Consolidated financial statements of
MTY Food Group Inc.

November 30, 2018 and 2017

February 14, 2019

Independent Auditor's Report

To the Shareholders of
MTY Food Group Inc.

We have audited the accompanying consolidated financial statements of MTY Food Group Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at November 30, 2018 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter
The consolidated financial statements of MTY Food Group Inc. and its subsidiaries for the year ended November 30, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on February 15, 2018.

PricewaterhouseCoopers LLP[1]

Montreal, Canada

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

MTY Food Group Inc.
Consolidated statements of income
Years ended November 30, 2018 and November 30, 2017
(In thousands of Canadian dollars, except per share amounts)

	Notes	2018	2017
		$	$
Revenue	23 & 29	**353,303**	276,083
Expenses			
Operating expenses	24 & 29	**225,560**	182,357
Depreciation – property, plant and equipment	11	**2,755**	2,724
Amortization – intangible assets	12	**24,749**	20,178
Interest on long-term debt		**11,717**	10,314
Impairment charge on property, plant and equipment and intangible assets	11 & 12	**5,531**	1,000
		270,312	216,573
Other income (charges)			
Unrealized and realized foreign exchange gain		**11**	2,004
Interest income		**649**	439
Gain on disposal of property, plant and equipment and intangible assets		**710**	1,120
Loss on revaluation of financial liabilities recorded at fair value through profit and loss	21	**(1,461)**	(409)
		(91)	3,154
Income before taxes		**82,900**	62,664
Income tax (recovery) expense	28		
Current		**18,721**	9,685
Deferred		**(34,812)**	3,125
		(16,091)	12,810
Net income		**98,991**	49,854
Net income attributable to:			
Owners		**98,580**	49,507
Non-controlling interests		**411**	347
		98,991	49,854
Income per share	20		
Basic		**4.07**	2.32
Diluted		**4.06**	2.32

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

MTY Food Group Inc.

Consolidated statements of comprehensive income

Years ended November 30, 2018 and November 30, 2017

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

	Notes	2018	2017
		$	$
Net income		**98,991**	49,854
Items that may be reclassified subsequently to net income:			
Unrealized gain (loss) on translation of foreign operations		**14,748**	(17,307)
Deferred income tax (expense) recovery on foreign currency translation adjustments		**(1,020)**	1,547
Other comprehensive income (loss)		**13,728**	(15,760)
Total comprehensive income		**112,719**	34,094
Total comprehensive income attributable to:			
Owners		**112,308**	33,747
Non-controlling interest		**411**	347
		112,719	34,094

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

MTY Food Group Inc.

Consolidated statements of changes in shareholders' equity

Years ended November 30, 2018 and November 30, 2017

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

		Reserves							
	Capital stock	Other	Contributed surplus	Foreign currency translation	Total reserves	Retained earnings	Total	Equity attributable to non-controlling interest	Total
	$	$	$	$	$	$	$	$	$
Balance as at November 30, 2016	114,545	—	481	2,615	3,096	192,543	310,184	682	310,866
Net income for the year ended November 30, 2017	—	—	—	—	—	49,507	49,507	347	49,854
Other comprehensive income	—	—	—	(15,760)	(15,760)	—	(15,760)	—	(15,760)
Total comprehensive income							33,747		34,094
Acquisition of La Diperie (note 6)	—	—	—	—	—	—	—	615	615
Acquisition of non-controlling interest in 7687567 Canada Inc (note 7)	—	—	—	—	—	(26)	(26)	(4)	(30)
Acquisition of Steak Frites and Giorgio (note 6)	—	—	—	—	—	—	—	16	16
Acquisition of Houston and Industria (note 6)	—	—	—	—	—	—	—	63	63
Dividends	—	—	—	—	—	(9,832)	(9,832)	(17)	(9,849)
Option granted to minority interest 9974644 Canada Inc.	—	(850)	—	—	(850)	—	(850)	—	(850)
Stock options (note 19)	—	—	401	—	401	—	401	—	401
Balance as at November 30, 2017	114,545	(850)	882	(13,145)	(13,113)	232,192	333,624	1,702	335,326
Net income for the year ended November 30, 2018	—	—	—	—	—	98,580	98,580	411	98,991
Other comprehensive income	—	—	—	13,728	13,728	—	13,728	—	13,728
Total comprehensive income							112,308		112,719
Acquisition of non-controlling interest in 8825726 Canada Inc (note 7)	—	—	—	—	—	(257)	(257)	(802)	(1,059)
Issuance of shares on acquisition of Imvescor Restaurant Group (note 6)	197,616	—	—	—	—	—	197,616	—	197,616
Dividends	—	—	—	—	—	(14,530)	(14,530)	(30)	(14,560)
Stock options (note 19)	—	—	630	—	630	—	630	—	630
Balance as at November 30, 2018	312,161	(850)	1,512	583	1,245	315,985	629,391	1,281	630,672

