Condensed interim consolidated financial statements of MTY Food Group Inc.

For the three and nine-month periods ended August 31, 2020 and 2019

MTY Food Group Inc.

Condensed interim consolidated statements of income (loss)

For the three and nine-month periods ended August 31, 2020 and 2019
(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	Notes	Three months ended August 31		Nine months ended August 31	
		2020	2019	**2020**	2019
		$	$	**$**	$
Revenue	12 and 14	**135,366**	161,290	**383,954**	394,158
Expenses					
Operating expenses	13 and 14	**92,147**	119,443	**281,815**	289,790
Depreciation – property, plant and equipment and right-of-use assets		**4,469**	1,020	**13,094**	2,556
Amortization – intangible assets		**7,316**	7,676	**22,863**	21,323
Interest on long-term debt		**3,522**	5,264	**13,002**	11,949
Net interest expense on leases	5	**619**	—	**1,896**	—
Impairment charge – right-of-use assets	5	**1,511**	—	**3,121**	—
Impairment charge – property, plant and equipment, intangible assets and goodwill	7	**—**	—	**120,266**	958
		109,584	133,403	**456,057**	326,576
Share of net profit of a joint venture accounted for using the equity method		**169**	—	**499**	—
Other income (expenses)					
Unrealized and realized foreign exchange gain		**2,146**	35	**2,631**	407
Interest (expense) income		**(100)**	319	**269**	558
Gain on de-recognition/lease modification of lease liabilities		**323**	—	**2,848**	—
Gain (loss) on disposal of property, plant and equipment, assets held for sale and intangible assets		**203**	119	**(169)**	1,685
Revaluation of financial liabilities recorded at fair value		**805**	394	**1,194**	2,263
		3,377	867	**6,773**	4,913
Income (loss) before taxes		**29,328**	28,754	**(64,831)**	72,495
Income tax expense (recovery)					
Current		**6,025**	6,754	**9,745**	16,751
Deferred		**294**	(1,069)	**(17,524)**	(1,442)
		6,319	5,685	**(7,779)**	15,309
Net income (loss)		**23,009**	23,069	**(57,052)**	57,186
Net income (loss) attributable to:					
Owners		**22,932**	22,902	**(57,186)**	56,987
Non-controlling interests		**77**	167	**134**	199
		23,009	23,069	**(57,052)**	57,186
Net income (loss) per share	9				
Basic		**0.93**	0.91	**(2.31)**	2.26
Diluted		**0.93**	0.91	**(2.31)**	2.26

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 (loss)

For the three and nine-month periods ended August 31, 2020 and 2019
(In thousands of Canadian dollars)
(Unaudited)

	Three months ended August 31		Nine months ended August 31	
	2020	2019	**2020**	2019
	$	$	**$**	$
Net income (loss)	**23,009**	23,069	**(57,052)**	57,186
Items that may be reclassified subsequently to net income (loss)				
Unrealized loss on translation of foreign operations	**(35,578)**	(13,340)	**(7,493)**	(3,525)
Deferred tax recovery on foreign currency translation adjustments	**1,955**	907	**42**	140
Other comprehensive loss	**(33,623)**	(12,433)	**(7,451)**	(3,385)
Total comprehensive (loss) income	**(10,614)**	10,636	**(64,503)**	53,801
Comprehensive (loss) income attributable to:				
Owners	**(10,691)**	10,469	**(64,637)**	53,602
Non-controlling interests	**77**	167	**134**	199
	(10,614)	10,636	**(64,503)**	53,801

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 nine-month periods ended August 31, 2020 and 2019

(In thousands of Canadian dollars)

(Unaudited)

	Capital stock	Reserves: Other	Reserves: Contributed surplus	Reserves: Foreign currency translation	Total reserves	Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	$	$	$	$	$	$	$	$	$
For the nine months ended August 31, 2020									
Balance, beginning of period	**310,939**	**(850)**	**2,095**	**(736)**	**509**	**353,300**	**664,748**	**732**	**665,480**
Adjustment on adoption of IFRS 16 (net of tax) (Note 3)	**—**	**—**	**—**	**—**	**—**	**(10,692)**	**(10,692)**	**—**	**(10,692)**
Adjusted balance, beginning of period	**310,939**	**(850)**	**2,095**	**(736)**	**509**	**342,608**	**654,056**	**732**	**654,788**
Net (loss) income	**—**	**—**	**—**	**—**	**—**	**(57,186)**	**(57,186)**	**134**	**(57,052)**
Other comprehensive loss	**—**	**—**	**—**	**(7,451)**	**(7,451)**	**—**	**(7,451)**	**—**	**(7,451)**
Total comprehensive (loss) income							**(64,637)**	**134**	**(64,503)**
Shares repurchased and cancelled (Note 10)	**(4,524)**	**—**	**—**	**—**	**—**	**(14,342)**	**(18,866)**	**—**	**(18,866)**
Dividends	**—**	**—**	**—**	**—**	**—**	**(4,633)**	**(4,633)**	**(100)**	**(4,733)**
Shared-based compensation	**—**	**—**	**704**	—	**704**	—	**704**	**—**	**704**
Balance, end of period	**306,415**	**(850)**	**2,799**	**(8,187)**	**(6,238)**	**266,447**	**566,624**	**766**	**567,390**

	Capital stock	Reserves: Other	Reserves: Contributed surplus	Reserves: Foreign currency translation	Total reserves	Retained earnings	Equity attributable to owners	Equity attributable to non-controlling interests	Total
	$	$	$	$	$	$	$	$	$
For the nine months ended August 31, 2019									
Balance, beginning of period	312,161	(850)	1,512	450	1,112	296,341	609,614	1,281	610,895
Net income	—	—	—	—	—	56,987	56,987	199	57,186
Other comprehensive loss	—	—	—	(3,385)	(3,385)	—	(3,385)	—	(3,385)
Total comprehensive income							53,602	199	53,801
Dividends	—	—	—	—	—	(12,563)	(12,563)	(183)	(12,746)
Shared-based compensation	—	—	409	—	409	—	409	—	409
Acquisition of the non-controlling interest of 9974644 Canada Inc.	—	—	—	—	—	2	2	(112)	(110)
Balance, end of period	312,161	(850)	1,921	(2,935)	(1,864)	340,767	651,064	1,185	652,249

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

MTY Food Group Inc.

