Consolidated financial statements of
MTY Food Group Inc.

November 30, 2020 and 2019

Independent auditor's report

To the Shareholders of MTY Food Group Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of MTY Food Group Inc. and its subsidiaries (together, the Company) as at November 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of income (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of financial position as at November 30, 2020 and 2019
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502

"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sonia Boisvert.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
February 17, 2021

[1] FCPA auditor, FCA, public accountancy permit No. A116853

MTY Food Group Inc.
Consolidated statements of income (loss)
Years ended November 30, 2020 and 2019
(In thousands of Canadian dollars, except per share amounts)

	Notes	**2020**	2019
		$	$
Revenue	28 & 33	**511,117**	550,942
Expenses			
Operating expenses	29 & 33	**373,806**	403,547
Depreciation - property, plant and equipment and right-of-use assets	13 & 15	**16,998**	4,023
Amortization - intangible assets	16	**30,876**	29,185
Interest on long-term debt		**16,756**	17,649
Net interest expense on leases	13	**2,481**	—
Impairment charge - right-of-use assets	13	**4,291**	—
Impairment charge - property, plant and equipment, intangible assets and goodwill	18	**122,826**	2,619
		568,034	457,023
Share of net profit of a joint venture accounted for using the equity method		**508**	—
Other income (expenses)			
Unrealized and realized foreign exchange gain		**3,230**	402
Interest income		**408**	856
Gain on de-recognition/lease modification of lease liabilities		**2,890**	—
(Loss) gain on disposal of property, plant and equipment, assets held for sale and intangible assets		**(466)**	2,341
Revaluation of financial liabilities recorded at fair value	26	**(1,602)**	931
Loss on settlement of promissory notes	26	**—**	(452)
		4,460	4,078
(Loss) income before taxes		**(51,949)**	97,997
Income tax expense (recovery)	32		
Current		**8,360**	17,492
Deferred		**(23,414)**	2,769
		(15,054)	20,261
Net (loss) income		**(36,895)**	77,736
Net (loss) income attributable to:			
Owners		**(37,108)**	77,675
Non-controlling interests		**213**	61
		(36,895)	77,736
Net (loss) income per share	25		
Basic		**(1.50)**	3.09
Diluted		**(1.50)**	3.08

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

MTY Food Group Inc.

Consolidated statements of comprehensive income (loss)

Years ended November 30, 2020 and 2019

(In thousands of Canadian dollars)

	Notes	2020	2019
		$	$
Net (loss) income		**(36,895)**	77,736
Items that may be reclassified subsequently to net (loss) income			
Unrealized loss on translation of foreign operations		**(12,660)**	(1,431)
Deferred tax recovery on foreign currency translation adjustments	32	**42**	245
Other comprehensive loss		**(12,618)**	(1,186)
Total comprehensive (loss) income		**(49,513)**	76,550
Total comprehensive (loss) income attributable to:			
Owners		**(49,726)**	76,489
Non-controlling interests		**213**	61
		(49,513)	76,550

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

MTY Food Group Inc.

Consolidated statements of changes in shareholders' equity

Years ended November 30, 2020 and 2019

(In thousands of Canadian dollars)

	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
	$	$	$	$	$	$	$	$	$
Balance as at November 30, 2018	312,161	(850)	1,512	450	1,112	296,341	609,614	1,281	610,895
Net income for the year ended November 30, 2019	—	—	—	—	—	77,675	77,675	61	77,736
Other comprehensive loss	—	—	—	(1,186)	(1,186)	—	(1,186)	—	(1,186)
Total comprehensive income							76,489	61	76,550
Acquisition of the non-controlling interest of 9974644 Canada Inc. (note 8)	—	—	—	—	—	2	2	(112)	(110)
Shares repurchased and cancelled (note 23)	(1,222)	—	—	—	—	(4,005)	(5,227)	—	(5,227)
Dividends	—	—	—	—	—	(16,713)	(16,713)	(498)	(17,211)
Share-based compensation (note 24)	—	—	583	—	583	—	583	—	583
Balance as at November 30, 2019	310,939	(850)	2,095	(736)	509	353,300	664,748	732	665,480
Adjustment on adoption of IFRS 16 (net of tax) (note 4)	**—**	**—**	**—**	**—**	**—**	**(10,692)**	**(10,692)**	**—**	**(10,692)**
Adjusted balance as at November 30, 2019	**310,939**	**(850)**	**2,095**	**(736)**	**509**	**342,608**	**654,056**	**732**	**654,788**
Net (loss) income for the year ended November 30, 2020	**—**	**—**	**—**	**—**	**—**	**(37,108)**	**(37,108)**	**213**	**(36,895)**
Other comprehensive loss	**—**	**—**	**—**	**(12,618)**	**(12,618)**	**—**	**(12,618)**	**—**	**(12,618)**
Total comprehensive (loss) income							**(49,726)**	**213**	**(49,513)**
Shares repurchased and cancelled (note 23)	**(4,524)**	**—**	**—**	**—**	**—**	**(14,342)**	**(18,866)**	**—**	**(18,866)**
Dividends	**—**	**—**	**—**	**—**	**—**	**(4,633)**	**(4,633)**	**(186)**	**(4,819)**
Share-based compensation (note 24)	**—**	**—**	**924**	**—**	**924**	**—**	**924**	**—**	**924**
Balance as at November 30, 2020	**306,415**	**(850)**	**3,019**	**(13,354)**	**(11,185)**	**286,525**	**581,755**	**759**	**582,514**

The following dividends were declared and paid by the Company:

	2020	2019
	$	$
$0.185 per common share (2019 – $0.66 per common share)	**4,633**	16,713

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

MTY Food Group Inc.

Consolidated statements of financial position

As at November 30, 2020 and 2019

(In thousands of Canadian dollars)

	Notes	2020	2019
		$	$
Assets			
Current assets			
Cash		**44,302**	50,737
Accounts receivable	9	**55,886**	65,129
Inventories	10	**9,415**	7,531
Assets held for sale	11	**—**	10,459
Current portion of loans receivable	12	**1,527**	4,082
Current portion of finance lease receivables	13	**90,303**	—
Income taxes receivable		**420**	563
Other assets		**2,792**	2,008
Prepaid expenses and deposits		**6,750**	9,284
		211,395	149,793
Loans receivable	12	**3,233**	3,063
Finance lease receivables	13	**377,824**	—
Contract cost asset		**5,171**	6,074
Deferred income taxes	32	**207**	238
Investment in a joint venture	14	**26,612**	—
Property, plant and equipment	15	**16,551**	21,363
Right-of-use assets	13	**69,223**	—
Intangible assets	16	**864,029**	958,099
Goodwill	17	**439,452**	510,171
		2,013,697	1,648,801
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**111,372**	100,762
Provisions	20	**3,065**	13,421
Gift card and loyalty program liabilities		**95,233**	92,800
Income taxes payable		**18,335**	20,506
Current portion of deferred revenue and deposits	21	**13,747**	18,761
Current portion of long-term debt	22	**12,888**	4,592
Current portion of lease liabilities		**114,915**	—
		369,555	250,842
Long-term debt	22	**447,654**	536,058
Lease liabilities		**443,834**	—
Deferred revenue and deposits	21	**41,367**	38,216
Deferred income taxes	32	**128,773**	158,205
		1,431,183	983,321

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

MTY Food Group Inc.

Consolidated statements of financial position (continued)

As at November 30, 2020 and 2019

(In thousands of Canadian dollars)

	Notes	2020	2019
		$	$
Shareholders' equity			
Equity attributable to owners			
Capital stock	23	**306,415**	310,939
Reserves		**(11,185)**	509
Retained earnings		**286,525**	353,300
		581,755	664,748
Equity attributable to non-controlling interests		**759**	732
		582,514	665,480
		2,013,697	1,648,801

Approved by the Board on February 17, 2021

____, Director

____, Director

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

MTY Food Group Inc.

