Condensed interim consolidated financial statements of
MTY Food Group Inc.

For the three and nine-month periods ended August 31, 2017 and August 31, 2016

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three and nine-month periods ended August 31, 2017 and August 31, 2016
(unaudited)
(In thousands of Canadian dollars, except per share amounts and stock options)

Notice : The condensed interim consolidated financial statements of MTY Food Group Inc. for the three and nine-month periods ended August 31, 2017 and August 31, 2016 have not been reviewed by an external auditor.

	Notes	Three months ended August 31		Nine months ended August 31	
		2017	2016	**2017**	2016
		$	$	**$**	$
Revenue	20 and 25	**73,605**	52,886	**213,900**	123,568
Expenses					
Operating expenses	21 and 25	**46,882**	34,933	**140,125**	80,689
Depreciation – property, plant and equipment	10	**591**	490	**2,148**	1,219
Amortization – intangible assets	11	**5,525**	2,589	**16,792**	5,824
Interest on long-term debt		**2,699**	958	**7,844**	1,061
		55,697	38,970	**166,909**	88,793
Other income (charges)					
Foreign exchange gain (loss)		**1,745**	(687)	**2,364**	(729)
Interest income		**154**	82	**373**	213
Realized gain on foreign exchange derivative		**—**	7,980	**—**	7,980
Gain (loss) on disposal of property, plant and equipment and intangibles		**328**	(137)	**1,072**	1,448
		2,227	7,238	**3,809**	8,912
Income before taxes		**20,135**	21,154	**50,800**	43,687
Income taxes	24				
Current		**5,918**	3,588	**13,772**	9,106
Deferred		**(954)**	919	**31**	1,391
		4,964	4,507	**13,803**	10,497
Net income		**15,171**	16,647	**36,997**	33,190
Net income attributable to:					
Owners		**15,084**	16,519	**36,731**	32,781
Non-controlling interests		**87**	128	**266**	409
		15,171	16,647	**36,997**	33,190
Earnings per share	17				
Basic and diluted		**0.71**	0.82	**1.72**	1.69

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

MTY Food Group Inc.

Condensed interim consolidated statements of comprehensive income

For the three and nine-month periods ended August 31, 2017 and August 31, 2016
(unaudited)
(In thousands of Canadian dollars, except per share amounts and stock options)

		Three months ended August 31		Nine months ended August 31	
	Notes	**2017**	2016	**2017**	2016
		$	$	**$**	$
Net income		**15,171**	16,647	**36,997**	33,190
Items that may be reclassified subsequently to profit or loss					
Unrealized loss on foreign currency translation adjustments		**(28,851)**	(3,263)	**(27,947)**	(2,845)
Deferred tax expense on foreign currency translation adjustments		**(396)**	—	**244**	—
Other comprehensive (loss) income		**(29,247)**	(3,263)	**(27,703)**	(2,845)
Total comprehensive (loss) income		**(14,076)**	13,384	**9,294**	30,345
Total comprehensive income (loss) attributable					
Owners		**(14,163)**	13,256	**9,028**	29,936
Non-controlling interest		**87**	128	**266**	409
		(14,076)	13,384	**9,294**	30,345

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

MTY Food Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity

For the three and nine-month periods ended August 31, 2017 and August 31, 2016

(unaudited)

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

	Equity attributable to owners						
	Capital stock	Contributed surplus	Accumulated other comprehen-sive income	Retained earnings	Total	Equity attributable to non-controlling interest	Total
	$	$	$	$	$	$	$
Balance as at November 30, 2015	19,792	481	(111)	146,492	166,654	2,555	169,209
Net income for the nine-month period ended August 31,2016	—	—	—	32,781	32,781	409	33,190
Other comprehensive income	—	—	(2,845)	—	(2,845)	—	(2,845)
Dividends	—	—	—	(6,856)	(6,856)	(100)	(6,956)
Issuance of capital (Note 17)	94,753	—	—	—	94,753	—	94,753
Balance as at August 31, 2016	114,545	481	(2,956)	172,417	284,487	2,864	287,351
Net income for the three-month period from September 1, 2016 to November 30,2016	—	—	—	24,614	24,614	37	24,651
Other comprehensive income	—	—	5,571	—	5,571	—	5,571
Acquisition of a portion of the non-controlling interest in 9410198 Canada Inc. (note 5)	—	—	—	944	944	(2,194)	(1,250)
Dividends	—	—	—	(2,458)	(2,458)	(25)	(2,483)
Issuance of capital	—	—	—	—	—	—	—
Balance as at November 30, 2016	114,545	481	2,615	195,517	313,158	682	313,840
Net income for the nine-month period ended August 31, 2017	**—**	**—**	**—**	**36,731**	**36,731**	**266**	**36,997**
Other comprehensive income	**—**	**—**	**(27,703)**	**—**	**(27,703)**	**—**	**(27,703)**
Dividends	**—**	**—**	**—**	**(7,375)**	**(7,375)**	**(17)**	**(7,392)**
Acquisition of the non-controlling interest in 7687567 Canada Inc. (note 5)	**—**	**—**	**—**	**(26)**	**(26)**	**(4)**	**(30)**
Acquisition of La Diperie (note 7)	**—**	**—**	**—**	**—**	**—**	**615**	**615**
Acquisition of Steak Frites and Giorgio (note 7)	**—**	**—**	**—**	**—**	**—**	**16**	**16**
Acquisition of Houston and Industria (note 7)	**—**	**—**	**—**	**—**	**—**	**63**	**63**
Share-based payment (note 16)	**—**	**244**	**—**	**—**	**244**	**—**	**244**
Balance as at August 31, 2017	**114,545**	**725**	**(25,088)**	**224,847**	**315,029**	**1,621**	**316,650**

The following dividends were declared and paid by the Company:

	August 31, 2017	August 31, 2016
	$	$
$0.345 per common share (2016 - $0.345 per common share)	**7,375**	6,856

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

MTY Food Group Inc.