Condensed interim consolidated statements of financial position

As at August 31, 2020 and November 30, 2019

(In thousands of Canadian dollars)

(Unaudited)

	Notes	August 31, 2020	November 30, 2019
		$	$
Assets			
Current assets			
Cash		**43,843**	50,737
Accounts receivable	4	**62,420**	65,129
Inventories		**10,050**	7,531
Assets held for sale		**—**	10,459
Current portion of loans receivable		**2,113**	4,082
Current portion of finance lease receivables	5	**100,866**	—
Income taxes receivable		**229**	563
Other assets		**1,768**	2,008
Prepaid expenses and deposits		**6,914**	9,284
		228,203	149,793
Loans receivable		**3,151**	3,063
Finance lease receivables	5	**369,789**	—
Contract cost asset		**5,222**	6,074
Deferred income taxes		**3,062**	238
Investment in a joint venture	6	**27,791**	—
Property, plant and equipment		**18,289**	21,363
Right-of-use-assets	5	**68,220**	—
Intangible assets		**876,592**	958,099
Goodwill		**440,902**	510,171
		2,041,221	1,648,801
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**108,460**	100,762
Provisions		**2,482**	13,421
Gift card and loyalty program liabilities		**94,942**	92,800
Income taxes payable		**20,273**	20,506
Current portion of deferred revenue and deposits		**12,703**	18,761
Current portion of long-term debt	8	**9,846**	4,592
Current portion of lease liabilities		**122,866**	—
		371,572	250,842
Long-term debt	8	**486,360**	536,058
Lease liabilities		**434,907**	—
Deferred revenue and deposits		**42,917**	38,216
Deferred income taxes		**138,075**	158,205
		1,473,831	983,321

(In thousands of Canadian dollars)

	August 31, 2020	November 30, 2019
	$	$
Shareholders' equity		
Equity attributable to owners		
Capital stock	**306,415**	310,939
Reserves	**(6,238)**	509
Retained earnings	**266,447**	353,300
	566,624	664,748
Equity attributable to non-controlling interests	**766**	732
	567,390	665,480
	2,041,221	1,648,801

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

Approved by the Board on October 8, 2020

____, Director

____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three and nine-month periods ended August 31, 2020 and 2019
(In thousands of Canadian dollars)
(Unaudited)

	Notes	Three months ended August 31		Nine months ended August 31	
		2020	2019	**2020**	2019
		$	$	**$**	$
Operating activities					
Net income (loss)		**23,009**	23,069	**(57,052)**	57,186
Adjusting items:					
Interest on long-term debt		**3,522**	5,264	**13,002**	11,949
Net interest expense on leases		**619**	—	**1,896**	—
Depreciation – property, plant and equipment and right-of-use assets		**4,469**	1,020	**13,094**	2,556
Amortization – intangible assets		**7,316**	7,676	**22,863**	21,323
Impairment charge – property, plant and equipment	7	**—**	—	**2,030**	958
Impairment charge – right-of-use assets	5	**1,511**	—	**3,121**	—
Impairment charge – intangible assets and goodwill	7	**—**	—	**118,236**	—
Share of net profit of a joint venture accounted for using the equity method		**(169)**	—	**(499)**	—
Gain on de-recognition/lease modification of lease liabilities		**(323)**	—	**(2,848)**	—
(Gain) loss on disposal of property, plant and equipment, assets held for sale and intangible assets		**(203)**	(119)	**169**	(1,685)
Revaluation of financial liabilities recorded at fair value through profit or loss		**(805)**	(394)	**(1,194)**	(2,263)
Income tax expense (recovery)		**6,319**	5,685	**(7,779)**	15,309
Share-based compensation payments		**223**	117	**704**	409
		45,488	42,318	**105,743**	105,742
Income taxes received (paid)		**(3,548)**	(7,289)	**(9,607)**	(19,239)
Interest paid		**(3,218)**	(4,710)	**(12,150)**	(10,266)
Other		**(208)**	101	**(1,627)**	101
Changes in non-cash working capital items	15	**110**	(3,200)	**6,452**	(1,284)
Cash flows provided by operating activities		**38,624**	27,220	**88,811**	75,054
Investing activities					
Net cash outflow on acquisitions		**—**	(49,435)	**—**	(332,098)
Cash acquired through acquisitions		**—**	—	**—**	2,459
Additions to property, plant and equipment		**(1,764)**	(809)	**(3,199)**	(3,975)
Additions to intangible assets		**(63)**	(458)	**(1,330)**	(753)
Proceeds on disposal of property, plant and equipment, assets held for sale and intangible assets		**281**	727	**12,460**	3,035
Investment in a joint venture		**—**	—	**(19,105)**	—
Cash flows used in investing activities		**(1,546)**	(49,975)	**(11,174)**	(331,332)

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows (continued)

For the three and nine-month periods ended August 31, 2020 and 2019
(In thousands of Canadian dollars)
(Unaudited)

