Condensed interim consolidated financial statements of
MTY Food Group Inc.

For the three-month periods ended February 28, 2017 and February 29, 2016

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three month periods ended February 28, 2017 and February 29, 2016
(unaudited)
(In thousands of Canadian dollars, except per share amounts)

Notice : The condensed interim consolidated financial statements of MTY Food Group Inc. for the three-month periods ended February 28, 2017 and February 29, 2016 have not been reviewed by an external auditor.

	Notes	**February 28, 2017**	February 29, 2016
		$	$
Revenue	20 and 26	**68,232**	35,320
Expenses			
Operating expenses	21 and 26	**47,781**	23,214
Depreciation – property, plant and equipment	10	**986**	364
Amortization – intangible assets	11	**5,554**	1,629
Interest on long-term debt		**2,701**	61
		57,022	25,268
Other income (charges)			
Foreign exchange gain (loss)		**(5,365)**	15
Interest income		**100**	52
Gain on disposal of property, plant and equipment and intangibles		**286**	935
		(4,979)	1,002
Income before taxes		**6,231**	11,054
Income taxes	25		
Current		**1,934**	2,661
Deferred		**(280)**	412
		1,654	3,073
Net income		**4,577**	7,981
Net income attributable to:			
Owners		**4,517**	7,927
Non-controlling interests		**60**	54
		4,577	7,981
Earnings per share	17		
Basic and diluted		**0.21**	0.41

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

MTY Food Group Inc.

Condensed interim consolidated statements of comprehensive income

For the three-month periods ended February 28, 2017 and February 29, 2016
(unaudited)
(In thousands of Canadian dollars, except per share amounts)

	Notes	February 28, 2017	February 29, 2016
		$	$
Net income		**4,577**	7,981
Items that may be reclassified subsequently to profit or loss			
Unrealized gain (loss) on translation of foreign operations		**(3,951)**	487
Deferred tax expense		**744**	—
Other comprehensive income (loss)		**(3,207)**	487
Total comprehensive income		**1,370**	8,468
Total comprehensive income attributable to:			
Owners		**1,310**	8,414
Non-controlling interest		**60**	54
		1,370	8,468

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

MTY Food Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity

For the three-month periods ended February 28, 2017 and February 29, 2016

(unaudited)

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

	Equity attributable to owners						
	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total	Equity attributable to non-controlling interest	Total
	$	$	$	$	$	$	$
Balance as at November 30, 2015	19,792	481	(111)	146,492	166,654	2,555	169,209
Net income for the three-month period ended February 29, 2016	—	—	—	7,927	7,927	54	7,981
Other comprehensive income	—	—	487	—	487	—	487
Dividends	—	—	—	(2,199)	(2,199)	(100)	(2,299)
Balance as at February 29, 2016	19,792	481	376	152,220	172,869	2,509	175,378
Net income for the nine-month period from March 1, 2016 to November 30,2016	—	—	—	49,468	49,468	392	49,860
Other comprehensive income	—	—	2,239	—	2,239	—	2,239
Acquisition of a portion of the non-controlling interest in 9410198 Canada Inc. (note 4)	—	—	—	944	944	(2,194)	(1,250)
Dividends	—	—	—	(7,115)	(7,115)	(25)	(7,140)
Issuance of capital	94,753	—	—	—	94,753	—	94,753
Balance as at November 30, 2016	114,545	481	2,615	195,517	313,158	682	313,840
Net income for the three-month period ended February 28, 2017	**—**	**—**	**—**	**4,517**	**4,517**	**60**	**4,577**
Other comprehensive loss	**—**	**—**	**(3,207)**	**—**	**(3,207)**	**—**	**(3,207)**
Dividends	**—**	**—**	**—**	**(2,458)**	**(2,458)**	**(17)**	**(2,475)**
Acquisition of 9974644 Canada Inc. (note 6)	**—**	**—**	**—**	**—**	**—**	**615**	**615**
Balance as at February 28, 2017	**114,545**	**481**	**(592)**	**197,576**	**312,010**	**1,340**	**313,350**

The following dividends were declared and paid by the Company:

	February 28, 2017	February 29, 2016
	$	$
$0.115 per common share (2016 - $0.115 per common share)	**2,458**	2,199

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

MTY Food Group Inc.