Consolidated statements of cash flows

Years ended November 30, 2020 and 2019

(In thousands of Canadian dollars)

	Notes	2020	2019
		$	$
Operating activities			
Net (loss) income		**(36,895)**	77,736
Adjusting items:			
Interest on long-term debt		**16,756**	17,649
Net interest expense on leases	13	**2,481**	—
Depreciation - property, plant and equipment and right-of-use assets	13 & 15	**16,998**	4,023
Amortization - intangible assets	16	**30,876**	29,185
Impairment charge - property, plant and equipment	18	**3,166**	959
Impairment charge - right-of-use assets	13	**4,291**	—
Impairment charge - intangible assets and goodwill	18	**119,660**	1,660
Share of net profit of a joint venture accounted for using the equity method		**(508)**	—
Gain on de-recognition/lease modification of lease liabilities		**(2,890)**	—
Loss (gain) on disposal of property, plant and equipment, assets held for sale and intangible assets		**466**	(2,341)
Revaluation of financial liabilities recorded at fair value through profit or loss	26	**1,602**	(931)
Loss on settlement of promissory notes	26	**—**	452
Income tax (recovery) expense		**(15,054)**	20,261
Share-based compensation payments	24	**924**	583
		141,873	149,236
Income taxes paid		**(10,303)**	(22,537)
Interest paid		**(15,832)**	(15,405)
Other		**573**	2,978
Changes in non-cash working capital items	34	**17,341**	(1,321)
Cash flows provided by operating activities		**133,652**	112,951
Investing activities			
Net cash outflow on acquisitions	7	**—**	(332,098)
Cash acquired through acquisitions	7	**—**	2,459
Additions to property, plant and equipment	15	**(4,197)**	(5,166)
Additions to intangible assets	16	**(1,427)**	(2,136)
Proceeds on disposal of property, plant and equipment, assets held for sale and intangible assets		**12,624**	11,289
Investment in a joint venture	14	**(19,105)**	—
Cash flows used in investing activities		**(12,105)**	(325,652)

	Notes	2020 $	2019 $
Financing activities			
Issuance of long-term debt	34	**20,000**	327,399
Repayment of long-term debt	34	**(109,137)**	(73,852)
Lease payments		**(13,026)**	—
Shares repurchased and cancelled	23	**(18,866)**	(5,227)
Capitalized financing costs	34	**(525)**	(1,079)
Dividends paid to non-controlling shareholders of subsidiaries		**(186)**	(498)
Acquisition of the non-controlling interest of 9974644 Canada Inc.	8	**—**	(110)
Dividends paid		**(4,633)**	(16,713)
Cash flows (used in) provided by financing activities		**(126,373)**	229,920
Net (decrease) increase in cash		**(4,826)**	17,219
Effect of foreign exchange rate changes on cash		**(1,609)**	1,214
Cash, beginning of period		**50,737**	32,304
Cash, end of period		**44,302**	50,737

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

Table of contents

Independent Auditor's Report		2
1.	Description of the business	14
2.	Basis of preparation	14
3.	Accounting policies	15
4.	Changes in accounting policies	27
5.	Critical accounting judgments and key sources of estimation uncertainty	30
6.	Future accounting changes	32
7.	Business acquisitions	33
8.	Acquisition of non-controlling interest	39
9.	Accounts receivable	39
10.	Inventories	40
11.	Assets held for sale	40
12.	Loans receivable	40
13.	Leases	41
14.	Investment in a joint venture	42
15.	Property, plant and equipment	43
16.	Intangible assets	44
17.	Goodwill	45
18.	Impairment charge – property, plant and equipment, intangible assets and goodwill	45
19.	Credit facility	47
20.	Provisions	47
21.	Deferred revenue and deposits	48
22.	Long-term debt	49
23.	Capital stock	50
24.	Stock options	50
25.	Income per share	51
26.	Financial instruments	52
27.	Capital disclosures	56
28.	Revenue	57
29.	Operating expenses	58
30.	Guarantee	58
31.	Contingent liabilities	58
32.	Income taxes	59
33.	Segmented information	61
34.	Statement of cash flows	63
35.	Related party transactions	64

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 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 financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standard Board (“IASB”).

These financial statements were authorized for issue by the Board of Directors on February 17, 2021.

3. Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, with the exception of leases and joint arrangements disclosed below, or in notes 4, 13 and 14 to these consolidated financial statements.

Basis of consolidation

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

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

Principal subsidiaries are as follows:

	Percentage of equity interest	
Principal subsidiaries	2020	2019
	%	%
MTY Franchising Inc.	100	100
MTY Franchising USA, Inc.	100	100
BF Acquisition Holdings, LLC	100	100
Built Franchise Systems, LLC	100	100
CB Franchise Systems, LLC	100	100
Papa Murphy's Holdings Inc.	100	100
9974644 Canada Inc.	65	65
10220396 Canada Inc.	80	80

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

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

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

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

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

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

3. Accounting policies (continued)

Basis of consolidation (continued)

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

Changes in the Company's ownership interests in existing subsidiaries

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

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income (loss) in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, Financial Instruments: Recognition and Measurement when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method (note 7). The consideration transferred in a business combination is measured at fair value. This is calculated as the sum of the acquisition date fair values of the assets transferred by the Company and liabilities incurred by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except for deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12, Income Taxes.

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

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

Non-controlling interest are present ownership interests and entitle their holders to a proportionate share of the Company’s net assets in the event of liquidation. These may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

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

3. Accounting policies (continued)

Business combinations (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 or IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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

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

Goodwill

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

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

Revenue recognition

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) 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.

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

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

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

vi) The Company earns rent revenue on certain leases it holds and sign rental revenue. Rental income that is not included in the measurement of the finance lease receivable under IFRS 16 is recognized on a straight-line basis over the term of the relevant lease.

vii) 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 the acquisition date.

3. Accounting policies (continued)

Revenue from franchise locations (continued)

viii) The Company receives considerations from certain suppliers. Fees are generally earned based on the value of purchases during the year. 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 other franchising revenue.

Revenue from food processing, distribution and retail

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 promotional fund contributions

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. The combined amount payable resulting from the promotional fund reserves amounts to a surplus of $20,529 (2019 – $12,054). These amounts are included in accounts payable and accrued liabilities.

Revenue from corporate-owned locations

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

Contract cost asset

The Company recognizes incremental costs of obtaining a contract as an asset if they are expected to be recoverable, unless their amortization period would be less than one year, in which case a practical expedient is used to expense them as incurred. The costs are amortized to operating expenses over the term of the related franchise agreement.

Assets held for sale

Judgment is required in determining whether an asset meets the criteria for classification as “assets held for sale” in the consolidated statements of financial position. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the expected timeframe of the completion of the anticipated sale and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this category as appropriate. In addition, there is a requirement to evaluate and record assets held for sale at the lower of their carrying value and fair value less costs to sell.

Leasing

The Company enters into leases for franchised and corporately-owned locations, offices, and equipment in the normal course of business. The Company adopted IFRS 16 on December 1, 2019. The impact of the adoption of IFRS 16 on the Company’s financial statements is further described in note 4.

<u>The Company as lessee</u>

The Company recognizes lease liabilities with corresponding right-of-use assets, except for short-term leases and leases of low value assets, which are expensed on a straight-line basis over the lease term. The Company recognizes depreciation of right-of-use assets and interest on lease liabilities.

3. Accounting policies (continued)

Leasing (continued)

The Company as lessor

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. 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.

For the year ended November 30, 2019, leases were classified as finance leases whenever the terms of the lease transferred substantially all the risks and rewards of ownership to the lessee. All other leases were classified as operating leases.

The Company as lessor

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

The Company as lessee

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

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

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises expenses for the related costs for which the grants are intended to compensate.

Functional and presentation currency

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

The assets and liabilities of a foreign operation with a functional currency different from that of the Company are translated into the presentation currency using the exchange rate in effect on the reporting date. Revenue and expenses are translated into the presentation currency using the average exchange rate for the period. Exchange differences arising from the translation of a foreign operation are recognized in reserves. Upon complete or partial disposal of the investment in the foreign operation, the foreign currency translation reserve or a portion of it will be recognized in the statement of income (loss) in other income (charges).

Taxation

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

Current tax

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

3. Accounting policies (continued)

Taxation (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

Property, plant and equipment

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

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

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

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

3. Accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is based on the following terms:

Buildings	Straight-line	25 to 50 years
Equipment	Straight-line	Three to 10 years
Leasehold improvements	Straight-line	Lesser of the term of the lease or useful life
Rolling stock	Straight-line	Five to seven years
Computer hardware	Straight-line	Three to seven years

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

Derecognition of intangible assets

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

The Company reviews each reporting period the amortization periods of its intangible assets with finite useful lives. The Company also reviews each reporting period the useful lives of its intangible assets with indefinite useful lives to determine whether events and circumstances continue to support an indefinite useful life assessment for those assets.

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

Franchise rights and master franchise rights

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

Step-in rights

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

3. Accounting policies (continued)

Trademarks

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

Other

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

Impairment of long-lived assets

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

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

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

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

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

Impairment of goodwill

For the purposes of impairment testing, goodwill is allocated to the CGU or a group of CGUs ("goodwill unit") that are considered to represent the lowest level within the group at which the goodwill is monitored for internal management purposes. As at November 30, 2020, goodwill is allocated as follows:

	Goodwill unit description
Canada goodwill	A group of CGUs comprised of acquired brands in Canada's operating segment
US & International excluding Papa Murphy's goodwill	A group of CGUs comprised of acquired brands in the US & International operating segment, excluding the Papa Murphy's brand
Papa Murphy's goodwill	One CGU comprised of Papa Murphy's brand

3. Accounting policies (continued)

Impairment of goodwill (continued)

A goodwill unit to which goodwill has been allocated is tested for impairment annually as at August 31, or more frequently when there is an indication that the goodwill unit may be impaired. If the recoverable amount of the goodwill unit is less than its carrying amount, the impairment loss reduces the carrying amount of any goodwill allocated to the goodwill unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of income (loss). An impairment loss recognized for goodwill is not reversed in subsequent periods.

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

Cash

Cash includes cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant.

Inventories

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

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

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

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 fair value through profit or loss "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 FVTPL are recognized immediately in profit or loss.