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

MTY Food Group Inc.
Consolidated statements of financial position
As at November 30, 2018 and November 30, 2017
(In thousands of Canadian dollars, except per share amounts)

	Notes	**2018**	2017
		$	$ *(Adjusted, note 6 IX)*
Assets			
Current assets			
Cash		**32,304**	56,453
Accounts receivable	8	**49,168**	34,151
Inventories	9	**3,574**	3,281
Loans receivable	10	**2,134**	2,817
Income taxes receivable		**—**	1,408
Other assets		**692**	1,163
Prepaid expenses and deposits		**7,291**	5,461
		95,163	104,734
Loans receivable	10	**5,970**	3,109
Deferred income tax		**114**	351
Property, plant and equipment	11	**18,753**	13,081
Intangible assets	12	**733,660**	506,970
Goodwill	13	**376,647**	226,768
		1,230,307	855,013
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**68,700**	57,555
Provisions	15	**90,039**	75,331
Income taxes payable		**24,989**	19,273
Deferred revenue and deposits	16	**20,122**	20,844
Current portion of long-term debt	17	**7,416**	4,240
		211,266	177 243
Long-term debt	17	**268,200**	223,567
Deferred revenue and deposits	16	**705**	1,946
Deferred income taxes	28	**119,464**	116,931
		599,635	519,687

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

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

	Notes	2018	2017
		$	$ *(Adjusted, note 6 IX)*
Shareholders' equity			
Equity attributable to owners			
Capital stock	18	**312,161**	114,545
Reserves		**1,245**	(13,113)
Retained earnings		**315,985**	232,192
		629,391	333,624
Equity attributable to non-controlling interest		**1,281**	1,702
		630,672	335,326
		1,230,307	855,013

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

Approved by the Board on February 14, 2019

[s] Claude St-Pierre, Director

[s] Stanley Ma, Director

MTY Food Group Inc.

Consolidated statements of cash flows

Years ended November 30, 2018 and November 30, 2017
(In thousands of Canadian dollars, except per share amounts)

	Notes	2018	2017
		$	$
Operating activities			
Net income		**98,991**	49,854
Adjusting items:			
Interest on long-term debt		**11,717**	10,314
Depreciation – property, plant and equipment		**2,755**	2,724
Amortization – intangible assets		**24,749**	20,178
Gain on disposal of property, plant and equipment and intangible assets		**(710)**	(1,120)
Impairment charge on property, plant and equipment and intangible assets	11 & 12	**5,531**	1,000
Loss on revaluation of financial liabilities recorded at fair value through profit and loss		**1,461**	409
Income tax (recovery) expense		**(16,091)**	12,810
Share based payments		**630**	401
		129,033	96,570
Income tax refunds received		**1,189**	—
Income taxes paid		**(13,865)**	(10,385)
Interest paid		**(9,448)**	(7,646)
Changes in non-cash working capital items	30	**(7,648)**	12,993
Other		**(1,631)**	1,999
Cash flows provided by operating activities		**97,630**	93,531
Investing activities			
Net cash outflow on acquisitions	6	**(123,243)**	(23,939)
Additions to property, plant and equipment	11	**(6,544)**	(2,815)
Additions to intangible assets	12	**(1,286)**	(453)
Proceeds on disposal of property, plant and equipment and intangible assets		**2,548**	3,758
Cash flows used in investing activities		**(128,525)**	(23,449)

MTY Food Group Inc.

Consolidated statements of cash flows (continued)

Years ended November 30, 2018 and November 30, 2017

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

	Notes	2018	2017
		$	$
Financing activities			
Issuance of long-term debt		**134,805**	13,000
Repayment of long-term debt		**(117,180)**	(48,452)
Cash acquired	6	**4,652**	—
Capitalized financing costs		**(455)**	(519)
Acquisition of the non-controlling interest	7	**(1,059)**	(30)
Dividends paid to non-controlling shareholders of subsidiaries		**(30)**	(17)
Dividends paid		**(14,530)**	(9,832)
Cash flows provided by (used in) financing activities		**6,203**	(45,850)
Net increase (decrease) in cash		**(24,692)**	24,232
Effect of foreign exchange rate changes on cash		**543**	(4,039)
Cash, beginning of period		**56,453**	36,260
Cash, end of period		**32,304**	56,453

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

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1. Description of the business

MTY Food Group Inc. (the "Company") is a franchisor in the quick service and casual dining food industry. Its activities consist of franchising and operating corporate-owned locations as well as the sale of retail products under a multitude of banners. The Company also operates 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 8210, Autoroute Transcanadienne, Ville Saint-Laurent, Quebec.

2. Basis of preparation

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

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

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

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

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

The 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board.

These consolidated financial statements were authorized for issue by the Board of Directors on February 14, 2019.

