Condensed interim consolidated financial statements of
MTY Food Group Inc.

For the three and six-month periods ended May 31, 2017 and May 31, 2016

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three and six-month periods ended May 31, 2017 and May 31, 2016

(unaudited)

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

Notice : The condensed interim consolidated financial statements of MTY Food Group Inc. for the three and six-month periods ended May 31, 2017 and May 31, 2016 have not been reviewed by an external auditor.

	Notes	Three months ended May 31		Six months ended May 31	
		2017	2016	**2017**	2016
		$	$	**$**	$
Revenue	18 and 23	**72,063**	35,362	**140,295**	70,682
Expenses					
Operating expenses	19 and 23	**45,462**	22,542	**93,243**	45,756
Depreciation – property, plant and equipment	10	**571**	365	**1,557**	729
Amortization – intangible assets		**5,713**	1,606	**11,267**	3,235
Interest on long-term debt		**2,444**	42	**5,145**	103
		54,190	24,555	**111,212**	49,823
Other income (charges)					
Foreign exchange gain (loss)		**5,984**	(57)	**619**	(42)
Interest income		**119**	79	**219**	131
Gain on disposal of property, plant and equipment and intangibles		**458**	650	**744**	1,585
		6,561	672	**1,582**	1,674
Income before taxes		**24,434**	11,479	**30,665**	22,533
Income taxes	22				
Current		**5,920**	2,857	**7,854**	5,518
Deferred		**1,265**	60	**985**	472
		7,185	2,917	**8,839**	5,990
Net income		**17,249**	8,562	**21,826**	16,543
Net income attributable to:					
Owners		**17,130**	8,335	**21,647**	16,262
Non-controlling interests		**119**	227	**179**	281
		17,249	8,562	**21,826**	16,543
Earnings per share	15				
Basic and diluted		**0.80**	0.44	**1.01**	0.85

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 and six-month periods ended May 31, 2017 and May 31, 2016
(unaudited)
(In thousands of Canadian dollars, except per share amounts and stock options)

		Three months ended May 31		Six months ended May 31	
	Notes	**2017**	2016	**2017**	2016
		$	$	**$**	$
Net income		**17,249**	8,562	**21,826**	16,543
Items that may be reclassified subsequently to profit or loss					
Unrealized gain (loss) on foreign currency translation adjustments		**4,855**	(69)	**904**	418
Deferred tax expense on foreign currency translation adjustments		**(104)**	—	**640**	—
Other comprehensive income (loss)		**4,751**	(69)	**1,544**	418
Total comprehensive income		**22,000**	8,493	**23,370**	16,961
Total comprehensive income attributable to:					
Owners		**21,881**	8,266	**23,191**	16,680
Non-controlling interest		**119**	227	**179**	281
		22,000	8,493	**23,370**	16,961

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 and six-month periods ended May 31, 2017 and May 31, 2016

(unaudited)

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

	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 six-month period ended May 31,2016	—	—	—	16,262	16,262	281	16,543
Other comprehensive income	—	—	418	—	418	—	418
Dividends	—	—	—	(4,398)	(4,398)	(100)	(4,498)
Balance as at May 31, 2016	19,792	481	307	158,356	178,936	2,736	181,672
Net income for the six-month period from June 1, 2016 to November 30,2016	—	—	—	41,133	41,133	165	41,298
Other comprehensive income	—	—	2,308	—	2,308	—	2,308
Acquisition of a portion of the non-controlling interest in 9410198 Canada Inc. (note 5)	—	—	—	944	944	(2,194)	(1,250)
Dividends	—	—	—	(4,916)	(4,916)	(25)	(4,941)
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 six-month period ended May 31, 2017	**—**	**—**	**—**	**21,647**	**21,647**	**179**	**21,826**
Other comprehensive income	**—**	**—**	**1,544**	**—**	**1,544**	**—**	**1,544**
Dividends	**—**	**—**	**—**	**(4,916)**	**(4,916)**	**(17)**	**(4,933)**
Acquisition of the non-controlling interest in 7687567 Canada Inc. (note 5)	**—**	**—**	**—**	**(26)**	**(26)**	**(4)**	**(30)**
Acquisition of La Diperie (note 7)	**—**	**—**	**—**	**—**	**—**	**615**	**615**
Acquisition of Steak Frites and Giorgio (note 7)	**—**	**—**	**—**	**—**	**—**	**16**	**16**
Share-based payment (note 14)	**—**	**85**	**—**	**—**	**85**	**—**	**85**
Balance as at May 31, 2017	**114,545**	**566**	**4,159**	**212,222**	**331,492**	**1,471**	**332,963**

