stores are recognized when it becomes probable the Company will be required to settle the obligation, at management's best estimate of the expenditure required to settle the Company's obligation.

##### Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less cumulative amortization recognized, if any.

# MTY Food Group Inc.

## Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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### 3. Accounting policies (continued)

#### *Financial instruments*

Financial assets and financial liabilities are recognized when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The subsequent measurement of financial assets and financial liabilities is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments.

#### Classification

Cash	Loans and receivables
Accounts receivable	Loans and receivables
Deposits	Loans and receivables
Loans receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Line of credit	Other financial liabilities
Long-term debt	Other financial liabilities

#### *Financial assets*

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### 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.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, cash and deposits) are measured at amortized cost using the effective interest method, less any impairment.



## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 3. Accounting policies (continued)

##### *Financial instruments (continued)*

##### *Financial assets (continued)*

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

##### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past a certain credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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### 3. Accounting policies (continued)

#### *Financial assets (continued)*

##### *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.

##### *Financial liabilities*

###### Classification as debt or equity

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

###### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

###### Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

###### Other financial liabilities

Financial instruments included in this category are initially recognized at fair value less transaction costs and are subsequently measured at amortized cost using the effective interest method.

###### 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.

###### Derivative financial instruments

The Company, from time to time, uses derivative financial instruments in the form of foreign exchange swap contracts to manage its current and anticipated exposure to fluctuations in foreign exchange rates. The Company does not enter into derivative financial instruments for trading or speculative purposes.

Derivative financial instruments not designated within an effective hedging relationship are measured at fair value with changes in fair value recorded in other income on the consolidated statements of income.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 3. Accounting policies (continued)

##### *Financial liabilities (continued)*

##### *Derivative financial instruments (continued)*

Derivative financial instruments that are designated within an effective hedging relationship are formally identified and the relationship between hedging instruments and hedged items are documented by the Company. Derivative financial instruments designated as cash flow hedges are measured at fair value with changes in fair value recorded in other comprehensive income. Effectiveness tests are performed to evaluate hedge effectiveness at inception and on a quarterly basis. If and when a derivative instrument is no longer expected to be effective, hedge accounting is discontinued, the derivative is held, sold or expired and the cumulative gain or loss previously recognized in accumulated other comprehensive income is transferred to the consolidated statements of income in the same period that the hedge item affects net income.

##### *Promotional funds*

The Company manages the promotional funds of its banners. They are established specifically for each banner to collect and administer funds dedicated for use in advertising and promotional programs as well as other initiatives designed to increase sales and enhance the image and reputation of the banners. Contributions to the funds are made based on a percentage of sales. The revenue and expenses of the promotional funds are not included in the Company's consolidated statement of income because the contributions to these funds are segregated and designated for specific purposes. The combined amount payable resulting from the promotional fund reserves amounts to a surplus of \$6,415 (November 30, 2015 – \$1,270). These amounts are included in accounts payable and accrued liabilities.

##### *Segment disclosure*

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other components, and for which separate financial information is available. Segment disclosures are provided for the Company's operating segments (note 30). The operating segments are determined based on the Company's management and internal reporting structure. All operating segments' operating results are regularly reviewed by management to make decisions on resources to be allocated to the segment and to assess its performance.

#### 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgements in applying accounting policies and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

# MTY Food Group Inc.

## Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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### 4. Critical accounting judgments and key sources of estimation uncertainty (continued)

#### *Critical judgements in applying accounting policies*

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

#### Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting period date. In addition, management is required to use judgement in determining the grouping of assets to identify cash-generating units; the determination is done based on management's best estimation of what constitutes the lowest level at which an asset or group of asset has the possibility of generating cash inflows.

#### Revenue recognition

In making their judgement, management considers the detailed criteria for the recognition of revenue from the sale of goods and for construction contracts set out in *IAS 18 Revenue and IAS 11 Construction contracts* and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods.

#### Consolidation of special purpose entities

A special purpose entity ("SPE") is consolidated if, based on an evaluation of the substance of its relationship with the Company and the SPE's risks and rewards, the Company concludes that it controls the SPE. A SPE controlled by the Company is established under terms that impose strict limitations on the decision-making powers of the SPE's management, resulting in the Company receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to the majority of the risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

#### *Key sources of estimation uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Business combinations

For business combinations, the Company must make assumptions and estimates to determine the purchase price allocation of the business being acquired. To do so, the Company must determine the acquisition date fair value of the identifiable assets acquired, including such intangible assets as franchise rights and master franchise rights, trademarks, step-in rights and liabilities assumed. Among other things, the determination of these fair market values involves the use of discounted cash flow analyses and future system sales growth. Goodwill is measured as the excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree over the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. These assumptions and estimates have an impact on the asset and liability amounts recorded in the consolidated statement of financial position on the acquisition date. In addition, the estimated useful lives of the acquired amortizable assets, the identification of intangible assets and the determination of the indefinite or finite useful lives of intangible assets acquired will have an impact on the Company's future profit or loss.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 4. Critical accounting judgments and key sources of estimation uncertainty (continued)

##### *Key sources of estimation uncertainty (continued)*

###### Impairment of non-financial assets

The recoverable amounts of the Company's assets is generally estimated based on value-in-use calculations using a discounted cash flow approach as this was determined to be higher than fair value less cost to sell, except for certain corporate store assets for which fair value less cost to sell was higher than their value in use. The fair value less cost to sell of corporate stores is generally determined by estimating the liquidation value of the restaurant equipment.