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

3. Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

Basis of consolidation

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

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

Principal subsidiaries are as follows:

Principal subsidiaries	Percentage of equity interest
	%
MTY Tiki Ming Enterprises Inc.	100
MTY Franchising USA, Inc.	100
BF Acquisition Holdings, LLC	100
Kahala Brands Ltd.	100
Imvescor Restaurant Group Inc.	100
8825726 Canada Inc.	100
9974644 Canada Inc.	60
10179612 Canada Inc.	92.5
10220396 Canada Inc.	80

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

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

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. For the purposes of consolidating Imvescor Restaurant Group Inc., a period end date of November 25, 2018 was used as per their original reporting setup prior to acquisition. It was deemed not practical or material to change the year-end reporting date for this entity.

3. Accounting policies (continued)

Basis of consolidation (continued)

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

Changes in the Company's ownership interests in existing subsidiaries

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

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

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

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

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

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

3. Accounting policies (continued)

Business combinations (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: recognition and measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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

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

Goodwill

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

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

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty.

Revenue is generally recognized on the sale of products or services when the products are delivered or the services are performed, all significant contractual obligations have been satisfied and the collection is reasonably assured.

i) Revenue from franchise locations

Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Initial franchise fees are recognized when substantially all of the initial services as required by the franchise agreement have been performed. This usually occurs when the location commences operations.

Restaurant construction and renovation revenue is recognized by reference to the stage of completion of the contract activity at the end of the reporting period. This is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.

3. Accounting policies (continued)

Revenue recognition (continued)

i) Revenue from franchise locations (continued)

When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense immediately. When the outcome of the project cannot be estimated reliably, revenue is recognized to the extent of expenses recognized in the period. The excess of revenue recognized over amounts billed is recorded as part of accounts receivable.

Master license fees are recognized when the Company has performed substantially all material initial obligations under the agreement, which usually occurs when the agreement is signed, which is recorded in franchise and transfer fees (note 23).

Renewal and transfer fees are recognized when substantially all applicable services required by the Company under the franchise agreement have been performed. This generally occurs when the agreement is signed. This revenue is recorded in franchise and transfer fees (note 23).

Revenue from equipment sale is recognized when the risk and rewards of ownership and title pass to buyer, generally upon the shipment of the equipment. This revenue is recorded in sale of goods, including construction revenues (note 23).

Depending on the gift card program, the Company recognizes breakage income either on a pro-rated recognition basis, which is based on the historical redemption pattern of the gift cards or based on the remote likelihood of a gift card being redeemed. The Company also charges various program fees to its franchisees as gift cards are redeemed. Notably, this does not apply to gift card liabilities assumed upon a business acquisition, which are accounted for at fair value.

The Company earns rent revenue on certain leases it holds and sign rental revenue; the Company's policy is described below.

The Company receives considerations from certain suppliers. Supplier contributions are recognized as revenue as they are earned and are recorded in other franchising revenue (note 23).

Distribution and retail revenue is recognized when goods have been delivered or when significant risks and rewards of ownership have been transferred and it is probable that the economic benefit associated with the transaction will flow to the Company. These revenues are recorded in sale of goods (note 23).

ii) Revenue from food processing

Food processing revenue is recognized when goods have been delivered to end users or when significant risks and rewards of ownership have been transferred to distributors and it is probable that the economic benefit associated with the transaction will flow to the Company.

iii) Revenue from corporate-owned locations

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Company as lessor</u>

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

3. Accounting policies (continued)

Leasing (continued)

<u>The Company as lessee</u>

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

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

Functional and presentation currency

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

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

Foreign currency transactions

At the end of each reporting period, the Company's monetary assets and liabilities that are denominated in a currency other than the Company's functional currency are translated using the exchange rate prevailing at that date. Non-monetary items are translated using historical exchange rates. Revenue and expenses are translated at the exchange rate in effect on the transaction date, except for depreciation and amortization, which are translated using historical exchange rates. Exchange gains and losses are recognized in profit or loss in the period in which they arise in foreign exchange gain (loss).

Taxation

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

Current tax

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

Deferred tax

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

3. Accounting policies (continued)

Deferred tax (continued)

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

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

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

Current and deferred tax for the year

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

Property, plant and equipment

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

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

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

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

Depreciation is based on the following terms:

Buildings	Straight-line	25 to 50 years
Equipment	Straight-line	3 to 10 years
Leasehold improvements	Straight-line	Term of the lease
Rolling stock	Straight-line	5 to 7 years
Computer hardware	Straight-line	3 to 7 years

3. Accounting policies (continued)

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

Derecognition of intangible assets

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

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

Franchise rights and master franchise rights

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

Step-in rights

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

Trademarks

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

Leases

Leases, which represent the value associated with preferential terms or locations, are amortized on a straight-line basis over the term of the leases.