The following dividends were declared and paid by the Company:

	May 31, 2017	May 31, 2016
	$	$
$0.230 per common share (2016 - $0.230 per common share)	**4,916**	4,398

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 May 31, 2017 and November 30, 2016

(unaudited)

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

	Notes	**May 31, 2017**	November 30, 2016
		$	$
Assets			
Current assets			
Cash		**64,982**	36,260
Accounts receivable	8	**33,006**	36,420
Inventories	9	**5,144**	3,298
Loans receivable		**3,848**	3,320
Prepaid expenses and deposits		**3,852**	7,900
		110,832	87,198
Loans receivable		**4,029**	4,866
Property, plant and equipment	10	**11,958**	14,087
Intangible assets		**517,055**	526,067
Goodwill		**223,312**	218,887
		867,186	851,105
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**50,071**	44,288
Provisions	11	**74,276**	74,659
Income taxes payable		**20,498**	20,793
Deferred revenue and deposits	12	**20,825**	18,080
Current portion of long-term debt	13	**11,801**	15,041
		177,471	172,861
Long-term debt	13	**231,967**	238,692
Deferred revenue and deposits	12	**2,700**	2,481
Deferred income taxes	22	**122,085**	123,231
		534,223	537,265
Commitments and guarantees	20 and 21		

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

	Notes	May 31, 2017	November 30, 2016
		$	$
Shareholders' equity			
Equity attributable to owners			
Capital stock		**114,545**	114,545
Contributed surplus		**566**	481
Accumulated other comprehensive income		**4,159**	2,615
Retained earnings		**212,222**	195,517
		331,492	313,158
Equity attributable to non-controlling interest		**1,471**	682
		332,963	313,840
		867,186	851,105

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

Approved by the Board on July 7, 2017

____, Director

____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three and six-month periods ended May 31, 2017 and May 31, 2016

(unaudited)

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

	Notes	Three months ended May 31		Six months ended May 31	
		2017	2016	**2017**	2016
		$	$	$	$
Operating activities					
Net income		**17,249**	8,562	**21,826**	16,543
Adjusting items:					
Interest on long-term debt		**2,444**	42	**5,145**	103
Depreciation – property, plant and equipment		**571**	365	**1,557**	729
Amortization – intangible assets		**5,713**	1,606	**11,267**	3,235
Gain on disposal of property, plant and equipment and intangibles		**(458)**	(650)	**(744)**	(1,585)
Amortization of financing costs		**208**	—	**414**	—
Unrealized foreign exchange loss (gains)		**(6,678)**	10	**(532)**	33
Income tax expense		**7,185**	2,917	**8,839**	5,990
Share-based payment		**85**	—	**85**	—
Deferred revenue		**3,256**	1,784	**2,964**	1,344
		29,575	14,636	**50,821**	26,392
Income taxes paid		**(2,902)**	(2,129)	**(8,513)**	(6,141)
Interest paid		**(1,946)**	(15)	**(4,111)**	(31)
Changes in non-cash working capital items	24	**3,131**	(502)	**6,457**	921
Cash flows provided by operating activities		**27,858**	11,990	**44,654**	21,141
Investing activities					
Net cash outflow on acquisition	7	**(674)**	—	**(1,497)**	—
Additions to property, plant and equipment		**(538)**	(681)	**(1,364)**	(1,083)
Additions to intangible assets		**(104)**	(18)	**(230)**	(61)
Proceeds on disposal of property, plant and equipment		**2,357**	1,098	**3,144**	2,336
Cash flows provided by investing activities		**1,041**	399	**53**	1,192

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows (continued)

For the three and six-month periods ended May 31, 2017 and May 31, 2016

(unaudited)