Condensed interim consolidated statements of financial position

As at February 28, 2017 and November 30, 2016
(unaudited)
(In thousands of Canadian dollars, except per share amounts)

	Notes	February 28, 2017	November 30, 2016
		$	$
Assets			
Current assets			
Cash		**41,760**	36,260
Accounts receivable	7	**32,581**	36,420
Inventories	8	**3,626**	3,298
Loans receivable	9	**2,810**	3,320
Prepaid expenses and deposits		**9,037**	7,900
		89,814	87,198
Loans receivable	9	**4,635**	4,866
Property, plant and equipment	10	**13,804**	14,087
Intangible assets	11	**510,060**	526,067
Goodwill	12	**216,248**	218,887
		834,561	851,105
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**44,861**	44,288
Provisions	14	**74,095**	74,659
Income taxes payable		**16,531**	20,793
Deferred revenue and deposits	15	**17,322**	18,080
Current portion of long-term debt	16	**14,525**	15,041
		167,334	172,861
Long-term debt	16	**231,554**	238,692
Deferred revenue and deposits	15	**2,947**	2,481
Deferred income taxes	25	**119,376**	123,231
		521,211	537,265
Commitments, guarantee and contingent liabilities	22, 23, 24		

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

	Notes	February 28, 2017	November 30, 2016
		$	$
Shareholders' equity			
Equity attributable to owners			
Capital stock		**114,545**	114,545
Contributed surplus		**481**	481
Accumulated other comprehensive income		**(592)**	2,615
Retained earnings		**197,576**	195,517
		312,010	313,158
Equity attributable to non-controlling interest		**1,340**	682
		313,350	313,840
		834,561	851,105

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

Approved by the Board on April 7, 2017

______________________________ , Director

______________________________ , Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three-month periods ended February 28, 2017 and February 29, 2016
(unaudited)
(In thousands of Canadian dollars, except per share amounts)

	Notes	February 28, 2017	February 29, 2016
		$	$
Operating activities			
Net income		**4,577**	7,981
Adjusting items:			
Interest on long-term debt		**2,701**	61
Depreciation – property, plant and equipment		**986**	364
Amortization – intangible assets		**5,554**	1,629
Gain on disposal of property, plant and equipment and intangibles		**(286)**	(935)
Amortization of financing costs		**206**	—
Unrealized foreign exchange loss (gains)		**6,146**	23
Income tax expense		**1,654**	3,073
Deferred revenue		**(292)**	(440)
		21,246	11,756
Income taxes paid		**(5,611)**	(4,012)
Interest paid		**(2,165)**	(16)
Changes in non-cash working capital items	27	**3,326**	1,423
Cash flows provided by operating activities		**16,796**	9,151
Investing activities			
Net cash outflow on acquisition	6	**(823)**	—
Additions to property, plant and equipment		**(826)**	(402)
Additions to intangible assets		**(126)**	(43)
Proceeds on disposal of property, plant and equipment		**787**	1,238
Cash flows provided by (used in) investing activities		**(988)**	793

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows (continued)

For the three-month periods ended February 28, 2017 and February 29, 2016
(unaudited)
(In thousands of Canadian dollars, except per share amounts)

	Notes	February 28, 2017	February 29, 2016
		$	$
Financing activities			
Issuance of banker's acceptance		—	9,100
Repayment of banker's acceptance		—	(9,300)
Repayment of long-term debt		(7,833)	(743)
Dividends paid to non-controlling shareholders of subsidiaries		(17)	(100)
Dividends paid		(2,458)	(2,199)
Cash flows used in financing activities		(10,308)	(3,242)
Net increase in cash		5,500	6,702
Cash, beginning of period		36,260	33,417
Cash acquired		—	—
Cash, end of period		41,760	40,119

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

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1. Description of the business

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

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

2. Basis of preparation

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

Statement of compliance

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

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

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on April 7, 2017.

Seasonality of interim operations

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

2. Basis of preparation (continued)

Estimates, judgments and assumptions

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

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty are as those applied and described in the Company's audited annual consolidated financial statements for the year ended November 30, 2016.

3. Adoption of IFRS standards

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

Amendments to IAS 1, Presentation of financial statements

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

4. Consolidation

a) Subsidiaries
An entity is considered as a subsidiary when it is controlled by the Company or indirectly through its subsidiaries. A Company controls an entity if and only if it has all of the following:

- Holds power over the entity;
- Is exposed or has rights to variable returns from its involvement with the entity; and
- Has the ability to use its power over the entity to affect the amount of returns it obtains.

Management must make significant judgments when it assesses these various elements and all related facts and circumstances as a whole to determine whether control exists.

The Company reassesses whether it controls an entity if facts and circumstances indicate that one or more of the above-listed points have changed. The consolidated financial statements include the Company's accounts and the accounts of its subsidiaries. Subsidiaries are consolidated from the date the Company obtains control until the date the Company ceases to have control. All intercompany balances, revenues and expenses and cash flows are fully eliminated upon consolidation. When necessary, adjustments are made to the financial statements of the subsidiaries in order to align their accounting policies with those of the Company.

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

4. Consolidation (continued)

b) Non-controlling interests

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

Changes in non-controlling interests

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

5. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standard Board ("IASB") that are not yet effective for the period ended November 30, 2016, and have not been applied in preparing these condensed interim consolidated financial statements.

