Condensed interim consolidated financial statements of

MTY Food Group Inc.

For the three-month periods ended February 28, 2018 and 2017

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three month periods ended February 28, 2018 and 2017
(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-month periods ended February 28, 2018 and February 28, 2017 have not been reviewed by an external auditor.

	Notes	February 28, 2018	February 28, 2017
		$	$
Revenue	22 and 28	**63,715**	64,016
Expenses			
Operating expenses	23 and 28	**43,803**	47,680
Depreciation – property, plant and equipment	11	**536**	986
Amortization – intangible assets	12	**5,062**	5,554
Interest on long-term debt		**2,447**	2,701
		51,848	56,921
Other income (charges)			
Unrealized and realized foreign exchange loss		**(40)**	(5,365)
Interest income		**145**	100
Loss on revaluation of financial liabilities recorded at fair value through profit and loss		**(96)**	—
Gain on disposal of property, plant and equipment and intangibles		**9**	286
		18	(4,979)
Income before taxes		**11,885**	2,116
Income tax (recovery) expense	27		
Current		**6,492**	1,934
Deferred		**(39,988)**	(1,893)
		(33,496)	41
Net income		**45,381**	2,075
Net income attributable to:			
Owners		**45,332**	2,015
Non-controlling interests		**49**	60
		45,381	2,075
Earnings per share	19		
Basic and diluted		**2.12**	0.09

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

MTY Food Group Inc.

Condensed interim consolidated statements of comprehensive income

For the three-month periods ended February 28, 2018 and 2017
(unaudited)
(In thousands of Canadian dollars, except per share amounts and stock options)

	Notes	**February 28, 2018**	February 28, 2017
		$	$
Net income		**45,381**	2,075
Items that may be reclassified subsequently to profit or loss			
Unrealized loss on translation of foreign operations		**(1,284)**	(3,951)
Deferred tax (recovery) expense on foreign currency translation adjustments		**(196)**	744
Other comprehensive loss		**(1,480)**	(3,207)
Total comprehensive income (loss)		**43,901**	(1,132)
Total comprehensive income attributable to:			
Owners		**43,852**	(1,192)
Non-controlling interest		**49**	60
		43,901	(1,132)

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

MTY Food Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity

For the three-month periods ended February 28, 2018 and 2017

(unaudited)

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

		Reserves							
	Capital stock	Other	Contributed surplus	Foreign currency translation	Total reserves	Retained earnings	Total	Equity attributable to non-controlling interest	Total
	$	$	$	$	$	$	$	$	$
Balance as at November 30, 2016	114,545	—	481	2,615	3,096	192,543	310,184	682	310,866
Net income for the three-month period ended February 28, 2017	—	—	—	—	—	2,015	2,015	60	2,075
Other comprehensive income	—	—	—	(3,207)	(3,207)	—	(3,207)	—	(3,207)
Acquisition of La Diperie (note 6)	—	—	—	—	—	—	—	615	615
Dividends	—	—	—	—	—	(2,458)	(2,458)	(17)	(2,475)
Balance as at February 28, 2017	114,545	—	481	(592)	(111)	192,100	306,534	1,340	307,874
Net income for the nine-month period from March 1, 2017 to November 30, 2017	—	—	—	—	—	47,492	47,492	287	47,779
Other comprehensive loss	—	—	—	(12,553)	(12,553)	—	(12,553)	—	(12,553)
Acquisition of non-controlling interest in 7687567 Canada Inc (note 4)	—	—	—	—	—	(26)	(26)	(4)	(30)
Acquisition of Steak Frites and Giorgio (note 6)	—	—	—	—	—	—	—	16	16
Acquisition of Houston and Industria (note 6)	—	—	—	—	—	—	—	63	63
Dividends	—	—	—	—	—	(7,374)	(7,374)	—	(7,374)
Option granted to minority interest 9974644 Canada Inc. (note 17 and 20)	—	(850)	—	—	(850)	—	(850)	—	(850)
Stock options (note 18)	—	—	401	—	401	—	401	—	401
Balance as at November 30, 2017	114,545	(850)	882	(13,145)	(13,113)	232,192	333,624	1,702	335,326
Net income for the three-month period ended February 28, 2018	**—**	**—**	**—**	**—**	**—**	**45,332**	**45,332**	**49**	**45,381**
Other comprehensive loss	**—**	**—**	**—**	**(1,480)**	**(1,480)**	**—**	**(1,480)**	**—**	**(1,480)**
Dividends	**—**	**—**	**—**	**—**	**—**	**(3,206)**	**(3,206)**	**(30)**	**(3,236)**
Stock options (note 18)	**—**	**—**	**155**	**—**	**155**	**—**	**155**	**—**	**155**
Balance as at February 28, 2018	**114,545**	**(850)**	**1,037**	**(14,625)**	**(14,438)**	**274,318**	**374,425**	**1,721**	**376,146**

The following dividends were declared and paid by the Company:

	February 28, 2018	February 28,2017
	$	$
$0.15 per common share (2017 - $0.115 per common share)	**3,206**	2,458

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

MTY Food Group Inc.