Other

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

3. Accounting policies (continued)

Intangible assets (continued)

Impairment of long-lived assets

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

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

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

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

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

Impairment of goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually as at August 31, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

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

Cash

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

3. Accounting policies (continued)

Inventories

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

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

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

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at the present value of the cash flows expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This is recorded in cost of goods sold and rent (note 24) on the consolidated statement of income.

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

Onerous contracts

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

Gift card and loyalty program liabilities

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

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

The Company recognizes breakage on all material gift card programs in its consolidated statements of income based on historical load and redemption patterns. The redemption rate is established following an analysis performed over 10 years of the redemption patterns as well as expected future trends. The expected breakage is then recognized into income on a pro rata basis as gift cards are redeemed.

For all other non-material gift card programs, the Company estimates based on historical redemption patterns, the portion of gift cards that have a remote likelihood of being redeemed and recognizes the amount in its consolidated statements of income, except for those gift cards liabilities assumed upon a business acquisition.

3. Accounting policies (continued)

Provisions (continued)

Gift card and loyalty program liabilities (continued)

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

Litigation, disputes and closed stores

Provisions for the expected cost of litigation, disputes and the cost of settling leases for closed stores are recognized when it becomes probable the Company will be required to settle the obligation, at management's best estimate of the expenditure required to settle the Company's obligation.

Contingent liabilities acquired in a business combination

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

Deferred revenue and deposits

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

Financial instruments

Financial assets and financial liabilities are recognized when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The subsequent measurement of financial assets and financial liabilities is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments.

<u>Classification</u>

Cash	Loans and receivables
Accounts receivable	Loans and receivables
Deposits	Loans and receivables
Loans receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Non-interest-bearing contract cancellation fees and holdbacks	Other financial liabilities
Revolving Credit Facility	Other financial liabilities
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	FVTPL
Non-controlling interest buyback obligation	FVTPL
Non-controlling interest option	FVTPL

3. Accounting policies (continued)

Financial instruments (continued)

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, cash and deposits) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past a certain credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

3. Accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets

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

Financial liabilities

Classification as debt or equity

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities

Financial instruments included in this category are initially recognized at fair value less transaction costs and are subsequently measured at amortized cost using the effective interest method.

FVTPL

Financial instruments included in this category are initially recognized at fair value and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in the consolidated statements of income.

Derecognition of financial liabilities

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

3. Accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments

The Company, from time to time, uses derivative financial instruments in the form of foreign exchange swap contracts to manage its current and anticipated exposure to fluctuations in foreign exchange rates. The Company does not enter into derivative financial instruments for trading or speculative purposes.

Derivative financial instruments not designated within an effective hedging relationship are measured at fair value with changes recorded in the consolidated statements of income.

Derivative financial instruments that are designated within an effective hedging relationship are formally identified and the relationship between hedging instruments and hedged items are documented by the Company. Derivative financial instruments designated as cash flow hedges are measured at fair value with changes in fair value recorded in other comprehensive income. Effectiveness tests are performed to evaluate hedge effectiveness at inception and on a quarterly basis. If and when a derivative instrument is no longer expected to be effective, hedge accounting is discontinued, the derivative is held, sold or expired and the cumulative gain or loss previously recognized in accumulated other comprehensive income is transferred to the consolidated statements of income in the same period that the hedge item affects net income.

Promotional funds

The Company manages the promotional funds of its banners. They are established specifically for each banner to collect and administer funds dedicated for use in advertising and promotional programs as well as other initiatives designed to increase sales and enhance the image and reputation of the banners. Contributions to the funds are made based on a percentage of sales. The revenue and expenses of the promotional funds are not included in the Company's consolidated statement of income because the contributions to these funds are segregated and designated for specific purposes. The combined amount payable resulting from the promotional fund reserves amounts to a surplus of $11,652 (November 30, 2017 – $8,836). These amounts are included in accounts payable and accrued liabilities.

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 19.

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

Operating Segments

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other components, and for which separate financial information is available. Segment disclosures are provided for the Company's operating segments (note 29). The operating segments are determined based on the Company's management and internal reporting structure. All operating segments' operating results are regularly reviewed by the Chief Operating Officers to make decisions on resources to be allocated to the segment and to assess its performance.

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

Impairment of long-lived assets

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

Revenue recognition

In making their judgement, management considers the detailed criteria for the recognition of revenue from the sale of goods and for construction contracts set out in *IAS 18 Revenue and IAS 11 Construction contracts* and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods.

Key sources of estimation uncertainty

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

Business combinations

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

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

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

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

Key sources of estimation uncertainty (continued)

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

In the current year, the value in use of CGUs tested was higher or equal to the carrying value of the assets. Impairment assessments were established using discount rates of 7.7% in Canada and 8.3% in the United States of America (US) on the corporate stores, the trademarks and franchise rights. Discount rates are based on pre-tax rates that reflect the current market assessments, taking the time value of money and the risks specific to the CGU into account. In the US, a change in the discount rate applied of 1% would result in an additional impairment of approximately $1,500. This total additional impairment would be related to 5 different US brands. A change in the discount rate applied of 1% in Canada would not result in any additional impairment.