Condensed interim consolidated statements of financial position

As at August 31, 2017 and November 30, 2016

(unaudited)

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

	Notes	**August 31, 2017**	November 30, 2016
		$	$
Assets			
Current assets			
Cash		**40,934**	36,260
Accounts receivable	8	**34,006**	36,420
Inventories	9	**5,587**	3,298
Loans receivable		**2,743**	3,320
Prepaid expenses and deposits		**3,753**	7,900
		87,023	87,198
Loans receivable		**3,344**	4,866
Property, plant and equipment	10	**13,664**	14,087
Intangible assets	11	**497,795**	526,067
Goodwill	12	**221,350**	218,887
		823,176	851,105
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**51,071**	44,288
Provisions	13	**68,535**	74,659
Income taxes payable		**23,101**	20,793
Deferred revenue and deposits	14	**20,247**	18,080
Current portion of long-term debt	15	**2,780**	15,041
		165,734	172,861
Long-term debt	15	**225,107**	238,692
Deferred revenue and deposits	14	**2,187**	2,481
Deferred income taxes		**113,498**	123,231
		506,526	537,265
Commitments and guarantees	22 and 23		

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

	Notes	August 31, 2017	November 30, 2016
		$	$
Shareholders' equity			
Equity attributable to owners			
Capital stock		**114,545**	114,545
Contributed surplus		**725**	481
Accumulated other comprehensive income		**(25,088)**	2,615
Retained earnings		**224,847**	195,517
		315,029	313,158
Equity attributable to non-controlling interest		**1,621**	682
		316,650	313,840
		823,176	851,105

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

Approved by the Board on October 6, 2017

______________________________, Director

______________________________, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three and nine-month periods ended August 31, 2017 and August 31, 2016

(unaudited)

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

		Three months ended August 31		Nine months ended August 31	
	Notes	**2017**	2016	**2017**	2016
		$	$	**$**	$
Operating activities					
Net income		**15,171**	16,647	**36,997**	33,190
Adjusting items:					
Interest on long-term debt		**2,699**	958	**7,844**	1,061
Depreciation – property, plant and equipment		**591**	490	**2,148**	1,219
Amortization – intangible assets		**5,525**	2,589	**16,792**	5,824
Loss (gain) on disposal of property, plant and equipment and intangibles		**(328)**	137	**(1,072)**	(1,448)
Amortization of financing costs		**207**	—	**621**	—
Unrealized foreign exchange loss		**1,591**	2,982	**1,059**	3,015
Realized gain on foreign exchange derivative		**—**	(7,980)	**—**	(7,980)
Income tax expense		**4,964**	4,507	**13,803**	10,497
Share-based payment		**159**	—	**244**	—
Deferred revenue		**(1,622)**	244	**1,342**	1,588
		28,957	20,574	**79,778**	46,966
Income tax refunds received		**—**	88	**—**	88
Income taxes paid		**(1,673)**	(2,463)	**(10,186)**	(8,604)
Interest paid		**(2,226)**	(774)	**(6,337)**	(805)
Changes in non-cash working capital items	26	**(4,271)**	(2,782)	**2,186**	(1,861)
Cash flows provided by operating activities		**20,787**	14,643	**65,441**	35,784
Investing activities					
Net cash outflow on acquisition	7	**(19,895)**	(212,361)	**(21,392)**	(212,361)
Additions to property, plant and equipment	10	**(1,016)**	(981)	**(2,380)**	(2,064)
Additions to intangible assets	11	**(205)**	(177)	**(435)**	(238)
Realized gain on foreign exchange derivative		**—**	7,980	**—**	7,980
Proceeds on disposal of property, plant and equipment and intangibles		**360**	288	**3,504**	2,624
Cash flows used in investing activities		**(20,756)**	(205,251)	**(20,703)**	(204,059)

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows (continued)

For the three and nine-month periods ended August 31, 2017 and August 31, 2016

(unaudited)

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

	Notes	Three months ended August 31 **2017**	Three months ended August 31 2016	Nine months ended August 31 **2017**	Nine months ended August 31 2016
		$	$	**$**	$
Financing activities					
Issuance of banker's acceptance		**—**	—	**—**	21,200
Repayment of banker's acceptance		**—**	(6,000)	**—**	(27,500)
Issuance of long-term debt		**13,000**	210,621	**13,000**	210,621
Repayment of long-term debt		**(34,101)**	(34,746)	**(45,153)**	(36,051)
Write-off of long-term debt		**—**	(4)	**—**	(4)
Capitalized financing costs		**(519)**	(2,299)	**(519)**	(2,299)
Dividends paid to non-controlling shareholders of subsidiaries		**—**	—	**(17)**	(100)
Dividends paid		**(2,459)**	(2,458)	**(7,375)**	(6,856)
Cash flows provided by (used in) financing activities		**(24,079)**	165,114	**(40,064)**	159,011
Net increase (decrease) in cash		**(24,048)**	(25,494)	**4,674**	(9,264)
Cash, beginning of period		**64,982**	49,647	**36,260**	33,417
Cash acquired		**—**	19,360	**—**	19,360
Cash, end of period		**40,934**	43,513	**40,934**	43,513

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

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1. Description of the business

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

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

2. Basis of preparation

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

Statement of compliance

The Company’s condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and apply the same accounting policies with the exception of those identified in Note 3, as those described in the Company’s annual consolidated financial statements for the year ended November 30, 2016, prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”).