Condensed interim consolidated statements of financial position

As at February 28, 2018 and November 30, 2017

(unaudited)

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

	Notes	**February 28, 2018**	November 30, 2017
		$	$
Assets			
Current assets			
Cash		**40,810**	56,453
Accounts receivable	7	**32,683**	34,151
Inventories	8	**3,561**	3,281
Loans receivable	10	**2,154**	2,817
Income taxes receivable		**1,408**	1,408
Other assets		**1,305**	1,163
Prepaid expenses and deposits	9	**59,805**	5,461
		141,726	104,734
Loans receivable	10	**5,533**	3,109
Deferred income tax		**319**	351
Property, plant and equipment	11	**13,353**	13,081
Intangible assets	12	**524,708**	506,134
Goodwill	13	**231,117**	226,936
		916,756	854,345
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**56,025**	57,555
Provisions	15	**79,691**	75,331
Income taxes payable		**21,258**	19,273
Deferred revenue and deposits	16	**21,298**	20,844
Current portion of long-term debt	17	**4,497**	4,240
		182,769	177,243
Long-term debt	17	**280,932**	222,962
Deferred revenue and deposits	16	**1,624**	1,946
Deferred income taxes		**75,285**	116,868
		540,610	519,019

MTY Food Group Inc.

Condensed interim consolidated statements of financial position (continued)

As at February 28, 2018 and November 30, 2017

(unaudited)

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

	Notes	February 28, 2018	November 30, 2017
		$	$
Shareholders' equity			
Equity attributable to owners			
Capital stock		**114,545**	114,545
Reserves		**(14,438)**	(13,113)
Retained earnings		**274,318**	232,192
		374,425	333,624
Equity attributable to non-controlling interest		**1,721**	1,702
		376,146	335,326
		916,756	854,345

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

Approved by the Board on April 6, 2018

______________________________, Director

______________________________, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three-month periods ended February 28, 2018 and 2017
(unaudited)
(In thousands of Canadian dollars, except per share amounts and stock options)

	Notes	February 28, 2018	February 28, 2017
		$	$
Operating activities			
Net income		**45,381**	2,075
Adjusting items:			
Interest on long-term debt		**2,447**	2,907
Depreciation – property, plant and equipment		**536**	986
Amortization – intangible assets		**5,062**	5,554
Gain on disposal of property, plant and equipment and intangibles		**(9)**	(286)
Loss on revaluation of financial liabilities recorded at fair value through profit and loss		**96**	—
Unrealized foreign exchange loss		**144**	6,146
Income tax (recovery) expense		**(33,496)**	41
Deferred revenue and deposits		**28**	(292)
Share based payments		**155**	—
		20,344	17,131
Income taxes paid		**(4,483)**	(5,611)
Interest paid		**(1,892)**	(2,165)
Changes in non-cash working capital items	29	**(964)**	7,441
Cash flows provided by operating activities		**13,005**	16,796
Investing activities			
Net cash outflow on acquisition	6	**(28,336)**	(823)
Deposit for acquisition of Imvescor Restaurant Group	9	**(51,928)**	—
Additions to property, plant and equipment		**(194)**	(826)
Additions to intangible assets		**(16)**	(126)
Proceeds on disposal of property, plant and equipment		**31**	787
Cash flows used in investing activities		**(80,443)**	(988)

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows (continued)

For the three-month periods ended February 28, 2018 and 2017

(unaudited)

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

	Notes	**February 28, 2018**	February 28, 2017
		$	$
Financing activities			
Issuance of long term debt		**55,000**	—
Repayment of holdback		**(3)**	(7,833)
Dividends paid to non-controlling shareholders of subsidiaries		**(30)**	(17)
Dividends paid		**(3,206)**	(2,458)
Cash flows provided by (used in) financing activities		**51,761**	(10,308)
Net (decrease) increase in cash		**(15,677)**	5,500
Cash acquired through acquisition		**34**	—
Cash, beginning of period		**56,453**	36,260
Cash, end of period		**40,810**	41,760

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

Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and apply the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended November

2. Basis of preparation (continued)

Statement of compliance (continued)

30, 2017, prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), with the exception of those identified in Note 3.

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, 2017. The Company's annual consolidated financial statements are available on the SEDAR website at www.sedar.com and on the Company's website at www.mtygroup.com.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on April 6, 2018.

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.

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, 2017.

3. Adoption of IFRS standards

The following standards issued by the IASB were adopted by the Company on December 1, 2017.

Amendment to IAS 12, Income taxes

The amendment to IAS 12 provided further clarification with regards to the recognition of deferred tax assets for unrealized losses. The adoption amendment did not have a significant impact on the Company's financial statements.

IAS 7, Statement of Cash Flows

IAS 7 has been amended to provide additional presentation related to the changes in liabilities arising from financing activities such as: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The adoption of the amended version of this standard had no impact on the Company's financial statements, except for new disclosure requirements that are presented in note 29.

4. 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.

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

4. Consolidation (continued)

b) Non-controlling interests

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

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

5. 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 February 28, 2018, and have not been applied in preparing these condensed interim consolidated financial statements.