During the year, the Company recognized an impairment on four of its trademarks and on the franchise rights of three of its brands following a decline in the performance of the related brands. The total impairment of $5,827 (2017 - $1,000) represents a write down of the carrying value to the fair value of the trademarks and franchise rights. This was offset by a reversal of impairment of $2,356. The fair value was determined using significant unobservable inputs such as discount rates and projected revenues and EBITDA. The fair value is classified as level 3 in the fair value hierarchy.

During the year, the Company also recognized an impairment on property, plant and equipment for two of its brands. The cumulative impairment on property, plant and equipment of $2,060 (2017 - $158) represents a write down of the carrying value of the leasehold improvements and equipment to their fair value less cost of disposal, which was higher than their value in use.

These calculations take into account our best estimate of future cash flows, using previous year’s cash flows for each CGU to extrapolate a CGUs future performance to the earlier of the termination of the lease (if applicable) or 5 years and a terminal value is calculated beyond this period, assuming no growth to the cash flows of previous periods. A cash flow period of 5 years was used as predictability for periods beyond this cannot be estimated with reasonable accuracy.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of recoverable amount in use of the CGUs to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. During the year or in prior year, no impairment charge on goodwill was required.

The Company used discount rates of 7.7% in Canada and 8.3% in the US for its assessment of goodwill. A growth of 1% was applied to the cash flows used to estimate the terminal value. A change in the discount rate applied of 1% would not result in an additional impairment.

Useful lives of property, plant and equipment and intangible assets

As described in note 3 above, the Company reviews the estimated useful lives of property, plant and equipment and intangible assets with definite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings. During the years ended November 30, 2018 and 2017, the Company was not required to adjust the useful lives of any assets based on the factors described above.

Provisions

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

Gift card liabilities

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

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

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

Key sources of estimation uncertainty (continued)

Revenue recognition for construction and renovation contracts

Restaurant construction and renovation revenue is recognized by reference to the stage of completion of the contract activity at the end of the reporting period. Management makes an estimate on the percentage of completion based on costs incurred to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.

Accounts receivable

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

Trade receivables 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.

Supplier contributions

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

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, 2018, and have not been applied in preparing these consolidated financial statements.

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

Standard	Issue date	Effective date for the Company	Impact
IFRS 3 Business Combinations	October 2018	December 1, 2020	In assessment
IFRS 9 Financial Instruments	July 2014	December 1, 2018	In assessment
IFRS 15 Revenue from contracts with customers	May 2014	December 1, 2018	In assessment
IFRS 16 Leases	January 2016	December 1, 2019	In assessment
IFRIC 22 Foreign Currency Transactions and advance Consideration	December 2016	December 1, 2018	In assessment
IFRIC 23 uncertainty over income tax treatments	June 2017	December 1 2019	In assessment

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

IFRS 9 introduces a revised approach for the classification of financial assets based on how an entity manages financial assets and the characteristics of the contractual cash flows of the financial assets replacing the multiple rules in IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities have been carried forward in IFRS 9. IFRS 9 also introduces a new hedge accounting model that is more closely aligned with risk-management activities and a new expected credit loss model for calculating impairment on financial assets replacing the incurred loss model in IAS 39.

5. Future accounting changes (continued)

The Company will adopt IFRS 9 in its financial statements for the annual period beginning on December 1, 2018 and will apply the exemption from the requirement to restate comparative information.

The Company is still in the process of assessing the impact of the new standard. The Company does not expect that the adoption of this standard will have a significant impact on its consolidated financial statements.

IFRS 15 replaces the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. This new standard sets out the requirements for recognizing and disclosing revenue that apply to all contracts with customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Company will adopt IFRS 15 in its financial statements for the annual period beginning on December 1, 2018. The standard allows for either a full retrospective or modified retrospective transition method. Management has elected to apply the modified retrospective transition method.

The Company has performed an assessment of the impact of the new standard and it has identified changes that will impact its consolidated financial statements.

The Company has determined that the new standard will change the way the Company recognizes initial franchise fees, master franchise fees, transfer fees and renewal fees. Under the current guidance, the Company recognizes these fees when we have performed all material obligations and services. Under the new guidance, the Company will defer these fees and recognize them over the term of the related franchise agreement. This will have no impact on the amount or timing of cash flows.

Moreover, under the current guidance the Company does not reflect promotional funds collected from franchisees and the related promotional expenditures in the consolidated statements of income. Upon adoption of the new standard, the promotional funds collected, and the related expenditures will be reported on a gross basis in the consolidated statements of income. To the extent that promotional funds received exceed the related promotional expenditures, the excess contributions will be recorded in accounts payable and accrued liabilities. We do not expect that there will be a material net income impact for this change.