These condensed interim consolidated financial statements do not include all of the information required under IFRS for complete financial statements and should therefore be read in conjunction with the Company’s annual consolidated financial statements for the year ended November 30, 2016. The Company’s annual consolidated financial statements are available on the SEDAR website at www.sedar.com and on the Company’s website at www.mtygroup.com.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on October 6, 2017.

Seasonality of interim operations

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

2. Basis of preparation (continued)

Estimates, judgments and assumptions

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

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty are as those applied and described in the Company's audited annual consolidated financial statements for the year ended November 30, 2016 as well as those related to the share-based payment arrangements as described in note 16 and financial instruments recorded at fair value as described in note 18.

3. Accounting policies

Share-based payment arrangements

The Company measures stock options granted to employees that vest in specified installments over the service period based on the fair value of each tranche on the grant date by using the Black-Scholes pricing model. Based on the Company's estimate of equity instruments that will eventually vest, a compensation expense is recognized over the vesting period applicable to the tranche with a corresponding increase to contributed surplus. Details regarding the determination of the fair value of equity-settled share based transactions are set out in note 16.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment in contributed surplus. When the stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus.

4. Adoption of IFRS standards

The following standards issued by the IASB were adopted by the Company on December 1, 2016.

Amendments to IAS 1, Presentation of financial statements

The amendments to IAS 1 provide further clarification and amendments on note disclosure requirements. The implementation of these amendments did not have a significant impact on the Company's condensed interim consolidated financial statements.

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.

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 April, 2017 the Company acquired the remaining 1% non-controlling interest of 7687567 Canada Inc. (Lucky 8 Foods), for $30. Following the transaction, 7687567 Canada Inc. has become a wholly-owned subsidiary.

In September, 2016 the Company acquired the remaining 40% non-controlling interests of 9410198 Canada Inc. (Big Smoke Burger Canada), for $1,250. Following the transaction, 9410198 Canada Inc. has become a wholly-owned 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 condensed interim consolidated financial statements.

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

6. Future accounting changes (continued)

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

Standard	Issue date	Effective date [1]	Impact
IFRS 2 Share Based Payment	June 2016	January 1, 2018	Assessed, no impact
IFRS 9 Financial Instruments	July 2014	January 1, 2018	In assessment
IFRS 15 Revenue from contracts with customers	May 2014	January 1, 2018	In assessment, significant impact
IFRS 16 Leases	January 2016	January 1, 2019	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
IFRIC 22 Foreign Currency Transactions and Advance Consideration	December 2016	January 1, 2018	In assessment
IFRIC 23 Uncertainty over Income Tax Treatment	September 2017	January 1, 2019	In assessment

[1] Applicable to fiscal years beginning on or after this date

IFRS 2 has been modified to provide further guidance in relation to the treatment of vesting and non-vesting conditions. It also clarifies the accounting impact for when the terms and conditions of a cash-settled share-based payment transaction are modified.

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

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

The Company is currently evaluating the overall impact of IFRS 15. Based on a preliminary assessment, the Company has determined that the adoption will change the timing of recognition upfront fees received by franchisees such as initial and renewal fees. Currently the Company recognizes such fees as earned when substantially all applicable services required by Company under the franchise agreement have been performed, which is currently when a franchisee assumes control of the franchised location or when a renewal is signed. In accordance with the new guidance, these services would not be considered distinct from the continuing franchise rights during the term of the agreement and as such these fees will be recognized over the term of the agreement. In addition, the Company expects a material change in gift card breakage revenue once it adopts the new standard. The Company currently recognizes revenue once the likelihood of the customer exercising its remaining rights becomes remote.

6. Future accounting changes (continued)

The new standard contains more guidance on how to account for such rights and as such the Company expects to recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. Both the above changes are expected to have a material impact on the consolidated financial statements of the company. Additional changes might be identified as the assessment continues that could have a material impact on the financial statements of MTY.

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 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.

IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

IFRIC 23 is a new standard that will clarify how to apply the recognition and measurement requirements for IAS 12 when there is uncertainty over income tax treatments.

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

7. Business acquisitions

I) 2017 acquisition

On June 16, 2017, the Company announced it had completed through its 80% controlling interest in 10220396 Canada Inc., the acquisition of 100% of the assets of Houston Avenue Bar & Grill and Industria Pizzeria + Bar. The acquisition remains subject to post-closing working capital adjustments. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

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

7. Business acquisitions (continued)

I) 2017 acquisition (continued)

	2017
	$
Consideration paid:	
Purchase price	20,972
Undiscounted promissory notes	(7,910)
Contingent consideration in the form of promissory notes	5,248
Working capital	(304)
Non-controlling interest buyback obligation	957
Non-controlling interest	63
Net purchase price	19,026
Promissory notes and non-controlling interest buyback obligation(note 15, note 18)	(6,268)
Net cash outflow	12,758

The preliminary purchase price allocation is as follows:

	2017
Net assets acquired:	$
Franchise rights	5,833
Trademark	5,667
Goodwill (1)	7,975
	19,475
Current liabilities	
Accounts payable and accrued liabilities	4
Deferred revenue	300
	304
Deferred income tax liability	145
Net purchase price	19,026

(1) Goodwill is deductible for tax purposes

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

Total expenses incurred related to acquisition costs amounted to $nil. The purchase price allocation is still preliminary as post-closing adjustments have not been finalized.