	Notes	Three months ended August 31		Nine months ended August 31	
		2020	2019	**2020**	2019
		$	$	**$**	$
Financing activities					
Issuance of long-term debt		**—**	49,004	**20,000**	327,399
Repayment of long-term debt		**(38,023)**	(25,058)	**(71,510)**	(46,097)
Lease payments		**(2,703)**	—	**(9,614)**	—
Shares repurchased and cancelled	10	**—**	—	**(18,866)**	—
Capitalized financing cost		**—**	—	**(525)**	(314)
Dividends paid to non-controlling shareholders of subsidiaries		**—**	(18)	**—**	(183)
Acquisition of the non-controlling interest of 9974644 Canada Inc.		**—**	—	**—**	(110)
Dividends paid		**—**	(4,153)	**(4,633)**	(12,563)
Cash flows (used in) provided by financing activities		**(40,726)**	19,775	**(85,148)**	268,132
Net increase (decrease) in cash		**(3,648)**	(2,980)	**(7,511)**	11,854
Effect of foreign exchange rate changes on cash		**(2,422)**	(814)	**617**	(471)
Cash, beginning of period		**49,913**	47,481	**50,737**	32,304
Cash, end of period		**43,843**	43,687	**43,843**	43,687

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

Table of contents

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 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 ("TSX"). The Company's head office is located at 8210 Trans-Canada Highway, 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 International Financial Reporting Standards ("IFRS") 2, Share-based Payment; leasing transactions that are within the scope of IFRS 16, Leases; and measurements that have some similarities to fair value but are not fair value, such as net realizable value in International Accounting Standards ("IAS") 2, Inventories, or value in use in IAS 36, Impairment of Assets.

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.

Statement of compliance

The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with 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, 2019, prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), with the exception of leases and joint arrangements disclosed below, or in Notes 3, 5 and 6 to these financial statements.

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, 2019 and the adoption of IFRS 16 as disclosed below in Note 3.

The financial statements were authorized for issue by the Board of Directors on October 8, 2020.

2. Basis of preparation (continued)

Seasonality

Results of operations for any interim period are not necessarily indicative of the results of operations for the full year. The Company expects that seasonality will continue to be a factor in the quarterly variation of its results. For example, the Frozen treat category, which is a significant category in the US market, varies significantly during the winter season as a result of weather conditions. This risk is offset by other brands that have better performance during winter seasons such as Papa Murphy's, which typically does better during winter months. The Company expects seasonality and weather conditions to be a factor in the quarterly variation of its results. Sales have been historically above average during May to August due to its frozen treat category. The Company expects that this seasonality will be somewhat offset by the sale of the take-and-bake pizza's at Papa Murphy's, which usually sells better when the temperature is cooler. Sales for shopping mall locations are also higher than average in December during the holiday shopping period. For 2020, the normal seasonal trends might be affected by the shifts in consumer behavior caused by the pandemic or government regulations.

Impact of COVID-19

In December 2019, a novel strain of coronavirus was reported to have surfaced, later to be renamed COVID-19. The spread of this virus caused business disruption beginning in March 2020, due to the closure or modified operating hours in certain restaurants, and traffic decline in Canada, the US and Internationally.

Further while the disruption is currently expected to come in waves, there is uncertainty around the duration of the pandemic, its medium to longer term impact on the economy and the rules that will apply to MTY's restaurants as sheltering measures are gradually reduced. The impact of the virus and the efforts to stop it impact MTY and many of its franchisees materially.

As a result of the continued and uncertain economic and business impacts of the COVID-19 pandemic, the Company continues to monitor the estimates, judgments and assumptions used in the financial statements. These estimates, judgments and assumptions are subject to change and could be materially different at year end.

The condensed interim consolidated financial statements have been impacted with respect to the following as a result of COVID-19:

- Additional expected credit losses on accounts receivable, loans receivable and finance lease receivables were taken.
- Expected credit losses on lease guarantees were taken as new provisions;
- Impairment testing on property, plant and equipment and right-of-use assets were carried out resulting in impairments;
- Impairment testing on franchise rights, trademarks and goodwill were carried out and material impairments were recorded;
- Provisions for closed stores, and related litigations and disputes were increased to reflect new risks;
- Additional fair value adjustment on the $100,000 credit facility interest rate swap resulting from the decrease in Canadian borrowing rate;
- Changes to lease liabilities and finance lease receivables were made to reflect changes in lease payment terms; and
- Reduction in wage expense of $2,580 and $5,419 for the three and nine-month periods ending August 31, 2020 resulting from the Canadian Employment Wage Subsidies.

Joint arrangements

Joint arrangements are arrangements in which the Company exercises joint control as established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangement's returns. When the Company has the rights to the net assets of the arrangement, the arrangement is classified as a joint venture and is accounted for using the equity method. When the Company has rights to the assets and obligations for the liabilities relating to an arrangement, the arrangement is classified as a joint operation and the Company accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profits or losses and movements in other comprehensive income of the investee. When the Company's share of losses in a joint venture equals or exceeds its interests in the joint

2. Basis of preparation (continued)

Joint arrangements (continued)

ventures, the Company does not recognize further losses unless it will incur obligations or make payments on behalf of the joint ventures.

Unrealized gains resulting from transactions with joint ventures are eliminated, to the extent of the Company's share in the joint venture. For sales of products or services from the Company to its joint ventures, the elimination of unrealized profits is considered in the carrying value of the investment in equity-accounted investees in the condensed interim consolidated statements of financial position and in the share in profit or loss of equity-accounted investees in the condensed interim consolidated statements of income.