Additionally, under the new guidance, incremental costs to obtain a contract must be deferred if they are expected to be recoverable. Accordingly, the Company will recognize those costs as an asset when incurred and will amortize this asset over the term of the related franchise agreement.

There will also be a change to the accounting for gift cards breakage for some of the gift card programs which were being accounted for based on the remote likelihood of a gift card being redeemed. Following the adoption of the new standard, all of the gift card programs will record breakage income on a prorated recognition basis.

Lastly, restaurant construction and renovation revenues were previously recognized by reference to the stage of completion of the contract activity; under the new standard, the criteria for recognizing revenue over time are not met and therefore, the Company will now recognize revenue for these services at a point in time, when the construction and renovations are completed.

As a result of the adoption of the new standard, the Company expects to record a pre-tax cumulative reduction adjustment of approximately $27,000 to retained earnings as at December 1, 2018 primarily related to franchise, transfer and renewal fees. We do not expect a material adjustment to retained earnings related to the change in method for the restaurant construction and renovation.

We do not expect that there will be a change in the other categories of revenues, although the Company is still evaluating the impact of adopting this standard, which may result in additional changes to be identified to accounting policies upon adoption.

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

5. Future accounting changes (continued)

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. The Company anticipates a material change in the presentation of both the consolidated statement of financial position and the consolidated statement of income. As a result of IFRS 16, both assets and liabilities will significantly increase and there will be material changes to the presentation of expenses associated with the new lease standard.

In December 2016, the IASB issued IFRIC 22 which provides an interpretation on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income. This Interpretation provides guidance for when a single payment or receipt is made, as well as for situations where multiple payments or receipts are made and aims to reduce diversity in practice. This standard is effective for annual reporting periods beginning on or after January 1, 2018.

On 7 June 2017, the IFRS Interpretations Committee issued IFRIC 23, which clarifies how the recognition and measurement requirements of IAS 12 Income taxes are applied where there is uncertainty over income tax treatments. This standard is effective for annual reporting periods beginning on or after January 1, 2019.

The Company continues to assess the impact of these standards on its consolidated financial statements.

6. Business acquisition

I) Acquisition of the Counter Custom Burgers and Built Custom Burgers

On December 1, 2017, the Company's US operations completed the acquisition of all the limited liability company interests in CB Franchise Systems, LLC and Built Franchise Systems, LLC. The total consideration for the transaction was $29,971 (US$23,545). The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

	As previously reported	Adjustment	Adjusted Final Consideration
			$
Consideration paid:			
Purchase price	28,893	—	28,893
Repayment of external debt	1,261	—	1,261
Working capital	1,141	(990)	151
Discount on non-interest-bearing holdback	(334)	—	(334)
Net purchase price	30,961	(990)	29,971
Holdback	(2,625)	990	(1,635)
Less cash acquired	(34)	—	(34)
Net consideration paid/cash outflow	28,302	—	28,302

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

6. Business acquisitions (continued)

I) Acquisition of the Counter Custom Burgers and Built Custom Burgers (continued)

The purchase price allocation is as follows:

	As previously reported		Adjustment	Adjusted Purchase price allocation
Net assets acquired:				$
Current assets				
Cash	**34**		**—**	**34**
Accounts receivable	**426**		**—**	**426**
Inventory	**71**		**—**	**71**
Prepaid expenses and deposits	**87**		**—**	**87**
	618		**—**	**618**
Property, plant and equipment	**633**		**—**	**633**
Franchise rights	**9,165**		**—**	**9,165**
Trademarks	**16,802**		**—**	**16,802**
Goodwill (1)	**5,146**	(i)	**(990)**	**4,156**
	32,364		**(990)**	**31,374**
Current liabilities				
Accounts payable and accrued liabilities	**956**		**—**	**956**
Unredeemed gift card liability	**291**		**—**	**291**
Deferred revenues	**104**		**—**	**104**
Deferred income tax	**52**		**—**	**52**
	1,403		**—**	**1,403**
Net purchase price	**30,961**		**(990)**	**29,971**

(1) Goodwill is deductible for tax purposes.

(i) The Company has recorded an adjustment to its previously reported preliminary purchase price allocation during the period relating to working capital items.

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

The purchase price allocation is final.

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

6. Business acquisitions (continued)

II) Acquisition of Imvescor Restaurant Group Inc.

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

Since the original preliminary purchase price allocation disclosure in the second quarter, the total consideration was adjusted to $250,814, to reflect an adjustment to the accounting treatment of certain stock options that were settled on acquisition and had previously been expensed as well as the additional issuance of shares to a shareholder.

	As previously reported		Adjustment	Adjusted Consideration
				$
Consideration paid:				
Cash and amount paid for early settlement of options	52,373		825	53,198
Shares issued	197,144	(i)	472	197,616
Total consideration	249,517		1,297	250,814
Less cash acquired	(4,702)		87	(4,615)
Total consideration	244,815		1,384	246,199

(i) Additional issuance of 9,285 shares to a shareholder.