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

7. Business acquisitions (continued)

II) 2017 acquisition

On June 9, 2017, the Company announced it had completed through its 100% owned subsidiary MTY Tiki Ming Entreprises Inc., the acquisition of the assets of The Works Gourmet Burger Bistro. The acquisition remains subject to post-closing working capital adjustments. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

	2017
	$
Consideration paid:	
Purchase price	8,200
Discount on non-interest-bearing holdback	(43)
Working capital and assumed obligations	(273)
Net purchase price	7,884
Holdback (note 15)	(747)
Net consideration paid and net cash outflow	7,137

The preliminary purchase price allocation is as follows:

	2017
Net assets acquired:	$
Current assets	
Inventory	75
Prepaid expenses	48
	123
Property, plant and equipment	1,398
Franchise rights	1,363
Trademark	3,481
Goodwill [1]	1,844
Deferred income tax asset	1
	8,210
Current liabilities	
Accounts payable and accrued liabilities and unredeemed gift card liability	95
Deferred revenue	231
	326
Net purchase price	7,884

[1] Goodwill is deductible for tax purposes

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

7. Business acquisitions (continued)

II) 2017 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 $79. The expenses are presented in operating expenses in the condensed interim consolidated statements of income.

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

III) 2017 acquisition

On May 8, 2017, the Company announced it had completed through its 83.25% controlling interest in 10179612 Canada Inc., the acquisition of the assets of Steak Frites St-Paul and Giorgio Ristorante. The total consideration for the transaction was $467 of which $347 was settled in cash. The transaction resulted in an increase of $253 and $214 to goodwill and trademarks, respectively.

The purchase price allocation is still preliminary.

IV) 2017 acquisition

On December 9, 2016, the Company announced it had completed through its 60% interest in 9974644 Canada Inc. the acquisition of the assets La Diperie. The acquisition remains subject to post-closing working capital adjustments. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

	2017
	$
Consideration paid:	
Purchase price	**1,538**
Discount on non-interest bearing holdback	**(13)**
Net purchase price	**1,525**
Holdback (note 15)	**(87)**
Net consideration paid	**1,438**
Less: Issuance of share to non-controlling interest	**(615)**
Net cash outflow	**823**

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

7. Business acquisitions (continued)

IV) 2017 acquisition (continued)

The preliminary purchase price allocation is as follows:

	2017
Net assets acquired:	$
Current assets	
Inventory	21
	21
Franchise rights	157
Goodwill (1)	1,229
Deferred income tax asset	118
Net purchase price	1,525

(1) Goodwill is deductible for tax purposes

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

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

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

V) 2016 acquisition

On October 5, 2016, the Company acquired the units of BF Acquisition Holdings, LLC, 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 (1)	35,402

(1) Includes $3,540 in holdbacks paid to escrow.

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

7. Business acquisitions (continued)

V) 2016 acquisition (continued)

The preliminary purchase price allocation is as follows:

	2016
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 [1]	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

[1] Goodwill is deductible for tax purposes

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

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

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

VI) 2016 acquisition

On July 26, 2016, MTY announced it had completed the acquisition of Kahala Brands Ltd. 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.

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

7. Business acquisitions (continued)

VI) 2016 acquisition continued

During the nine months ended August 31, 2017 the total merger consideration was adjusted to $393,435 in order to reflect a net decrease in consideration of $759 due to the receipt of final working capital adjustments and an amendment to the repayment terms of the holdback payable.

The resulting adjustments in total merger consideration are highlighted below:

	Preliminary Consideration	Adjustments	Adjusted Consideration
	$	$	$
Consideration paid:			
Total cash consideration	317,016	—	**317,016**
Less: Indebtedness	(51,338)	—	**(51,338)**
Less: Working capital adjustment	(13,690)	297	**(13,393)**
	251,988	**297**	**252,285**
Less: Holdbacks	(39,627)	—	**(39,627)**
Total cash disbursed	**212,361**	**297**	**212,658**
Shares issued	94,753	—	**94,753**
Holdback payable	39,627	—	**39,627**
Less: discount on holdbacks	(4,397)	(1,056)	**(5,453)**
Settlement of Taco Time contract	5,144	—	**5,144**
Total cash and equity consideration	**347,488**	**(759)**	**346,729**
Assumed financial liabilities	46,706	—	**46,706**
Total merger consideration	**394,194**	**(759)**	**393,435**

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

7. Business acquisitions (continued)

VI) 2016 acquisition (continued)

The adjusted purchase price allocation is as follows:

	Preliminary Purchase Price Allocation	Adjustments	Adjusted Purchase Price Allocation
Net assets acquired:	$	$	$
Current assets			
Cash	18,798	—	**18,798**
Accounts receivable	11,859	(314)	**11,545**
Inventory	378	—	**378**
Notes receivable	1,874	(182)	**1,692**
Prepaid expenses and deposits	3,721	—	**3,721**
	36,630	**(496)**	**36,134**
Notes receivable	3,044	—	**3,044**
Property, plant and equipment	2,270	—	**2,270**
Franchise rights	171,399	—	**171,399**
Trademarks	229,973	—	**229,973**
Goodwill [(1)]	152,026	2,041	**154,067**
	595,342	**1,545**	**596,887**
Current liabilities			
Accounts payable and accrued liabilities	13,188	4,223	**17,411**
Notes payable	34,827	—	**34,827**
Income tax liability	3,762	—	**3,762**
Unredeemed gift card liability	68,531	—	**68,531**
Deferred revenue	11,255	—	**11,255**
	131,563	**4,223**	**135,786**
Deferred revenue	2,868	—	**2,868**
Deferred income taxes	113,423	(1,919)	**111,504**
	247,854	**2,304**	**250,158**
Net purchase price	**347,488**	**(759)**	**346,729**

[(1)] 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.