In the current year, the value in use of CGU's tested was higher or equal to the carrying value of the assets. Impairment assessments were established using a 17% discount rate on the corporate store CGU's and 15% on the trademarks and franchise rights. Discount rates are based on pre-tax rates that reflect the current market assessments, taking the time value of money and the risks specific to the CGU into account.

The total cumulative impairment on property, plant and equipment of \$158 (2015 - \$158) represents a write down of the carrying value of the leasehold improvements and equipment to their fair value less cost to sell, which was higher than their value in use.

These calculations take into account our best estimate of future cash flows, using previous year's cash flows for each CGU to extrapolate a CGU's future performance to the earlier of the termination of the lease (if applicable) or 5 years and a terminal value is calculated beyond this period, assuming no growth to the cash flows of previous periods. A cash flow period of 5 years was used as predictability for periods beyond this cannot be estimated with reasonable accuracy.

A 1% change to the discount rate used in the calculation of the impairment would not result in any additional significant impairment on the property, plant and equipment of our corporate stores.

In the prior year, the Company recognized an impairment on two of its CGU's following a decline in the performance of the related brand. The total impairment of \$7,893 represents a write down of the carrying value to the value in use of the CGU's.

###### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. During the year, no impairment on goodwill was taken (2015 - \$200).

The Company used a 13% discount rate for its assessment of goodwill. No growth was applied to the cash flows used to estimate the terminal value.

###### Useful lives of property, plant and equipment and intangible assets

As described in note 3 above, the Company reviews the estimated useful lives of property, plant and equipment and intangible assets with definite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings. During the years ended November 30, 2016 and 2015, the Company was not required to adjust the useful lives of any assets based on the factors described above.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 4. Critical accounting judgments and key sources of estimation uncertainty (continued)

##### *Key sources of estimation uncertainty (continued)*

###### Provisions

The Company makes assumptions and estimations based on its current knowledge of future disbursements it will have to make in connection with various events that have occurred in the past and for which the amount to be disbursed and the timing of such disbursement are uncertain at the date of producing its financial statements. This includes provisions for onerous contracts, litigations and disputes and contingencies.

###### Gift card liabilities

Management is required to make certain assumptions on the likelihood of gift card redemptions. The impact of these assumptions results in the recognition of income when it can be determined that the likelihood of the gift card being redeemed is remote based on several facts including historical redemption patterns.

###### Revenue recognition for construction and renovation contracts

Restaurant construction and renovation revenue is recognized by reference to the stage of completion of the contract activity at the end of the reporting period. Management makes an estimate on the percentage of completion based on costs incurred to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.

###### Consolidation of special purpose entities

The Company is required to consolidate a small number of special purpose entities. In doing so, the Company must make assumptions with respect to some information that is either not readily available or that is not available within reporting time frames. As a result, assumptions and estimates are made to establish a value for the current assets, current and long-term liabilities and results of operations in general.

###### Accounts receivable

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

Trade receivables include amounts that are past due at the end of the reporting period and for which the Company has not recognized an allowance for doubtful accounts because there was no significant change in the credit quality of the counterparty and the amounts are therefore considered recoverable.

#### 5. Consolidation

##### a) Subsidiaries

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

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

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

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 5. Consolidation (continued)

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

##### b) Non-controlling interests

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

##### *Changes in non-controlling interests*

In September 2016, the Company acquired the remaining 40% non-controlling interest of 9410198 Canada Inc. (Big Smoke Burger Canada), for \$1,250. Following the transaction, 9410198 Canada Inc. has become a wholly-owned subsidiary.

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

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

#### 6. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standard Board ("IASB") that are not yet effective for the period ended November 30, 2016, and have not been applied in preparing these consolidated financial statements.

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

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

<sup>(1)</sup> Applicable to fiscal years beginning on or after this date

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 6. Future Accounting Changes (continued)

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

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

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

IAS 1 provides further clarification and amendments on presentation and disclosure requirements, including the presentation of line items, subtotals and notes.

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

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

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



## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 7. Business acquisitions

##### I) 2016 acquisition

On October 5, 2016, the Company acquired the units of BF Acquisition Holdings, LLC, for a total consideration of \$35,402, which remains subject to post-closing working capital adjustments. The purpose of the transaction was to further solidify the Company's presence in the United States.

	2016
	\$
Consideration paid:	
Purchase price	35,340
Working capital adjustment	62
Net cash outflow <sup>(1)</sup>	35,402

<sup>(1)</sup> Includes \$3,540 in holdbacks paid to escrow.

The purchase price allocation is as follows:

Net assets acquired:

Current assets

Cash	1,428
Accounts receivable	1,264
Inventories	172
Loans receivable	1,691
Prepaid expenses and deposits	473
	5,028

Property, plant and equipment

2,310

Franchise rights

3,148

Trademarks

21,586

Goodwill <sup>(1)</sup>

8,297

40,369

Current liabilities

Accounts payable and accrued liabilities	1,965
Unredeemed gift card liability	2,072
Deferred revenue	896

4,933

Long-term debt

34

Net purchase price

35,402

<sup>(1)</sup> Goodwill is deductible for tax purposes

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 7. Business acquisitions (continued)

##### I) 2016 acquisition (continued)

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

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

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

##### II) 2016 acquisition

On July 26, 2016, MTY announced it had completed the acquisition of Kahala Brands Ltd. for a total consideration of \$394,194, including \$212,361 cash, which remains subject to post-closing working capital adjustments. The purpose of the transaction was to solidify its presence in the United States as this is expected to become one of the growth platforms.