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

6. Business acquisitions (continued)

II) Acquisition of Imvescor Restaurant Group Inc. (continued)

The preliminary purchase price allocation is as follows:

	As previously reported		Adjustment	Adjusted Purchase price allocation
Net assets acquired:	$		$	$
Current assets				
Cash	4,702	(i)	(87)	4,615
Accounts receivable	11,121	(i & ii)	(1,333)	9,788
Notes receivable	—	(ii)	367	367
Inventory	214		—	214
Prepaid expenses and deposits	387	(i)	(183)	204
	16,424		(1,236)	15,188
Notes receivable	915	(i)	219	1,134
Projects under construction	567	(i)	675	1,242
Property, plant and equipment	6,248	(iii)	(1,303)	4,945
Other intangible assets	—	(ii)	347	347
Franchise rights	70,200		—	70,200
Trademarks	125,700		14,900	140,600
Goodwill [1]	104,403		(11,374)	93,029
	324,457		2,228	326,685
Current liabilities				
Accounts payable and accrued liabilities	13,967	(i)	643	14,610
Unredeemed gift card liability and loyalty points	4,800	(iv)	357	5,157
Deferred revenues	549	(i)	(10)	539
Income tax payable	390	(i)	(215)	175
	19,706		775	20,481
Credit facility	20,000		—	20,000
Deferred revenues	—	(ii)	138	138
Deferred income tax	35,234	(iii)	18	35,252
	74,940		931	75,871
Net purchase price	249,517		1,297	250,814

[1] Goodwill is not deductible for tax purposes.

The Company has recorded adjustments to its previously reported preliminary purchase price allocation reported in prior quarters. The adjustments are as follows:

(i) Adjustment for working capital items.

(ii) Reclass of presentation.

(iii) Adjustment of fair value for certain items of property, plant and equipment and intangibles

(iv) To record loyalty points assumed.

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

6. Business acquisitions (continued)

II) Acquisition of Imvescor Restaurant Group Inc. (continued)

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

The purchase price allocation is still preliminary and may be subject to revision.

III) Acquisition of Grabbagreen

On March 15, 2018, the Company's US operations completed its acquisition of the assets of Grabbagreen franchise system. The total consideration for the transaction was $3,409 (US$2,633). The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

	2018
	$
Consideration paid:	
Purchase price	3,463
Net obligations assumed	(29)
Discount on non-interest-bearing holdback	(25)
Net purchase price	3,409
Holdback	(322)
Net consideration paid/cash outflow	3,087

The preliminary purchase price allocation is as follows:

	As previously reported		Adjustment	Adjusted Purchase price allocation
Net assets acquired:				$
Current assets				
Prepaid expenses and deposits	17		—	17
Property, plant and equipment	73	(i)	(58)	15
Franchise rights	377		—	377
Trademarks	2,070	(i)	(130)	1,940
Goodwill (1)	918	(i)	188	1,106
	3,455		—	3,455
Current liabilities				
Unredeemed gift card liability	46		—	46
Net purchase price	3,409		—	3,409

(1) Goodwill is deductible for tax purposes

(i) The Company has recorded an adjustment to the fair value for certain items of property, plant and equipment and trademark from its previously reported preliminary purchase price allocation during the period.

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 and stock options)

6. Business acquisitions (continued)

IV) Acquisition of Timothy's World Coffee and Mmmuffins

On April 4, 2018, the Company's Canadian operations completed its acquisition of the assets of Timothy's World Coffee and Mmmuffins. The total consideration for the transaction was $1,321. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

	As previously reported	Adjustment	Adjusted Consideration
			$
Consideration paid:			
Purchase price	1,675	—	1,675
Net obligations assumed	(130)		(130)
Working capital	—	(208)	(208)
Discount on non-interest-bearing holdback	(16)	—	(16)
Net purchase price	1,529	(208)	1,321
Holdback	(301)	208	(93)
Less cash acquired	(3)	—	(3)
Net consideration paid/cash outflow	1,225	—	1,225

The preliminary purchase price allocation is as follows:

	As previously reported		Adjustment	Adjusted Purchase price allocation
Net assets acquired:				$
Current assets				
Cash	3		—	3
Inventory	64		—	64
Prepaid expenses and deposits	43		—	43
	110		—	110
Property, plant and equipment	100		—	100
Franchise rights	417		—	417
Perpetual license	232		—	232
Goodwill [(1)]	846	(i)	120	966
	1,705		120	1,825
Current liabilities				
Accounts payable and accrued liabilities	101		—	101
Unredeemed gift card liability	75	(i)	328	403
	176		328	504
Net purchase price	1,529		(208)	1,321

[(1)] Goodwill is deductible for tax purposes

(i) The Company has recorded an adjustment to its previously reported preliminary purchase price allocation during the period relating to working capital items.