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

		Three months ended May 31		Six months ended May 31	
	Notes	**2017**	2016	**2017**	2016
		$	$	**$**	$
Financing activities					
Issuance of banker's acceptance		**—**	12,100	**—**	21,200
Repayment of banker's acceptance		**—**	(12,200)	**—**	(21,500)
Repayment of long-term debt		**(3,219)**	(562)	**(11,052)**	(1,305)
Dividends paid to non-controlling shareholders of subsidiaries		**—**	—	**(17)**	(100)
Dividends paid		**(2,458)**	(2,199)	**(4,916)**	(4,398)
Cash flows used in financing activities		**(5,677)**	(2,861)	**(15,985)**	(6,103)
Net increase in cash		**23,222**	9,528	**28,722**	16,230
Cash, beginning of period		**41,760**	40,119	**36,260**	33,417
Cash, end of period		**64,982**	49,647	**64,982**	49,647

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

Table of contents

1. Description of the business

MTY Food Group Inc. (the "Company") is a franchisor in the quick service 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 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 with the exception of those identified in Note 3, 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 July 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 as well as those related to the share-based payment arrangements as described in note 14.

3. Accounting policies

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 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 14.

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.

4. 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.

5. 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.

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

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.

6. 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.

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

6. Future accounting changes (continued)

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 2 Share Based Payment	June 2016	January 1, 2018	Assessed, no 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 2 has been modified to provide further guidance in relation to the treatment of vesting and non-vesting conditions. It also clarifies the accounting impact for when the terms and conditions of a cash-settled share-based payment transaction are modified.

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.

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.

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

6. Future accounting changes (continued)

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.

7. Business acquisitions

I) 2017 acquisition

On May 8, 2017, the Company announced it had completed through its 83.25% controlling interest in 10179612 Canada Inc., the acquisition of the assets of Steak Frites St-Paul and Giorgio Ristorante. The total consideration for the transaction was $467 of which $347 was settled in cash. The transaction resulted in an increase of $253 and $214 to goodwill and trademarks, respectively.

The purchase price allocation is still preliminary.

II) 2017 acquisition

On December 9, 2016, the Company announced it had completed through its 60% interest in 9974644 Canada Inc. the acquisition of the assets 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 13)	**(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 and stock options)

7. Business acquisitions (continued)

II) 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.

III) 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 and stock options)

7. Business acquisitions (continued)

III) 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.

IV) 2016 acquisition

On July 26, 2016, MTY announced it had completed the acquisition of Kahala Brands Ltd. 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.

During the three-months ended May 31, 2017 the total merger consideration was adjusted to $393,435 in order to reflect a net decrease in consideration of $759 due to the receipt of final working capital adjustments and an amendment to the repayment terms of the holdback payable.

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

7. Business acquisitions (continued)

IV) 2016 acquisition (continued)

The resulting adjustments in total merger consideration are highlighted below:

	Preliminary Consideration	Adjustments	Adjusted Consideration
	$	$	$
Consideration paid:			
Total cash consideration	317,016	—	**317,016**
Less: Indebtedness	(51,338)	—	**(51,338)**
Less: Working capital adjustment	(13,690)	297	**(13,393)**
	251,988	**297**	**252,285**
Less: Holdbacks	(39,627)	—	**(39,627)**
Total cash disbursed	**212,361**	**297**	**212,658**
Shares issued	94,753	—	**94,753**
Holdback payable	39,627	—	**39,627**
Less: discount on holdbacks	(4,397)	(1,056)	**(5,453)**
Settlement of Taco Time contract	5,144	—	**5,144**
Total cash and equity consideration	**347,488**	**(759)**	**346,729**
Assumed financial liabilities	46,706	—	**46,706**
Total merger consideration	**394,194**	**(759)**	**393,435**

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

7. Business acquisitions (continued)

IV) 2016 acquisition (continued)

The adjusted purchase price allocation is as follows:

	Preliminary Purchase Price Allocation	Adjustments	Adjusted Purchase Price Allocation
Net assets acquired:	$	$	$
Current assets			
Cash	18,798	—	**18,798**
Accounts receivable	11,859	(314)	**11,545**
Inventory	378	—	**378**
Notes receivable	1,874	(182)	**1,692**
Prepaid expenses and deposits	3,721	—	**3,721**
	36,630	**(496)**	**36,134**
Notes receivable	3,044	—	**3,044**
Property, plant and equipment	2,270	—	**2,270**
Franchise rights	171,399	—	**171,399**
Trademarks	229,973	—	**229,973**
Goodwill (1)	152,026	2,041	**154,067**
	595,342	**1,545**	**596,887**
Current liabilities			
Accounts payable and accrued liabilities	13,188	4,223	**17,411**
Notes payable	34,827	—	**34,827**
Income tax liability	3,762	—	**3,762**
Unredeemed gift card liability	68,531	—	**68,531**
Deferred revenue	11,255	—	**11,255**
	131,563	**4,223**	**135,786**
Deferred revenue	2,868	—	**2,868**
Deferred income taxes	113,423	(1,919)	**111,504**
	247,854	**2,304**	**250,158**
Net purchase price	**347,488**	**(759)**	**346,729**

(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.

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

7. Business acquisitions (continued)

IV) 2016 acquisition (continued)

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.

8. Accounts receivable

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

	May 31, 2017	November 30, 2016
	$	$
Total accounts receivable	**42,509**	44,427
Less : Allowance for doubtful accounts	**9,503**	8,007
Total accounts receivable, net	**33,006**	36,420
Of which:		
Not past due	**22,756**	28,647
Past due for more than one day but for no more than 30 days	**2,886**	1,564
Past due for more than 31 days but for no more than 60 days	**844**	1,178
Past due for more than 61 days	**6,520**	5,031
Total accounts receivable, net	**33,006**	36,420

	May 31, 2017	November 30, 2016
	$	$
Allowance for doubtful accounts beginning of year	**8,007**	5,388
Additions	**2,430**	2,214
Additions through acquisition	**—**	1,881
Reversals	**(35)**	—
Write-off	**(899)**	(1,476)
Allowance for doubtful accounts end of period	**9,503**	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.

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

8. Accounts receivable (continued)

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.

9. Inventories

	May 31, 2017	November 30, 2016
	$	$
Raw materials	**2,047**	2,092
Work in progress	**156**	44
Finished goods	**2,941**	1,162
Total inventories	**5,144**	3,298

Inventories are presented net of a $17 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 and six-month periods ended May 31, 2017 were $8,957 and $20,799 (2016- $5,875 and $12,304).

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

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	**—**	**205**	**180**	**911**	**61**	**7**	**1,364**
Disposals	**—**	**(12)**	**(1,467)**	**(1,562)**	**(11)**	**(14)**	**(3,066)**
Foreign exchange	**—**	**—**	**2**	**(12)**	**2**	**1**	**(7)**
Balance at May 31, 2017	**1,236**	**3,971**	**4,210**	**7,905**	**921**	**143**	**18,386**

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	**—**	**(7)**	**(629)**	**(501)**	**(5)**	**(14)**	**(1,156)**
Foreign exchange	**—**	**—**	**6**	**12**	**—**	**1**	**19**
Depreciation expense	**—**	**85**	**415**	**958**	**86**	**13**	**1,557**
Balance at May 31, 2017	**—**	**882**	**1,726**	**3,321**	**467**	**32**	**6,428**

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

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
May 31, 2017	**1,236**	**3,089**	**2,484**	**4,584**	**454**	**111**	**11,958**

11. Provisions

Included in provisions are the following amounts:

	May 31, 2017	November 30, 2016
	$	$
Litigations and disputes	**2,961**	1,768
Closed stores	**1,273**	873
	4,234	2,641
Gift card liabilities/loyalty programs liabilities	**70,042**	72,018
Total	**74,276**	74,659

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 provisions 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, $371 (2016 - $222) was unused and reversed into income. The amounts used in the period include $324 (2016 - $938) 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 $2,260 (2016 - $496) 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 an increase of $28 (2016-$nil) of the variance in the provision.

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

11. Provisions (continued)

The gift card and loyalty programs liabilities are the estimated 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.