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

7. Business acquisitions (continued)

VI) 2016 acquisition (continued)

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.

8. Accounts receivable

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

	August 31, 2017	November 30, 2016
	$	$
Total accounts receivable	43,411	44,427
Less : Allowance for doubtful accounts	9,405	8,007
Total accounts receivable, net	34,006	36,420
Of which:		
Not past due	23,529	28,647
Past due for more than one day but for no more than 30 days	3,610	1,564
Past due for more than 31 days but for no more than 60 days	1,044	1,178
Past due for more than 61 days	5,823	5,031
Total accounts receivable, net	34,006	36,420

	August 31, 2017	November 30, 2016
	$	$
Allowance for doubtful accounts beginning of year	8,007	5,388
Additions	2,280	2,214
Additions through acquisition	13	1,881
Reversals	192	—
Write-off	(1,087)	(1,476)
Allowance for doubtful accounts end of period	9,405	8,007

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.

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

8. Accounts receivable (continued)

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

	August 31, 2017	November 30, 2016
	$	$
Raw materials	**2,532**	2,092
Work in progress	**7**	44
Finished goods	**3,048**	1,162
Total inventories	**5,587**	3,298

Inventories are presented net of a $17 allowance for obsolescence ($22 as at November 30, 2016). All of the inventories are expected to be sold within the next twelve months.

Inventories expensed during the three and nine-month periods ended August 31, 2017 were $11,194 and $31,993 (2016- $4,065 and $16,369).

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

10. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
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	1,236	3,778	5,495	8,568	869	149	20,095
Additions	**—**	**223**	**404**	**1,594**	**152**	**7**	**2,380**
Disposals	**—**	**(12)**	**(1,501)**	**(1,611)**	**(17)**	**(14)**	**(3,155)**
Foreign exchange	**—**	**—**	**—**	**(136)**	**(11)**	**(6)**	**(153)**
Additions through business combinations	**—**	**—**	**831**	**567**	**—**	**—**	**1,398**
Balance at August 31, 2017	**1,236**	**3,989**	**5,229**	**8,982**	**993**	**136**	**20,565**

Accumulated depreciation	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
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
Eliminated on disposal of assets	**—**	**(7)**	**(663)**	**(521)**	**(8)**	**(14)**	**(1,213)**
Foreign exchange	**—**	**—**	**3**	**(41)**	**(3)**	**(1)**	**(42)**
Depreciation expense	**—**	**130**	**570**	**1,300**	**129**	**19**	**2,148**
Balance at August 31, 2017	**—**	**927**	**1,844**	**3,590**	**504**	**36**	**6,901**

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

10. Property, plant and equipment (continued)

Carrying amounts	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
November 30, 2016	1,236	2,974	3,561	5,716	483	117	14,087
August 31, 2017	**1,236**	**3,062**	**3,385**	**5,392**	**489**	**100**	**13,664**

11. Intangible assets

Cost	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
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
Additions	**94**	**—**	**—**	**—**	**341**	**435**
Disposals	**(1,018)**	**(24)**	**—**	**(169)**	**—**	**(1,211)**
Acquisition through business combinations	**7,353**	**9,362**	**—**	**—**	**—**	**16,715**
Foreign exchange	**(11,916)**	**(17,172)**	**—**	**—**	**—**	**(29,088)**
Balance at August 31, 2017	**239,568**	**315,427**	**1,199**	**739**	**1,635**	**558,568**

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

11. Intangible assets (continued)

Accumulated amortization	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
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
Disposals	**(551)**	**—**	**—**	**(170)**	**—**	**(721)**
Foreign exchange	**(948)**	**—**	**—**	**—**	**—**	**(948)**
Amortization	**16,504**	**—**	**90**	**3**	**195**	**16,792**
Balance at August 31, 2017	**59,143**	**—**	**470**	**738**	**422**	**60,773**

Carrying amounts	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
November 30, 2016	200,917	323,261	819	3	1,067	526,067
August 31, 2017	**180,425**	**315,427**	**729**	**1**	**1,213**	**497,795**

(1) Other items include $347 ($347 as at November 30, 2016) of unamortizable licenses with an indefinite term.

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

12. Goodwill

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

	August 31, 2017	November 30, 2016
	$	$
Balance, beginning of year	**218,887**	55,520
Additional amounts recognized from business acquisitions (note 7)	**13,358**	160,323
Foreign Exchange	**(10,895)**	3,044
Balance, end of period	**221,350**	218,887

13. Provisions

Included in provisions are the following amounts:

	August 31, 2017	November 30, 2016
	$	$
Litigations and disputes	**3,325**	1,768
Closed stores	**1,060**	873
	4,385	2,641
Gift card liabilities/loyalty programs liabilities	**64,150**	72,018
Total	**68,535**	74,659

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

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

13 . Provisions (continued)

The provisions 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.

The litigation and disputes and closed store provisions also varied in part due to foreign exchange fluctuations related to the US subsidiaries.