On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost, Fair Value through Other Comprehensive Income "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. Accounting policies (continued)

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

The Company uses the simplified expected credit-loss (“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 (loss) 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.

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.

3. Accounting policies (continued)

Financial instruments (continued)

Financial liabilities classification:	
Accounts payable and accrued liabilities	Amortized cost
Revolving credit facility	Amortized cost
Non-interest-bearing contract cancellation fees and holdbacks	Amortized cost
Contingent consideration related to the acquisition of Yuzu Sushi and Allô! Mon Coco	FVTPL
Promissory notes Houston Avenue Bar & Grill	FVTPL
Promissory notes related to the buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	FVTPL
Non-controlling interest buyback obligation	FVTPL
Non-controlling interest option	FVTPL
Obligation to repurchase a partner in a joint venture	FVTPL
Interest rate swap	FVTPL

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value when the effect is material. This is recorded in cost of goods sold and rent (note 29) on the consolidated statement of income (loss).

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

Onerous contracts

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

Litigation, disputes and closed stores

Provisions for the expected cost of litigation, disputes and the cost of settling leases for closed stores, with the exception of lease liabilities already recorded pursuant to IFRS 16, are recognized when it becomes probable the Company will be required to settle the obligation, at management's best estimate of the expenditure required to settle the Company's obligation.

Contingent liabilities acquired in a business combination

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

3. Accounting policies (continued)

Gift card and loyalty program liabilities

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

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

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

Deferred revenue and deposits

The Company has deferred revenue and deposits for amounts received for which the service or sale of goods associated with these revenues have not yet been rendered. These are comprised mainly of franchise fee deposits, unearned rent, and supplier contributions. Revenues on these are recorded once the service or contract terms have been met and the services or goods have been delivered.

Share-based payment arrangements

The Company measures stock options granted to employees that vest in specified installments over the service period based on the fair value of each tranche on the grant date by using the Black-Scholes option-pricing model. Based on the Company's estimate of equity instruments that will eventually vest, a compensation expense is recognized over the vesting period applicable to the tranche with a corresponding increase to contributed surplus. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 24.

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

Operating segments

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other components, and for which separate financial information is available. Segment disclosures are provided for the Company's operating segments (note 33). The operating segments are determined based on the Company's management and internal reporting structure. All operating segments' operating results are regularly reviewed by the Chief Operating Officers ("COOs") to make decisions on resources to be allocated to the segment and to assess its performance.

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

3. Accounting policies (continued)

Joint arrangements (continued)

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 consolidated statements of financial position and in the share in profit or loss of equity-accounted investees in the consolidated statements of income.

4. Changes in accounting policies

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 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.

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

- recognized right-of-use assets and lease liabilities in the consolidated statements of financial position, initially measured at the present value of future lease payments;

4. Changes in accounting policies (continued)

IFRS 16, Leases (continued)

- recognized depreciation of right-of-use assets and interest on lease liabilities in the 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 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 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 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.

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

4. Changes in accounting policies (continued)

IFRS 16, Leases (continued)

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 lessees 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 negative variable lease payments of $617 (2019 – nil) as part of rent expense, presented in Cost of goods sold and rent in note 29 of the consolidated financial statements.

4. 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. 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.

5. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

Impairment of long-lived assets

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the year ended November 30, 2020, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Business combinations

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

Impairment of property, plant and equipment, franchise rights and trademarks

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

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

Key sources of estimation uncertainty (continued)

Impairment of property, plant and equipment, franchise rights and trademarks (continued)

Discount rates are based on pre-tax rates that reflect the current market assessments, taking the time value of money and the risks specific to the CGU into account.

During the years ended November 30, 2020 and 2019, the Company recognized impairment charges on its franchise rights and trademarks (note 18). The total impairment of $51,693 (2019 – $1,660) represents a write-down of the carrying value to the fair value of the trademarks and franchise rights. The fair value was determined using significant unobservable inputs such as discount rates and projected operating cash flows. The fair value is classified as level 3 in the fair value hierarchy.

During the years ended November 30, 2020 and 2019, the Company also recognized impairment charges on its property, plant and equipment (note 18). The cumulative impairment on property, plant and equipment of $3,166 (2019 – $959) represents a write-down of the carrying value of the leasehold improvements and equipment to their fair value less cost of disposal, which was higher than their value in use.

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount in use of the goodwill unit to which goodwill has been allocated. The value-in-use calculation requires management to estimate the future cash flows expected to arise from the goodwill unit and a suitable discount rate in order to calculate present value.

During the year ended November 30, 2020, the Company recognized impairment charges of $67,967 on its goodwill (note 18). During the year ended November 30, 2019, no impairment charge on goodwill was required.

Provisions

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

Gift card liabilities

Management is required to make certain assumptions in both the prorated recognition based on redemption pattern and remoteness recognition of gift card breakage. The significant estimates are breakage rate and the redemption patterns.

Supplier contributions

The Company recognizes certain revenues based on estimated considerations to be received from suppliers. These estimates are based on historical patterns of purchase and earned revenues.

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.

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

Impact of COVID-19 (continued)

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 consolidated financial statements. These estimates, judgments and assumptions are subject to change.

The 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;
- Reduction in wage expense for the year ending November 30, 2020 of $6,775 (2019 – nil) resulting from the Canadian Employment Wage Subsidies; and
- Reduction in rent expense for the year ending November 30, 2020 of $245 (2019 – nil) resulting from the Canadian Emergency Rent Subsidies.

6. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the IASB that are not yet effective for the period ended November 30, 2020 and have not been applied in preparing these consolidated financial statements.

The following standards or amendments, with the exception of the amendments to IFRS 3, IFRS 9, IAS 39 and IFRS 7, may have a material impact on the consolidated financial statements of the Company:

Standard	Issue date	Effective date for the Company	Impact
IFRS 3, Business Combinations	October 2018	December 1, 2020	No impact
IFRS 9, Financial Instruments IAS 39, Financial Instruments: Recognition and Measurement IFRS 7, Financial Instruments: Disclosures	September 2019	December 1, 2020	No impact
IAS 37, Provisions, Contingent Liabilities and Contingent Assets	May 2020	December 1, 2022	In assessment
IAS 1, Presentation of Financial Statements	January 2020 & July 2020	December 1, 2023	In assessment

IFRS 3, Business Combinations

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3, Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments to IFRS 3 are effective for annual reporting periods beginning on or after January 1, 2020 and apply prospectively. Earlier application is permitted. The Company will adopt the amendments on December 1, 2020.

6. Future accounting changes (continued)

IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures

In September 2019, the IASB published *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* as a first reaction to the potential effects the Interbank offered rates ("IBOR") reform could have on financial reporting. Recent market developments have brought into question the long-term viability of the IBOR benchmarks. The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 and IAS 39, which require forward-looking analysis. There are also amendments to IFRS 7 regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments to IFRS 9, IAS 39 and IFRS 7 are effective for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The Company will adopt the amendments on December 1, 2020.

IAS 37, Provisions, Contingent Liabilities and Contingent Assets

In May 2020, the IASB published *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)* amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The changes in *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)* specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments to IAS 37 are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The Company will adopt the amendments on December 1, 2022.

IAS 1, Presentation of Financial Statements

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. In July 2020, the IASB published *Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Amendment to IAS 1)* deferring the effective date of the January 2020 amendments to IAS 1 by one year. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company will adopt the amendments on December 1, 2023.

7. Business acquisitions

I) Allô! Mon Coco (2019)

On July 19, 2019, the Company's Canadian operations completed its acquisition of the assets of Allô! Mon Coco for a total consideration of $30,675. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing Company brands.

	2019
	$
Consideration paid:	
Purchase price	30,000
Contingent consideration	1,427
Working capital	(242)
Discount on non-interest-bearing holdback	(510)
Net purchase price	30,675
Contingent consideration	(1,427)
Holdback	(5,177)
Net consideration paid/cash outflow	24,071

7. Business acquisitions (continued)

l) Allô! Mon Coco (2019) (continued)

The final purchase price allocation is as follows:

	2019
Net assets acquired:	**$**
Current assets	
Loans receivable	47
	47
Deferred income taxes	213
Property, plant and equipment	19
Franchise rights	9,709
Trademark	13,597
Goodwill [(1)]	7,263
	30,848
Current liabilities	
Gift card liability	92
	92
Deferred revenues	81
	173
Net purchase price	30,675

[(1)] Goodwill is deductible for tax purposes.

Total expenses incurred related to acquisition costs amounted to nil.

The purchase price allocation is final.

7. Business acquisitions (continued)

II) Yuzu Sushi (2019)

On July 15, 2019, the Company's Canadian operations completed its acquisition of the assets of Yuzu Sushi for a total consideration of $27,588. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing Company brands.