3. Changes in accounting policies

Policies applicable beginning December 1, 2019

Impact of the application of IFRS 16, Leases

On December 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach. The Company has not restated the comparatives for the 2019 financial year, as permitted under the specific transitional provisions in the standard. The impact from the new leasing standard is therefore recognized in the opening balance sheet on December 1, 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. The standard 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. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and corresponding lease liability at the commencement of all leases (subject to limited exceptions for short-term leases and leases of low-value assets). Lease-related expenses previously recorded in operating expenses, primarily as occupancy costs, will be recorded as depreciation on the right-of-use assets, and a finance charge from unwinding the discount on the lease liabilities. When the Company is the lessor, lease-related revenues previously recorded in rental revenue will be recorded as finance income. IFRS 16 will also change the presentation of cash flows relating to leases in the Company's condensed interim consolidated statements of cash flows, but it does not cause a difference in the amount of cash transferred between the parties of a lease. Although the standard did not change the accounting for most lessors significantly, it does change the manner in which the intermediate lessor determines the classification of sublease arrangements between operating and finance leases. Under IFRS 16, this assessment is determined relative to whether the sublease transfers significant risks and rewards of the right-of-use asset.

In applying IFRS 16 for the first time, the Company has elected to use the following practical expedients permitted by the standard:

- the Company has not reassessed, under IFRS 16, contracts that were identified as leases under the previous accounting standards (IAS 17 and International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 4, Determining whether an Arrangement Contains a Lease);
- the use of the provision for onerous leases as an alternative to performing an impairment review;
- the right to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- the accounting for operating leases with a remaining lease term of less than 12 months as at December 1, 2019 as short-term leases and leases for which the underlying asset is of low value;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

<u>Impact on lessee accounting</u>

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

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

3. Changes in accounting policies (continued)

Policies applicable beginning December 1, 2019 (continued)

Impact of the application of IFRS 16, Leases (continued)

Applying IFRS 16, for all leases (except as noted below), the Company;

- recognized right-of-use assets and lease liabilities in the condensed interim consolidated statements of financial position, initially measured at the present value of future lease payments;
- recognized depreciation of right-of-use assets and interest on lease liabilities in the condensed interim consolidated statements of income; and
- separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the condensed interim consolidated statements of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36. This replaces the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within operating expenses, primarily as occupancy costs in the condensed interim consolidated statements of income.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases that had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at December 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on December 1, 2019 was 2.749%.

The following table reconciles the operating lease commitments as at November 30, 2019 to the opening balance of lease liabilities as at December 1, 2019:

	$
Operating lease commitments disclosed as at November 30, 2019	**648,445**
Discounted using the Company's incremental borrowing rate at December 1, 2019	(52,507)
Short-term leases and leases of low-value assets	(16,228)
Adjustments as a result of a different treatment of extension and termination options	34,478
Other	(3,109)
Lease liabilities recognized as at December 1, 2019	**611,079**

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and impairment relating to that lease recognized in the condensed interim consolidated statements of financial position as at December 1, 2019.

Impact on lessor accounting

As a lessor, leases are still classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. When the Company enters into a sublease arrangement as an intermediate lessor, the Company accounts for the head lease and the sublease as two separate contracts. The Company is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

For finance subleases, the Company derecognizes the right-of-use asset relating to the head lease that is transferred to the sublessee and recognizes a finance lease receivable in the sublease. Any difference between the right-of-use asset and finance lease receivable is recognized as a gain or loss in the consolidated statements of income. As the intermediate lessor, the Company retains the lease liability on the head lease in its consolidated statement of financial position. During the term of the sublease, the Company recognizes both finance income on the sublease and interest expense on the head lease.

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

3. Changes in accounting policies (continued)

Policies applicable beginning December 1, 2019 (continued)

Impact of the application of IFRS 16, Leases (continued)

As a result of this change, the Company has reclassified most of its sublease arrangements as finance leases. As required by IFRS 9, Financial Instruments, an allowance for expected credit loss has been recognized on the finance lease receivables.

Financial impact of initial application of IFRS 16

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

	As previously reported under IAS 17 November 30, 2019	IFRS 16 transition adjustments	December 1, 2019
	$	$	$
Assets			
Current assets			
Current portion of finance lease receivables	—	98,256	98,256
Prepaid expenses and deposits	9,284	(1,972)	7,312
Finance lease receivables	—	428,165	428,165
Right-of-use assets	—	68,838	68,838
Liabilities			
Current liabilities			
Provisions	13,163	(1,274)	11,889
Current portion of deferred revenue and deposits	18,761	(2,089)	16,672
Current portion of lease liabilities	—	111,414	111,414
Lease liabilities	—	499,665	499,665
Deferred income taxes	158,430	(3,737)	154,693
Reserves			
Retained earnings	353,300	(10,692)	342,608

COVID-19 accounting implications on leases

In response to the COVID-19 pandemic, in May 2020 the IASB has issued amendments to IFRS 16 to allow entities to not account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions:

- the revised consideration is substantially the same or less than the original consideration;
- the reduction in lease payments relates to payments due on or before June 30, 2021; and
- no other substantive changes have been made to the terms of the lease.

The Company has adopted this amendment and applied the practicable expedient to all eligible rent concessions. The Company has recognized for both the three and nine-month periods ended August 31, 2020, negative variable lease payments of $226 (2019 – nil and nil, respectively) as part of rent expense, presented in Cost of goods sold and rent in Note 13 of the financial statements.

