Condensed interim consolidated financial statements of
MTY Food Group Inc.

For the three-month periods ended February 28, 2019 and 2018

(Unaudited)

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three-month periods ended February 28, 2019 and 2018

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

(Unaudited)

Notice : The condensed interim consolidated financial statements of MTY Food Group Inc. for the three-month period ended February 2018 have not been reviewed by an external auditor.

	Notes	**February 28, 2019**	February 28, 2018
		$	$ *Restated (Note 3)*
Revenue	10 & 14	**107,297**	75,489
Expenses			
Operating expenses	11 & 14	**78,921**	56,121
Depreciation – property, plant and equipment		**739**	536
Amortization – intangible assets		**6,551**	5,062
Interest on long-term debt		**3,142**	2,447
		89,353	64,166
Other income (charges)			
Unrealized and realized foreign exchange gain (loss)		**8**	(40)
Interest income		**165**	145
Gain on disposal of property, plant and equipment and intangible assets		**73**	9
Gain (loss) on revaluation of financial liabilities recorded at fair value through profit and loss	9	**996**	(96)
		1,242	18
Income before taxes		**19,186**	11,341
Income tax expense (recovery)	13		
Current		**5,287**	6,492
Deferred		**(885)**	(39,476)
		4,402	(32,984)
Net income		**14,784**	44,325
Net income attributable to:			
Owners		**14,748**	44,276
Non-controlling interests		**36**	49
		14,784	44,325
Income per share	8		
Basic		**0.59**	2.07
Diluted		**0.58**	2.07

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

MTY Food Group Inc.

Condensed interim consolidated statements of comprehensive income

For the three-month periods ended February 28, 2019 and 2018

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

(unaudited)

	February 28, 2019	February 28, 2018
	$	$ *Restated (Note 3)*
Net income	**14,784**	44,325
Items that may be reclassified subsequently to net income:		
Unrealized loss on translation of foreign operations	**(4,414)**	(1,450)
Deferred income tax recovery (expense) on foreign currency translation adjustments	**323**	(196)
Other comprehensive loss	**(4,091)**	(1,646)
Total comprehensive income	**10,693**	42,679
Total comprehensive income attributable to:		
Owners	**10,657**	42,630
Non-controlling interest	**36**	49
	10,693	42,679

The accompanying notes are an integral part of the unaudited 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, 2019 and 2018

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

(unaudited)

		Reserves							
	Capital stock	Other	Contributed surplus	Foreign currency translation	Total reserves	Retained earnings	Total	Equity attributable to non-controlling interest	Total
	$	$	$	$	$	$	$	$	$
Balance as at November 30, 2017 (restated, note 3)	114,545	(850)	882	(13,101)	(13,069)	215,352	316,828	1,702	318,530
Net income for the three-month period ended February 28, 2018	—	—	—	—	—	44,276	44,276	49	44,325
Dividends	—	—	—	—	—	(3,206)	(3,206)	(30)	(3,236)
Other comprehensive loss	—	—	—	(1,646)	(1,646)	—	(1,646)	—	(1,646)
Stock options	—	—	155	—	155	—	155	—	155
Balance as at February 28, 2018	114,545	(850)	1,037	(14,747)	(14,560)	256,422	356,407	1,721	358,128
Net income for the nine-month period from March 1, 2018 to November 30, 2018	—	—	—	—	—	51,500	51,500	362	51,862
Other comprehensive income	—	—	—	15,197	15,197	—	15,197	—	15,197
Acquisition of non-controlling interest in 8825726 Canada Inc	—	—	—	—	—	(257)	(257)	(802)	(1,059)
Issuance of shares on acquisition of Imvescor Restaurant Group (note 4)	197,616	—	—	—	—	—	197,616	—	197,616
Dividends	—	—	—	—	—	(11,324)	(11,324)	—	(11,324)
Stock options	—	—	475	—	475	—	475	—	475
Balance as at November 30, 2018 (restated, note 3)	312,161	(850)	1,512	450	1,112	296,341	609,614	1,281	610,895
Net income for the three-month period ended February 28, 2019	**—**	**—**	**—**	**—**	**—**	**14,748**	**14,748**	**36**	**14,784**
Other comprehensive loss	**—**	**—**	**—**	**(4,091)**	**(4,091)**	—	**(4,091)**	**—**	**(4,091)**
Dividends	**—**	**—**	**—**	**—**	**—**	**(4,257)**	**(4,257)**	**(25)**	**(4,282)**
Stock options	**—**	**—**	**155**	**—**	**155**	**—**	**155**	**—**	**155**
Balance as at February 28, 2019	**312,161**	**(850)**	**1,667**	**(3,641)**	**(2,824)**	**306,832**	**616,169**	**1,292**	**617,461**

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

MTY Food Group Inc.