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

Standard	Issue date	Effective date (1)	Impact
IFRS 9 Financial Instruments	July 2014	January 1, 2018	In assessment
IFRS 15 Revenue from contracts with customers	May 2014	January 1, 2018	In assessment
IFRS 16 Leases	January 2016	January 1, 2019	In assessment
IAS 12 Income taxes	January 2016	January 1, 2017	In assessment
IAS 7 Statement of cash flows	January 2016	January 1, 2017	In assessment
IFRIC 22 Foreign Currency Transactions and Advance Consideration	December 2016	January 1, 2018	In assessment

(1) Applicable to fiscal years beginning on or after this date

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

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

5. Future accounting changes (continued)

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

On January 13, 2016, the IASB issued IFRS 16 that provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 *Leases* and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15, *Revenue from Contracts with Customers*.

IAS 12 provides further clarification with regards to the recognition of deferred tax assets for unrealized losses.

The IASB amended IAS 7 as part of its initiative regarding the disclosure requirements on financing activities in the statement of cash flows. The Company does not foresee any material impact on the disclosure currently presented as a result of this amendment.

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

The Company is in the process of assessing the impact of these standards on its condensed interim consolidated financial statements. Although the extent of the impact has not yet been determined, the Company expects that the adoption of IFRS 15 and IFRS 16 will result in material changes to its consolidated statement of income and consolidated statement of financial position.

6. Business acquisitions

I) 2017 acquisition

On December 9, 2016, MTY announced it had completed the acquisition of 60% of the assets of 9974644 Canada Inc. (La Diperie). The total consideration for the transaction was $1,538. The acquisition remains subject to post-closing working capital adjustments. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

	2017
	$
Consideration paid:	
Purchase price	**1,538**
Discount on non-interest bearing holdback	**(13)**
Net purchase price	**1,525**
Holdback (note 16)	**(87)**
Net consideration paid	**1,438**
Less: Issuance of share to non-controlling interest	**(615)**
Net cash outflow	**823**

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

6. Business acquisitions (continued)

I) 2017 acquisition (continued)

The preliminary purchase price allocation is as follows:

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

(1) Goodwill is deductible for tax purposes

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

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

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

II) 2016 acquisition

On October 5, 2016, the Company acquired the units of BF Acquisition Holdings, LLC, for a total consideration of $35,402, which remains subject to post-closing working capital adjustments. The purpose of the transaction was to further solidify the Company's presence in the United States.

	2016
	$
Consideration paid:	
Purchase price	35,340
Working capital adjustment	62
Net cash outflow (1)	35,402

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

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

6. Business acquisitions (continued)

II) 2016 acquisition (continued)

The preliminary purchase price allocation is as follows:

	2016
Net assets acquired:	$
Current assets	
Cash	1,428
Accounts receivable	1,264
Inventories	172
Loans receivable	1,691
Prepaid expenses and deposits	473
	5,028
Property, plant and equipment	2,310
Franchise rights	3,148
Trademarks	21,586
Goodwill (1)	8,297
	40,369
Current liabilities	
Accounts payable and accrued liabilities	1,965
Unredeemed gift card liability	2,072
Deferred revenue	896
	4,933
Long-term debt	34
Net purchase price	35,402

(1) Goodwill is deductible for tax purposes

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

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

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

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

6. Business acquisitions (continued)

III) 2016 acquisition

On July 26, 2016, MTY announced it had completed the acquisition of Kahala Brands Ltd. for a total consideration of $394,194, including $212,361 cash, which remains subject to post-closing working capital adjustments. The purpose of the transaction was to solidify its presence in the United States as this is expected to become one of the growth platforms.

	2016
	$
Consideration paid:	
Total cash consideration	317,016
Less: Indebtedness	(51,338)
Less: Working capital adjustment	(13,690)
	251,988
Less: Holdbacks	(39,627)
Total cash disbursed at closing	212,361
Shares issued	94,753
Holdback payable	39,627
Less: discount on holdbacks	(4,397)
Settlement of Taco Time contract	5,144
Total cash and equity consideration	347,488
Assumed financial liabilities	46,706
Total merger consideration	394,194

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

6. Business acquisitions (continued)

III) 2016 acquisition

The preliminary purchase price allocation is as follows:

	2016
Net assets acquired:	$
Current assets	
Cash	18,798
Accounts receivable	11,859
Inventory	378
Notes receivable	1,874
Prepaid expenses and deposits	3,721
	36,630
Notes receivable	3,044
Property, plant and equipment	2,270
Franchise rights	171,399
Trademarks	229,973
Goodwill (1)	152,026
	595,342
Current liabilities	
Accounts payable and accrued liabilities	13,188
Notes payable	34,827
Income tax liability	3,762
Unredeemed gift card liability	68,531
Deferred revenue	11,255
	131,563
Deferred revenue	2,868
Deferred income taxes	113,423
	247,854
Net purchase price	347,488

(1) Part of the goodwill is deductible for tax purposes

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

Total expenses incurred related to acquisition and financing costs amounted to approximately $3,716. Of this amount, $2,674 was capitalized into long-term debt and the remaining balance is presented within operating expenses.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized. Adjustments are expected to be made that can impact the preliminary purchase price materially.