12. Deferred revenue and deposits

	May 31, 2017	November 30, 2016
	$	$
Franchise fee deposits	**7,030**	5,953
Supplier contributions and other allowances	**13,166**	11,177
Unearned rent	**3,329**	3,431
	23,525	20,561
Current portion	**(20,825)**	(18,080)
	2,700	2,481

13. Long-term debt

The Company currently has two facilities: A term loan with an authorized amount of $154,716 as at May 31, 2017, (November 30, 2016 - $165,000) and a revolving credit facility with an authorized amount of $150,000, (November 30, 2016 - $150,000).

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

For amounts drawn in US dollars, the Company has the option to pay interest based on US base rates 5.50% as at May 31, 2017 (3.25% as at November 30, 2016), 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, 3.70% as at May 31, 2017 (2.70% as at November 30, 2016), 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 May 31, 2017, the Company was in compliance with those financial covenants.

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

13. Long-term debt (continued)

	May 31, 2017	November 30, 2016
	$	$
Non-interest bearing contract cancellation fees, payable in US dollars based on the performance of certain stores.	**72**	72
Non-interest bearing holdbacks on acquisition of La Diperie, repayable December 2018	**90**	—
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.	**278**	276
Non-interest bearing holdbacks on acquisition of Kahala Brands, repayable July 2017, 2018, 2019 and August 2020.	**17,785**	17,736
Non-interest bearing loan payable during 2017.	**—**	171
Revolving credit facility payable to a syndicate of lenders [1]	**72,811**	72,255
Term loan payable to a syndicate of lenders [2]	**154,716**	165,000
Revolving credit facility and term loan financing costs, amortized using the effective interest method	**(1,984)**	(2,397)
	243,768	253,733
Current portion of Long-term debt	**(11,801)**	(15,041)
	231,967	238,692

(1) 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 May 31, 2017, the Company had drawn US$20,000 (C$27,000), (2016-US$53,800 (C$72,255) and C$45,811, (2016-$Nil) and had elected to pay interest based on LIBOR and bankers' acceptances plus the applicable margins.

(2) The Term loan 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 May 31, 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. Share-based payments

The Company offers for the benefit of their directors, employees, officers or consultants a share option plan. In accordance with the terms of the plan the Company may grant stock options on the common shares at the discretion of the Board of Directors.

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

14. Share-based payments (continued)

Under the Stock Option Plan of the Company, the following options were granted and are outstanding at May 31, 2017:

	2017	
	Number of Options	**Weighted average exercise price**
		$
Outstanding at November 30, 2016	—	—
Granted	**200,000**	**48.36**
Forfeited /Cancelled/Expired	—	—
Exercised	—	—
Outstanding at May 31, 2017	**200,000**	**48.36**
Exercisable at May 31, 2017	—	—

Options granted during the three-month period ended May 31, 2017 have a service condition in order to vest and excluding the first year, will vest pro-rata over the service period. The options will expire on April 11, 2027.

The fair value of the stock options granted for the three-month period ended May 31, 2017 was $14.69 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 based on the following assumptions:

	2017
Acquisition date share price	**$48.36**
Exercise price	**$48.36**
Expected dividend yield	**1.0%**
Expected volatility	**24.9%**
Risk-free interest rate	**1.8%**
Expected life (in years)	**10 years**

A compensation expense of $85 was recorded for the three-month period ended May 31, 2017. The expense is presented in operating expenses in the condensed interim consolidated statements of income.

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

15. 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 are used for the purpose of diluted earnings per share:

	May 31, 2017	May 31, 2016
Weighted daily average number of common shares (1)	**21,374,497**	19,120,567

(1) The stock options granted April 12, 2017 did not have a dilutive effect for the three and six-month periods ended May 31, 2017.

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.

16. 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

The carrying amount of financial assets and financial liabilities of the Company are a reasonable approximation of fair value as at May 31, 2017 and as at November 30, 2016.

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at May 31, 2017.

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 $721 (November 30, 2016 - $906).