	<b>2016</b>
	<b>\$</b>
Consideration paid:	
Total cash consideration	<b>317,016</b>
Less: Indebtedness	<b>(51,338)</b>
Less: Working capital adjustment	<b>(13,690)</b>
	<b>251,988</b>
Less: Holdbacks	<b>(39,627)</b>
Total cash disbursed at closing	<b>212,361</b>
Shares issued	<b>94,753</b>
Holdback payable	<b>39,627</b>
Less: discount on holdbacks	<b>(4,397)</b>
Settlement of Taco Time contract	<b>5,144</b>
Total cash and equity consideration	<b>347,488</b>
Assumed financial liabilities	<b>46,706</b>
Total merger consideration	<b>394,194</b>

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 7. Business acquisitions (continued)

##### II) 2016 acquisition (continued)

The preliminary purchase price allocation is as follows:

	2016
Net assets acquired:	\$
Current assets	
Cash	18,798
Accounts receivable	11,859
Inventory	378
Notes receivable	1,874
Prepaid expenses and deposits	3,721
	<b>36,630</b>
Notes receivable	3,044
Property, plant and equipment	2,270
Franchise rights	171,399
Trademarks	229,973
Goodwill <sup>(1)</sup>	152,026
	<b>595,342</b>
Current liabilities	
Accounts payable and accrued liabilities	13,188
Notes payable	34,827
Income tax liability	3,762
Unredeemed gift card liability	68,531
Deferred revenue	11,255
	<b>131,563</b>
Deferred revenue	2,868
Deferred income taxes	113,423
	<b>247,854</b>
Net purchase price	<b>347,488</b>

<sup>(1)</sup> Part of the goodwill is deductible for tax purposes

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

Total expenses incurred related to acquisition and financing costs amounted to approximately \$3,716. Of this amount, \$2,674 was capitalized into long-term debt and the remaining balance is presented within operating expenses.

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

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 7. Business acquisitions (continued)

##### II) 2016 acquisition (continued)

During the fourth quarter of 2016, the Company continued its comprehensive evaluation of the fair value of the net assets acquired from Kahala Brands Ltd., and the purchase price allocation. As a result, initial goodwill of \$141,919 recognized upon the acquisition on July 26, 2016 in the Business Acquisition note to the August 31, 2016 condensed interim consolidated financial statements has been adjusted as a result of the evaluation of fair value measurements of intangible assets during the measurement period. Adjustments were made to the provisional amounts disclosed in the August 31, 2016 condensed interim consolidated financial statements for the recognition and measurement of intangible assets and deferred income taxes.

The following provides the changes in the carrying value of the goodwill on the acquisition of Kahala Brands Ltd., to November 30, 2016:

Initial Kahala Brands Ltd. goodwill, August 31, 2016 previously reported	<b>141,919</b>
Recognition and measurement of intangible assets	<b>16,416</b>
Adjustment to deferred income taxes	<b>(6,309)</b>
<b>Adjusted balance, August 31, 2016</b>	<b>152,026</b>

##### III) 2015 acquisition

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

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

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 7. Business acquisitions (continued)

##### III) 2015 acquisition (continued)

The purchase price allocation is as follows:

	2015
	\$
Net assets acquired:	
Current assets	
Cash	3
Inventories	44
Prepaid expenses and deposits	33
	<u>80</u>
Property, plant and equipment	853
Franchise rights	852
Trademark	3,305
Goodwill <sup>(1)</sup>	840
	<u>5,930</u>
Current liabilities	
Accounts payable and accrued liabilities	18
Deferred revenue	447
	<u>465</u>
Deferred income taxes	601
	<u>1,066</u>
Net purchase price	<u><u>4,864</u></u>

<sup>(1)</sup> Goodwill is deductible for tax purposes

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

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

The purchase price allocation was finalized in 2016 and no post-closing adjustments were required.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 7. Business acquisitions (continued)

##### IV) 2015 acquisition

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

	<u>2015</u>
	\$
Consideration paid:	
Purchase price	7,889
Discount on non-interest bearing holdback	(81)
Net obligations assumed	(1,662)
Net purchase price	<u>6,146</u>
Holdbacks	(1,169)
Net cash outflow	<u>4,977</u>
The purchase price allocation is as follows:	
Net assets acquired:	
Current assets	
Cash	25
Inventories	145
Prepaid expenses and deposits	309
	<u>479</u>
Property, plant and equipment	930
Franchise rights	1,217
Trademark	5,529
Goodwill <sup>(1)</sup>	306
	<u>8,461</u>
Current liabilities	
Accounts payable and accrued liabilities	1,907
Deferred revenue	65
Deferred income taxes	343
	<u>2,315</u>
Net purchase price	<u>6,146</u>

<sup>(1)</sup> Goodwill is deductible for tax purposes

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 7. Business acquisitions (continued)

##### IV) 2015 acquisition (continued)

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

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

The purchase price allocation was finalized in 2016 and no post-closing adjustments were required.