	2019
	$
Consideration paid:	
Purchase price	25,389
Settlement of obligations	260
Contingent consideration	2,224
Working capital	(285)
Net purchase price	27,588
Contingent consideration	(2,224)
Net consideration paid/cash outflow	25,364

The final purchase price allocation is as follows:

	2019
Net assets acquired:	$
Current assets	
Prepaid expenses	6
	6
Deferred income taxes	588
Property, plant and equipment	491
Other intangible assets	195
Franchise rights	2,362
Trademark	9,491
Goodwill [(1)]	14,736
	27,869
Current liabilities	
Accounts payable and accrued liabilities	82
Gift card liability and loyalty program liability	189
	271
Deferred revenues	10
	281
Net purchase price	27,588

(1) Goodwill is deductible for tax purposes.

Total expenses incurred related to acquisition costs amounted to $139.

The purchase price allocation is final.

7. Business acquisitions (continued)

III) Papa Murphy's (2019)

On May 23, 2019, the Company's, through the merger of a wholly owned United States ("US") subsidiary with Papa Murphy's Holdings Inc. ("PM"), acquired all the outstanding shares of PM.

The purpose of the transaction was to diversify the Company's range of offering in the US with a new concept offering take-and-bake freshly made pizza.

	2019
	$
Consideration paid:	
Cash and amount paid for early settlement of options	257,596
Less: cash acquired	(2,435)
Net consideration paid/cash outflow	255,161

The final purchase price allocation is as follows:

	2019
Net assets acquired:	$
Current assets	
Cash	2,435
Accounts receivable	3,873
Inventory	1,195
Prepaid expenses and deposits	2,344
Assets held for sale (2)	19,739
	29,586
Property, plant and equipment	1,054
Other intangible assets	1,277
Franchise rights	45,259
Trademark	131,551
Goodwill (1) & (2)	127,307
	336,034
Current liabilities	
Accounts payable and accrued liabilities	22,475
Provisions (2)	12,354
Gift card liability	2,840
	37,669
Deferred income taxes (2)	40,769
	78,438
Net purchase price	257,596

(1) Goodwill is not deductible for tax purposes.

(2) Figures have been restated to reflect changes to the preliminary purchase price allocation of Papa Murphy's.

7. Business acquisitions (continued)

III) Papa Murphy's (2019) (continued)

Total expenses incurred related to acquisition costs amounted to $4,209.

The purchase price allocation is final.

IV) South Street Burger (2019)

On March 21, 2019, the Company's Canadian operations completed its acquisition of the assets of South Street Burger for a total consideration of $4,857. The purpose of the transaction was to solidify the Company's position in the fast-casual restaurants segment and to complement the Company's current offering in the gourmet burger space.

	2019
	$
Consideration paid:	
Purchase price	5,100
Working capital	(204)
Discount on non-interest-bearing holdback	(39)
Net purchase price	4,857
Holdback	(696)
Less: Cash acquired	(24)
Net consideration paid/cash outflow	4,137

The final purchase price allocation is as follows:

	2019
Net assets acquired:	$
Current assets	
Cash	24
Inventory	163
Prepaid expenses and deposits	186
	373
Property, plant and equipment	1,128
Franchise rights	395
Trademark	2,649
Goodwill [(1)]	635
	5,180
Current liabilities	
Accounts payable and accrued liabilities	304
Gift card liability	11
	315
Deferred income taxes	8
	323
Net purchase price	4,857

(1) Goodwill is deductible for tax purposes.

Total expenses incurred related to acquisition costs amounted to nil.

The purchase price allocation is final.

7. Business acquisitions (continued)

V) 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 final 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
Trademark	4,122
Customer list	10,318
Goodwill [(1)]	4,375
	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.

Total expenses incurred related to acquisition costs amounted to nil.

The purchase price allocation is final.

8. Acquisition of non-controlling interest

In March 2019, the Company acquired a 5% non-controlling interest in 9974644 Canada Inc. (La Diperie) for a cash consideration of $110. Following the transaction, the Company now owns 65% of the subsidiary.

9. Accounts receivable

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

	2020	2019
	$	$
Total accounts receivable	**68,417**	73,305
Less: Allowance for credit losses	**12,531**	8,176
Total accounts receivable, net	**55,886**	65,129
Of which:		
Not past due	**35,946**	48,273
Past due for more than one day but no more than 30 days	**3,818**	2,943
Past due for more than 31 days but no more than 60 days	**2,731**	2,433
Past due for more than 61 days	**13,391**	11,480
Total accounts receivable, net	**55,886**	65,129

	2020	2019
	$	$
Allowance for credit losses, beginning of year	**8,176**	9,320
Increase (decrease) to current year provision	**5,459**	(688)
Additions through acquisition	**—**	98
Reversal of amounts previously written off	**1,616**	221
Write-offs	**(3,554)**	(1,493)
Impact of foreign exchange	**834**	718
Allowance for credit losses, end of year	**12,531**	8,176

10. Inventories

	2020	2019
	$	$
Raw materials	**3,505**	3,498
Work in progress	**466**	359
Finished goods	**5,444**	3,674
Total inventories	**9,415**	7,531

Inventories are presented net of a $51 allowance for obsolescence (2019 – $14). All of the inventories are expected to be sold within the next 12 months.

Inventories expensed during the year ended November 30, 2020 were $107,798 (2019 – $119,084).

11. Assets held for sale

During the year ended November 30, 2020, the Company disposed of two portfolios comprised of seven and nine corporately-owned locations in the US segment that were converted into franchises upon completion of the sale. The Company received a total consideration of $11,689 for both portfolios and recognized a loss on disposal of $140 in its consolidated statement of income (loss).

12. Loans receivable

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

	2020	2019
	$	$
Loans receivable bearing interest between 0% and 9% per annum, receivable in monthly installments of $143 in aggregate, including principal and interest, ending in 2026	**6,871**	9,176
Less: Allowance for credit losses	**2,111**	2,031
	4,760	7,145
Current portion	**(1,527)**	(4,082)
	3,233	3,063

The capital repayments in subsequent years will be:

	$
2021	1,527
2022	2,038
2023	425
2024	269
2025	139
Thereafter	362
	4,760

13. 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 year ended November 30, 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	17,452	—	92	**17,544**
Depreciation expense	(10,951)	(1,120)	(273)	**(12,344)**
Impairment losses	(4,090)	(201)	—	**(4,291)**
De-recognition/lease modification of lease liabilities	893	(489)	3	**407**
Foreign exchange	(905)	—	(26)	**(931)**
Balance as at November 30, 2020	**58,336**	**10,278**	**609**	**69,223**

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

	2020	2019
	$	$
Interest income on finance lease receivables	**13,234**	—
Interest expense on lease liabilities	**(15,715)**	—
Net interest expense on leases	**(2,481)**	—

13. 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 November 30, 2020:

	Leases	Finance lease receivables	Operating subleases
	$	$	$
2021	126,313	112,136	1,185
2022	109,670	96,020	1,166
2023	90,772	79,061	938
2024	72,444	62,948	793
2025	55,547	47,910	830
Thereafter	119,749	94,562	—
Total undiscounted lease payments	**574,495**	**492,637**	**4,912**
Unguaranteed residual values	—	3,074	—
Gross investment in the lease	**—**	**495,711**	**—**
Less: Unearned finance income	—	(20,036)	—
Present value of minimum lease payment receivables	**—**	**475,675**	**—**
Allowance for credit losses	—	(7,548)	—
Current portion of finance lease receivables	—	(90,303)	—
Finance lease receivables	**—**	**377,824**	**—**

The Company has recognized net rent expense of $5,839 (2019 – nil) related to its short-term leases, leases of low-value assets, and variable lease payments.

Payments recognized as a net expense during the year ended November 30, 2019 amounted to $22,965.

14. 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 $26,104. This consideration includes a deferred contingent consideration amounting to $4,129, an obligation for the repurchase of its partner in a joint venture of $2,870 and cash consideration of $19,105. The Company has recorded its interest as an investment in a joint venture. 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.

15. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance as at November 30, 2018	1,236	5,066	7,513	10,525	1,910	471	26,721
Additions	—	157	2,197	2,237	560	15	5,166
Transfer from assets held for sale	—	—	2,169	542	—	—	2,711
Disposals	—	—	(985)	(1,699)	(15)	(63)	(2,762)
Impairment (note 18)	—	—	(641)	(318)	—	—	(959)
Foreign exchange	—	—	11	7	—	—	18
Additions through business combinations (note 7)	—	—	1,273	1,425	—	144	2,842
Balance as at November 30, 2019	1,236	5,223	11,537	12,719	2,455	567	33,737
Additions	**—**	**30**	**707**	**3,142**	**318**	**—**	**4,197**
Disposals	**—**	**—**	**(309)**	**(1,918)**	**(6)**	**(13)**	**(2,246)**
Impairment (note 18)	**—**	**—**	**(2,147)**	**(1,019)**	**—**	**—**	**(3,166)**
Foreign exchange	**—**	**—**	**(91)**	**(68)**	**(5)**	**(2)**	**(166)**
Balance as at November 30, 2020	**1,236**	**5,253**	**9,697**	**12,856**	**2,762**	**552**	**32,356**