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

3. Changes in accounting policies (continued)

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB released IFRIC 23, Uncertainty over Income Tax Treatments, which addresses how to determine the taxable profit (loss), tax basis, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12, Income Taxes. It specifically considers whether tax treatments should be considered independently or collectively and assumptions for taxation authorities' examinations with regard to taxable profit (loss), tax bases, unused tax losses, unused tax credits or tax rates.

IFRIC 23 was adopted effective December 1, 2019 and resulted in no significant adjustment.

4. Accounts receivable

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

	August 31, 2020	**November 30, 2019**
	$	$
Total accounts receivable	**75,438**	**73,305**
Less: Allowance for credit losses	**13,018**	**8,176**
Total accounts receivable, net	**62,420**	**65,129**
Of which:		
Not past due	**39,416**	**48,273**
Past due for more than one day but no more than 30 days	**3,509**	**2,943**
Past due for more than 31 days but no more than 60 days	**3,485**	**2,433**
Past due for more than 61 days	**16,010**	**11,480**
Total accounts receivable, net	**62,420**	**65,129**

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

5. Leases

Leases as a lessee relate primarily to leases of premises in relation to the Company's operations and its corporate store locations. For many of the leases related to its franchised locations, the Company is on the head lease of the premises and a corresponding sublease contract was entered into between the Company and its unrelated franchisee. The sublease contract is substantially based on the same terms and conditions as the head lease.

Leases and subleases typically have terms ranging between five and 10 years at inception. The Company does not have options to purchase the premises on any of its leases.

Right-of-use assets

The following table provides the net carrying amount of the right-of-use assets by class of underlying asset and the changes in the nine-month period ended August 31, 2020:

	Offices, corporate and dark stores	Store locations subject to operating subleases	Other	Total
	$	$	$	$
Balance as at December 1, 2019	55,937	12,088	813	**68,838**
Additions	16,533	—	—	**16,533**
Disposals	(6,362)	—	—	**(6,362)**
Depreciation expense	(8,456)	(906)	(191)	**(9,553)**
De-recognition	—	(639)	—	**(639)**
Impairment losses	(2,920)	(201)	—	**(3,121)**
Other modifications, including transfers	3,329	1	(2)	**3,328**
Foreign exchange	(779)	—	(25)	**(804)**
Balance as at August 31, 2020	**57,282**	**10,343**	**595**	**68,220**

The following table provides the breakdown of interest income and expense recognized in the condensed interim consolidated statements of income relating to leases where the Company is the lessee or lessor:

	Three months ended August 31, 2020	Nine months ended August 31, 2020
	$	$
Interest income on finance lease receivables	**3,352**	**10,185**
Interest expense on lease liabilities	**(3,971)**	**(12,081)**
Net interest expense on leases	**(619)**	**(1,896)**

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

5. Leases (continued)

Maturity analysis

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be paid or received after August 31, 2020:

	Leases	Finance lease receivables	Operating subleases
	$	$	$
2021	133,738	116,799	1,123
2022	108,295	94,314	985
2023	90,547	78,653	892
2024	72,323	62,684	804
2025	56,605	48,342	822
Thereafter	126,989	98,440	1,902
Total undiscounted lease payments	**588,497**	**499,232**	**6,528**
Unguaranteed residual values	—	3,063	—
Gross investment in the lease	—	**502,295**	—
Less: Unearned finance income	—	(24,977)	—
Present value of minimum lease payment receivables	—	**477,318**	—
Allowance for credit losses	—	(6,663)	—
Current portion of finance lease receivables	—	(100,866)	—
Finance lease receivables	—	**369,789**	—

6. Investment in a joint venture

On December 3, 2019, one of the Company's wholly owned subsidiaries completed its acquisition of a 70% interest in a joint venture that had acquired Turtle Jack's Muskoka Grill, COOP Wicked Chicken and Frat's Cucina (together, "Tortoise Group"), three casual dining concepts operating in the province of Ontario, for a consideration of $27,112, which includes a deferred contingent consideration amounting to $5,214, an obligation for the premium to repurchase its partner in a joint venture of $2,793 and cash consideration of $19,105. The Company has recorded its interest as a long-term receivable. The Company has guaranteed liabilities of the joint venture amounting to $7,867, which is payable to Tortoise Group upon the repurchase of the 30% joint venture partner.

7. Property, plant and equipment, Intangible assets and Goodwill

During the third quarter of 2020, there were no indicators of impairment identified. Impairment indicators were identified during the second quarter of 2020 due to the adverse impact of COVID-19, which resulted in temporary store closures and reduction in sales at franchised and corporately-owned locations. Accordingly, the Company performed impairment testing which resulted in the recognition of $120,266 of impairment losses recorded in the second quarter of 2020. Of these impairment losses, $2,030 were recognized against property, plant and equipment for corporately-owned locations, $50,269 against intangible assets comprised of franchise rights and trademarks, and $67,967 against goodwill.

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

7. Property, plant and equipment, Intangible assets and Goodwill (continued)

Impairment by cash-generating unit ("CGU"):

	Property plant and equipment	Intangible assets (1)	Goodwill	Total
CGU for testing purposes	$	$	$	**$**
Canada	1,581	32,235	—	**33,816**
US excluding Papa Murphy's	449	18,034	67,967	**86,450**
	2,030	**50,269**	**67,967**	**120,266**

(1) Composed of $16,827 and $33,442 of impairment of franchise rights and trademarks respectively.

The key assumptions used, where the recoverable amount was measured as a CGU's value in use, are those related to uncertainties around the impact of COVID-19 on projected sales as well as the discount rate. The sales forecasts for cash flows considered the weighted average impact of multiple scenarios based on operating results and internal forecasts prepared by management and long-term growth rates for the Canada CGU and the US excluding Papa Murphy's CGU ranging from 0% to 2%. The discount rate used for Canada was 9.0%, while for the US excluding Papa Murphy's was 9.2%. The recoverable amounts for the assets of each respective CGU were $821,603 for Canada and $547,997 for the US excluding Papa Murphy's and were both measured at value in use.