#### 8. Accounts receivable

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

	2016	2015
	\$	\$
Total accounts receivable	44,427	24,122
Less : Allowance for doubtful accounts	8,007	5,388
Total accounts receivable, net	36,420	18,734
Of which:		
Not past due	28,647	13,069
Past due for more than one day but for no more than 30 days	1,564	1,620
Past due for more than 31 days but for no more than 60 days	1,178	766
Past due for more than 61 days	5,031	3,279
Total accounts receivable, net	36,420	18,734

	2016	2015
	\$	\$
Allowance for doubtful accounts, beginning of year	5,388	4,305
Additions	2,214	1,829
Additions through acquisition	1,881	—
Reversals	—	(233)
Write-off	(1,476)	(513)
Allowance for doubtful accounts, end of period	8,007	5,388

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 8. Accounts receivable (continued)

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

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

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

#### 9. Inventories

	2016	2015
	\$	\$
Raw materials	2,092	1,210
Work in progress	44	70
Finished goods	1,162	928
Total inventories	3,298	2,208

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

Inventories expensed during the year ended November 30, 2016 were \$29,991 (2015 - \$23,887).

#### 10. Loans receivable

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

	2016	2015
	\$	\$
Loans receivable, carrying no interest and without terms of repayment	—	15
Loans receivable bearing interest between nil and 11% per annum, receivable in monthly instalments of \$328 in aggregate, including principal and interest, ending in 2024	8,186	442
	8,186	457
Current portion	(3,320)	(240)
	4,866	217



## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 10. Loans receivable (continued)

The capital repayments in subsequent years will be:

	\$
2017	3,320
2018	1,490
2019	882
2020	758
2021	495
Thereafter	1,241
	<u>8,186</u>

#### 11. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at November 30, 2014	1,825	3,621	3,223	4,777	548	72	14,066
Additions	—	124	1,936	1,281	85	—	3,426
Disposals	(589)	(447)	(1,494)	(1,406)	(143)	—	(4,079)
Additions through business combinations	—	—	768	1,015	—	—	1,783
Balance at November 30, 2015	1,236	3,298	4,433	5,667	490	72	15,196
Additions	—	485	1,113	935	223	33	2,789
Disposals	—	(5)	(1,143)	(1,420)	—	(42)	(2,610)
Foreign exchange	—	—	47	89	2	2	140
Additions through business combinations	—	—	1,045	3,297	154	84	4,580
Balance at November 30, 2016	<b>1,236</b>	<b>3,778</b>	<b>5,495</b>	<b>8,568</b>	<b>869</b>	<b>149</b>	<b>20,095</b>

# MTY Food Group Inc.

## Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

### 11. Property, plant and equipment (continued)

Accumulated depreciation	Land	Buildings	Leasehold improvements	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at November 30, 2014	—	594	1,654	1,614	318	31	4,211
Eliminated on disposal of assets	—	(77)	(497)	(343)	(142)	—	(1,059)
Foreign exchange	—	—	1	2	—	—	3
Depreciation expense	—	138	567	744	81	5	1,535
Balance at November 30, 2015	—	655	1,725	2,017	257	36	4,690
Eliminated on disposal of assets	—	(4)	(455)	(281)	—	(16)	(756)
Foreign exchange	—	—	1	8	—	—	9
Depreciation expense	—	153	663	1,108	129	12	2,065
Balance at November 30, 2016	—	804	1,934	2,852	386	32	6,008
Carrying amounts	Land	Buildings	Leasehold improvements	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
November 30, 2015	1,236	2,643	2,708	3,650	233	36	10,506
<b>November 30, 2016</b>	<b>1,236</b>	<b>2,974</b>	<b>3,561</b>	<b>5,716</b>	<b>483</b>	<b>117</b>	<b>14,087</b>

**MTY Food Group Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2016 and 2015

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

**12. Intangible assets**

Cost	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other <sup>(1)</sup>	Total
	\$	\$	\$	\$	\$	\$
Balance at November 30, 2014	69,718	63,084	1,199	1,000	703	135,704
Additions	—	12	—	—	36	48
Disposals	—	—	—	(92)	(132)	(224)
Foreign exchange	177	—	—	—	—	177
Impairment <sup>(2)</sup>	(2,962)	(4,931)	—	—	—	(7,893)
Acquisition through business combinations	2,069	8,834	—	—	—	10,903
Balance at November 30, 2015	69,002	66,999	1,199	908	607	138,715
Additions	—	5	—	—	687	692
Foreign exchange	3,006	4,698	—	—	—	7,704
Acquisition through business combinations	174,547	251,559	—	—	—	426,106
Deemed settlement of master franchise agreement upon business combination	(1,500)	—	—	—	—	(1,500)
Balance at November 30, 2016	245,055	323,261	1,199	908	1,294	571,717

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 12. Intangible assets (continued)