Condensed interim consolidated statements of financial position

As at February 28, 2019, November 30, 2018 and December 1, 2017

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

(unaudited)

	Notes	February 28, 2019	November 30, 2018	December 1, 2017
		$	$	$
			Restated (Note 3 & 4)	*Restated (Note 3)*
Assets				
Current assets				
Cash		**40,357**	32,304	56,453
Accounts receivable	5	**49,095**	49,971	35,565
Inventories		**6,892**	4,029	3,593
Loans receivable		**1,382**	2,134	2,817
Income taxes receivable		**—**	—	1,408
Other assets		**637**	692	1,163
Prepaid expenses and deposits		**7,970**	7,915	5,901
		106,333	97,045	106,900
Loans receivable		**5,775**	5,970	3,109
Contract cost asset		**4,649**	3,717	2,062
Deferred income tax		**290**	114	351
Property, plant and equipment		**18,574**	17,333	13,081
Intangible assets		**745,512**	756,403	506,970
Goodwill	6	**375,861**	358,938	226,768
		1,256,994	1,239,520	859,241
Liabilities and Shareholders' equity				
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		**66,960**	67,812	56,947
Provisions		**94,004**	90,039	75,331
Income taxes payable		**24,284**	24,989	19,273
Deferred revenue and deposits		**20,318**	20,784	19,488
Current portion of long-term debt	7	**6,321**	7,416	4,240
		211,887	211,040	175,279
Long-term debt	7	**278,305**	268,200	223,567
Deferred revenue and deposits		**35,103**	33,385	31,851
Deferred income taxes		**114,238**	116,000	110,014
		639,533	628,625	540,711

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

MTY Food Group Inc.

Condensed interim consolidated statements of financial position (continued)

As at February 28, 2019, November 30, 2018 and December 1, 2017

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

(unaudited)

	February 28, 2019	November 30, 2018	December 1, 2017
	$	$	$
		Restated (Note 3 & 4)	*Restated (Note 3)*
Shareholders' equity			
Equity attributable to owners			
Capital stock	**312,161**	312,161	114,545
Reserves	**(2,824)**	1,112	(13,069)
Retained earnings	**306,832**	296,341	215,352
	616,169	609,614	316,828
Equity attributable to non-controlling interest	**1,292**	1,281	1,702
	617,461	610,895	318,530
	1,256,994	1,239,520	859,241

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

Approved by the Board on April 10, 2019

____, Director

____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three-month periods ended February 28, 2019 and 2018
(In thousands of Canadian dollars, except per share amounts)
(unaudited)

	Notes	February 28, 2019	February 28, 2018
		$	$ *Restated (Note 3)*
Operating activities			
Net income		**14,784**	44,325
Adjusting items:			
Interest on long-term debt		**3,142**	2,447
Depreciation – property, plant and equipment		**739**	536
Amortization – intangible assets		**6,551**	5,062
Gain on disposal of property, plant and equipment and intangible assets		**(73)**	(9)
(Gain) loss on revaluation of financial liabilities recorded at fair value through profit and loss		**(996)**	96
Income tax expense (recovery)		**4,402**	(32,984)
Share-based payments		**155**	155
		28,704	19,628
Income taxes paid		**(5,792)**	(4,483)
Interest paid		**(2,592)**	(1,892)
Changes in non-cash working capital items	15	**6,437**	450
Cash flows provided by operating activities		**26,757**	13,703
Investing activities			
Net cash outflow on acquisitions	4	**(20,906)**	(80,264)
Cash acquired through acquisition	4	**—**	34
Additions to property, plant and equipment		**(1,954)**	(194)
Additions to intangible assets		**(64)**	(16)
Proceeds on disposal of property, plant and equipment and intangible assets		**175**	31
Cash flows used in investing activities		**(22,749)**	(80,409)

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

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows (continued)

For the three-month periods ended February 28, 2019 and 2018

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

(unaudited)