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

16. Financial instruments (continued)

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 at May 31, 2017, the Company has the following financial instruments denominated in foreign currencies:

	May 31, 2017		November 30, 2016	
	USD	**CAD**	USD	CAD
	$	**$**	$	$
Financial assets				
Cash	**34,783**	**46,957**	20,310	27,277
Net Accounts receivable	**13,503**	**18,229**	13,901	18,669
Financial liabilities				
Net Accounts payable	**20,097**	**27,132**	65,961	88,587
Portion of holdback included in income taxes payable	**8,994**	**12,141**	8,994	12,079
Revolving credit facility	**20,000**	**27,000**	53,800	72,255
Long-term debt	**13,249**	**17,886**	13,333	17,907
Net Financial Liabilities	**(14,054)**	**(18,973)**	(107,877)	(144,882)

All other factors being equal, a reasonable possible 1% rise in foreign currency exchange rates per Canadian dollar would result in a C$190 (November 30, 2016 - C$1,449) change on the statements of profit or loss and net comprehensive income.

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 May 31, 2017 was US$194,174 or C$262,135 (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$2,621 million change on profit or loss and net comprehensive income

Total US net income for the six-month period was US$6,838 (C$9,208), (2016 - US$383; C$516). A 1% change to foreign exchange would represent a gain to the Company of C$92 (2016 - C$5).

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

16. Financial instruments (continued)

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 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. $227,527 of the credit facilities were used as at May 31, 2017 (November 30, 2016 - $237,255). A 100 basis points increase in the bank's prime rate would result in additional interest of $2,275 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 May 31, 2017, the Company had authorized revolving credit facilities for which the available amount may not exceed, respectively, $154,716 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 May 31, 2017:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	thereafter
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**50,071**	**50,071**	**50,071**	**—**	**—**	**—**
Portion of holdback included in income taxes payable	**12,141**	**12,141**	**4,036**	**—**	**4,036**	**4,069**
Long-term debt	**243,768**	**249,607**	**8,645**	**4,379**	**13,424**	**223,159**
Interest on long-term debt (1)	**n/a**	**16,519**	**3,395**	**3,330**	**6,464**	**3,330**
	305,980	**328,338**	**66,147**	**7,709**	**23,924**	**230,558**

(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 and stock options)

17. 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.

18. Revenues

The Company's revenues include:

	Three months ended May 31		**Six months ended May 31**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Royalties	**31,306**	14,050	**57,582**	27,394
Franchise and transfer fees	**3,146**	1,684	**6,193**	2,978
Rent	**550**	814	**1,145**	1,646
Sale of goods, including construction revenues	**22,104**	13,079	**45,175**	27,562
Other franchising revenue	**13,424**	5,147	**27,349**	10,064
Other	**1,533**	588	**2,851**	1,038
	72,063	35,362	**140,295**	70,682

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

19. Operating expenses

Operating expenses are broken down as follows:

	Three months ended May 31		Six months ended May 31	
	2017	2016	**2017**	2016
	$	$	**$**	$
Cost of goods sold and rent	**13,568**	11,241	**31,827**	23,026
Wages and benefits	**17,241**	7,552	**34,538**	15,352
Consulting and professional fees	**3,423**	1,521	**6,645**	2,755
Gift cards costs	**1,792**	—	**4,049**	—
Royalties	**3,424**	259	**3,485**	503
Other (1)	**6,014**	1,969	**12,699**	4,120
	45,462	22,542	**93,243**	45,756

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

20. 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	131,587	121,919	9,668
2018	121,242	112,466	8,776
2019	107,853	99,820	8,033
2020	93,638	86,040	7,598
2021	79,815	73,490	6,325
Thereafter	234,101	223,015	11,086
	768,236	**716,750**	**51,486**

Payments recognized as a net expense during the three and six-month periods ended May 31, 2017 amount to $5,612 and $12,189 (2016 - $2,999 and 6,059).

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

20. Operating lease arrangements (continued)

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 and six-month period ended May 31, 2017, the Company earned rental revenue of $550 and $1,145 (2016 - $814 and 1,646).

The Company has recognized a liability of $1,273 (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 11).

21. Guarantees

The Company has provided a guarantee in the form of a letter of credit for an amount of $1,904 (November 30, 2016 - $1,846).