Accumulated amortization	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other <sup>(1)</sup>	Total
	\$	\$	\$	\$	\$	\$
Balance at December 1, 2014	27,046	—	140	923	111	28,220
Eliminated on disposal of assets	—	—	—	(92)	(125)	(217)
Foreign exchange	43	—	—	—	—	43
Amortization	6,464	—	120	54	106	6,744
Balance at November 30, 2015	33,553	—	260	885	92	34,790
Foreign exchange	81	—	—	—	—	81
Amortization	10,504	—	120	20	135	10,779
Balance at November 30, 2016	44,138	—	380	905	227	45,650

  

Carrying amounts	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other <sup>(1)</sup>	Total
	\$	\$	\$	\$	\$	\$
November 30, 2015	35,449	66,999	939	23	515	103,925
<b>November 30, 2016</b>	<b>200,917</b>	<b>323,261</b>	<b>819</b>	<b>3</b>	<b>1,067</b>	<b>526,067</b>

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

(2) In 2015, as the result of a decline in the financial performance of the Extreme Pita and Croissant Plus franchise networks, the Company carried out a review of the recoverable amounts of the intangible assets related to these brands. The review led to the recognition of an impairment loss of \$7,893, which has been recognized in the consolidated statement of income. No impairment loss was required in 2016.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 12. Intangible assets (continued)

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

	2016	2015
	\$	\$
La Crémère	9	9
Cultures	500	500
Thai Express	145	145
Mrs Vanelli's	2,700	2,700
Sushi Shop	1,600	1,600
Tutti Frutti	1,100	1,100
Koya	1,253	1,253
Country Style	1,740	1,740
Valentine	3,338	3,338
Jugo Juice	5,425	5,425
Mr. Sub	11,320	11,319
Koryo	1,135	1,135
Mr. Souvlaki	300	300
Extreme Pita	3,198	3,194
Mucho Burrito	9,816	9,816
ThaiZone	7,417	7,417
Madisons New York Grill & Bar	3,410	3,410
Café Dépôt	2,959	2,959
Muffin Plus	371	371
Sushi-Man	434	434
Van Houtte	347	347
Manchu Wok <sup>(1)</sup>	5,850	5,529
Big Smoke Burger	3,305	3,305
America's Taco Shop <sup>(2)</sup>	960	—
Blimpie <sup>(2)</sup>	6,171	—
Cereality <sup>(2)</sup>	17	—
Cold Stone Creamery <sup>(2)</sup>	157,187	—
Frullati <sup>(2)</sup>	993	—
Great Steak <sup>(2)</sup>	3,811	—
Kahala Coffee Traders <sup>(2)</sup>	214	—
Maui Wowi <sup>(2)</sup>	1,659	—
Nrgize <sup>(2)</sup>	2,440	—
Pinkberry <sup>(2)</sup>	9,014	—

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 12. Intangible assets (continued)

	2016	2015
	\$	\$
Planet Smoothie <sup>(2)</sup>	9,614	—
Ranch 1 <sup>(2)</sup>	169	—
Rollerz <sup>(2)</sup>	130	—
Samurai Sam's <sup>(2)</sup>	1,785	—
Surf City Squeeze <sup>(2)</sup>	3,070	—
Taco Time <sup>(2)</sup>	35,409	1,500
Tasti D-Lite <sup>(2)</sup>	1,182	—
Baja Fresh <sup>(2)</sup>	20,358	—
La Salsa <sup>(2)</sup>	1,753	—
	<b>323,608</b>	<b>68,846</b>

(1) Variance from prior year due to foreign exchange conversion.

(2) As indicated in note 7, the purchase price allocation is still preliminary and is subject to change.

#### 13. Goodwill

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

	2016	2015
	\$	\$
Balance, beginning of year	55,520	54,574
Impairment of 7687567 Canada Inc. goodwill	—	(200)
Additional amounts recognized from business acquisitions (note 7)	160,323	1,146
Foreign Exchange	3,044	—
Balance, end of year	<b>218,887</b>	<b>55,520</b>

Goodwill was not allocated to individual CGUs; the Company has determined that the valuation of goodwill cannot be done at the CGU level, since the strength of the network comes from grouping the many banners from which the goodwill arose from. For the purpose of impairment testing, goodwill is allocated to the group of CGUs that are considered to represent the lowest level within the group at which the goodwill is monitored for internal management purposes.

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

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 14. Credit facilities

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

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

For amounts drawn in US dollars, the Company has the option to pay interest based on US base rates (3.25% as at November 30, 2016), plus a margin not exceeding 2.25%, or based on LIBOR plus a margin not exceeding 3.25%. For amounts drawn in Canadian dollars, the Company has the option to pay interest based on the Canada Prime rate (2.70% as at November 30, 2016), as determined by the Toronto-Dominion Bank of Canada, plus a margin not exceeding 2.25% or based on Banker's Acceptances, plus a margin not exceeding 3.25%.

Under those facilities, the Company is required to comply with certain financial covenants, including a debt to earnings before interest, taxes and amortization ratio and a fixed charges coverage ratio. As at November 30, 2016, the Company was in compliance with those financial covenants.

Costs of \$2,674 have been incurred in relation to the new facilities. These costs have been capitalized into long-term debt and are amortized using the effective interest method.

##### Revolving Credit Facility

Under the revolving credit facility, the Company has the option to draw funds in Canadian or in US dollars, at its discretion. The facility's maturity is July 21, 2020 and must be repaid in full at that time. As at November 30, 2016, the Company had drawn US\$53,800 (C\$72,255) and had elected to pay interest based on LIBOR plus the applicable margin.