Accumulated depreciation	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance as at November 30, 2018	—	1,161	2,548	4,699	883	97	9,388
Eliminated on disposal of assets	—	—	(399)	(613)	(11)	(10)	(1,033)
Foreign exchange	—	—	(3)	(1)	—	—	(4)
Depreciation expense	—	232	1,580	1,676	462	73	4,023
Balance as at November 30, 2019	—	1,393	3,726	5,761	1,334	160	12,374
Eliminated on disposal of assets	**—**	**—**	**(162)**	**(945)**	**(1)**	**(13)**	**(1,121)**
Foreign exchange	**—**	**—**	**(42)**	**(54)**	**(5)**	**(1)**	**(102)**
Depreciation expense	**—**	**231**	**1,813**	**2,030**	**487**	**93**	**4,654**
Balance as at November 30, 2020	**—**	**1,624**	**5,335**	**6,792**	**1,815**	**239**	**15,805**

Carrying amounts	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
November 30, 2019	1,236	3,830	7,811	6,958	1,121	407	21,363
November 30, 2020	**1,236**	**3,629**	**4,362**	**6,064**	**947**	**313**	**16,551**

16. Intangible assets

Cost	Franchise and master franchise rights	Trademarks	Step-in rights	Customer list	Other [1]	Total
	$	$	$	$	$	$
Balance as at November 30, 2018	337,501	503,720	1,199	—	3,524	845,944
Additions	—	8	—	—	2,128	2,136
Disposals	—	—	—	—	(500)	(500)
Acquisition through business combinations (note 7)	57,725	161,410	—	10,318	1,472	230,925
Foreign exchange	(616)	(1,460)	—	—	(12)	(2,088)
Impairment (note 18)	(1,376)	(284)	—	—	—	(1,660)
Balance as at November 30, 2019	393,234	663,394	1,199	10,318	6,612	1,074,757
Additions [2]	**11**	**—**	**—**	**—**	**1,288**	**1,299**
Foreign exchange	**(5,367)**	**(9,244)**	**—**	**—**	**(53)**	**(14,664)**
Impairment (note 18)	**(17,156)**	**(34,537)**	**—**	**—**	**—**	**(51,693)**
Balance as at November 30, 2020	**370,722**	**619,613**	**1,199**	**10,318**	**7,847**	**1,009,699**

Accumulated amortization	Franchise and master franchise rights	Trademarks	Step-in rights	Customer list	Other [1]	Total
	$	$	$	$	$	$
Balance as at November 30, 2018	86,153	—	620	—	932	87,705
Disposals	—	—	—	—	(246)	(246)
Foreign exchange	13	—	—	—	1	14
Amortization	27,379	—	120	819	867	29,185
Balance as at November 30, 2019	113,545	—	740	819	1,554	116,658
Foreign exchange	**(1,849)**	**—**	**—**	**—**	**(15)**	**(1,864)**
Amortization	**28,923**	**—**	**119**	**819**	**1,015**	**30,876**
Balance as at November 30, 2020	**140,619**	**—**	**859**	**1,638**	**2,554**	**145,670**

Carrying amounts	Franchise and master franchise rights	Trademarks	Step-in rights	Customer list	Other [1]	Total
	$	$	$	$	$	$
November 30, 2019	279,689	663,394	459	9,499	5,058	958,099
November 30, 2020	**230,103**	**619,613**	**340**	**8,680**	**5,293**	**864,029**

[1] Other items include $579 (2019 – $579) of licenses with an indefinite term that are not amortized.

[2] Non-cash items are included in additions to intangible assets amounting to $128 (2019 – $nil).

16. Intangible assets (continued)

Indefinite life intangible assets consist of trademarks and perpetual licenses, where each brand represents a separate CGU for impairment testing, for 59 CGUs (2019 – 59 CGUs) totalling $620,192 (2019 – $663,973).

17. Goodwill

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

	2020	2019
	$	$
Goodwill, beginning of year	**510,171**	357,102
Additional amounts recognized from business acquisitions (note 7)	**—**	153,655
Purchase price allocation adjustment (note 7)	**—**	661
Foreign exchange	**(2,752)**	(1,247)
Goodwill, end of year	**507,419**	510,171
Accumulated impairment, beginning of year	**—**	—
Impairment (note 18)	**67,967**	—
Accumulated impairment, end of year	**67,967**	—
Carrying amount	**439,452**	510,171

As at November 30, 2020, goodwill was allocated to three goodwill units as follows:

	2020	2019
	$	$
Canada	**195,350**	195,325
US & International excluding Papa Murphy's [(1)]	**121,000**	188,679
Papa Murphy's [(2)]	**123,102**	126,167
	439,452	510,171

[(1)] Variance from prior year due to foreign exchange conversion and impairment.

[(2)] Variance from prior year due to foreign exchange conversion.

18. Impairment charge – property, plant and equipment, intangible assets and goodwill

During the year ended November 30, 2020, impairment indicators were identified 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 $120,266 of impairment losses. Furthermore, the Company performed its annual impairment test as at August 31, 2020, which resulted in the recognition of an additional $2,560 of impairment losses, for a total of $122,826 of impairment losses for the year ended November 30, 2020. Impairment charges were based on the amount by which the carrying values of the assets exceeded fair value, determined using expected discounted future cash flows for trademarks and multi-period excess earnings for franchise rights.

18. Impairment charge – property, plant and equipment, intangible assets and goodwill (continued)

Impairment by geographical segment for the year ended November 30, 2020:

	Property, plant and equipment	Intangible assets [1]	Goodwill [2]	Total
	$	$	$	$
Canada	2,379	32,901	—	35,280
US & International	787	18,792	67,967	87,546
	3,166	51,693	67,967	122,826

[1] Comprised of $17,156 and $34,537 of impairment of franchise rights and trademarks respectively.

[2] Impairment was recorded on the goodwill allocated to the US & International excluding Papa Murphy's goodwill unit.

Impairment by geographical segment for the year ended November 30, 2019:

	Property, plant and equipment	Intangible assets [1]	Goodwill	Total
	$	$	$	$
Canada	959	—	—	959
US & International	—	1,660	—	1,660
	959	1,660	—	2,619

[1] Comprised of $1,376 and $284 of impairment of franchise rights and trademarks respectively.

The key assumptions used, where the recoverable amount was measured as a goodwill unit's value in use, are those related to uncertainties around the impact of COVID-19 on projected sales, as well as the discount rates. 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 approved by the Board.

The following table presents the key assumptions used in the Company's impairment tests, as well as the recoverable amounts measured at value in use as at August 31, 2020:

	2020			2019		
($, except percentage data)	Canada	US & International excluding Papa Murphy's	Papa Murphy's	Canada	US & International excluding Papa Murphy's	Papa Murphy's
Long-term growth rates	0% to 2%	0% to 2%	0% to 2%	0% to 2%	0% to 2%	1.50%
Discount rates after tax	8.2%	8.3%	8.3%	8.2%	8.3%	8.3%
Discount rates pre-tax	10.7%	10.5%	10.5%	10.4%	10.5%	10.5%
Recoverable amounts	1,113,541	563,568	422,463	1,100,691	690,340	408,537

A change of 100 basis points in discount rates in Canada would result in additional impairment charges on intangible assets of four brands (2019 – two brands) representing 0.5% (2019 – 1.6%) of the total carrying value of the franchise rights and trademarks in that goodwill unit. A change of 100 basis points in discount rates in Canada would not result in additional impairment charges on property, plant and equipment or on goodwill for the years ended November 30, 2020 and 2019. For the Canada goodwill unit, an increase of 830 basis points in the discount rate would have resulted in its recoverable amount being equal to its carrying value.

18. Impairment charge – property, plant and equipment, intangible assets and goodwill (continued)

A change of 100 basis points in discount rates in the US & International excluding Papa Murphy's would result in additional impairment charges on intangible assets of 11 brands (2019 – one brand) representing 2.9% (2019 – 0.7%) of the total carrying value of the franchise rights and trademarks in that goodwill unit, and additional impairment charges on goodwill representing 5.3% (2019 – nil) of the total carrying value of goodwill in that goodwill unit. A change of 100 basis points in discount rates in the US & International excluding Papa Murphy's would not result in additional impairment charges on property, plant and equipment for the years ended November 30, 2020 and 2019. For the US & International excluding Papa Murphy's goodwill unit, an increase of 60 basis points in the discount rate would have resulted in its recoverable amount being equal to its carrying value.

A change of 100 basis points in discount rates in Papa Murphy's would not result in additional impairment charges on property, plant and equipment, intangible assets or goodwill for the years ended November 30, 2020 and 2019. For the Papa Murphy's goodwill unit, an increase of 300 basis points in the discount rate would have resulted in its recoverable amount being equal to its carrying value.

19. Credit facility

During the year ended November 30, 2020, the Company modified its existing credit facility payable to a syndicate of lenders. The modification amended its financial covenants for a period of one year. Transaction costs of $525 were incurred and will be deferred and amortized over the one-year period. The revolving credit facility has an authorized amount of $700,000 (2019 – $700,000), of which $433,000 was drawn as at November 30, 2020 (2019 – $518,922).

The syndicate of lenders has amended the Company's covenants as follows:

The Debt-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) 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 quarters 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.