	Notes	**February 28, 2019**	February 28, 2018
		$	$
			Restated (Note 3)
Financing activities			
Issuance of long-term debt	7 & 15	**23,000**	55,000
Repayment of long-term debt	7 & 15	**(14,358)**	(3)
Dividends paid to non-controlling shareholders of subsidiaries		**(25)**	(30)
Dividends paid		**(4,257)**	(3,206)
Cash flows provided by financing activities		**4,360**	51,761
Net increase (decrease) in cash		**8,368**	(14,945)
Effect of foreign exchange rate changes on cash		**(315)**	(698)
Cash, beginning of period		**32,304**	56,453
Cash, end of period		**40,357**	40,810

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

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1. Description of the business

MTY Food Group Inc. (the “Company”) is a franchisor in the quick service and casual dining food industry. Its activities consist of franchising and operating corporate-owned locations as well as the sale of retail products under a multitude of banners. The Company also operates distribution centers and food processing plants, all of which are located in the province of Quebec.

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

2. Basis of preparation

The unaudited condensed interim consolidated financial statements (“financial statements”) have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

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

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

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

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

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

Prior period comparative figures have been restated to reflect adoption of IFRS 15 *Revenue from contracts with customers* as discussed in note 3. The company has opted not restate comparative figures for IFRS 9 *Financial Instruments* as it was determined to not be material.

Statement of compliance

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

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

2. Basis of preparation (continued)

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on April 10, 2019.

3. Changes in accounting policies

Policies applicable beginning December 1, 2018

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

IFRS 9 – Financial Instruments

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

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

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

IFRS 9 Transitional Adjustments

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

3. Changes in accounting policies (continued)

IFRS 9 – Financial Instruments (continued)

The following table summarized the change in classification

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

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

Financial instruments

Classification of financial assets

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

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

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

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

3. Changes in accounting policies (continued)

IFRS 9 – Financial Instruments (continued)

Effective interest method

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

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

Impairment of financial assets

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

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

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

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

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

Derecognition of financial assets

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

Derecognition of financial liabilities

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

3. Changes in accounting policies (continued)

IFRS 9 – Financial Instruments (continued)

Classification of financial liabilities

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

IFRS 15 – Revenue from contracts with customers

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

On December 1, 2018, the Company adopted IFRS 15 using the retrospective transition method with the cumulative effect of initially applying the standard recognized at the date of initial application (December 1, 2017). Prior year comparatives have been restated.

The adoption of the new standard had the following impacts:

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

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

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

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

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

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

3. Changes in accounting policies (continued)

IFRS 15 – Revenue from contracts with customers (continued)

Impact on the financial statements

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

Condensed interim consolidated statement of income	**Three months ended February 28, 2018**		
	As previously reported $	IFRS 15 Adjustments $	**As restated** $
Revenues	**63,715**	11,774	**75,489**
Operating expenses	**43,803**	12,318	**56,121**
Income before taxes	**11,885**	(544)	**11,341**
Income tax expense (recovery)			
Deferred	**(39,988)**	512	**(39,476)**
Net income	**45,381**	(1,056)	**44,325**
Income per share – basic & diluted	**2.12**	(0.05)	**2.07**

Condensed interim consolidated statement of comprehensive income	**Three months ended February 28, 2018**		
	As previously reported $	IFRS 15 Adjustments $	**As restated** $
Unrealized loss on translation of foreign operations	**(1,284)**	(166)	**(1,450)**
Total comprehensive income	**43,901**	(1,222)	**42,679**

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

3. Changes in accounting policies (continued)

IFRS 15 – Revenue from contracts with customers (continued)

Impact on the financial statements (continued)

Consolidated statement of financial position	As at November 30, 2018		
	As previously reported	IFRS 15 adjustments	**As restated**
	$	$	**$**
Assets			
Current assets			
Accounts receivable	**49,168**	803	**49,971**
Inventories	**3,574**	455	**4,029**
Prepaid expenses and deposits [1]	**7,291**	624	**7,915**
Contract cost asset	—	3,717	**3,717**
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**68,700**	(888)	**67,812**
Deferred revenue and deposits	**20,122**	662	**20,784**
Deferred revenue and deposits	**705**	32,680	**33,385**
Deferred income taxes	**119,464**	(7,078)	**112,386**
Reserves	**1,245**	(133)	**1,112**
Retained earnings	**315,985**	(19,644)	**296,341**

(1) Relates to short-term portion of contract costs assets.