##### Term Credit Facility

The Term Credit facility is repayable in quarterly instalments of \$2,187 beginning on November 30, 2016. The remainder of the capital balance is repaid at the maturity of the loan, on July 21, 2019. As at November 30, 2016, \$10,000 of the facility had been repaid and as such, the facility had been reduced to \$165,000, which was fully drawn. The Company had elected to pay interest based on the Banker's Acceptances option.

#### 15. Provisions

Included in provisions are the following amounts:

	2016	2015
	\$	\$
Litigations and disputes	1,768	1,329
Closed stores	873	804
	2,641	2,133
Gift card liabilities/loyalty programs liabilities	72,018	1,335
Total	74,659	3,468

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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#### 15. Provisions (continued)

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

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

In the litigation and disputes and closed store provisions above, \$830 (2015 - \$229) was unused and reversed into income. The amounts used in the year include \$1,690 (2015 - \$1,269) of the provisions for disputes and closed stores; this amount was used for the settlement of litigation and for the termination of the leases of closed stores.

Additions during the period include \$3,028 (2015 - \$2,317) to the litigation and closed stores provisions. Of this amount, \$1,421 was added as a result of the acquisition of Kahala Brands Ltd. The remaining increase reflects new information available to management.

The gift card and loyalty programs liabilities are the estimated fair value in gift cards and points outstanding at the date of the statement of financial position. The timing of the reversal of this provision is dependent on customer behaviour and therefore outside of the Company's control. During the year, the gift card liability increased by \$70,603 as a result of the Kahala Brands Ltd. and BF Acquisition Holdings, LLC acquisitions.

#### 16. Deferred revenue and deposits

	2016	2015
	\$	\$
Franchise fee deposits	5,953	2,633
Unearned rent	3,431	—
Supplier contributions and other allowances	11,177	3,027
	<b>20,561</b>	5,660
Current portion	(18,080)	(5,660)
	<b>2,481</b>	—



## MTY Food Group Inc.

### Notes to the consolidated financial statements

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#### 17. Long-term debt

	2016	2015
	\$	\$
Non-interest bearing holdbacks on acquisition of Extreme Brandz. This obligation was settled in October 2016 for \$2,220 (note 25).	—	4,430
Non-interest bearing contract cancellation fees, payable in US dollars based on the performance of certain stores.	72	88
Non-interest bearing holdbacks on acquisition of Café Dépôt, repaid October 2016.	—	1,021
Balance of sale on acquisition of Madisons, bearing interest at 7.00%, settled in September 2016 for \$812 (note 25).	—	937
Non-interest bearing holdbacks on acquisition of Manchu Wok, repayable December 2016.	620	1,216
Non-interest bearing holdbacks on acquisition of Big Smoke Burger, repayable September 2018.	276	264
Non-interest bearing holdbacks on acquisition of Kahala Brands Ltd., repayable July 2017, July 2018 and July 2019.	17,736	—
Non-interest bearing loans payable during 2017.	171	—
Revolving credit facility payable to a syndicate of lenders (note 14), expiring in July 2020.	72,255	—
Term loan payable to a syndicate of lenders (note 14) in quarterly instalments of \$2,187, expiring in July 2019.	165,000	—
Revolving credit facility and term loan financing costs, amortized using the effective interest method	(2,397)	—
	<b>253,733</b>	7,956
Current portion	<b>(15,041)</b>	(6,344)
	<b>238,692</b>	1,612

#### 18. Capital stock

Authorized, unlimited number of common shares without nominal or par value

	2016		2015	
	Number	Amount	Number	Amount
		\$		\$
Balance at beginning and end of year	<b>21,374,497</b>	<b>114,545</b>	19,120,567	19,792

On July 26, 2016, as part of the acquisition of Kahala Brands Ltd., 2,253,930 shares were issued as consideration for the purchase price. The shares were valued at \$94,753 at the closing of the transaction (note 7).

## MTY Food Group Inc.

### Notes to the consolidated financial statements

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#### 19. Stock options

The Company may grant stock options on the common shares at the discretion of the Board of Directors, to directors, employees, officers or consultants. 500,000 shares are available for issuance under the share option plan as at November 30, 2016. There are no options outstanding as at November 30, 2016 and 2015.

#### 20. Earnings per share

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

	2016	2015
Weighted daily average number of common shares	19,908,827	19,120,567

#### 21. Financial instruments

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

##### *Fair value of recognized financial instruments*

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

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Cash	36,260	36,260	33,417	33,417
Accounts receivable	36,420	36,420	18,734	18,734
Loans receivable	8,186	8,186	457	457
Deposits	1,587	1,587	242	242
Financial liabilities				
Line of credit	—	—	6,300	6,300
Accounts payable and accrued liabilities	44,288	44,288	24,361	24,361
Long-term debt	253,733	253,733	7,956	7,956

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 21. Financial instruments (continued)

##### *Determination of fair value*

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

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

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

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

##### *Risk management policies*

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at November 30, 2016.

##### *Credit risk*

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

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

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

The credit risk on the loans receivable is similar to that of accounts receivable. There is currently an allowance for doubtful accounts recorded for loans receivable of \$906 (2015 - \$11).