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

7. Accounts receivable

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

	February 28, 2017	November 30, 2016
	$	$
Total accounts receivable	**41,524**	44,427
Less : Allowance for doubtful accounts	**8,943**	8,007
Total accounts receivable, net	**32,581**	36,420
Of which:		
Not past due	**21,166**	28,647
Past due for more than one day but for no more than 30 days	**2,212**	1,564
Past due for more than 31 days but for no more than 60 days	**2,707**	1,178
Past due for more than 61 days	**6,496**	5,031
Total accounts receivable, net	**32,581**	36,420

	February 28, 2017	November 30, 2016
	$	$
Allowance for doubtful accounts beginning of year	**8,007**	5,388
Additions	**1,016**	2,214
Additions through acquisition	**—**	1,881
Write-off	**(80)**	(1,476)
Allowance for doubtful accounts end of period	**8,943**	8,007

The Company has recognized an allowance for doubtful accounts based on past experience, outlet-specific situation, counterparty's current financial situation and age of the receivables.

Trade receivables disclosed above include amounts that are past due at the end of the reporting period and for which the Company has not recognized an allowance for doubtful accounts because there was no significant change in the credit quality of the counterparty and the amounts are therefore considered recoverable. The Company does not hold any collateral or other credit enhancements over these balances nor does it have the legal right of offset against any amounts owed by the Company to the counterparty.

The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

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

8. Inventories

	February 28, 2017	November 30, 2016
	$	$
Raw materials	**2,278**	2,092
Work in progress	**20**	44
Finished goods	**1,328**	1,162
Total inventories	**3,626**	3,298

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

Inventories expensed during the three-month periods ended February 28, 2017 were $11,056 (2016 - $6,429).

9. Loans receivable

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

	February 28, 2017	November 30, 2016
	$	$
Loans receivable bearing interest between nil and 11% per annum, receivable in monthly instalments of $293 in aggregate, including principal and interest, ending in 2024	**7,445**	8,186
	7,445	8,186
Current portion	**(2,810)**	(3,320)
	4,635	4,866

The capital repayments in subsequent years will be:

	$
2017	2,810
2018	1,421
2019	848
2020	642
2021	499
Thereafter	1,225
	7,445

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

10. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance at November 30, 2015	1,236	3,298	4,433	5,667	490	72	15,196
Additions	—	485	1,113	935	223	33	2,789
Disposals	—	(5)	(1,143)	(1,420)	—	(42)	(2,610)
Foreign exchange	—	—	47	89	2	2	140
Additions through business combinations	—	—	1,045	3,297	154	84	4,580
Balance at November 30, 2016	1,236	3,778	5,495	8,568	869	149	20,095
Additions	**—**	**79**	**367**	**363**	**17**	**—**	**826**
Disposals	**—**	**—**	**(162)**	**(45)**	**(3)**	**—**	**(210)**
Foreign exchange	**—**	**—**	**(28)**	**(76)**	**(4)**	**(2)**	**(110)**
Balance at February 28, 2017	**1,236**	**3,857**	**5,672**	**8,810**	**879**	**147**	**20,601**

Accumulated depreciation	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance at November 30, 2015	—	655	1,725	2,017	257	36	4,690
Eliminated on disposal of assets	—	(4)	(455)	(281)	—	(16)	(756)
Foreign exchange	—	—	1	8	—	—	9
Depreciation expense	—	153	663	1,108	129	12	2,065
Balance at November 30, 2016	—	804	1,934	2,852	386	32	6,008
Eliminated on disposal of assets	**—**	—	**(152)**	**(20)**	**(2)**	**—**	**(174)**
Foreign exchange	**—**	—	**(6)**	**(16)**	**(1)**	**—**	**(23)**
Depreciation expense	**—**	**42**	**283**	**612**	**42**	**7**	**986**
Balance at February 28, 2017	**—**	**846**	**2,059**	**3,428**	**425**	**39**	**6,797**

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

10. Property, plant and equipment (continued)

Carrying amounts	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
November 30, 2016	1,236	2,974	3,561	5,716	483	117	14,087
February 28, 2017	**1,236**	**3,011**	**3,613**	**5,382**	**454**	**108**	**13,804**

11. Intangible assets

Cost	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
Balance at November 30, 2015	69,002	66,999	1,199	908	607	138,715
Additions	—	5	—	—	687	692
Foreign exchange	3,006	4,698	—	—	—	7,704
Acquisition through business combinations	174,547	251,559	—	—	—	426,106
Deemed settlement of master franchise agreement upon business combination	(1,500)	—	—	—	—	(1,500)
Balance at November 30, 2016	245,055	323,261	1,199	908	1,294	571,717
Additions	**—**	**—**	**—**	**—**	**126**	**126**
Disposals	**(1,016)**	**—**	**—**	**—**	**—**	**(1,016)**
Acquisition through business combinations	**157**	**—**	**—**	**—**	**—**	**157**
Foreign exchange	**(4,272)**	**(6,156)**	**—**	**—**	**—**	**(10,428)**
Balance at February 28, 2017	**239,924**	**317,105**	**1,199**	**908**	**1,420**	**560,556**