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

3. Changes in accounting policies (continued)

IFRS 15 – Revenue from contracts with customers (continued)

Impact on the financial statements (continued)

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

The Company's accounting policies are summarized below:

Revenue from franchise locations

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

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

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

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

3. Changes in accounting policies (continued)

IFRS 15 – Revenue from contracts with customers (continued)

Revenue from franchise locations (continued)

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

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

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

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

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

Revenue from food processing, distribution and retail

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

Revenue from corporate-owned locations

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

IFRIC 22 – Foreign Currency Transaction and Advance Consideration

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

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

4. Business acquisition

I) Casa Grecque (2019)

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

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

The preliminary purchase price allocation is as follows:

	2019
Net assets acquired:	$
Current assets	
Inventory	3,229
Prepaid expenses and deposits	2
	3,231
Property, plant and equipment	150
Goodwill (1 & 2)	18,815
	22,196
Current liabilities	
Accounts payable and accrued liabilities	3
Unredeemed gift card liability	170
	173
Net purchase price	22,023

(1) Goodwill is deductible for tax purposes.

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

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

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

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

4. Business acquisitions (continued)

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

On December 1, 2017, the Company's US operations completed the 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 $29,971 (US$23,545). 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	151
Discount on non-interest-bearing holdback	(334)
Net purchase price	29,971
Holdback	(1,635)
Less: cash acquired	(34)
Net consideration paid/cash outflow	28,302

The 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]	4,156
	31,374
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	29,971

[1] Goodwill is deductible for tax purposes.

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

The purchase price allocation is final.

4. Business acquisitions (continued)

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

On March 1, 2018, the Company's Canadian operations, through the merger of a wholly owned subsidiary with Imvescor Restaurant Group Inc. ("IRG"), acquired all the outstanding shares of IRG. The purpose of the transaction was to diversify the Company's range of offering with a highly scalable portfolio of recognized restaurant brands and concepts.

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

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

4. Business acquisitions (continued)

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

The purchase price allocation is as follows:

	As previously reported		Adjustments	**Final Purchase price allocation**
Net assets acquired:	**$**		**$**	**$**
Current assets				
Cash	4,615		—	4,615
Accounts receivable	9,788		—	9,788
Notes receivable	367		—	367
Inventory	214		—	214
Prepaid expenses and deposits	204		—	204
	15,188			15,188
Notes receivable	1,134		—	1,134
Projects under construction	1,242		—	1,242
Property, plant and equipment	4,945	(b)	(1,420)	3,525
Other intangible assets	347		—	347
Franchise rights	70,200		—	70,200
Trademarks	140,600		—	140,600
Goodwill [1]	93,029	(a & b)	5,034	98,063
	326,685		3,614	330,299
Current liabilities				
Accounts payable and accrued liabilities	14,610		—	14,610
Unredeemed gift card liability and loyalty points	5,157		—	5,157
Deferred revenues	539		—	539
Income tax payable	175		—	175
	20,481		—	20,481
Credit facility	20,000		—	20,000
Deferred revenues	138		—	138
Deferred income tax	35,252	(a)	3,614	38,866
	75,871		3,614	79,485
Net purchase price	250,814		—	250,814

[1] Goodwill is not deductible for tax purposes.

(a) The Company has recorded adjustments to its previously reported preliminary purchase price allocation reported in prior quarters related to the deferred income tax on the fair value of certain trademarks that were not taken into consideration as at November 30, 2018.

(b) The Company has completed the fair value assessment of the corporate store equipment and leasehold improvements acquired and based on this assessment has adjusted the purchase price allocation.

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

4. Business acquisitions (continued)

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

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

The purchase price allocation is final.

IV) Acquisition of Grabbagreen (2018)

On March 15, 2018, the Company's US operations completed its acquisition of the assets of Grabbagreen franchise system. The total consideration for the transaction was $3,409 (US$2,633). 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	3,463
Net obligations assumed	(29)
Discount on non-interest-bearing holdback	(25)
Net purchase price	3,409
Holdback	(322)
Net consideration paid/cash outflow	3,087

The purchase price allocation is as follows:

	2018
Net assets acquired:	$
Current assets	
Prepaid expenses and deposits	17
Property, plant and equipment	15
Franchise rights	377
Trademarks	1,940
Goodwill [1]	1,106
	3,455
Current liabilities	
Unredeemed gift card liability	46
Net purchase price	3,409

[1] Goodwill is deductible for tax purposes.

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

The purchase price allocation is final.