Until May 31, 2021, 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.

The revolving facility is repayable without penalty with the balance due on the date of maturity September 23, 2022.

As at November 30, 2020, the Company was in compliance with its financial covenants.

20. Provisions

Included in provisions are the following amounts:

	2020	2019
	$	$
Litigations, disputes and other contingencies	**2,878**	11,474
Closed stores	**187**	1,947
	3,065	13,421

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

20. Provisions (continued)

The payables related to closed stores mainly represent amounts that are expected to be disbursed to exit leases of underperforming or closed stores. The negotiations with the various stakeholders are typically short in duration and are expected to be settled within a few months following the recognition of the provision. The Company has recognized a liability of $187 (2019 – $1,947) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement, with the exception of leases for which the lease liabilities are already recorded pursuant to IFRS 16.

The provisions also varied in part due to foreign exchange fluctuations related to the US subsidiaries.

	2020	2019
	$	$
Provision for litigations, disputes and closed stores, beginning balance	**13,421**	3,640
Reversals	**(1,141)**	(1,226)
Transfer to right-of-use assets upon application of IFRS 16 (note 4)	**(1,274)**	—
Amounts used	**(10,169)**	(3,252)
Additions from acquisitions (note 7)	**—**	12,093
Purchase price allocation adjustment (note 7)	**—**	261
Additions	**2,255**	1,912
Impact of foreign exchange	**(27)**	(7)
Provision for litigations, disputes and closed stores, ending balance	**3,065**	13,421

21. Deferred revenue and deposits

	2020	2019
	$	$
Franchise fee deposits	**44,279**	44,876
Unearned rent, advances for restaurant construction and renovation	**938**	5,060
Supplier contributions and other allowances	**9,897**	7,041
	55,114	56,977
Less: Current portion	**(13,747)**	(18,761)
	41,367	38,216

Deferred revenues consist mostly of initial, transfer and renewal franchise fees paid by franchisees, as well as upfront fees paid by master franchisees, which are generally recognized on a straight-line basis over the term of the related agreement. Deferred revenues also include amounts paid in advance for restaurant construction and renovation, as well as upfront fees received from agreements with suppliers, which are amortized over the term of the related agreement.

There were no significant changes to contract liabilities during the year.

$16,927 (2019 – $14,835) of revenue recognized in the current year was included in the deferred revenue balance at the beginning of the year.

21. Deferred revenue and deposits (continued)

The following table provides estimated revenues expected to be recognized in future years related to performance obligations that are unsatisfied as at November 30, 2020:

Estimate for fiscal year:	$
2021	13,747
2022	8,038
2023	6,879
2024	5,544
2025	10,907
Thereafter	9,999
	55,114

22. Long-term debt

	2020	2019
	$	$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions	**12,500**	14,423
Contingent consideration on acquisitions and investment in a joint venture (note 26) [(1)]	**8,075**	3,874
Fair value of promissory notes for Houston Avenue Bar & Grill (note 26)	**—**	329
Fair value of promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar (note 26) [(2)]	**2,928**	2,738
Fair value of non-controlling interest buyback obligation in 10220396 Canada Inc. (note 26) [(2)]	**—**	1,549
Fair value of non-controlling interest option in 9974644 Canada Inc. (note 26) [(3)]	**1,171**	964
Fair value of obligation to repurchase partner in a joint venture [(4)]	**3,364**	—
Fair value of interest rate swap [(5)]	**1,152**	—
Revolving credit facility payable to a syndicate of lenders (note 19) [(6)]	**433,000**	518,922
Credit facility financing costs	**(1,648)**	(2,149)
	460,542	540,650
Less: Current portion	**(12,888)**	(4,592)
	447,654	536,058

(1) Yuzu Sushi (payable August 2021) and joint venture interest (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. As at November 30, 2020, the Company had drawn US$233,010 and CA$128,000 (2019 – CA$518,922) and has elected to pay interest based on the London Inter-Bank Offered rate ("LIBOR") plus applicable margins.

23. Capital stock

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

	2020	2020	2019	2019
	Number	Amount	Number	Amount
		$		$
Balance, beginning of year	**25,071,235**	**310,939**	25,169,778	312,161
Shares repurchased and cancelled	**(364,774)**	**(4,524)**	(98,543)	(1,222)
Balance, end of year	**24,706,461**	**306,415**	25,071,235	310,939

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.

Until May 31, 2021, the Company's credit agreement (note 19) contains limitations on distributions that include restrictions on the repurchase of MTY's common shares through its NCIB process until such time as the debt-to-EBITDA falls below 3.50:1.00 ratio.

During the year ended November 30, 2020, the Company repurchased and cancelled a total of 364,774 common shares (2019 – 98,543 common shares) under the current NCIB, at a weighted average price of $51.72 per common share (2019 – $53.04 per common share), for a total consideration of $18,866 (2019 – $5,227). An excess of $14,342 (2019 – $4,005) of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

24. Stock options

The Company offered for the benefit of certain key members of management a stock option plan. In accordance with the terms of the plan the Company may grant stock options on the common shares at the discretion of the Board of Directors. 100,000 shares are available for issuance under the stock option plan as at November 30, 2020 (2019 – 100,000).

Under the stock option plan of the Company, the following options were granted and are outstanding as at November 30:

	2020		2019	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
		$		$
Outstanding beginning of year	**400,000**	**50.19**	200,000	48.36
Granted	**—**	**—**	200,000	52.01
Outstanding end of year	**400,000**	**50.19**	400,000	50.19
Vested end of year	**44,444**	**48.36**	22,222	48.36

24. Stock options (continued)

At November 30, 2020, the range of exercise prices and the weighted average remaining contractual life of options are as follows:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life
$		(years)
48.36	200,000	6.3
52.01	200,000	8.8
	400,000	7.6

Options granted during the year ended November 30, 2019 have a service condition in order to vest and will be fully vested and exercisable in five years from date of grant. The options will expire on October 21, 2029.

The weighted average fair value of the stock options granted for the year ended November 30, 2019 was $13.23 per option. The fair value of the options granted was estimated at the grant date for purposes of determining share-based payment expense using the Black-Scholes option-pricing model.

The following weighted average assumptions were used:

	2019
Acquisition date share price	$52.01
Exercise price	$52.01
Expected dividend yield	1.27%
Expected volatility	24.9%
Risk-free interest rate	1.57%
Expected life (in years)	8 years

A compensation expense of $924 was recorded for the year ended November 30, 2020 (2019 – $583). The expense is presented in wages and benefits in operating expenses in the consolidated statements of income.

25. 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:

	2020	2019
Weighted daily average number of common shares - basic	24,755,351	25,145,210
Assumed exercise of stock options [(1)]	—	41,273
Weighted daily average number of common shares - diluted	24,755,351	25,186,483

(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 400,000 (2019 – 200,000).

26. 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

Promissory notes issued as part of its consideration for the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar

In 2019, the Company settled and cancelled four of the six promissory notes that were recorded as part of the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar and recorded a loss of $452.

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 $45 on the fair value, as at November 30, 2020 (2019 – $80).

A fair value re-measurement gain of $139 was recorded for these promissory notes for the year ended November 30, 2020 (2019 – gain of $1,897).

Contingent considerations on acquisitions

The Company issued as part of its consideration for the acquisition of Yuzu Sushi, Allô! Mon Coco and investment in Tortoise Group, contingent considerations to the vendors. These contingent considerations are subject to earn-out provisions, which are based on future earnings and are repayable in August 2021 for Yuzu Sushi and December 2022 for Tortoise Group. These contingent considerations have been recorded at fair value and are re-measured on a recurring basis. The contingent considerations for Allô! Mon Coco were repaid during the year ended November 30, 2020 for a total repayment amount of $910.

A fair value re-measurement loss of $997 was recorded for the contingent considerations for the year ended November 30, 2020 (2019 – loss of $223).

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 22) which is remeasured at each reporting period.

A fair value remeasurement loss of $207 (2019 – gain of $30) 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 22) 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 nil on the carrying amount as at November 30, 2020 (2019 – $21).

A fair value re-measurement gain of $1,549 (2019 – loss of $48) was recorded for this non-controlling interest obligation.

26. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Obligation to repurchase partner in a joint venture

The Company, in conjunction with the acquisition of its 70% interest in a joint venture that acquired Tortoise Group, entered into an agreement to acquire the remaining 30% interest by December 2025. The consideration to be paid for this acquisition will be based on future earnings. The Company recorded a liability at fair value (note 22) which is remeasured at each reporting period. An increase or decrease by 1% in the discount rates used would have an impact of $67 on the carrying amount as at November 30, 2020 (2019 – nil).

A fair value remeasurement loss of $494 (2019 – nil) was recorded for this obligation to repurchase a partner in a joint venture.

Interest rate swap

The Company holds an interest rate swap that is contracted to a fix rate on a notional amount of $100,000 and is maturing in July 21, 2021. The fair value of this interest rate swap amounted to $1,152 (2019 – nil) and the Company recorded a fair value remeasurement loss of $1,592 for the year ended November 30, 2020 (2019 – loss of $725). The Company has classified this as level 2 in the fair value hierarchy.