	August 31, 2017	November 30, 2016
	$	$
Provision for litigation and disputes and closed stores, beginning balance	**2,641**	2,133
Reversals	**(836)**	(830)
Amounts used	**(908)**	(1,690)
Additions	**3,625**	3,028
Impact of foreign exchange	**(137)**	—
Provision for litigation and disputes and closed stores, ending balance	**4,385**	2,641

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

14. Deferred revenue and deposits

	August 31, 2017	November 30, 2016
	$	$
Franchise fee deposits	**6,765**	5,953
Supplier contributions and other allowances	**3,142**	11,177
Unearned rent	**12,527**	3,431
	22,434	20,561
Current portion	**(20,247)**	(18,080)
	2,187	2,481

15. Long-term debt

On August 29, 2017, the Company modified its existing credit facilities payable to a syndicate of lenders. The modification resulted in an increase to the revolving credit facility which now has an authorized amount of $305,000, (November 30, 2016 - $150,000) and the cancellation of the existing term loan of $154,716 (November 30, 2016 $165,000). Transaction costs of $519 were incurred and will be deferred and amortized over the remaining 4 years of the life of the revolver. As at August 31, 2017, $213,522 was drawn from the revolving credit facility.

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

For amounts drawn in US dollars, the Company has the option to pay interest based on US base rates 4.75% as at August 31, 2017 (3.25% as at November 30, 2016), plus a margin not exceeding 2.00%, or based on LIBOR plus a margin not exceeding 3.00%. For amounts drawn in Canadian dollars, the Company has the option to pay interest based on the Canada Prime rate, 3.95% as at August 31, 2017 (2.70% as at November 30, 2016), as determined by the Toronto-Dominion Bank of Canada, plus a margin not exceeding 2.00% or based on Banker's Acceptances, plus a margin not exceeding 3.00%.

Under this facility, the Company is required to comply with certain financial covenants, including a debt to earnings before interest, taxes and amortization ratio and a fixed charges coverage ratio. As at August 31, 2017, the Company was in compliance with those financial covenants.

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

15. Long-term debt (continued)

	August 31, 2017	November 30, 2016
	$	$
Non-interest bearing contract cancellation fees, payable in US dollars based on the performance of certain stores.	**67**	72
Non-interest bearing holdbacks on acquisition of La Diperie, repayable December 2018	**91**	—
Non-interest bearing holdbacks on acquisition of Manchu Wok, settled in December 2016.	**—**	620
Non-interest bearing holdbacks on acquisition of Big Smoke Burger, repayable September 2018.	**281**	276
Non-interest bearing holdbacks on acquisition of Kahala Brands, repayable July 2017, 2018, 2019 and August 2020.	**9,266**	17,736
Non-interest bearing holdbacks on acquisition of The Works, repayable June 2019.	**750**	—
Non-interest bearing loan payable during 2017.	**—**	171
Fair value of promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar, repayable October 2019 and June 2022 (Note 7 and Note 18)	**5,248**	—
Fair value non-controlling interest buyback obligation (Note 7 and Note 18) (1)	**957**	—
Revolving credit facility payable to a syndicate of lenders (2)	**213,522**	72,255
Term loan payable to a syndicate of lenders (3)	**—**	165,000
Revolving credit facility and term loan financing costs, amortized using the effective interest method	**(2,295)**	(2,397)
	227,887	253,733
Current portion of Long-term debt	**(2,780)**	(15,041)
	225,107	238,692

(1) Payable at the earlier of 3 years from the date option is exercised or June 2022.
(2) Under the revolving credit facility, the Company has the option to draw funds in Canadian or in US dollars, at its discretion. The facility's maturity is July 21, 2021 and must be repaid in full at that time. As at August 31, 2017, the Company had drawn US$-Nil and C$213,522, (2016-US$53,800 and C$72,255) and had elected to pay interest based on LIBOR and bankers' acceptances plus the applicable margins.
(3) The Term loan facility was converted into the revolving credit facility in August 2017.

16. Share-based payments

The Company offers for the benefit of their directors, employees, officers or consultants a share option plan. In accordance with the terms of the plan the Company may grant stock options on the common shares at the discretion of the Board of Directors.

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

16. Share-based payments (continued)

Under the Stock Option Plan of the Company, the following options were granted and are outstanding at August 31, 2017:

	2017	
	Number of Options	Weighted average exercise price
		$
Outstanding at November 30, 2016	—	—
Granted	200,000	48.36
Forfeited /Cancelled/Expired	—	—
Exercised	—	—
Outstanding at August 31, 2017	200,000	48.36
Exercisable at August 31, 2017	—	—

Options granted during the nine-month period ended August 31, 2017 have a service condition in order to vest and excluding the first year, will vest pro-rata over the service period. The options will expire on April 11, 2027. No options were granted during the three-month period ended August 31, 2017.

The fair value of the stock options granted for the nine-month period ended August 31, 2017 was $14.69 per option. The fair value of the options granted was estimated at the grant date for purposes of determining share-based payment expense using the Black-Scholes option pricing model based on the following assumptions:

	2017
Acquisition date share price	$48.36
Exercise price	$48.36
Expected dividend yield	1.0%
Expected volatility	24.9%
Risk-free interest rate	1.8%
Expected life (in years)	10 years

A compensation expense of $159 and $244 were recorded for the three and nine-month periods ended August 31, 2017. The expense is presented in operating expenses in the condensed interim consolidated statements of income.

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

17. 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 are used for the purpose of diluted earnings per share:

	August 31, 2017	August 31, 2016
Weighted daily average number of common shares [1]	**21,374,497**	19,423,823

[1] The stock options granted did not have a dilutive effect for the three and nine-month periods ended August 31, 2017.