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

4. Business acquisitions (continued)

V) Acquisition of Timothy's World Coffee and Mmmuffins (2018)

On April 4, 2018, the Company's Canadian operations completed its acquisition of the assets of Timothy's World Coffee and Mmmuffins. The total consideration for the transaction was $1,321. 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	1,675
Net obligations assumed	(130)
Working capital	(208)
Discount on non-interest-bearing holdback	(16)
Net purchase price	1,321
Holdback	(93)
Less cash acquired	(3)
Net consideration paid/cash outflow	1,225

The purchase price allocation is as follows:

	2018
Net assets acquired:	$
Current assets	
Cash	3
Inventory	64
Prepaid expenses and deposits	43
	110
Property, plant and equipment	100
Franchise rights	417
Perpetual license	232
Goodwill [1]	966
	1,825
Current liabilities	
Accounts payable and accrued liabilities	101
Unredeemed gift card liability	403
	504
Net purchase price	1,321

[1] Goodwill is deductible for tax purposes.

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

The purchase price allocation is final.

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

4. Business acquisitions (continued)

VI) Acquisition of SweetFrog (2018)

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

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

The preliminary purchase price allocation is as follows:

	As previously reported	Adjustments	Adjusted purchase price allocation
Net assets acquired:	$	$	$
Current assets			
Inventory	254	—	254
Prepaid expenses	30	—	30
	284	—	284
Franchise right (2)	—	9,159	9,159
Trademark (2)	—	12,976	12,976
Goodwill (1 & 2)	44,155	(22,135)	22,020
	44,439	—	44,439
Current liabilities			
Accounts payable and accrued liabilities	146	—	146
Unredeemed gift card liability	2,757	—	2,757
Deferred revenue	29	—	29
	2,932	—	2,932
Net purchase price	41,507	—	41,507

(1) Goodwill is deductible for tax purposes.

(2) Given the size of the transaction, the Company had not completed its fair value assessment of the intangible assets and goodwill acquired as at November 30, 2018. Consequently, part of the fair value adjustments, mainly relating to franchise rights and trademark, related to this acquisition were included in goodwill in the preliminary fair value assessment of the assets acquired. The fair value of the intangibles has now been determined.

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

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

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

5. Accounts receivable

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

	February 28, 2019				
	Not past due	1-30 days past due	31-60 days past due	61 or more days past due	Total
Expected loss rate	**2.2%**	**5.9%**	**8.3%**	**55.6%**	**15.2%**
Total accounts receivable	**36,820**	**4,581**	**3,073**	**13,413**	**57,887**
Loss allowance	**(817)**	**(269)**	**(255)**	**(7,451)**	**(8,792)**
Balance	**36,003**	**4,312**	**2,818**	**5,962**	**49,095**

6. Goodwill

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

	February 28, 2019	November 30, 2018
	$	$ *(adjusted, note 4)*
Balance, beginning of period	**358,938**	226,768
Amounts recognized from business acquisitions (note 4)	**18,815**	126,311
Foreign exchange	**(1,892)**	5,859
Balance, end of period	**375,861**	358,938

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

7. Long-term debt

	February 28, 2019	November 30, 2018
	$	$
Non-interest bearing contract cancellation fees and holdbacks on acquisitions	**13,173**	11,898
Fair value of promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar, repayable October 2019 and June 2022 (note 9)	**5,895**	7,034
Fair value non-controlling interest buyback obligation in 10220396 Canada Inc (note 9) (1)	**1,714**	1,501
Fair value non-controlling interest option in La Diperie (note 9) (2)	**924**	994
Revolving credit facility payable to a syndicate of lenders (3)	**264,691**	256,143
Credit facility financing costs	**(1,771)**	(1,954)
	284,626	275,616
Current portion	**(6,321)**	(7,416)
	278,305	268,200

(1) Payable at the earlier of 3 years from the date option is exercised or June 2022.
(2) Payable on demand.
(3) Under the revolving credit facility, the Company has the option to draw funds in Canadian or in US dollars, at its discretion. The facility's maturity is July 21, 2021 and must be repaid in full at that time. As at February 28, 2019, the Company had drawn CA$251,522 and US$10,000 (CA$13,169), (November 30, 2018 – CA$237,522 and US$14,000 (CA$18,621)) and had elected to pay interest based on LIBOR and bankers' acceptances plus the applicable margins.