A change of 0.5% in discount rates used by the Canada CGU would result in an additional impairment of $4,727 against the franchise rights and trademarks in that CGU.

A change of 0.5% in discount rates used by the US excluding Papa Murphy's CGU would result in an additional impairment of $4,619 against the franchise rights and trademarks and $30,239 against goodwill.

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

8. Long-term debt

	August 31, 2020	November 30, 2019
	$	$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions	**12,911**	14,423
Contingent consideration on acquisitions and investment in a joint venture [(1)]	**7,470**	3,874
Fair value of promissory notes for Houston Avenue Bar & Grill repayable May 2021	**—**	329
Fair value of promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar [(2)]	**2,895**	2,738
Fair value of non-controlling interest buyback obligation in 10220396 Canada Inc. [(2)]	**—**	1,549
Fair value of non-controlling interest option in 9974644 Canada Inc. [(3)]	**1,077**	964
Fair value of obligation to repurchase partner in a joint venture [(4)]	**3,233**	—
Fair value of interest rate swap [(5)]	**1,590**	—
Revolving credit facility payable to a syndicate of lenders [(6)]	**469,000**	518,922
Credit facility financing costs	**(1,970)**	(2,149)
	496,206	540,650
Less: Current portion	**(9,846)**	(4,592)
	486,360	536,058

(1) Yuzu Sushi (payable August 2021), Allô! Mon Coco (payable October 2020 and January 2022), and Turtle Jack's (payable December 2022)
(2) Payable June 2022.
(3) Payable on demand.
(4) Maximum maturity date of December 2025.
(5) Interest rate swap is fixing the interest rate at 2.273% on $100,000 of the outstanding revolving credit facility until July 21, 2021.
(6) 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 September 23, 2022 and must be repaid in full at that time. The revolving credit facility has an authorized amount of $700,000 (November 30, 2019 – $700,000). As at August 31, 2020, the Company had drawn US$230,800 and CA$164,000 (2019 – CA$518,922) and has elected to pay interest based on the Canadian prime rate plus applicable margins.

During the second quarter of 2020, the Company modified its existing credit facility payable to a syndicate of lenders and amended its covenants as follows:

The Debt-to-EBITDA ratio must be less than or equal to the following:

- 4.25:1.00 for the financial quarter ending on May 31, 2020;
- 4.50:1.00 for the financial quarter ending August 31, 2020 and November 30, 2020;
- 4.25:1.00 for the period beginning on December 1, 2020 and ending on May 30, 2021; and
- 3.50:1.00 as of May 31, 2021 and thereafter.

The interest and rent coverage ratio must be at 2.00:1.00 at all times.

The credit agreement also contains various limitations on distributions and on the usage of the proceeds from the disposal of assets. The main limitations on distributions impose restrictions on the issuance of dividends and the repurchase of MTY's common shares through its normal course issuer bid ("NCIB") process until such time as the debt-to-EBITDA falls below 3.50:1.00 ratio.

As at August 31, 2020, the Company was in compliance with its financial covenants.

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

9. Net income (loss) per share

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

	Three months ended August 31		Nine months ended August 31	
	2020	**2019**	**2020**	2019
Weighted daily average number of common shares – basic	**24,706,461**	25,169,778	**24,771,530**	25,169,778
Assumed exercise of stock options	**—**	48,816	**—**	43,557
Weighted daily average number of common shares – diluted	**24,706,461**	25,218,594	**24,771,530**	25,213,335

10. Capital stock

On June 29, 2020, the Company announced the renewal of the NCIB. The NCIB began on July 3, 2020 and will end on July 2, 2021 or on such earlier date when the Company completes its purchases or elects to terminate the NCIB. The renewed period allows the Company to purchase 1,235,323 of its common shares. These purchases will be made on the open market plus brokerage fees through the facilities of the TSX and/or alternative trading systems at the prevailing market price at the time of the transaction, in accordance with the TSX's applicable policies. All common shares purchased pursuant to the NCIB will be cancelled.

During the three and nine months ended August 31, 2020, the Company repurchased and cancelled a total of nil and 364,774 common shares, respectively (2019 – nil and nil, respectively), under the current NCIB, at a weighted average price of nil and $51.72 per common share, respectively, for a total consideration of nil and $18,866, respectively (2019 – nil and nil, respectively). For the three and nine months ended August 31, 2020 an excess of nil and $14,342, respectively (2019 – nil and nil, respectively) of the shares repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

11. 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, and monitoring procedures.

Fair value of recognized financial instruments

Interest rate swap

The Company holds an interest rate swap that is contracted at a fixed rate on a notional amount of $100,000 and that matures July 21, 2021. The fair value of this interest rate swap amounted to $1,590 (2019 – nil) and the Company recorded a fair value remeasurement gain of $206 for the three-month period ended August 31, 2020 (2019 – nil) and a loss of $1,568 for the nine-month period ended August 31, 2020 (2019 – nil). The Company has classified this as level 2 in the fair value hierarchy.

Cross currency interest rate swap

On August 28, 2020, The Company entered a floating to floating 1-month cross currency interest rate swap. A fair value of nil was recorded as at August 31, 2020 (November 30, 2019 – nil).