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

18. 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

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

A discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company, with respect to these promissory notes. These notes are subject to significant unobservable inputs such as discount rates and projected revenues and EBITDA. An increase or decrease by 1% in the discount rates used would have an impact of $204 on the fair value, as at August 31, 2017.

A fair value re-measurement of $nil was recorded for these promissory notes for the three and nine-month periods ended August 31, 2017.

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

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

18. Financial instruments (continued)

A discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company with respect to this obligation. The non-controlling interest buyback obligation is subject to significant unobservable inputs such as discount rate and projected EBITDA. An increase or decrease by 1% in the discount rates used would have an impact of $48 on the carrying amount as at August 31, 2017.

A fair value re-measurement of $nil was recorded for this non-controlling interest buyback obligation for the three and nine-month periods ended August 31, 2017.

Fair value hierarchy as at August 31, 2017

	Level 1	Level 2	Level 3
Financial liabilities			
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	—	—	5,248
Non-controlling interest buyback obligation	—	—	957
Financial Liabilities	—	—	6,205

For the remaining financial assets and financial liabilities of the Company, the carrying amounts are a reasonable approximation of fair value as at August 31, 2017 and as at November 30, 2016.

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at August 31, 2017.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the condensed interim 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 $2,150 (November 30, 2016 - $906).

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

18. Financial instruments (continued)

Foreign exchange risk

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

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

As at August 31, 2017, the Company has the following financial instruments denominated in foreign currencies:

	August 31, 2017		November 30, 2016	
	USD	**CAD**	USD	CAD
	$	**$**	$	$
Financial assets				
Cash	**23,358**	**29,281**	20,310	27,277
Net Accounts receivable	**12,962**	**16,249**	13,901	18,669
Financial liabilities				
Net Accounts payable	**20,143**	**25,251**	65,961	88,587
Portion of holdback included in income taxes payable	**8,994**	**11,275**	8,994	12,079
Revolving credit facility	**—**	**—**	53,800	72,255
Long-term debt	**7,444**	**9,333**	13,333	17,907
Net Financial Liabilities	**(261)**	**(329)**	(107,877)	(144,882)

All other factors being equal, a reasonable possible 1% rise in foreign currency exchange rates per Canadian dollar would result in a C$3 (November 30, 2016 - C$1,449) change on the statements of profit or loss and net comprehensive income.

Total US net income for the nine-month period was US$12,714 (C$16,026), (2016 – US$2,329; C$3,420). A 1% change to foreign exchange would represent a gain to the Company of C$160 (2016 - C$34).

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

18. Financial instruments (continued)

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 which was used to finance the Company's acquisitions. The facility bears interest at a variable rate and as such the interest burden could change materially. $213,522 of the credit facility was used as at August 31, 2017 (November 30, 2016 - $237,255). A 100 basis points increase in the bank's prime rate would result in additional interest of $2,135 per annum (2016 - $2,373) on the outstanding credit facility.

Liquidity risk

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

As at August 31, 2017, the Company had an authorized revolving credit facility for which the available amount may not exceed $305,000 to ensure that sufficient funds are available to meet its financial requirements. The terms and conditions related to this revolving credit facility is described in note 15.

The following are the contractual maturities of financial liabilities as at August 31, 2017:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	thereafter
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**51,071**	**51,071**	**51,071**	**—**	**—**	**—**
Portion of holdback included in income taxes payable	**11,274**	**11,274**	**—**	**3,679**	**3,708**	**3,887**
Long-term debt	**227,887**	**233,335**	**104**	**4,035**	**5,157**	**224,039**
Interest on long-term debt (1)	**n/a**	**27,137**	**3,464**	**3,464**	**6,929**	**13,280**
	290,232	**322,817**	**54,639**	**11,178**	**15,794**	**241,206**

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

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

19. Capital disclosures

The Company's objectives when managing capital are:

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

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

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

The Company defines its capital as follows:

(a) Shareholders' equity;

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

(c) Deferred revenue including the current portion;

(d) Cash

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

20. Revenues

The Company's revenues include:

	Three months ended August 31		Nine months ended August 31	
	2017	2016	**2017**	2016
	$	$	**$**	$
Royalties	**33,145**	20,996	**90,727**	48,390
Franchise and transfer fees	**3,190**	2,296	**9,383**	5,274
Rent	**561**	827	**1,706**	2,473
Sale of goods, including construction revenues	**23,023**	19,766	**68,198**	47,328
Other franchising revenue	**12,771**	8,323	**40,120**	18,546
Other	**915**	678	**3,766**	1,557
	73,605	52,886	**213,900**	123,568

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

21. Operating expenses

Operating expenses are broken down as follows:

	Three months ended August 31		Nine months ended August 31	
	2017	2016	**2017**	2016
	$	$	**$**	$
Cost of goods sold and rent	**14,738**	10,157	**46,565**	33,183
Wages and benefits	**16,859**	12,425	**51,397**	27,777
Consulting and professional fees	**2,981**	3,626	**9,626**	6,381
Gift cards costs	**2,587**	1,682	**6,636**	1,682
Royalties	**2,098**	2,855	**5,583**	3,358
Other (1)	**7,619**	4,188	**20,318**	8,308
	46,882	34,933	**140,125**	80,689

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

22. 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
	$	$	$
2018	127,252	117,608	9,644
2019	116,232	107,834	8,398
2020	102,289	94,611	7,678
2021	89,466	82,360	7,106
2022	75,648	69,695	5,953
Thereafter	218,661	206,267	12,394
	729,548	**678,375**	**51,173**

Payments recognized as a net expense during the three and nine-month periods ended August 31, 2017 amount to $5,013 and $17,202 (2016 - $7,872 and 13,831).