8. Income per share

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

	February 28, 2019	February 28, 2018
Weighted daily average number of common shares – basic	**25,169,778**	21,374,497
Assumed exercise of stock options (1)	**50 724**	—
Weighted daily average number of common shares – diluted	**25,220,502**	21,374,497

(1) The calculation of the assumed exercise of stock options includes the effect of the average unrecognized future compensation cost of dilutive options. The number of excluded options was nil (February 28, 2018 – nil).

9. Financial instruments

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

Fair value of recognized financial instruments

Promissory notes

The Company issued as part of its consideration for the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar promissory notes to the vendors and the minority shareholders of 10220396 Canada Inc. These promissory notes are subject to earn out provisions, which are based on future earnings. These promissory notes are repayable in October 2019 and June 2022. These promissory notes have been recorded at fair value and are remeasured on a recurring basis. Of the $5,895 promissory note, $3,348 is subject to an earn-out provision.

A discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company, with respect to these promissory notes. These notes are subject to significant unobservable inputs such as discount rates and projected revenues and EBITDA. An increase or decrease by 1% in the discount rates used would have an impact of $139 on the fair value, as at February 28, 2019 (November 30, 2018 – $145).

A fair value re-measurement gain of $1,139 was recorded for these promissory notes for the period ended February 28, 2019 (February 28, 2018 – loss of $9).

Obligations to repurchase non-controlling interests

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

A fair value remeasurement gain of $70 for the three-month period ended February 28, 2019 (2018 – $48) was recorded for this non-controlling interest obligation.

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

A discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company with respect to this obligation. The non-controlling interest buyback obligation is subject to significant unobservable inputs such as a discount rate and projected EBITDA. An increase or decrease by 1% in the discount rates used would have an impact of $57 on the carrying amount as at February 28, 2019 (November 30, 2018 – $52).

A fair value re-measurement loss of $213 (2018 – $57) was recorded for this non-controlling interest obligation.

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

9. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Fair value hierarchy

	Level 3	
	February 28, 2019	**November 30, 2018**
Financial liabilities		
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	**5,895**	7,034
Non-controlling interest buyback options	**2,638**	2,495
Financial Liabilities	**8,533**	9,529

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash, accounts receivable, accounts payable and accrued liabilities and deposits. The table below shows the fair value and the carrying value of other financial instruments as at February 28, 2019 and November 30, 2018. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	February 28, 2019		November 30, 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Loans receivable	**7,157**	**7,157**	8,104	8,104
Financial liabilities				
Long-term debt [(1)]	**276,093**	**278,567**	266,087	268,954

[(1)] Excludes promissory notes and obligations to repurchase non-controlling interests

Determination of fair value

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

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

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

The Company, through its financial assets and financial liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at February 28, 2019.

Liquidity risk

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

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

9. Financial instruments (continued)

Liquidity risk (continued)

As at February 28, 2019, the Company had an authorized revolving credit facility for which the available amount may not exceed $500,000 to ensure that sufficient funds are available to meet its financial requirements.

The following are the contractual maturities of financial liabilities as at February 28, 2019.

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	Thereafter
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**66,960**	**66,960**	**66,960**	**—**	**—**	**—**
Long-term debt (note 7)	**284,626**	**287,100**	**1,986**	**5,649**	**6,240**	**273,225**
Interest on long-term debt (1)	**n/a**	**23,535**	**4,869**	**4,869**	**9,739**	**4,058**
	351,586	**377,595**	**73,815**	**10,518**	**15,979**	**277,283**

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

10. Revenue

	February 28, 2019			February 28, 2018		
	Canada	US & International	**TOTAL**	Canada	US & International	**TOTAL**
	$	$	**$**	$	$	**$** *(Restated, note 3)*
Royalties	19,116	15,400	**34,516**	13,617	13,710	**27,327**
Franchise and transfer fees	1,306	791	**2,097**	1,149	952	**2,101**
Rent	401	—	**401**	474	—	**474**
Sale of goods, including construction revenues	30,584	5,640	**36,224**	12,427	7,924	**20,351**
Gift card breakage income	240	1,572	**1,812**	183	1,635	**1,818**
Promotional funds	10,421	6,670	**17,091**	5,979	6,394	**12,373**
Other franchising revenue	8,669	5,134	**13,803**	5,824	4,152	**9,976**
Other	687	666	**1,353**	320	749	**1,069**
	71,424	35,873	**107,297**	39,973	35,516	**75,489**