##### *Foreign exchange risk*

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

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

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

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#### 21. Financial instruments (continued)

##### *Foreign exchange risk (continued)*

As of November 30, 2016, the Company carried US\$ cash of C\$27,277, net accounts receivable of C\$18,669 and net accounts payable of C\$88,587 (C\$1,511, C\$874 and C\$954 as at November 30, 2015). The Company also has a US revolving credit facility of C\$72,255 and US long-term debt of C\$17,907, including the holdback on the Kahala Brands Ltd. acquisition. All other factors being equal, a reasonable possible 1% rise in foreign currency exchange rates per Canadian dollar would result in a change on profit or loss or other comprehensive income of \$1,330 (2015 - \$15) Canadian dollars.

Total US net income represents C\$8,879. A 1% change to foreign exchange would represent a gain or loss to the Company of C\$89.

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

##### *Interest rate risk*

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

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

Long-term debt stems mainly from acquisitions of long-term assets and business combinations. The Company is exposed to interest rate risk with its revolving credit facility and term credit facility which were used to finance the Company's acquisitions. Both facilities bear interest at a variable rate and as such the interest burden could change materially. \$237,255 (2015 - \$6,300) of the credit facilities were used as at November 30, 2016. A 100 basis points increase in the bank's prime rate would result in additional interest of \$2,373 per annum (2015 - \$63) on the outstanding credit facility.

##### *Liquidity risk*

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

As at November 30, 2016, the Company had authorized revolving credit facilities for which the available amount may not exceed, respectively, \$165,000 and \$150,000 to ensure that sufficient funds are available to meet its financial requirements. The terms and conditions related to these revolving credit facilities are described in note 14.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 21. Financial instruments (continued)

##### *Liquidity risk (continued)*

The following are the contractual maturities of financial liabilities as at November 30, 2016:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	thereafter
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	44,288	44,288	44,288	—	—	—
Long-term debt	253,733	259,918	5,144	11,549	16,233	226,992
Interest on long-term debt <sup>(1)</sup>	n/a	20,923	3,658	3,589	6,971	6,705
	<b>298,021</b>	<b>325,129</b>	<b>53,090</b>	<b>15,138</b>	<b>23,204</b>	<b>233,697</b>

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

#### 22. Capital disclosures

The Company's objectives when managing capital are:

- To safeguard the Company's ability to obtain financing should the need arise;
- To provide an adequate return to its shareholders;
- To maintain financial flexibility in order to have access to capital in the event of future acquisitions.

The Company defines its capital as follows:

- Shareholders' equity;
- Long-term debt including the current portion;
- Deferred revenue including the current portion;
- Cash

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

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

	2016	2015
	\$	\$
Debt	537,265	56,178
Equity	313,840	169,209
Debt-to-equity ratio	1.71	0.33

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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

#### 22. Capital disclosures (continued)

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

The Company's credit facilities impose a maximum debt-to-EBITDA ratio of 4:1 until July 20, 2017. This maximum debt-to-equity ratio decreases afterwards.

#### 23. Revenues

The Company's revenues include:

	2016	2015 <sup>(1)</sup>
	\$	\$
Royalties	75,466	54,714
Franchise and transfer fees	8,234	5,430
Rent	3,178	3,984
Sale of goods, including construction revenues	71,738	57,612
Other franchising revenue	28,773	21,502
Other	8,993	1,961
	<b>196,382</b>	<b>145,203</b>

<sup>(1)</sup> Certain figures have been reclassified to conform to the current year presentation. In the previous year, gift card revenue and transfer fees were included in "Other" revenue.

#### 24. Operating expenses

Operating expenses are broken down as follows:

	2016	2015
	\$	\$
Cost of goods sold and rent	53,507	49,472
Wages and benefits	45,282	31,426
Consulting and professional fees	9,343	4,983
Gift cards related costs	3,307	—
Royalties	768	1,083
Other <sup>(1)</sup>	13,443	7,557
	<b>125,650</b>	<b>94,521</b>

<sup>(1)</sup> Other operating expenses are comprised mainly of travel and promotional costs, bad debt expense and other office administration expenses.

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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#### 25. Other income

Other income is comprised of the following:

	Note	2016	2015
		\$	\$
Realized gain on foreign exchange derivative	21	7,980	—
Realized gain on Taco Time contract termination upon acquisition of Kahala Brands Ltd.	7	3,644	—
Realized gain on Extreme Brands holdback settlement	17	2,210	—
Realized gain on Madisons holdback settlement	17	125	—
		<b>13,959</b>	<b>—</b>

#### 26. Operating lease arrangements

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

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

	Lease commitments	Sub-leases	Net commitments
	\$	\$	\$
2017	134,730	124,439	10,291
2018	113,715	105,200	8,515
2019	99,074	92,047	7,027
2020	84,808	78,675	6,133
2021	72,812	67,558	5,254
Thereafter	216,418	203,441	12,977
	<b>721,557</b>	<b>671,360</b>	<b>50,197</b>

Payments recognized as a net expense during the year ended November 30, 2016 amount to \$14,097 (2015 - \$9,639).

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

During the year, the Company earned rental revenue of \$3,178 (2015 - \$3,984).

The Company has recognized a liability of \$873 (November 30, 2015 - \$804) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (note 15).