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

Standard	Issue date	Effective date for the Company	Impact
IFRS 9 Financial Instruments	July 2014	December 1, 2018	In assessment
IFRS 15 Revenue from contracts with customers	May 2014	December 1, 2018	In assessment
IFRS 16 Leases	January 2016	December 1, 2019	In assessment
IFRIC 22 Foreign Currency Transactions and advance Consideration	December 2016	December 1, 2018	In assessment
IFRIC 23 uncertainty over income tax treatments	June 2017	December 1 2019	In assessment

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. 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.

5. Future accounting changes (continued)

IFRS 15 replaces the following standards: *IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services*. This new standard sets out the requirements for recognizing and disclosing revenue that apply to all contracts with customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

On April 12, 2016, the IASB issued Clarifications to IFRS 15, Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property.

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*.

In December 2016, the IASB issued IFRIC 22 which provides an interpretation on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income. This Interpretation provides guidance for when a single payment or receipt is made, as well as for situations where multiple payments or receipts are made and aims to reduce diversity in practice. This standard is effective for annual reporting periods beginning on or after January 1, 2018.

IFRIC 23 clarifies the accounting for uncertainties in income taxes.

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.

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

6. Business acquisitions

I) Acquisition of the Counter Custom Burgers and Built Custom Burgers (2018)

On December 1, 2017, the Company completed its acquisition of all the limited liability company interests in CB Franchise Systems, LLC and Built Franchise Systems, LLC. The total consideration for the transaction was $30,961 (US$ 24,323). 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.

	2018
	$
Consideration paid:	
Purchase price	28,893
Repayment of external debt	1,261
Working capital	1,141
Discount on non-interest-bearing holdback	(334)
Net purchase price	30,961
Holdback (note 17)	(2,625)
Net consideration paid/cash outflow	28,336

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

6. Business acquisitions (continued)

l) Acquisition of the Counter Custom Burgers and Built Custom Burgers (2018) (continued)

The preliminary purchase price allocation is as follows:

	2018
Net assets acquired:	**$**
Current assets	
Cash	**34**
Accounts receivable	**426**
Inventory	**71**
Prepaid expenses and deposits	**87**
	618
Property, plant and equipment	**633**
Franchise rights	**9,165**
Trademarks	**16,802**
Goodwill [1]	**5,146**
	32,364
Current liabilities	
Accounts payable and accrued liabilities	**956**
Unredeemed gift card liability	**291**
Deferred revenues	**104**
Deferred income tax	**52**
	1,403
Net purchase price	**30,961**

[1] Goodwill is deductible for tax purposes

Total expenses incurred related to acquisition costs amounted to $77.

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)

6. Business acquisitions (continued)

II) Acquisition of Dagwoods Sandwiches and Salads (2017)

On September 29, 2017, the Company announced it had completed through its 100% owned subsidiary MTY Tiki Ming Entreprises Inc., the acquisition of the assets of Dagwoods Sandwiches and Salads for a consideration of $3,000, 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	3,000
Discount on non-interest-bearing holdback	(20)
Working capital and assumed obligations	(64)
Net purchase price	2,916
Holdback (note 17)	(330)
Net consideration paid and cash outflow	2,586

The preliminary purchase price allocation is as follows:

	2017
Net assets acquired:	$
Franchise rights	640
Trademark	1,271
Goodwill (1)	1,070
	2,981
Current liabilities	
Accounts payable and accrued liabilities	11
Deferred revenue	54
	65
Net purchase price	2,916

(1) Goodwill is deductible for tax purposes

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

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

6. Business acquisitions (continued)

III) Acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar (2017)

On June 16, 2017, the Company announced it had completed through its 80% controlling interest in 10220396 Canada Inc., the acquisition of the assets of Houston Avenue Bar & Grill and Industria Pizzeria + Bar. The Company's share of the purchase consideration amounted to $16,778 and 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	20,972
Undiscounted promissory notes	(7,910)
Contingent consideration in the form of promissory notes (note 20)	5,248
Working capital	(304)
Non-controlling interest buyback obligation (note 17)	957
Non-controlling interest[1]	63
Net purchase price	19,026
Promissory notes and non-controlling interest buyback obligation (note 17, note 20)	(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 [2]	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) Non-controlling interest was measured at fair value which includes the use of discounted cash flow model which is subject to significant unobservable inputs such as discount rate and projected EBITDA. EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

(2) Goodwill is deductible for tax purposes

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

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

6. Business acquisitions (continued)

IV) Acquisition of The Works Gourmet Burger Bistro (2017)

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 17)	(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	49
	124
Property, plant and equipment	1,398
Franchise rights	1,363
Trademark	3,481
Goodwill [1]	1,844
	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)

6. Business acquisitions (continued)

IV) Acquisition of The Works Gourmet Burger Bistro (2017) (continued)

Total expenses incurred related to acquisition costs amounted to $79. The expenses are presented in operating expenses in consolidated statements of income.

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

V) Acquisition of Steak Frites St-Paul and Giorgio Ristorante (2017)

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.