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

11. Operating expenses

	February 28, 2019			February 28, 2018		
	Canada	US & International	**TOTAL**	Canada	US & International	**TOTAL**
	$	$	**$**	$	$	**$** *(Restated, note 3)*
Cost of goods sold, retail costs and rent	24,225	3,804	**28,029**	8,033	4,650	**12,683**
Wages and benefits	12,190	8,843	**21,033**	7,958	8,949	**16,907**
Consulting and professional fees	2,071	443	**2,514**	2,060	1,117	**3,177**
Gift cards – related costs	—	2,557	**2,557**	—	2,718	**2,718**
Royalties	118	905	**1,023**	14	1,432	**1,446**
Promotional funds	10,421	6,670	**17,091**	5,979	6,394	**12,373**
Other (1)	4,072	2,602	**6,674**	2,396	4,421	**6,817**
	53,097	25,824	**78,921**	26,440	29,681	**56,121**

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

12. 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
	$	$	$
2020	132,615	121,913	10,702
2021	118,043	108,392	9,651
2022	105,171	96,052	9,119
2023	89,073	80,932	8,141
2024	72,148	66,486	5,662
Thereafter	193,196	172,053	21,143
	710,246	**645,828**	**64,418**

Payments recognized as a net expense during the three-month period ended February 28, 2019 amount to $4,386 (2018 – $5,148).

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

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

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

13. Income taxes

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

	February 28, 2019		February 28, 2018	
	$	**%**	$ *(Restated, note 3)*	%
Combined income tax rate in Canada	**5,103**	**26.6**	3,028	26.7
Add effect of:				
Difference between Canadian and foreign statutory rate	**(895)**	**(4.7)**	(172)	(1.5)
Permanent differences	**105**	**0.5**	266	2.3
Losses in subsidiaries for which no deferred income tax assets is recognized	**113**	**0.6**	156	1.4
Variation in current and deferred taxes attributable to foreign exchange	**—**	**—**	6	0.1
Rate variation on deferred income tax	**(20)**	**(0.1)**	(36,270)	(319.8)
Other – net	**(4)**	**(0.0)**	2	0.0
Provision for income taxes	**4,402**	**22.9**	(32,984)	(290.8)

14. Segmented information

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

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

14. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the three-month period ended February 28, 2019.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total US & International	Total Consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenues	32,391	7,673	21,484	10,421	(545)	71,424	24,484	3,714	1,082	6,670	(77)	35,873	107,297
Operating expenses	15,316	8,463	19,519	10,421	(622)	53,097	14,748	4,406	—	6,670	—	25,824	78,921
Segment profit (loss)	17,075	(790)	1,965	—	77	18,327	9,736	(692)	1,082	—	(77)	10,049	28,376
Other expenses													
Depreciation – property, plant and equipment	329	224	99	—	—	652	18	69	—	—	—	87	739
Amortization – intangible assets	2,637	—	—	—	—	2,637	3,914	—	—	—	—	3,914	6,551
Interest on long-term debt	2,796	—	—	—	—	2,796	346	—	—	—	—	346	3,142
Other income (expense)													
Unrealized and realized foreign exchange gain (loss)	19	—	—	—	—	19	(11)	—	—	—	—	(11)	8
Interest income	131	—	1	—	—	132	23	10	—	—	—	33	165
Gain (loss) on disposal of property, plant and equipment and intangible assets	128	—	—	—	—	128	(55)	—	—	—	—	(55)	73
Loss on revaluation on financial liabilities recorded at fair value	996	—	—	—	—	996	—	—	—	—	—	—	996
Income (loss) before taxes	12,587	(1,014)	1,867	—	77	13,517	5,415	(751)	1,082	—	(77)	5,669	19,186
Current income taxes	3,420	(270)	498	—	—	3,648	1,554	(192)	277	—	—	1,639	5,287
Deferred income taxes	150	—	—	—	—	150	(1,035)	—	—	—	—	(1,035)	(885)
Net income (loss)	9,017	(744)	1,369	—	77	9,719	4,896	(559)	805	—	(77)	5,065	14,784