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

11. Intangible assets (continued)

Accumulated amortization	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
Balance at November 30, 2015	33,553	—	260	885	92	34,790
Foreign exchange	81	—	—	—	—	81
Amortization	10,504	—	120	20	135	10,779
Balance at November 30, 2016	44,138	—	380	905	227	45,650
Disposals	**(551)**	**—**	**—**	**—**	**—**	**(551)**
Foreign exchange	**(157)**	**—**	**—**	**—**	**—**	**(157)**
Amortization	**5,459**	**—**	**30**	**2**	**63**	**5,554**
Balance at February 28, 2017	**48,889**	**—**	**410**	**907**	**290**	**50,496**

Carrying amounts	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
November 30, 2016	200,917	323,261	819	3	1,067	526,067
February 28, 2017	**191,035**	**317,105**	**789**	**1**	**1,130**	**510,060**

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

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

11. Intangible assets (continued)

Indefinite life intangibles, which consist of trademarks and perpetual licenses have been allocated for impairment testing purposes to the following cash generating units:

	February 28, 2017	November 30, 2016
	$	$
La Crémière	9	9
Cultures	500	500
Thai Express	145	145
Mrs Vanelli's	2,700	2,700
Sushi Shop	1,600	1,600
Tutti Frutti	1,100	1,100
Koya	1,253	1,253
Country Style	1,740	1,740
Valentine	3,338	3,338
Jugo Juice	5,425	5,425
Mr. Sub	11,320	11,320
Koryo	1,135	1,135
Mr. Souvlaki	300	300
Extreme Pita	3,198	3,198
Mucho Burrito	9,816	9,816
ThaïZone	7,417	7,417
Madisons New York Grill & Bar	3,410	3,410
Café Dépôt	2,959	2,959
Muffin Plus	371	371
Sushi-Man	434	434
Van Houtte	347	347
Manchu Wok (1)	5,803	5,850
Big Smoke Burger	3,305	3,305
America's Taco Shop (1&2)	937	960
Blimpie (1&2)	6,024	6,171
Cereality (2)	17	17
Cold Stone Creamery (1&2)	153,437	157,187
Frullati (1&2)	970	993
Great Steak (1&2)	3,720	3,811
Kahala Coffee Traders (1&2)	209	214
Maui Wowi (1&2)	1,619	1,659
Nrgize (1&2)	2,381	2,440
Pinkberry (1&2)	8,799	9,014

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

11. Intangible assets (continued)

	February 28, 2017	November 30, 2016
	$	$
Planet Smoothie [1&2]	9,384	9,614
Ranch 1 [1&2]	165	169
Rollerz [1&2]	126	130
Samurai Sam's [1&2]	1,742	1,785
Surf City Squeeze [1&2]	2,997	3,070
Taco Time [1&2]	34,564	35,409
Tasti D-Lite [1&2]	1,154	1,182
Baja Fresh [1&2]	19,872	20,358
La Salsa [1&2]	1,710	1,753
	317,452	323,608

(1) Variance from prior year due to foreign exchange conversion.

(2) As indicated in note 6, the purchase price allocation is still preliminary and is subject to change.

12. Goodwill

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

	February 28, 2017	November 30, 2016
	$	$
Balance, beginning of year	218,887	55,520
Additional amounts recognized from business acquisitions (note 6)	1,229	160,323
Foreign Exchange	(3,868)	3,044
Balance, end of period	216,248	218,887

Goodwill was not allocated to individual CGUs; the Company has determined that the valuation of goodwill cannot be done at the CGU level, since the strength of the network comes from grouping the many banners from which the goodwill arose from. For the purpose of impairment testing, goodwill is allocated to the group of CGUs that are considered to represent the lowest level within the group at which the goodwill is monitored for internal management purposes.

13. Credit facilities

The Company currently has two facilities: A term loan with an authorized amount of $157,813 as at February 28, 2017, and a revolving credit facility with an authorized amount of $150,000.

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

13. Credit facilities (continued)

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

For amounts drawn in US dollars, the Company has the option to pay interest based on US base rates (5.75% as at February 28, 2017), plus a margin not exceeding 2.25%, or based on LIBOR plus a margin not exceeding 3.25%. For amounts drawn in Canadian dollars, the Company has the option to pay interest based on the Canada Prime rate (4.20% as at February 28, 2017), as determined by the Toronto-Dominion Bank of Canada, plus a margin not exceeding 2.25% or based on Banker's Acceptances, plus a margin not exceeding 3.25%.