VI) Acquisition of La Diperie (2017)

On December 9, 2016, the Company announced it had completed through its 60% interest in 9974644 Canada Inc. the acquisition of the assets of La Diperie. The Company's share of the purchase consideration amounted to $917. 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	1,529
Discount on non-interest-bearing holdback	(13)
Net purchase price	1,516
Holdback (note 17)	(87)
Net consideration paid	1,429
Less: Issuance of shares to non-controlling interest (1)	(615)
Net cash outflow	814

(1) Non-controlling interest was measured at fair value.

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

6. Business acquisitions (continued)

VI) Acquisition of La Diperie (2017) (continued)

The purchase price allocation is as follows:

	2017
Net assets acquired:	$
Current assets	
Inventory	12
	12
Franchise rights	63
Goodwill [1]	1,444
	1,507
Deferred income tax Liability	3
Net purchase price	1,516

[1] Goodwill is deductible for tax purposes

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

7. Accounts receivable

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

	February 28, 2018	November 30, 2017
	$	$
Total accounts receivable	**42,289**	43,762
Less : Allowance for doubtful accounts	**9,606**	9,611
Total accounts receivable, net	**32,683**	34,151
Of which:		
Not past due	**22,281**	**25,885**
Past due for more than one day but for no more than 30 days	**3,951**	**1,568**
Past due for more than 31 days but for no more than 60 days	**1,574**	**1,483**
Past due for more than 61 days	**4,877**	**5,215**
Total accounts receivable, net	**32,683**	**34,151**

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

8. Inventories

	February 28, 2018	November 30, 2017
	$	$
Raw materials	**2,074**	1,966
Work in progress	**—**	—
Finished goods	**1,487**	1,315
Total inventories	**3,561**	3,281

Inventories are presented net of a $17 allowance for obsolescence ($17 as at November 30, 2017). All of the inventories are expected to be sold within the next twelve months.

Inventories expensed during the three-month periods ended February 28, 2018 were $9,834 (2017 - $11,056).

9. Prepaid expenses and deposits

As at February 28, 2018, the Company had prepaid $51,928 to a transfer agent in connection with the acquisition of Imvescor Restaurant Group Inc., which closed on March 1, 2018

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

10. Loans receivable

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

	February 28, 2018	November 30, 2017
	$	$
Loans receivable bearing interest between nil and 11% per annum, receivable in monthly instalments of $233 in aggregate, including principal and interest, ending in 2024	**7,687**	5,926
	7,687	5,926
Current portion	**(2,154)**	(2,817)
	5,533	3,109

The capital repayments in subsequent years will be:

	$
2018	2,154
2019	859
2020	2,844
2021	377
2022	280
Thereafter	1,173
	7,687

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

11. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance at November 30, 2016	1,236	3,778	5,495	8,568	869	149	20,095
Additions	—	223	873	1,522	191	6	2,815
Disposals	—	(12)	(1,921)	(2,026)	(28)	(14)	(4,001)
Foreign exchange	—	—	1	(89)	(8)	(3)	(99)
Additions through business combinations	—	—	831	567	—	—	1,398
Balance at November 30, 2017	1,236	3,989	5,279	8,542	1,024	138	20,208
Additions	**—**	**33**	**10**	**134**	**4**	**13**	**194**
Disposals	**—**	**—**	**(30)**	**(9)**	**—**	**—**	**(39)**
Additions through business combinations	**—**	**—**	**—**	**633**	**—**	**—**	**633**
Foreign exchange	**—**	**—**	**—**	**(1)**	**—**	**—**	**(1)**
Balance at February 28, 2018	**1,236**	**4,022**	**5,259**	**9,299**	**1,028**	**151**	**20,995**

Accumulated depreciation	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance at November 30, 2016	—	804	1,934	2,852	386	32	6,008
Eliminated on disposal of assets	—	(7)	(836)	(720)	(12)	(14)	(1,589)
Foreign exchange	—	—	3	(17)	(2)	—	(16)
Depreciation expense	—	175	733	1,615	176	25	2,724
Balance at November 30, 2017	—	972	1,834	3,730	548	43	7,127
Eliminated on disposal of assets	**—**	**—**	**(16)**	**(1)**	**—**	**—**	**(17)**
Foreign exchange	**—**	**—**	**—**	**(4)**	**—**	**—**	**(4)**
Depreciation expense	**—**	**44**	**152**	**290**	**38**	**12**	**536**
Balance at February 28, 2018	**—**	**1,016**	**1,970**	**4,015**	**586**	**55**	**7,642**

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

11. Property, plant and equipment (continued)

Carrying amounts	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
November 30, 2017	1,236	3,017	3,445	4,812	476	95	13,081
February 28, 2018	**1,236**	**3,006**	**3,289**	**5,284**	**442**	**96**	**13,353**