Cross currency interest rate swaps

On November 30, 2020, the Company entered two floating to floating 1-month cross currency interest rate swaps. A fair value of nil was recorded as at November 30, 2020 (2019 – nil).

Receive-Notional	Receive-rate	Pay-Notional	Pay-rate
US$137,600	2.44%	CA$180,000	2.45%
US$95,410	1.85%	CA$125,000	1.94%

Fair value hierarchy	Level 3	
	2020	2019
	$	$
Promissory notes for Houston Avenue Bar & Grill	**—**	329
Promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	**2,928**	2,738
Contingent considerations on acquisitions and investment in a joint venture	**8,075**	3,874
Non-controlling interest buyback options	**1,171**	2,513
Obligation to repurchase partner in a joint venture	**3,364**	—
Financial liabilities	**15,538**	9,454

26. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

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 receivables, accounts payable and accrued liabilities and deposits. The table below shows the fair value and the carrying amount of other financial instruments as at November 30, 2020 and 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.

	2020		2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Loans receivable	**4,760**	**4,760**	7,145	7,145
Finance lease receivables	**468,127**	**468,127**	—	—
Financial liabilities				
Long-term debt [(1)]	**443,852**	**453,397**	531,196	542,147

(1) Excludes promissory notes, contingent considerations on acquisition, interest rate swap, cross currency interest rate swaps 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 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.

The Company, through its financial assets and financial liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at November 30, 2020.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the consolidated statement of financial position represent the maximum exposure to credit risk for each respective financial asset as at the relevant dates. The Company believes that the credit risk of accounts receivable is limited as other than receivables from international locations, the Company's broad client base is spread mostly across Canada and the US, which limits the concentration of credit risk.

The credit risk on the Company's loans receivable is similar to that of its accounts receivable.

Foreign exchange risk

Foreign exchange risk is the Company's exposure to decreases or increases in financial instrument values caused by fluctuations in exchange rates. The Company's exposure to foreign exchange risk mainly comes from sales denominated in foreign currencies. The Company's US and foreign operations use the U.S. dollar ("USD") as functional currency. The Company's exposure to foreign exchange risk stems mainly from cash, accounts receivable, long-term debt denominated in US dollars, other working capital items and financial obligations from its US operations. As at November 30, 2020, the long-term debt denominated in USD is not exposed to foreign exchange risk as a result of two cross currency interest rate swaps.

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

26. Financial instruments (continued)

Foreign exchange risk (continued)

As at November 30, 2020, the Company has the following financial instruments denominated in foreign currencies:

		2020		2019
	USD	**CAD**	USD	CAD
	$	**$**	$	$
Financial assets				
Cash	**4,437**	**5,753**	5,194	6,902
Accounts receivable	**645**	**836**	253	337
Financial liabilities				
Accounts payable and deposits	**(85)**	**(110)**	(33)	(44)
Net financial assets	**4,997**	**6,479**	5,414	7,195

All other factors being equal, a reasonable possible 5% rise in foreign currency exchange rates per Canadian dollar would result in a profit of C$250 (2019 – profit of C$271) on the consolidated statements of income and comprehensive income.

Interest rate risk

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

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

Long-term debt stems mainly from acquisitions of long-term assets and business combinations. The Company is exposed to interest rate risk with its revolving credit facility which is used to finance the Company's acquisitions. The facility bears interest at a variable rate and as such the interest burden could change materially. $433,000 (2019 – $518,922) of the credit facility was used as at November 30, 2020. A 100 basis points increase in the bank's prime rate would result in additional interest of $4,330 per annum (2019 – $5,189) on the outstanding credit facility.

Liquidity risk

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

As at November 30, 2020, the Company had an authorized revolving credit facility for which the available amount may not exceed $700,000 (2019 – $700,000) to ensure that sufficient funds are available to meet its financial requirements. The terms and conditions related to this revolving credit facility is described in note 19.

26. Financial instruments (continued)

Liquidity risk (continued)

The following are the contractual maturities of financial liabilities as at November 30, 2020:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	Thereafter
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**111,372**	**111,372**	**111,372**	**—**	**—**	**—**
Long-term debt (note 22)	**460,542**	**460,892**	**4,231**	**6,287**	**442,124**	**8,250**
Interest on long-term debt [(1)]	**n/a**	**17,975**	**4,902**	**4,902**	**8,171**	**—**
Lease liabilities	**558,749**	**574,495**	**63,157**	**63,157**	**109,670**	**338,511**
	1,130,663	**1,164,734**	**183,662**	**74,346**	**559,965**	**346,761**

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

27. Capital disclosures

The Company's objectives when managing capital are:

(a) To safeguard its ability to obtain financing should the need arise;

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

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

The Company defines its capital as follows:

(a) Shareholders' equity;

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

(c) Deferred revenue including the current portion; and

(d) Cash

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

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at November 30, 2020 and 2019 were as follows:

	2020	2019
	$	$
Debt	**460,542**	540,650
Equity	**583,070**	665,480
Debt-to-equity ratio	**0.79**	0.81

27. Capital disclosures (continued)

Maintaining a low debt-to-equity ratio is a priority in order to preserve the Company's ability to secure financing at a reasonable cost for future acquisitions. The Company expects to maintain a low ratio by continuously using the expected cash flows from the newly acquired business in both the US and Canada to reduce the level of long-term debt.

After May 31, 2021, the Company's credit facility imposes a maximum debt-to-proforma EBITDA ratio of 4.0:1.0 after an acquisition in excess of $150,000 for a period of twelve months after acquisition; 3.5:1.0 anytime thereafter and until the maturity date of September 23, 2022.

28. Revenue

	For the year ended					
	November 30, 2020			November 30, 2019		
	Canada	**US & International**	**TOTAL**	Canada	US & International	TOTAL
	$	**$**	**$**	$	$	$
Royalties	**57,798**	**107,333**	**165,131**	84,477	97,239	181,716
Franchise and transfer fees	**5,872**	**4,262**	**10,134**	5,488	3,476	8,964
Retail, food processing and distribution revenues	**103,765**	**4,593**	**108,358**	90,689	4,176	94,865
Sale of goods, including construction revenue	**24,095**	**48,029**	**72,124**	48,710	51,431	100,141
Gift card breakage income	**313**	**4,466**	**4,779**	318	6,084	6,402
Promotional funds	**30,401**	**56,406**	**86,807**	42,461	42,999	85,460
Other franchising revenue	**29,000**	**23,030**	**52,030**	38,791	24,954	63,745
Other	**2,836**	**8,918**	**11,754**	4,609	5,040	9,649
	254,080	**257,037**	**511,117**	315,543	235,399	550,942

29. Operating expenses

	For the year ended					
	November 30, 2020			November 30, 2019		
	Canada	**US & International**	**TOTAL**	Canada	US & International	TOTAL
	$	**$**	**$**	$	$	$
Cost of goods sold and rent	**15,888**	**20,315**	**36,203**	35,859	28,350	64,209
Retail, food processing and distribution costs	**91,865**	**—**	**91,865**	80,388	—	80,388
Wages and benefits	**39,619**	**62,412**	**102,031**	47,762	59,847	107,609
Wage and rent subsidy	**(7,020)**	**—**	**(7,020)**	—	—	—
Consulting and professional fees	**7,599**	**7,694**	**15,293**	8,999	7,125	16,124
Gift cards - related costs	**—**	**5,522**	**5,522**	—	9,083	9,083
Royalties	**16**	**5,890**	**5,906**	266	6,355	6,621
Promotional funds	**30,401**	**56,406**	**86,807**	42,461	42,999	85,460
Impairment for expected credit losses	**5,497**	**3,300**	**8,797**	715	472	1,187
Other [(1)]	**10,870**	**17,532**	**28,402**	13,413	19,453	32,866
	194,735	**179,071**	**373,806**	229,863	173,684	403,547

(1) Other operating expenses are comprised mainly of travel and promotional costs, and other office administration expenses.

30. Guarantee

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 $13,374 as at November 30, 2020 (2019 – $15,057). In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. As at November 30, 2020, the Company has accrued $1,796 (2019 – nil) with respect to these guarantees.

31. Contingent liabilities

The Company is involved in legal claims associated with its current business activities. The Company’s estimate of the outcome of these claims is disclosed in note 20. The timing of the outflows, if any, is out of the control of the Company and is as a result undetermined at the moment.