Under those facilities, the Company is required to comply with certain financial covenants, including a debt to earnings before interest, taxes and amortization ratio and a fixed charges coverage ratio. As at February 28, 2017, the Company was in compliance with those financial covenants.

Costs of $2,674 were incurred in relation to the facilities. These costs were capitalized into long-term debt and will be amortized over five years. Of the total costs incurred $2,191 is currently in the long-term debt balance.

Revolving Credit Facility

Under the revolving credit facility, the Company has the option to draw funds in Canadian or in US dollars, at its discretion. The facility's maturity is July 21, 2020 and must be repaid in full at that time. As at February 28, 2017, the Company had drawn US$20,000 (C$26,219) and C$45,811 and had elected to pay interest based on LIBOR and bankers' acceptances plus the applicable margins.

Term Credit Facility

The Term Credit facility is repayable in quarterly instalments of $2,187. The remainder of the capital balance is repaid at the maturity of the loan, on July 21, 2019. As at February 28, 2017, the facility was fully drawn and the Company had elected to pay interest based on the Banker's Acceptances plus the applicable margin.

14. Provisions

Included in provisions are the following amounts:

	February 28, 2017	November 30, 2016
	$	$
Litigations and disputes	**2,490**	1,768
Closed stores	**1,206**	873
	3,696	2,641
Gift card liabilities/loyalty programs liabilities	**70,399**	72,018
Total	**74,095**	74,659

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

14. Provisions (continued)

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

The payables related to closed stores mainly represent amounts that are expected to be disbursed to exit leases of underperforming or closed stores. The negotiations with the various stakeholders are typically short in duration and are expected to be settled within a few months following the recognition of the provision.

In the litigation and disputes and closed store provisions above, $244 (2016 - $10) was unused and reversed into income. The amounts used in the period include $267 (2016 - $534) of the provisions for disputes and closed stores; this amount was used for the settlement of litigation and for the termination of the leases of closed stores.

Additions during the period include $1,600 (2016 - $204) to the litigation and closed stores provisions. The provisions were increased to reflect new information available to management.

The litigation and disputes and closed store provisions also varied in part due to foreign exchange fluctuations related to the Kahala Brands Ltd and BF Acquisition Holdings, LLC provision balances. This accounts for a decrease of $34 of the variance in the provision.

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

15. Deferred revenue and deposits

	February 28, 2017	November 30, 2016
	$	$
Franchise fee deposits	**5,102**	5,953
Supplier contributions and other allowances	**11,832**	11,177
Unearned rent	**3,335**	3,431
	20,269	20,561
Current portion	**(17,322)**	(18,080)
	2,947	2,481

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

16. Long-term debt

	February 28, 2017	November 30, 2016
	$	$
Non-interest bearing contract cancellation fees, payable in US dollars based on the performance of certain stores.	**70**	72
Non-interest bearing holdbacks on acquisition of La Diperie, repayable December 2018	**88**	—
Non-interest bearing holdbacks on acquisition of Manchu Wok, settled in December 2016.	**—**	620
Non-interest bearing holdbacks on acquisition of Big Smoke Burger, repayable September 2018.	**279**	276
Non-interest bearing holdbacks on acquisition of Kahala Brands, repayable July 2017, 2018 and 2019.	**17,844**	17,736
Non-interest bearing loan payable during 2017.	**147**	171
Revolving credit facility payable to a syndicate of lenders (note 13), expiring in July 2020.	**72,030**	72,255
Term loan payable to a syndicate of lenders (note 13) in quarterly instalments of $2,187, expiring in July 2019	**157,812**	165,000
Revolving credit facility and term loan financing costs, amortized using the effective interest method	**(2,191)**	(2,397)
	246,079	253,733
Current portion	**(14,525)**	(15,041)
	231,554	238,692

17. Earnings per share

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

	2017	2016
Weighted daily average number of common shares	**21,374,497**	19,120,567

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

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

18. Financial instruments

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

Fair value of recognized financial instruments

Following is a table which sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below:

	February 28, 2017		November 30, 2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Cash	**41,760**	**41,760**	36,260	36,260
Accounts receivable	**32,581**	**32,581**	36,420	36,420
Loans receivable	**7,445**	**7,445**	8,186	8,186
Deposits	**1,582**	**1,582**	1,587	1,587
Financial liabilities				
Accounts payable and accrued liabilities	**44,861**	**44,861**	44,288	44,288
Long-term debt	**246,079**	**246,079**	253,733	253,733

Determination of fair value

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

Cash, accounts receivable, accounts payable and accrued liabilities – The carrying amounts approximate fair values due to the short maturity of these financial instruments.

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

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

Risk management policies

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at February 28, 2017.

18. Financial instruments (continued)

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the condensed interim consolidated statement of financial position are net of allowances for bad debts, estimated by the Company's management based on past experience and counterparty specific circumstances. The Company believes that the credit risk of accounts receivable is limited for the following reasons:

- Other than receivables from international locations, the Company's broad client base is spread mostly across Canada and USA, which limits the concentration of credit risk.
- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable.