12. Intangible assets

Cost	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[(1)]	Total
	$	$	$	$	$	$
Balance at November 30, 2016	245,055	323,261	1,199	908	1,294	571,717
Additions	97	5	—	—	351	453
Disposals	(3,050)	(24)	—	(170)	—	(3,244)
Acquisition through business combinations	7,899	10,633	—	—	—	18,532
Foreign exchange	(7,229)	(10,421)	—	—	—	(17,650)
Impairment	(309)	(731)	—	—	—	(1,040)
Balance at November 30, 2017	242,463	322,723	1,199	738	1,645	568,768
Additions	**—**	**—**	**—**	**—**	**16**	**16**
Acquisition through business combinations	**9,165**	**16,802**	**—**	**—**	**—**	**25,967**
Foreign exchange	**(993)**	**(1,406)**	**—**	**—**	**—**	**(2,399)**
Balance at February 28, 2018	**250,635**	**338,119**	**1,199**	**738**	**1,661**	**592,352**

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

12. Intangible assets (continued)

Accumulated amortization	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
Balance at November 30, 2016	44,138	—	380	905	227	45,650
Disposals	(2,584)	—	—	(170)	—	(2,754)
Foreign exchange	(400)	—	—	—	—	(400)
Amortization	19,792	—	120	3	263	20,178
Impairment	(40)	—	—	—	—	(40)
Balance at November 30, 2017	60,906	—	500	738	490	62,634
Disposals	**—**	**—**	**—**	**—**	**—**	**—**
Foreign exchange	**(52)**	**—**	**—**	**—**	**—**	**(52)**
Amortization	**4,965**	**—**	**30**	**—**	**67**	**5,062**
Balance at February 28, 2018	**65,819**	**—**	**530**	**738**	**557**	**67,644**

Carrying amounts	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
November 30, 2017	181,557	322,723	699	—	1,155	506,134
February 28, 2018	**184,816**	**338,119**	**669**	**—**	**1,104**	**524,708**

[1] Other items include $347 ($347 as at November 30, 2017) of unamortizable licenses with an indefinite term.

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

13. Goodwill

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

	February 28, 2018	November 30, 2017
	$	$
Balance, beginning of year	**226,936**	220,928
Additional amounts recognized from business acquisitions (note 6)	**5,146**	12,586
Foreign Exchange	**(965)**	(6,578)
Balance, end of period	**231,117**	226,936

14. Credit facilities

The Company currently has a revolving credit facility with an authorized amount of $305,000 (November 30, 2017 $305,000).

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 (5.00% as at February 28, 2018; 4.75% as at November 30, 2017), 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 (4.45% as at February 28, 2018; 4.20% as at November 30, 2017), as determined by the Toronto-Dominion Bank of Canada, plus a margin not exceeding 2.00% or based on Banker's Acceptances (Canadian Dollar Offered Rate or "CDOR"), 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 February 28, 2018 the Company was in compliance with those financial covenants.

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

15. Provisions

Included in provisions are the following amounts:

	February 28, 2018	November 30, 2017
	$	$
Litigations and disputes	**2,597**	3,168
Closed stores	**1,594**	1,413
	4,191	4,581
Gift card liabilities/loyalty programs liabilities	**75,500**	70,750
Total	**79,691**	75,331

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.

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

	February 28, 2018	November 30, 2017
	$	$
Provision for litigation and disputes and closed stores, beginning balance	**4,581**	2,641
Reversals	**(1,032)**	(637)
Amounts used	**(799)**	(1,475)
Additions	**1,457**	4,134
Impact of foreign exchange	**(16)**	(82)
Provision for litigation and disputes and closed stores, ending balance	**4,191**	4,581

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

16. Deferred revenue and deposits

	February 28, 2018	November 30, 2017
	$	$
Franchise fee deposits	8,782	9,105
Supplier contributions and other allowances	3,478	3,377
Unearned rent	10,662	10,308
	22,922	22,790
Current portion	(21,298)	(20,844)
	1,624	1,946

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

17. Long-term debt

	February 28, 2018	November 30, 2017
	$	$
Non-interest bearing contract cancellation fees, payable in US dollars based on the performance of certain stores.	**61**	68
Non-interest bearing holdbacks on acquisition of La Diperie, repayable December 2018 (note 6).	**94**	92
Non-interest bearing holdbacks on acquisition of Big Smoke Burger, repayable September 2018.	**282**	282
Non-interest bearing holdbacks on acquisition of Kahala Brands Ltd., repayable July 2018, July 2019 and August 2020.	**10,241**	9,913
Non-interest bearing holdbacks on acquisition of The Works, repayable June 2019 (note 6)	**680**	680
Non-interest bearing holdbacks on acquisition of Dagwoods Sandwiches and Salads repayable September 2019 (note 6).	**335**	332
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 6 and note 20).	**5,427**	5,436
Fair value non-controlling interest buyback obligation in 10220396 Canada Inc (note 6 & and note 20).(1)	**1,083**	1,026
Fair value non-controlling interest option in 9974644 Canada Inc. (note 20).(3)	**1,049**	1,001
Non-interest bearing holdbacks on acquisition of The Counter Custom Burgers and Built Custom Burgers, repayable December 2020 (note 6).	**2,659**	—
Revolving credit facility payable to a syndicate of lenders.(2)	**265,522**	210,522
Credit facility financing costs, amortized using the effective interest method.	**(2,004)**	(2,150)
	285,429	227,202
Current portion	**(4,497)**	(4,240)
	280,932	222,962

(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 February 28, 2018, the Company had drawn US$-Nil and C$265,522, (2017-US$Nil (C$210,522)) and had elected to pay interest based on LIBOR and CDOR plus the applicable margins.
(3) Payable on demand

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

18. Stock Options

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. 300,000 shares are available for issuance under the share option plan as of February 28, 2018 (2017- 300,000).