32. 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:

	2020		2019	
	$	**%**	$	%
Combined income tax rate in Canada	**(13,766)**	**26.5**	26,067	26.6
Add effect of:				
Difference between Canadian and foreign statutory rate	**(4,313)**	**8.3**	(4,511)	(4.6)
Non-taxable portion of capital gains	**(511)**	**1.0**	(103)	(0.1)
Permanent differences	**12,196**	**(23.5)**	(376)	(0.4)
Recognition of previously unrecognized deferred tax assets	**(247)**	**0.5**	(106)	(0.1)
Losses in subsidiaries for which no deferred income tax assets is recognized	**161**	**(0.3)**	273	0.3
Rate variation on deferred income tax	**(2,655)**	**5.1**	(676)	(0.7)
Adjustment to prior year provisions	**183**	**(0.4)**	208	0.2
Revision of estimates for tax exposures	**(5,410)**	**10.4**	—	—
Other - net	**(692)**	**1.3**	(515)	(0.5)
Provision for income taxes	**(15,054)**	**28.9**	20,261	20.7

32. Income taxes (continued)

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

	November 30, 2019	Recognized in profit or loss	Recognized in other comprehen-sive loss	Acquisition	Impact of initial application of IFRS 16	Foreign exchange	November 30, 2020
	$	$	$	$		$	$
Net deferred tax assets (liabilities) in relation to:							
Property, plant and equipment and assets held for sale	(2,383)	661	—	—	—	122	(1,600)
Finance lease receivables	—	15,926	—	—	(138,019)	681	(121,412)
Right-of-use assets	—	(187)	—	—	(17,573)	200	(17,560)
Accounts receivable	(51)	533	—	—	—	(27)	455
Deferred costs	(1,352)	123	—	—	—	(23)	(1,252)
Inventory	72	30	—	—	—	(2)	100
Provisions and gift cards	16,235	3,233	—	—	(329)	(474)	18,665
Long-term debt	1,124	(907)	42	—	—	23	282
Non-capital losses	2,344	(1,539)	—	—	—	23	828
Intangible assets	(191,027)	19,527	—	—	—	2,902	(168,598)
Accrued expenses	6,217	2,644	—	—	—	(299)	8,562
Deferred revenue	10,854	(848)	—	—	(538)	(91)	9,377
Lease liabilities	—	(15,782)	—	—	160,196	(827)	143,587
	(157,967)	23,414	42	—	3,737	2,208	(128,566)

	November 30, 2018	Recognized in profit or loss	Recognized in other comprehen-sive loss	Acquisition	Purchase price allocation adjustment	Foreign exchange	November 30, 2019
	$	$	$	$		$	$
Net deferred tax assets (liabilities) in relation to:							
Property, plant and equipment and assets held for sale	1,691	(1,080)	—	(3,138)	160	(16)	(2,383)
Accounts receivable	824	(868)	—	(3)	—	(4)	(51)
Deferred costs	(1,134)	(218)	—	—	—	—	(1,352)
Inventory	(121)	37	—	156	—	—	72
Provisions and gift cards	15,067	543	—	569	67	(11)	16,235
Long-term debt	(646)	1	245	1,522	—	2	1,124
Non-capital losses	289	483	—	1,566	—	6	2,344
Intangible assets	(145,162)	(2,286)	—	(44,009)	—	430	(191,027)
Accrued expenses	3,207	(159)	—	3,165	—	4	6,217
Deferred revenue	10,099	778	—	(30)	—	7	10,854
	(115,886)	(2,769)	245	(40,202)	227	418	(157,967)

32. Income taxes (continued)

As at November 30, 2020, there were approximately $910 (2019 – $52) of capital losses which may be applied against capital gains for future years and be carried forward indefinitely. The deferred income tax benefit of these capital losses has not been recognized.

As at November 30, 2020, there were approximately $1,827 (2019 – $1,273) in non-capital losses accumulated in one of the Company's subsidiaries for which no deferred income tax asset was recognized. These capital losses will expire between 2037 and 2040.

The deductible temporary difference in relation to foreign exchange on intercompany loans for which a deferred tax asset has not been recognized amounts to $4,237 (2019 – $633).

No deferred income tax liability is recognized on unremitted earnings of $4,716 (2019 – $60,279) related to the investments in subsidiaries. Such unremitted earnings are reinvested in the subsidiaries and will not be repatriated in the foreseeable future.

The Company has an uncertain tax risk related to pre-acquisition periods whereby tax returns were filed by previous owners.

33. 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 stores; processing, distribution and retail; and promotional fund revenues and expenses. This information is disclosed below.

33. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance during the years ended November 30, 2020 and 2019.

November 30, 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	105,646	18,407	104,235	30,401	(4,609)	254,080	152,155	46,274	4,593	56,406	(2,391)	257,037	511,117
Operating expenses	56,703	17,685	92,451	30,401	(2,505)	194,735	78,819	48,341	—	56,406	(4,495)	179,071	373,806
Segment profit (loss)	48,943	722	11,784	—	(2,104)	59,345	73,336	(2,067)	4,593	—	2,104	77,966	137,311
Total assets	1,250,921	16,853	23,794	6,934	—	1,298,502	662,642	38,958	—	13,595	—	715,195	2,013,697
Total liabilities	940,270	17,163	7,476	6,934	—	971,843	427,831	17,914	—	13,595	—	459,340	1,431,183

November 30, 2019 [(1)]

	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	146,598	39,133	91,570	42,461	(4,219)	315,543	138,788	51,283	4,176	42,999	(1,847)	235,399	550,942
Operating expenses	68,437	40,688	81,294	42,461	(3,017)	229,863	79,322	54,412	—	42,999	(3,049)	173,684	403,547
Segment profit (loss)	78,161	(1,555)	10,276	—	(1,202)	85,680	59,466	(3,129)	4,176	—	1,202	61,715	147,395
Total assets	995,215	6,132	17,862	5,708	—	1,024,917	605,751	11,787	—	6,346	—	623,884	1,648,801
Total liabilities	663,510	3,657	5,030	5,708	—	677,905	296,148	2,922	—	6,346	—	305,416	983,321

(1) Prior year amounts have been restated to reflect a reclassification between franchise operations and corporate stores subdivisions.

34. 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 holdbacks	Promissory notes	Non-controlling interest buyback obligation	Non-controlling interest option	Contingent consideration	Obligation to repurchase partner in a joint venture	Interest rate swap	Total
	$	$	$	$	$	$	$			$
Balance as at November 30, 2019	518,922	(2,149)	14,423	3,067	1,549	964	3,874	—	—	**540,650**
Changes from financing activities:										
Increase in term revolving credit facility	20,000	—	—	—	—	—	—	—	—	**20,000**
Repayments of term revolving credit facility, holdbacks and contingent consideration	(105,922)	—	(2,305)	—	—	—	(910)	—	—	**(109,137)**
Payment of upfront fees	—	(525)	—	—	—	—	—	—	—	**(525)**
Changes from operating activities:										
Interest paid	—	—	—	—	—	—	—	—	(1,165)	**(1,165)**
Changes from non-cash transactions:										
Amortization of transaction costs directly attributable to a financing arrangement	—	1,026	—	—	—	—	—	—	—	**1,026**
Accretion of interest on non-interest-bearing holdbacks	—	—	1,063	—	—	—	—	—	—	**1,063**
Revaluation of financial liabilities recorded at fair value through profit and loss (note 26)	—	—	—	(139)	(1,549)	207	997	494	1,592	**1,602**
Foreign exchange	—	—	(60)	—	—	—	—	—	—	**(60)**
Other	—	—	(621)	—	—	—	(15)	—	725	**89**
Changes from investing activities:										
Issuance of obligation to repurchase partner in a joint venture (note 14)	—	—	—	—	—	—	—	2,870	—	**2,870**
Issuance of contingent consideration (note 14)	—	—	—	—	—	—	4,129	—	—	**4,129**
Balance as at November 30, 2020	**433,000**	**(1,648)**	**12,500**	**2,928**	**—**	**1,171**	**8,075**	**3,364**	**1,152**	**460,542**

34. Statement of cash flows (continued)

Changes in non-cash operating activities are as follows:

	2020	2019
	$	$
Accounts receivable	**7,941**	(10,381)
Inventories	**(1,973)**	1,073
Loans receivable	**2,555**	(1,948)
Other assets	**(784)**	(1,316)
Prepaid expenses and deposits	**1,440**	(1,218)
Accounts payable and accrued liabilities	**11,597**	9,431
Provisions	**(9,161)**	(2,390)
Gift card and loyalty program liabilities	**4,625**	3,126
Deferred revenue and deposits	**1,101**	2,302
	17,341	(1,321)

Non-cash items are included in proceeds from dispositions of capital assets amounting to $136 (2019 – $612).

Non-cash items are included in additions to intangible assets amounting to $128 (2019 – $nil).

The variation of accounts receivables includes non-cash transfers from long-term debt amounting to nil (2019 – $906).

35. 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.

Remuneration of key management personnel

The remuneration of key management personnel and directors during the years ended November 30, 2020 and 2019 was as follows:

	2020	2019
	$	$
Short-term benefits	**2,619**	2,497
Share-based payments	**963**	657
Board member fees	**75**	75
Total remuneration of key management personnel	**3,657**	3,229

Key management personnel is composed of the Company's CEO, COOs 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 trends.

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.

35. 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:

	2020	2019
	$	$
Short-term benefits	**505**	494
Share-based payments	**10**	22
Consulting services	**—**	38
Total remuneration of individuals related to key management personnel	**515**	554

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 $155 for the year ended November 30, 2020 (2019 – nil). The Company has a current net receivable due from its joint venture associate of $135 as at November 30, 2020 (2019 – nil).