22. 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 for the six-month period ended May 31, 2017 and May 31, 2016 are as follows:

	May 31, 2017		May 31, 2016	
	$	**%**	$	%
Combined income tax rate	**8,219**	**26.8**	6,129	27.2
Add effect of:				
Difference between Canadian and foreign statutory rate	**211**	**0.7**	—	—
Non-taxable portion of capital gains	**(106)**	**(0.3)**	—	—
Permanent differences	**(417)**	**(1.4)**	10	0.0
Disposition of capital property	**—**	**—**	(51)	(0.2)
Losses in a subsidiary for which no deferred income tax asset was recorded	**79**	**0.3**	(76)	(0.3)
Variation in current and deferred taxes attributable to foreign exchange	**80**	**0.3**	(46)	(0.2)
Variation in deferred income tax rate	**17**	**0.1**	—	—
Adjustment to prior year provisions	**767**	**2.5**	62	0.3
Other – net	**(11)**	**(0.0)**	(38)	(0.2)
Provision for income taxes	**8,839**	**29.0**	5,990	26.6

23. 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 and stock options)

23. Segmented information (continued)

Below is a summary of each geographical segment's performance during the six-month period ended May 31, 2017 and May 31, 2016.

	Canada	USA & International	Total May 31, 2017	Canada	USA & International	Total May 31, 2016
	$	$	$	$	$	$
Operating revenues	**65,606**	**74,689**	**140,295**	66,880	3,802	70,682
Operating expenses	**42,417**	**50,826**	**93,243**	43,392	2,364	45,756
	23,189	**23,863**	**47,052**	23,488	1,438	24,926
Other expenses						
Depreciation – property, plant and equipment	**736**	**821**	**1,557**	687	42	729
Amortization – intangible assets	**2,894**	**8,373**	**11,267**	3,161	74	3,235
Interest on long-term debt	**4,122**	**1,023**	**5,145**	103	—	103
Other income						
Foreign exchange gain (loss)	**646**	**(27)**	**619**	(52)	10	(42)
Interest income	**34**	**185**	**219**	131	—	131
Gain on disposal of property, plant and equipment	**294**	**450**	**744**	1,585	—	1,585
Operating income	**16,411**	**14,254**	**30,665**	21,201	1,332	22,533
Current income taxes	**3,622**	**4,232**	**7,854**	5,255	263	5,518
Deferred income taxes	**653**	**332**	**985**	472	—	472
Net income	**12,136**	**9,690**	**21,826**	15,474	1,069	16,543

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

24. Statement of cash flows

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

	Three months ended May 31		Six months ended May 31	
	2017	2016	**2017**	2016
	$	$	**$**	$
Accounts receivable	**(733)**	769	**3,095**	1,373
Inventories	**(1,515)**	(40)	**(1,825)**	(334)
Loans receivable	**(599)**	(134)	**126**	(53)
Prepaid expenses and deposits	**5,184**	103	**4,020**	(149)
Accounts payable and accrued liabilities	**613**	(916)	**1,424**	532
Provisions	**181**	(284)	**(383)**	(448)
	3,131	(502)	**6,457**	921

25. Related party transactions

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

Compensation of key management personnel

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

	Three months ended May 31		Six months ended May 31	
	2017	2016	**2017**	2016
	$	$	**$**	$
Short-term benefits	**456**	179	**703**	416
Share-based payment	**85**	—	**85**	—
Board member fees	**12**	10	**24**	22
Total remuneration of key management personnel	**553**	189	**812**	438

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.

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

25. 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:

	Three months ended May 31		Six months ended May 31	
	2017	2016	**2017**	2016
	$	$	**$**	$
Short-term benefits	**149**	138	**331**	290
Total remuneration of individuals related to key management personnel	**149**	138	**331**	290

26. Subsequent events

On June 9, 2017 The Company acquired all the assets of The Works Gourmet Burger Bistro ("The Works") for a total consideration of $8,000 financed using cash on hand. The Works operates 27 Canadian locations.

On June 19, 2017 The Company acquired 80% of the assets of Houston Avenue Bar & Grill ("Houston") and Industria Pizzeria + Bar ("Industria") through a newly created subsidiary. The purchase price was $13,000 financed using the company's existing credit facilities. Houston and Industria operates 9 and 3 Canadian locations respectively.

On June 20, 2017 The Company entered into an agreement to acquire the assets of Dagwoods Sandwhichs and Salads ("Dagwoods") for an estimated consideration of $3,000. Dagwoods currently operates 23 Canadian locations.