Under the Stock Option Plan of the Company, the following options were granted and are outstanding at February 28, 2018:

	2018	
	Number of Options	**Weighted average exercise price**
		$
Outstanding at November 30, 2017	200,000	48.36
Granted	—	—
Forfeited /Cancelled/Expired	—	—
Exercised	—	—
Outstanding at February 28, 2018	**200,000**	**48.36**
Exercisable at February 28, 2018	**—**	**—**

No options were granted during the three-month periods ended February 28, 2018 and 2017. A compensation expense of $155 was recorded for the period ended February 28, 2018 (2017-$nil). The expense is presented in wages and benefits that is included in operating expenses in the consolidated statements of income.

19. Earnings per share

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

	2018	2017
Weighted daily average number of common shares [(1)]	**21,374,497**	21,374,497

(1) The stock options granted did not have a dilutive effect for the period ending February 28, 2018.

20. Financial instruments

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

Fair value of recognized financial instruments

Promissory notes

The Company issued as part of its consideration for the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar promissory notes to the vendors and the minority shareholders of 10220396 Canada Inc. These promissory notes are subject to earn out provisions, which are based on future earnings. These promissory notes are repayable in 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 $165 on the fair value, as at February 28, 2018 (2017-$nil).

A fair value re-measurement of $(9) was recorded for these promissory notes for the three-month period ended February 28, 2018 (2017-$nil).

Obligations to repurchase non-controlling interests

The Company has entered into an agreement to purchase the shares of a minority interest shareholder of 9974644 Canada Inc. at the option of the holder at anytime after December 9,2017. The consideration is based on a multiplier of EBITDA, as prescribed by the terms of the shareholder agreement. As a result, the Company recorded a liability at fair value (note 17) re-measured at each reporting period.

A fair value re-measurement of $48 for the three-month period ended February 28, 2018 (2017-$nil) was recorded for this non-controlling interest obligation.

The Company, in conjunction with the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar, entered into an agreement to acquire the non-controlling interest in 10220396 Canada Inc., in June 2022. The consideration to be paid for this acquisition will be based on future earnings. As a result, the Company recorded a liability at fair value (note 17) and is re-measured at each reporting period.

A discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company with respect to this obligation. The non-controlling interest buyback obligation is subject to significant unobservable inputs such as discount rate and projected EBITDA. An increase or decrease by 1% in the discount rates used would have an impact of $47 on the carrying amount as at February 28, 2018 ($52 November 30, 2017).

A fair value re-measurement of $57 for the three-month period ended February 28, 2018 (2017-$ nil) was recorded for this non-controlling interest obligation.

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

20. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Fair value hierarchy as at February 28, 2018

	Level 1	**Level 2**	**Level 3**
Financial liabilities			
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	**—**	**—**	**5,427**
Non-controlling interest options	**—**	—	**2,132**
Financial Liabilities	**—**	**—**	**7,559**

Fair value hierarchy as at November 30, 2017

	Level 1	Level 2	Level 3
Financial liabilities			
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	—	—	5,436
Non-controlling interest options	—	—	2,027
Financial Liabilities	—	—	7,463

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash and, accounts receivables, accounts payable and accrued liabilities and deposits. The table below shows the fair value and the carrying value of other financial instruments as at February 28, 2018 and November 30, 2017. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	February 28, 2018		November 30, 2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Loans receivable	**7,687**	**7,687**	5,926	5,926
Financial liabilities				
Long-term debt[1]	**277,870**	**279,874**	219,739	221,889

1. Excludes promissory notes and obligations to repurchase non-controlling interests

20. Financial instruments (continued)

Fair value of recognized 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:

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

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

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at February 28, 2018.

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 $1,386 (2017 - $1,182).

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.

Total US net income for the period was C$39,016, (2017 - C$1,015). A 5% change to foreign exchange would represent a gain or loss to the Company of C$1,951 (2017 - C$51).

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

20. Financial instruments (continued)

Foreign exchange risk (continued)

As at February 28, 2018, the Company has the following financial instruments denominated in foreign currencies:

	February 28, 2018		November 30, 2017	
	USD	**CAD**	USD	CAD
	$	**$**	$	$
Financial assets				
Cash	**21,710**	**27,808**	38,389	49,476
Accounts receivable	**11,870**	**15,204**	10,842	13,974
Financial liabilities				
Accounts payable and deposits	**13,409**	**17,176**	14,917	19,225
Portion of holdback included in income taxes payable	**8,994**	**11,520**	8,994	11,592
Long-term debt	**10,073**	**12,903**	7,690	9,911
Net Financial Assets	**1,104**	**1,413**	17,630	22,722

All other factors being equal, a reasonable possible 5% rise in foreign currency exchange rates per Canadian dollar would result in a C$74 (November 30, 2017 - C$1,133) change on the interim condensed consolidated statements of income and comprehensive income.