The credit risk on cash is limited because the Company invests its excess liquidity in high quality financial instruments and with credit-worthy counterparties.

The credit risk on the loans receivable is similar to that of accounts receivable. There is currently an allowance for doubtful accounts recorded for loans receivable of $1,016 (November 30, 2016 - $906).

Foreign exchange risk

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

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

As of February 28, 2017, the Company carried US$ cash of C$30,535, net accounts receivable of C$15,634 and net accounts payable of C$15,976 (C$27,277, C$18,669 and C$88,587 as at November 30, 2016). The Company also has a US revolving credit facility of C$26,219 and other long-term debt of $17,991. All other factors being equal, a reasonable possible 1% rise in foreign currency exchange rates per Canadian dollar would not result in a material change on profit or loss and net comprehensive income (November 30, 2016 - C$1,330).

The Company is also exposed to foreign exchange risk related to the loan it has with one of its foreign subsidiaries which is revalued to fair value at the end of each reporting period. The total value of the loan as at February 28, 2017 was US$194,174 or C$254,557 (November 30, 2016 – US$194,174 or C$260,782). A reasonable possible 1% change in foreign exchange rates per Canadian dollar would result in a C$2,546 million change on profit or loss and net comprehensive income.

Total US net income for the three-month period was C$3,518. A 1% change to foreign exchange would represent a gain or loss to the Company of C$35.

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.

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

18. Financial instruments (continued)

Interest rate risk (continued)

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 and term credit facility which were used to finance the Company's acquisitions. Both facilities bear interest at a variable rate and as such the interest burden could change materially. $229,842 (2016 - $237,255) of the credit facilities were used as at February 28, 2017. A 100 basis points increase in the bank's prime rate would result in additional interest of $2,298 per annum (2016 - $2,373) on the outstanding credit facility.

Liquidity risk

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

As at February 28, 2017, the Company had authorized revolving credit facilities for which the available amount may not exceed, respectively, $157,813 and $150,000 to ensure that sufficient funds are available to meet its financial requirements. The terms and conditions related to these revolving credit facilities are described in note 13.

The following are the contractual maturities of financial liabilities as at February 28, 2017:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	thereafter
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**44,861**	**44,861**	**44,861**	—	—	—
Long-term debt	**246,079**	**251,461**	**11,512**	**4,483**	**16,060**	**219,406**
Interest on long-term debt [(1)]	**n/a**	**17,442**	**3,302**	**3,238**	**6,283**	**4,619**
	290,940	**313,764**	**59,675**	**7,721**	**22,343**	**224,025**

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

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

19. Capital disclosures

The Company's objectives when managing capital are:

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

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

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

The Company defines its capital as follows:

(a) Shareholders' equity;

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

(c) Deferred revenue including the current portion;

(d) Cash

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

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at February 28, 2017 and November 30, 2016 were as follows:

	February 28, 2017	November 30, 2016
	$	$
Debt	**521,211**	537,265
Equity	**313,350**	313,840
Debt-to-equity ratio	**1.66**	1.71

The decrease in debt-to-equity ratio is due to the repayment of loans outstanding during the first quarter. Maintaining a low debt to equity ratio is a priority in order to preserve the Company's ability to secure financing at a reasonable cost for future acquisitions. MTY expects to repay the outstanding credit facility in a relatively short period of time using the expected cash flows from the newly acquired US operations and the existing cash flows in Canada.

The Company's credit facilities impose a maximum debt-to-EBITDA ratio of 4:1 until July 20, 2017. This maximum debt-to-equity ratio decreases afterwards.

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

20. Revenues

The Company's revenues include:

	February 28, 2017	February 29, 2016 (1)
	$	$
Royalties	**26,276**	13,344
Franchise and transfer fees	**3,047**	1,294
Rent	**595**	832
Sale of goods, including construction revenues	**23,071**	14,483
Other franchising revenue	**13,925**	4,989
Other	**1,318**	378
	68,232	35,320

(1) Certain figures have been reclassified to conform to the current year presentation. In the previous year, gift card revenue and transfer fees were included in "Other" revenue.

21. Operating expenses

Operating expenses are broken down as follows:

	February 28, 2017	February 29, 2016
	$	$
Cost of goods sold and rent	**18,259**	11,785
Wages and benefits	**17,297**	7,800
Consulting and professional fees	**3,222**	1,234
Gift cards costs	**2,257**	—
Royalties	**61**	244
Other (1)	**6,685**	2,151
	47,781	23,214

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

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

22. Operating lease arrangements

Operating leases as lessee relate to leases of premises in relation to the Company's operations. Leases typically have terms ranging between 5 and 10 years at inception. The Company does not have options to purchase the premises on any of its operating leases.