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

14. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance for the three-month period ended February 28, 2018. Note that amounts have been restated to reflect change in IFRS 15, detail of which can be found in note 3.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total US & International	Total Consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenues	23,530	5,909	5,263	5,979	(708)	39,973	22,600	5,761	833	6,394	(72)	35,516	75,489
Operating expenses	10,588	5,966	4,687	5,979	(780)	26,440	15,568	7,719	—	6,394	—	29,681	56,121
Segment profit (loss)	12,942	(57)	576	—	72	13,533	7,032	(1,958)	833	—	(72)	5,835	19,368
Other expenses													
Depreciation – property, plant and equipment	137	221	83	—	—	441	19	76	—	—	—	95	536
Amortization – intangible assets	1,512	—	—	—	—	1,512	3,550	—	—	—	—	3,550	5,062
Interest on long-term debt	2,046	—	—	—	—	2,046	401	—	—	—	—	401	2,447
Other income (expense)													
Unrealized and realized foreign exchange gain (loss)	(46)	—	—	—	—	(46)	6	—	—	—	—	6	(40)
Interest income	68	—	—	—	—	68	77	—	—	—	—	77	145
Gain (loss) on disposal of property, plant and equipment and intangible assets	17	—	—	—	—	17	(8)	—	—	—	—	(8)	9
Gain on revaluation on financial liabilities recorded at fair value	(96)	—	—	—	—	(96)	—	—	—	—	—	—	(96)
Income (loss) before taxes	9,190	(278)	493	—	72	9,477	3,137	(2,034)	833	—	(72)	1,864	11,341
Current income taxes	2,175	(75)	64	—	—	2,164	4,640	(528)	216	—	—	4,328	6,492
Deferred income taxes	926	—	—	—	—	926	(40,402)	—	—	—	—	(40,402)	(39,476)
Net income (loss)	6,089	(203)	429	—	72	6,387	38,899	(1,506)	617	—	(72)	37,938	44,325

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

15. Statement of cash flows

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, 2018	256,143	(1,954)	11,898	7,034	1,501	994	275,616
Changes arising from financing activities:							
Increase in term revolving credit facility	**23,000**	**—**	**—**	**—**	**—**	**—**	**23,000**
Repayment in term revolving credit facility	**(14,258)**	**—**	**—**	**—**	**—**	**—**	**(14,258)**
Repayment of holdback	**—**	**—**	**(100)**	**—**	**—**	**—**	**(100)**
Changes from non-cash transactions:							
Amortization of transaction costs directly attributable to a financing arrangement	**—**	**183**	**—**	**—**	**—**	**—**	**183**
Accretion of interest on non-interest-bearing holdbacks	**—**	**—**	**366**	**—**	**—**	**—**	**366**
Revaluation of financial liabilities recorded at fair value through profit and loss	**—**	**—**	**—**	**(1,139)**	**213**	**(70)**	**(996)**
Foreign exchange	**(194)**	**—**	**(108)**	**—**	**—**	**—**	**(302)**
Changes arising from investing activities:							
Issuance of holdback	**—**	**—**	**1,117**	**—**	**—**	**—**	**1,117**
Balance as at February 28, 2019	**264,691**	**(1,771)**	**13,173**	**5,895**	**1,714**	**924**	**284,626**

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

15. Statement of cash flows (continued)

Changes in non-cash operating activities are as follows:

	February 28, 2019	February 28, 2018
	$	$ (Restated, note 3
Accounts receivable	**729**	2,401
Inventories	**364**	(471)
Loans receivable	**926**	(1,803)
Prepaid expenses and deposits	**(1,068)**	(2,503)
Other assets	**55**	(145)
Accounts payable and accrued liabilities	**(673)**	(2,245)
Provisions	**4,632**	4,394
Deferred revenue and deposits	**1,472**	822
	6,437	450

16. 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, 2019	February 28, 2018
	$	$
Short-term benefits	**790**	384
Share based payment	**171**	155
Board member fees	**18**	12
Total remuneration of key management personnel	**979**	551

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

Given its widely held share base, the Company does not have an ultimate controlling party; its most important shareholder is its Chair of the Board of Directors, who controls 19% of the outstanding shares.

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

16. Related party transactions (continued)

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

	February 28, 2019	February 28, 2018
	$	$
Short-term benefits	**112**	184
Share based payment	**5**	8
Consulting services	**18**	—
Total remuneration of individuals related to key management personnel	**135**	192

17. Subsequent events

Acquisition of South St. Burger
On March 21, 2019, the Company announced one of its wholly-owned subsidiaries has acquired most of the assets of South Street Burger for a total consideration of approximately $5.1 million. A total of approximately $4.1 million was paid on closing, financed from MTY's cash on hand and existing credit facilities, while $0.2 million in net liabilities was assumed and $0.8 million was held back. As at April 10, 2019, a preliminary purchase price allocation has not yet been completed.