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 is used to finance the Company's acquisitions. The facility bears interest at a variable rate and as such the interest burden could change materially. $265,522 (2017 - $210,522) of the credit facilities were used as at February 28, 2018. A 100 basis points increase in the bank's prime rate would result in additional interest of $2,655 per annum (2017 - $2,105) on the outstanding credit facility.

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

20. Financial instruments (continued)

Liquidity risk

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

As at February 28, 2018, 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 are described in note 17

The following are the contractual maturities of financial liabilities as at February 28, 2018

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	thereafter
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**56,025**	**56,025**	**56,025**	**—**	**—**	**—**
Long-term debt	**285,429**	**290,195**	**5,222**	**104**	**7,783**	**277,086**
Interest on long-term debt (1)	**n/a**	**323**	**47**	**48**	**94**	**134**
	341,454	**346,543**	**61,294**	**152**	**7,877**	**277,220**

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

21. 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.

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

21. Capital disclosures (continued)

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at February 28, 2018 and November 30, 2017 were as follows:

	February 28, 2018	November 30, 2017
	$	$
Debt	540,610	519,019
Equity	376,146	335,526
Debt-to-equity ratio	1.44	1.55

The increase in debt-to-equity ratio is due to increase in long term debt (note 17) and the increase of fair value of financial liabilities (note 20). 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 3.5:1 until July 20, 2018. This maximum debt-to-equity ratio decreases afterwards.

22. Revenues

The Company's revenues include:

	February 28, 2018	February 28, 2017
	$	$
Royalties	27,327	26,276
Franchise and transfer fees	2,769	3,047
Rent	474	595
Sale of goods, including construction revenues	20,282	23,071
Gift card program fees and breakage	1,818	697
Other franchising revenue	9,976	9,012
Other	1,069	1,318
	63,715	64,016

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

23. Operating expenses

Operating expenses are broken down as follows:

	February 28, 2018	February 28, 2017
	$	$
Cost of goods sold and rent	**12,738**	18,259
Wages and benefits	**16,907**	17,297
Consulting and professional fees	**3,177**	3,222
Gift cards costs	**2,718**	2,156
Royalties	**1,446**	61
Other [(1)]	**6,817**	6,685
	43,803	47,680

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

24. 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
	$	$	$
2019	139,893	128,553	11,340
2020	129,989	119,402	10,587
2021	117,313	107,311	10,002
2022	104,646	95,456	9,190
2023	86,239	79,278	6,961
Thereafter	223,146	208,764	14,382
	801,226	**738,764**	**62,462**

24. Operating lease arrangements (continued)

Payments recognized as a net expense during the three-month period ended February 28, 2018 amount to $5,148 (2017 - $6,577).

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

During the three-month period, the Company earned rental revenue of $474 (2017 - $595).

The Company has recognized a liability of $1,594 (November 30, 2017 - $1,413) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (note 15).

25. Guarantee

The Company has provided a guarantee on certain leases for which it is not the lessee, for a cumulative amount of $3,962 (November 30, 2017 - $1,398).

26. 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.

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

27. Income taxes

On December 22, 2017, the United states enacted the "U.S. Tax Cuts and Job Act", commonly referred to as U.S. tax reform, which resulted in the U.S statutory federal income tax rate to be reduced to 21.0% from the previous rate of 35.0%, effective January 1, 2018.

Consequently, for its fiscal year ending on November 30, 2018, the Company estimated that its effective U.S. federal tax rate will be 22.19%. The Company recorded a net tax benefit of $36,270 in its three-month period ended February 28, 2018, which is primarily derived from the re measurement of the Company's deferred income tax balances. The benefit is estimated based on our initial analysis of the "U.S. Tax Cuts and Job Act", and given the complexity of this act, this estimate is subject to adjustment when further guidance becomes available.

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

	February 28, 2018		February 28, 2017	
	$	**%**	$	%
Combined income tax rate	**3,173**	**26.7**	569	26.9
Add effect of:				
Difference between Canadian and foreign statutory rate	**(829)**	**(7.0)**	(115)	(5.4)
Permanent differences	**266**	**2.2**	(256)	(12.1)
Losses in a subsidiary for which no deferred income tax asset was recorded	**156**	**1.3**	30	1.4
Variation in current and deferred taxes attributable to foreign exchange	**6**	**0.1**	10	0.5
Adjustment to prior year provisions	**—**	**—**	(130)	(6.1)
Rate variation on deferred income tax	**(36,270)**	**(305.2)**		
Other – net	**2**	**0.0**	(67)	(3.3)
Provision for income taxes	**(33,496)**	**(281.9)**	41	1.9

28. Segmented information

Management monitors and evaluates results of the Company based on geographical segments; these two segments being Canada 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. The Company and its chief operating decision maker assess the performance of each operating segment based on its segment profit and loss which is equal to revenue less operating expenses. The other income and expenses and income taxes, are reported by segment solely for external reporting purposes.