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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#### 27. Guarantee

The Company has provided guarantees in the form of a letter of credit for an amount of \$1,846 (November 30, 2015 - \$66).

#### 28. Contingent liabilities

The Company is involved in legal claims associated with its current business activities. The Company's estimate of the outcome of these claims is disclosed in note 15. The timing of the outflows, if any, is out of the control of the Company and is as a result undetermined at the moment.

#### 29. 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:

	2016		2015	
	\$	%	\$	%
Combined income tax rate in Canada	19,792	26.9	9,622	26.8
Add effect of:				
Difference between Canadian and foreign statutory rate	4	0.0	—	—
Non-taxable portion of capital gains	(1,570)	(2.1)	(229)	(0.7)
Permanent differences	(1,192)	(1.6)	24	0.1
Utilization of capital and non-capital losses for which no tax assets had been recognized	(1,109)	(1.5)	—	—
Losses in a subsidiary for which no deferred income tax asset was recorded	224	0.3	218	0.6
Variation in current and deferred taxes attributable to foreign exchange	—	—	26	0.1
Rate variation on deferred income tax	65	0.1	—	—
Adjustment to prior year provisions	(149)	(0.2)	25	0.1
Other – net	(329)	(0.5)	(6)	(0.0)
Provision for income taxes	15,736	21.4	9,680	27.0



## MTY Food Group Inc.

### Notes to the consolidated financial statements

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#### 29. Income taxes (continued)

The variation in deferred income taxes during the year were as follows:

	November 30, 2015	Recognized in profit or loss	Acquisition	Foreign exchange	November 30, 2016
	\$	\$	\$	\$	\$
Net deferred tax assets (liabilities) in relation to:					
Property, plant and equipment	(411)	576	453	7	625
Accounts receivable	—	(533)	1,930	32	1,429
Provisions	449	(653)	21,414	357	21,567
Long-term debt	(95)	(190)	—	—	(285)
Non-capital losses	423	(143)	—	—	280
Intangible assets	(6,465)	(1,866)	(142,471)	(2,387)	(153,189)
Accrued expenses	—	978	2,749	46	3,773
Deferred revenue	—	25	2,502	42	2,569
	(6,099)	(1,806)	(113,423)	(1,903)	(123,231)

As at November 30, 2016 there were approximately \$nil (2015 – \$6,706) of capital losses which may be applied against capital gains for future years and be carried forward indefinitely. The deferred income tax benefit of these capital losses has not been recognized.

As at November 30, 2016, there were approximately \$1,378 (2015 - \$1,241) in non-capital losses accumulated in one of the Company's subsidiaries for which no deferred income tax asset was recognized.

The deductible temporary difference in relation to an investment in a subsidiary for which a deferred tax asset has not been recognized amounts to \$1,378 (2015 - \$321).

#### 30. Segmented information

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

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

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

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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#### 30. Segmented information (continued)

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

	Canada	USA & International	Total 2016	Canada	USA & International	Total 2015
	\$	\$	\$	\$	\$	\$
Operating revenues	139,507	56,875	196,382	137,761	7,442	145,203
Operating expenses	86,654	38,996	125,650	89,752	4,769	94,521
	52,853	17,879	70,732	48,009	2,673	50,682
Other expenses						
Depreciation – property, plant and equipment	1,399	666	2,065	1,471	64	1,535
Amortization – intangible assets	6,047	4,732	10,779	6,604	140	6,744
Interest on long-term debt	3,152	703	3,855	436	—	436
Other income						
Unrealized foreign exchange gain (loss)	3,197	1	3,198	73	(9)	64
Interest income	261	26	287	144	—	144
Other income	10,315	3,644	13,959	—	—	—
Impairment charge on intangible assets and goodwill	—	—	—	(8,093)	—	(8,093)
Gain on disposal of property, plant and equipment	2,119	(19)	2,100	1,821	—	1,821
Operating income	58,147	15,430	73,577	33,443	2,460	35,903
Current income taxes	10,994	2,936	13,930	9,909	545	10,454
Deferred income taxes	1,781	25	1,806	(929)	155	(774)
Net income	45,372	12,469	57,841	24,463	1,760	26,223
Total assets	457,755	393,350	851,105	221,636	3,751	225,387
Total liabilities	279,472	257,793	537,265	53,233	2,945	56,178

## MTY Food Group Inc.

### Notes to the consolidated financial statements

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#### 31. Statement of cash flows

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

	2016	2015
	\$	\$
Accounts receivable	(4,470)	(1,925)
Inventories	(540)	275
Loans receivable	(1,104)	229
Prepaid expenses and deposits	(3,044)	767
Accounts payable and accrued liabilities	2,655	8,285
Provisions	2,660	415
	<b>(3,843)</b>	<b>8,046</b>

#### 32. 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:

	2016	2015
	\$	\$
Short-term benefits	1,011	842
Board member fees	51	42
Total remuneration of key management personnel	<b>1,062</b>	<b>884</b>

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

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

## MTY Food Group Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2016 and 2015

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#### 32. 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:

	<b>2016</b>	2015
	<b>\$</b>	<b>\$</b>
Short-term benefits	<b>598</b>	394
Total remuneration of individuals related to key management personnel	<b>598</b>	394