22. Operating lease arrangements (continued)

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

During the three and nine-month period ended August 31, 2017, the Company earned rental revenue of $561 and $1,706 (2016 - $828 and $2,474).

The Company has recognized a liability of $1,060 (November 30, 2016 - $873) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (note 13).

23. Guarantees

The Company has provided a guarantee in form of a letter of credit for an amount of $25 (November 30, 2016 - $66).

The Company has provided a guarantee on certain leases for which it is not the lessee, for a cumulative amount of $1,490 (November 30, 2017 - $1,780).

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

24. Income taxes

Variations of income tax expense from the basic Canadian Federal and Provincial combined tax rates applicable to income from operations before income taxes for the nine-month period ended August 31, 2017 and August 31, 2016 are as follows:

	August 31, 2017		August 31, 2016	
	$	**%**	$	%
Combined income tax rate	**13,615**	**26.8**	12,232	28.0
Add effect of:				
Difference between Canadian and foreign statutory rate	**(264)**	**(0.5)**	—	—
Non-taxable portion of capital gains	**(336)**	**(0.7)**	(1,073)	(2.5)
Permanent differences	**27**	**0.1**	(128)	(0.3)
Disposition of capital property	**—**	**—**	—	—
Losses in a subsidiary for which no deferred income tax asset was recorded	**6**	**—**	—	—
Usage of previously unrecognized tax losses	**—**	**—**	(877)	(2.0)
Variation in current and deferred taxes attributable to foreign exchange	**144**	**0.3**	83	0.2
Impact of Investment in subsidiaries	**—**	**—**	(248)	(0.6)
Adjustment to prior year provisions	**613**	**1.2**	504	1.2
Other – net	**(2)**	**0.0**	4	0.0
Provision for income taxes	**13,803**	**27.2**	10,497	24.0

25. Segmented information

Management monitors and evaluates results of the Company based on geographical segments; these two segments being Canadian and United States of America. Each geographical area is managed by their respective Chief Operating Officers (COO) whom brand leaders report to account for the results of their operations.

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

25. Segmented information (continued)

Below is a summary of each geographical segment's performance during the nine-month period ended August 31, 2017 and August 31, 2016.

	Canada	USA & International	Total August 31, 2017	Canada	USA & International	Total August 31, 2016
	$	$	$	$	$	$
Operating revenues	**102,248**	**111,652**	**213,900**	103,658	19,910	123,568
Operating expenses	**65,377**	**74,748**	**140,125**	66,791	13,898	80,689
	36,871	**36,904**	**73,775**	36,867	6,012	42,879
Other expenses						
Depreciation – property, plant and equipment	**1,178**	**970**	**2,148**	1,034	185	1,219
Amortization – intangible assets	**4,401**	**12,391**	**16,792**	4,653	1,171	5,824
Interest on long-term debt	**6,357**	**1,487**	**7,844**	892	169	1,061
Other income						
Foreign exchange gain (loss)	**2,353**	**11**	**2,364**	(731)	2	(729)
Interest income	**66**	**307**	**373**	213	—	213
Realized gain on foreign exchange derivative	**—**	**—**	**—**	7,980	—	7,980
Gain on disposal of property, plant and equipment	**570**	**502**	**1,072**	1,447	1	1,448
Operating income	**27,924**	**22,876**	**50,800**	39,197	4,490	43,687
Current income taxes	**5,963**	**7,809**	**13,772**	7,975	1,131	9,106
Deferred income taxes	**990**	**(959)**	**31**	1,452	(61)	1,391
Net income	**20,971**	**16,026**	**36,997**	29,770	3,420	33,190

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

26. Statement of cash flows

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

	Three months ended August 31		Nine months ended August 31	
	2017	2016	**2017**	2016
	$	$	**$**	$
Accounts receivable	**(1,000)**	2,388	**2,095**	3,761
Inventories	**(368)**	(705)	**(2,193)**	(1,039)
Loans receivable	**1,790**	(24)	**1,916**	(77)
Prepaid expenses and deposits	**147**	(5,253)	**4,167**	(5,402)
Accounts payable and accrued liabilities	**978**	5,297	**2,402**	5,829
Provisions	**(5,818)**	(4,485)	**(6,201)**	(4,933)
	(4,271)	(2,782)	**2,186**	(1,861)

27. Related party transactions

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

Compensation of key management personnel

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

	Three months ended August 31		Nine months ended August 31	
	2017	2016	**2017**	2016
	$	$	**$**	$
Short-term benefits	**360**	293	**1,063**	709
Share-based payment	**158**	—	**243**	—
Board member fees	**13**	17	**37**	39
Total remuneration of key management personnel	**531**	310	**1,343**	748

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

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

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

27. Related party transaction (continued)

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

	Three months ended August 31		Nine months ended August 31	
	2017	2016	**2017**	2016
	$	$	**$**	$
Short-term benefits	**210**	165	**541**	455
Total remuneration of individuals related to key management personnel	**210**	165	**541**	455

28. Subsequent events

On September 29, 2017, the Company completed its acquisition of the assets of Dagwoods Sandwiches and Salads (“Dagwoods”) for a total consideration of approximately $3.0 million of which $2.6 million was paid on closing in cash with cash on hand and the remainder retained as a holdback on the transaction. Dagwoods currently operates 22 Canadian locations.