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

28. Segmented information (continued)

Below is a summary of each geographical segment's performance during the three-month period ended February 28, 2018 and February 28, 2017.

	Canada	USA & International	Total February 28, 2018	Canada	USA & International	Total February 28, 2017
	$	$	$	$		$
Operating revenues	**33,927**	**29,788**	**63,715**	32,677	31,339	64,016
Operating expenses	**20,424**	**23,379**	**43,803**	21,029	26,651	47,680
	13,503	**6,409**	**19,912**	11,648	4,688	16,336
Other expenses						
Depreciation – property, plant and equipment	**441**	**95**	**536**	368	618	986
Amortization – intangible assets	**1,512**	**3,550**	**5,062**	1,383	4,171	5,554
Interest on long-term debt	**2,046**	**401**	**2,447**	2,171	530	2,701
Other income (expense)						
Foreign exchange gain (loss)	**(46)**	**6**	**(40)**	(5,366)	1	(5,365)
Interest income	**68**	**77**	**145**	15	85	100
Loss on revaluation of financial liabilities recorded at fair value through profit or loss	**(96)**	**—**	**(96)**	—	—	—
Gain on disposal of property, plant and equipment	**17**	**(8)**	**9**	269	17	286
Operating income	**9,447**	**2,438**	**11,885**	2,644	(528)	2,116
Current income taxes	**2,164**	**4,328**	**6,492**	1,634	300	1,934
Deferred income taxes	**918**	**(40,906)**	**(39,988)**	(50)	(1,843)	(1,893)
Net income	**6,365**	**39,016**	**45,381**	1,060	1,015	2,075

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

29. Statement of cash flows

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

	February 28, 2018	February 28, 2017
	$	$
Accounts receivable	**1,894**	3,828
Inventories	**(209)**	(310)
Loans receivable	**(1,761)**	725
Prepaid expenses and deposits	**(2,329)**	(1,164)
Other asset	**(142)**	—
Accounts payable and accrued liabilities	**(2,486)**	811
Provisions	**4,069**	3,551
	(964)	7,441

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

29. Statement of cash flows (continued)

Changes in liabilities and assets arising from financing and investing activities:

	Revolving credit facility	Loan financing costs	Non-interest-bearing contracts and holdback	Promissory notes	Non - controlling interest buyback obligation	Non-controlling interest option	Total
	$	$	$	$	$	$	$
Balance as at November 30, 2017	210,522	(2,150)	11,367	5,436	1,026	1,001	227,202
Changes arising from financing activities:							
Change in revolving credit facility	**55,000**	**—**	**—**	**—**	**—**	**—**	**55,000**
Repayment of holdback	**—**	**—**	**(3)**	**—**	**—**	**—**	**(3)**
Changes from non-cash transactions:							
Amortization of transaction costs directly attributable to a financing arrangement	**—**	**146**	**—**	**—**	**—**	**—**	**146**
Accretion of interest on non-interest-bearing holdbacks	**—**	**—**	**408**	**—**	**—**	**—**	**408**
Revaluation of financial liabilities recorded at fair value through profit and loss	**—**	**—**	**—**	**(9)**	**57**	**48**	**96**
Foreign exchange	**—**	**—**	**(45)**	**—**	**—**	**—**	**(45)**
Changes arising from investing activities:							
Issuance of holdback	**—**	**—**	**2,625**	**—**	**—**	**—**	**2,625**
Balance as at February 28, 2018	**265,522**	**(2,004)**	**14,352**	**5,427**	**1,083**	**1,049**	**285,429**

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

30. Related party transactions

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

Compensation of key management personnel

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

	February 28, 2018	February 28, 2017
	$	$
Short-term benefits	**384**	365
Share based payment	**155**	—
Board member fees	**12**	12
Total remuneration of key management personnel	**551**	377

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.

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

	February 28, 2018	February 28, 2017
	$	$
Short-term benefits	**192**	182
Total remuneration of individuals related to key management personnel	**192**	182

31. Subsequent Events

Completion of combination agreement with Imvescor
On March 1, 2018, the Company announced that it had completed a definitive combination with Imvescor Restaurant Group Inc. ("Imvescor "). The now former shareholders of Imvescor received in aggregate for $4.10 per common share, representing a total consideration of approximately $247,000. The consideration will be settled approximately 80% in shares and the remaining in cash and is subject to customary closing conditions.

Acquisition of the assets of Grabbagreen®
On March 16, 2018, one of the Company's wholly-owned subsidiaries acquired the assets of Grabbagreen®. The total consideration amounted to $3,426 (US$2,675), of which $3,074 (US$2,400) was paid on closing.

Acquisition of the assets of Timothy's World Coffee® and Mmmuffins®
On April 4, 2018, one of the Company's wholly-owned subsidiaries acquired the assets of Timothy's World Coffee® and Mmmuffins®. The total consideration amounted to $1,675, of which $1,200 was paid on closing.