Receive-Notional	Receive-rate	Pay-Notional	Pay-rate
US$230,800	2.41%	CA$305,000	2.56%

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

11. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Fair value hierarchy

	Level 3	
	August 31, 2020	November 30, 2019
Financial liabilities	**$**	$
Promissory notes for Houston Avenue Bar & Grill	**—**	329
Promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	**2,895**	2,738
Contingent considerations on acquisitions and investment in a joint venture	**7,470**	3,874
Non-controlling interest buyback options	**1,077**	2,513
Obligation to repurchase partner in a joint venture	**3,233**	—
Financial liabilities	**14,675**	9,454

The Company has determined that the fair values of its financial assets and financial liabilities with short-term maturities approximate 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 amount of other financial instruments as at August 31, 2020 and November 30, 2019. 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.

	August 31, 2020		November 30, 2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Loans receivable	**5,264**	**5,264**	7,145	7,145
Finance lease receivables	**470,655**	**470,655**	—	—
Financial liabilities				
Long-term debt (1)	**479,941**	**489,660**	531,196	542,147

(1) Excludes promissory notes, contingent considerations on acquisition, interest rate swap and obligations to repurchase non-controlling interests.

Determination of fair value

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

Loans receivable and Finance lease receivables – The carrying amount for these financial instruments approximates fair value due to the short-term maturity of these instruments and/or the use of market interest rates.

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 similar debt.

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

12. Revenue

	Three months ended					
	August 31, 2020			August 31, 2019 (1)		
	Canada	**US & International**	**TOTAL**	Canada	US & International	TOTAL
	$	**$**	**$**	$	$	$
Royalties	**15,546**	**30,195**	**45,741**	22,022	32,205	54,227
Franchise and transfer fees	**1,482**	**1,104**	**2,586**	1,382	792	2,174
Retail, food-processing and distribution revenues	**29,399**	**1,723**	**31,122**	23,720	996	24,716
Sale of goods, including construction revenues	**4,888**	**10,527**	**15,415**	13,105	20,088	33,193
Gift card breakage income	**65**	**1,224**	**1,289**	49	1,722	1,771
Promotional funds	**7,764**	**14,602**	**22,366**	10,861	14,148	25,009
Other franchising revenue	**7,183**	**6,158**	**13,341**	10,051	7,328	17,379
Other	**788**	**2,718**	**3,506**	1,207	1,614	2,821
	67,115	**68,251**	**135,366**	82,397	78,893	161,290

	Nine months ended					
	August 31, 2020			August 31, 2019 (1)		
	Canada	**US & International**	**TOTAL**	Canada	US & International	TOTAL
	$	**$**	**$**	$	$	$
Royalties	**43,496**	**79,299**	**122,795**	62,069	69,306	131,375
Franchise and transfer fees	**4,514**	**3,173**	**7,687**	4,026	2,614	6,640
Retail, food-processing and distribution revenues	**79,197**	**3,476**	**82,673**	65,018	3,068	68,086
Sale of goods, including construction revenues	**18,539**	**35,817**	**54,356**	35,379	31,885	67,264
Gift card breakage income	**264**	**3,572**	**3,836**	289	4,817	5,106
Promotional funds	**22,416**	**42,223**	**64,639**	31,443	30,577	62,020
Other franchising revenue	**22,044**	**16,835**	**38,879**	27,658	19,365	47,023
Other	**2,359**	**6,730**	**9,089**	3,272	3,372	6,644
	192,829	**191,125**	**383,954**	229,154	165,004	394,158

(1) Prior year amounts have been restated to reflect a change in presentation for retail promotional deductions.

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

13. Operating expenses

Three months ended

	August 31, 2020			August 31, 2019 [2]		
	Canada	**US & International**	**TOTAL**	Canada	US & International	TOTAL
	$	**$**	**$**	$	$	$
Cost of goods sold and rent	**3,411**	**4,318**	**7,729**	9,720	13,055	22,775
Retail, food-processing and distribution costs	**25,973**	**—**	**25,973**	21,004	—	21,004
Wages and benefits	**9,113**	**14,356**	**23,469**	12,191	20,877	33,068
Wage subsidy	**(2,580)**	—	**(2,580)**	—	—	—
Consulting and professional fees	**1,429**	**1,589**	**3,018**	1,939	2,541	4,480
Gift cards – related costs	**—**	**1,243**	**1,243**	—	2,180	2,180
Royalties	**4**	**1,873**	**1,877**	20	2,253	2,273
Promotional funds	**7,764**	**14,602**	**22,366**	10,861	14,148	25,009
Impairment for expected credit losses	**2,620**	**1,005**	**3,625**	867	63	930
Other [1]	**1,894**	**3,533**	**5,427**	3,009	4,715	7,724
	49,628	**42,519**	**92,147**	59,611	59,832	119,443

Nine months ended

	August 31, 2020			August 31, 2019 [2]		
	Canada	**US & International**	**TOTAL**	Canada	US & International	TOTAL
	$	**$**	**$**	$	$	$
Cost of goods sold and rent	**12,491**	**14,308**	**26,799**	25,815	23,330	49,145
Retail, food-processing and distribution costs	**70,002**	**—**	**70,002**	57,424	—	57,424
Wages and benefits	**29,630**	**46,752**	**76,382**	35,819	40,806	76,625
Wage subsidy	**(5,419)**	**—**	**(5,419)**	—	—	—
Consulting and professional fees	**5,401**	**5,731**	**11,132**	6,258	8,647	14,905
Gift cards – related costs	**—**	**4,484**	**4,484**	—	6,757	6,757
Royalties	**14**	**4,300**	**4,314**	280	4,903	5,183
Promotional funds	**22,416**	**42,223**	**64,639**	31,443	30,577	62,020
Impairment for expected credit losses	**5,354**	**2,702**	**8,056**	1,010	337	1,347
Other [1]	**7,935**	**13,491**	**21,426**	9,734	6,650	16,384
	147,824	**133,991**	**281,815**	167,783	122,007	289,790

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

(2) Prior year amounts have been restated to reflect a change in presentation for retail promotional deductions.