The Company has entered into various long term leases and has sub leased substantially all of the premises based on the same terms and conditions as the original lease to unrelated franchisees. The minimum rentals, exclusive of occupancy and escalation charges, and additional rent paid on a percentage of sales basis, payable under the leases are as follows:

	Lease commitments	Sub-leases	Net commitments
	$	$	$
2017	131,466	119,929	11,537
2018	121,627	111,092	10,535
2019	108,800	99,504	9,296
2020	93,993	85,785	8,208
2021	80,990	73,767	7,223
Thereafter	238,583	223,376	15,207
	775,459	**713,453**	**62,006**

Payments recognized as a net expense during the three-month periods ended February 28, 2017 amount to $6,577 (2016 - $3,060).

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

During the three-month period, the Company earned rental revenue of $595 (2016 - $832).

The Company has recognized a liability of $1,206 (November 30, 2016 - $873) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (note 14).

23. Guarantee

The Company has provided a guarantee in the form of a letter of credit for an amount of $2,003 (November 30, 2016 - $1,846).

24. 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 14. The timing of the outflows, if any, is out of the control of the Company and is as a result undetermined at the moment.

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

25. Income taxes

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

	February 28, 2017		February 29, 2016	
	$	**%**	$	%
Combined income tax rate	**1,676**	**26.9**	3,007	27.2
Add effect of:				
Difference between Canadian and foreign statutory rate	**391**	**6.3**	—	—
Permanent differences	**(256)**	**(4.1)**	3	0.0
Disposition of capital property	**—**	**—**	1	0.0
Losses in a subsidiary for which no deferred income tax asset was recorded	**30**	**0.5**	—	—
Variation in current and deferred taxes attributable to foreign exchange	**10**	**0.2**	(23)	(0.2)
Adjustment to prior year provisions	**(130)**	**(2.1)**	33	0.3
Other – net	**(67)**	**(1.1)**	52	0.5
Provision for income taxes	**1,654**	**26.6**	3,073	27.8

26. Segmented information

Prior to the third quarter of 2016, the Company presented four operating segments, consisting of Franchise operations, Corporate store operations, Distribution operations and Food Processing operations. These reportable operating segments were established based on the differences in the types of products or services offered by each division.

Following the acquisition of Kahala Brands and the expansion of MTY into the USA, it was determined that these operating segments no longer reflected how management monitored and evaluated the results. The Company concluded that based on information provided to senior management, that two primary geographical segments exist, that being Canada and USA/International. This conclusion was based on how the brands in each geographical area are managed by their respective Chief Operating Officers (COO) and how brand leaders report to each of their respective COO's to account for the results of their operations.

Due to the change in reportable segments, prior year information has been restated to reflect the changes in operating segments mentioned above.

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

26. Segmented information (continued)

Below is a summary of each geographical segment's performance during the three-month period ended February 28, 2017 and February 29, 2016.

	Canada	USA & International	Total February 28, 2017	Canada	USA & International	Total February 29, 2016
	$	$	$	$		$
Operating revenues	**32,677**	**35,555**	**68,232**	33,706	1,614	35,320
Operating expenses	**21,029**	**26,752**	**47,781**	21,959	1,255	23,214
	11,648	**8,803**	**20,451**	11,747	359	12,106
Other expenses						
Depreciation – property, plant and equipment	**368**	**618**	**986**	342	22	364
Amortization – intangible assets	**1,383**	**4,171**	**5,554**	1,591	38	1,629
Interest on long-term debt	**2,171**	**530**	**2,701**	61	—	61
Other income						
Foreign exchange gain (loss)	**(5,366)**	**1**	**(5,365)**	15	—	15
Interest income	**15**	**85**	**100**	52	—	52
Gain on disposal of property, plant and equipment	**269**	**17**	**286**	935	—	935
Operating income	**2,644**	**3,587**	**6,231**	10,755	299	11,054
Current income taxes	**1,634**	**300**	**1,934**	2,542	119	2,661
Deferred income taxes	**(50)**	**(230)**	**(280)**	412	—	412
Net income	**1,060**	**3,517**	**4,577**	7,801	180	7,981

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

27. Statement of cash flows

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

	February 28, 2017	February 29, 2016
	$	$
Accounts receivable	**3,828**	604
Inventories	**(310)**	(294)
Loans receivable	**725**	81
Prepaid expenses and deposits	**(1,164)**	(252)
Accounts payable and accrued liabilities	**811**	1,448
Provisions	**(564)**	(164)
	3,326	1,423

28. Related party transactions

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

Compensation of key management personnel

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

	February 28, 2017	February 29, 2016
	$	$
Short-term benefits	**247**	237
Board member fees	**12**	12
Total remuneration of key management personnel	**259**	249

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

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

28. Related party transaction (continued)

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

	February 28, 2017	February 29, 2016
	$	$
Short-term benefits	**182**	152
Total remuneration of individuals related to key management personnel	**182**	152