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

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 operating decision maker also assesses the performance of subdivisions based on the type of product or service provided. These subdivisions include franchising, corporate store, processing, distribution and retail and promotional fund revenues and expenses. This information is disclosed below.

Below is a summary of each geographical and operating segment's performance for the three-month period ended August 31, 2020.

	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
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	26,811	3,657	29,241	7,764	(358)	67,115	42,125	10,275	1,724	14,602	(475)	68,251	135,366
Operating expenses	14,300	3,229	26,116	7,764	(1,781)	49,628	15,549	11,407	13	14,602	948	42,519	92,147
Segment profit (loss)	12,511	428	3,125	—	1,423	17,487	26,576	(1,132)	1,711	—	(1,423)	25,732	43,219

Below is a summary of each geographical and operating segment's performance for the three-month period ended August 31, 2019.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, distribution and Retail (1)	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and Retail	Promotional funds	Interco	Total US & International	Total consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	36,653	10,804	24,835	10,930	(825)	82,397	42,279	21,479	996	14,229	(90)	78,893	161,290
Operating expenses	16,760	10,705	22,131	10,930	(915)	59,611	24,166	21,437	—	14,229	—	59,832	119,443
Segment profit (loss)	19,893	99	2,704	—	90	22,786	18,113	42	996	—	(90)	19,061	41,847

(1) Prior year amounts have been restated to reflect a change in presentation for retail promotional deductions.

(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 nine-month period ended August 31, 2020.

	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
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	**77,928**	**14,301**	**79,402**	**22,416**	**(1,218)**	**192,829**	**111,808**	**35,176**	**3,477**	**42,223**	**(1,559)**	**191,125**	**383,954**
Operating expenses	**43,360**	**14,120**	**70,693**	**22,416**	**(2,765)**	**147,824**	**55,273**	**36,494**	**13**	**42,223**	**(12)**	**133,991**	**281,815**
Segment profit (loss)	**34,568**	**181**	**8,709**	**—**	**1,547**	**45,005**	**56,535**	**(1,318)**	**3,464**	**—**	**(1,547)**	**57,134**	**102,139**

Below is a summary of each geographical and operating segment's performance for the nine-month period ended August 31, 2019.

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, distribution and retail [(1)]	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, distribution and retail	Promotional funds	Interco	Total US & International	Total consolidated
	$	$	$	$	$	$	$	$	$	$	$	$	$
Revenue	104,440	29,370	65,643	31,613	(1,912)	229,154	99,442	31,996	3,068	30,749	(251)	165,004	394,158
Operating expenses	49,538	30,702	58,093	31,613	(2,163)	167,783	58,727	32,531	—	30,749	—	122,007	289,790
Segment profit (loss)	54,902	(1,332)	7,550	—	251	61,371	40,715	(535)	3,068	—	(251)	42,997	104,368

(1) Prior year amounts have been restated to reflect a change in presentation for retail promotional deductions.

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

15. Interim consolidated statement of cash flows

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

	Three months ended August 31		Nine months ended August 31	
	2020	2019	**2020**	2019
	$	$	**$**	$
Accounts receivable	**402**	(5,341)	**1,987**	(6,482)
Inventories	**(326)**	332	**(2,629)**	732
Loans receivable	**126**	285	**1,969**	484
Other assets	**92**	(224)	**240**	233
Prepaid expenses and deposits	**1,077**	(1,285)	**1,231**	(2,721)
Accounts payable and accrued liabilities	**10,165**	2,971	**8,190**	394
Provisions	**(7,147)**	681	**(9,813)**	(3,547)
Gift card and loyalty program liabilities	**(1,783)**	(1,921)	**3,823**	6,192
Deferred revenue and deposits	**(2,496)**	1,302	**1,454**	3,431
	110	(3,200)	**6,452**	(1,284)

16. Lease agreement guarantees

The Company has guaranteed leases on certain franchise stores in the event the franchisees are unable to meet their remaining lease commitments. The maximum amount the Company may be required to pay under these agreements was $14,764 as at August 31, 2020 (November 30, 2019 – $15,057). In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. As at August 31, 2020, the Company has accrued $1,796 (November 30, 2019 – nil) with respect to these guarantees.

17. Related party transactions

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

Compensation of key management personnel

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

	Three months ended August 31		Nine months ended August 31	
	2020	2019	**2020**	2019
	$	$	**$**	$
Short-term benefits	**620**	468	**1,930**	1,931
Share-based payments	**223**	141	**731**	464
Board member fees	**19**	24	**56**	60
Total remuneration of key management personnel	**862**	633	**2,717**	2,455

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

17. Related party transactions (continued)

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 19.77% 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:

	Three months ended August 31		Nine months ended August 31	
	2020	2019	**2020**	2019
	$	$	**$**	$
Short-term benefits	**122**	131	**378**	362
Share-based payments	—	6	**8**	16
Consulting services	—	—	—	38
Total remuneration of individuals related to key management personnel	**122**	137	**386**	416

The Company has entered into a consulting agreement with one of its joint venture associates to perform corporate business development and management consulting services, and paid consulting fees to this associate of $39 and $114 for the three and nine-month periods ended August 31, 2020, respectively (2019 – nil and nil, respectively). The Company has a current receivable due from its joint venture associate of $152 as at August 31, 2020 (November 30, 2019 – nil).