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 and stock options)

6. Business acquisitions (continued)

V) Acquisition of SweetFrog

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

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

The preliminary purchase price allocation is as follows:

	2018
Net assets acquired:	$
Current assets	
Inventory	254
Prepaid expenses	30
	284
Goodwill [1 & 2]	44,155
	44,439
Current liabilities	
Accounts payable and accrued liabilities	146
Unredeemed gift card liability	2,757
Deferred revenue	29
	2,932
Net purchase price	41,507

(1) Goodwill is deductible for tax purposes

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

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

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

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

6. Business acquisitions (continued)

VI) Acquisition of La Diperie (2017)

On December 9, 2016, the Company announced it had completed through its 60% interest in 9974644 Canada Inc. the acquisition of the assets of La Diperie. The Company's share of the purchase consideration amounted to $917. 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	1,529
Discount on non-interest-bearing holdback	(13)
Net purchase price	1,516
Holdback (note 17)	(87)
Net consideration paid	1,429
Less: Issuance of shares to non-controlling interest	(615)
Net cash outflow	814

(1) Non-controlling interest was measured at fair value.

The price allocation is as follows:

	2017
Net assets acquired:	$
Current assets	
Inventory	12
	12
Franchise rights	63
Goodwill (1)	1,444
	1,507
Deferred income tax Liability	3
Net purchase price	1,516

(1) Goodwill is deductible for tax purposes

Total expenses incurred related to acquisition costs amounted to $nil. The purchase price has been finalized and no adjustments were recorded to the preliminary purchase price calculation.

VII) Acquisition of Steak Frites St-Paul and Giorgio Ristorante (2017)

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 has been finalized and no adjustments were recorded to the preliminary purchase price calculation.

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

6. Business acquisitions (continued)

VIII) Acquisition of The Works Gourmet Burger Bistro (2017)

On June 9, 2017, the Company's Canadian operations announced it had completed through its 100% owned subsidiary MTY Tiki Ming Entreprises Inc., the acquisition of the assets of The Works Gourmet Burger Bistro. 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	8,200
Discount on non-interest-bearing holdback	(43)
Working capital and assumed obligations	(273)
Net purchase price	7,884
Holdback	(747)
Net consideration paid and net cash outflow	7,137

The final purchase price allocation is as follows:

	2017
Net assets acquired:	$
Current assets	
Inventory	75
Prepaid expenses	49
	124
Property, plant and equipment	1,398
Franchise rights	1,363
Trademark	3,481
Goodwill (1)	1,844
	8,210
Current liabilities	
Accounts payable and accrued liabilities and unredeemed gift card liability	95
Deferred revenue	231
	326
Net purchase price	7,884

(1) Goodwill is deductible for tax purposes

Total expenses incurred related to acquisition costs amounted to $79. The expenses are presented in operating expenses in consolidated statements of income.

The purchase price has been finalized and no adjustments were recorded to the preliminary purchase price calculation.

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

6. Business acquisitions (continued)

IX) Acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar (2017)

On June 16, 2017, the Company's Canadian operations announced it had completed through its 80% controlling interest in 10220396 Canada Inc., the acquisition of the assets of Houston Avenue Bar & Grill and Industria Pizzeria + Bar. The Company's share of the purchase consideration amounted to $19,631. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

The purchase price has been finalized and adjustments to the preliminary purchase price calculation are as follows:

	As previously reported	Adjustment	Final Consideration
	$	$	$
Consideration paid:			
Purchase price	20,972	—	20,972
Undiscounted promissory notes	(7,910)	—	(7,910)
Contingent consideration in the form of promissory notes	5,248	605	5,853
Working capital	(304)	—	(304)
Non-controlling interest buyback obligation	957	—	957
Non-controlling interest (1)	63	—	63
Net purchase price	19,026	605	19,631
Promissory notes and non-controlling interest buyback obligation	(6,268)	(605)	(6,873)
Net cash outflow	12,758	—	12,758

The final purchase price allocation is as follows:	As previously reported	Adjustment	Final
	$	$	$
Net assets acquired:			
Franchise rights	5,833	369	6,202
Trademark	5,667	467	6,134
Goodwill (2)	7,975	(168)	7,807
	19,475	668	20,143
Current liabilities			
Accounts payable and accrued liabilities	4	—	4
Deferred revenue	300	—	300
	304	—	304
Deferred income tax liability	145	63	208
Net purchase price	19,026	605	19,631

(1) Non-controlling interest was measured at fair value which includes the use of discounted cash flow model which is subject to significant unobservable inputs such as discount rate and projected EBITDA. EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

(2) Goodwill is deductible for tax purposes.

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

6. Business acquisitions (continued)

X) Acquisition of Dagwoods Sandwiches and Salads (2017)

On September 29, 2017, the Company announced it had completed through its 100% owned subsidiary MTY Tiki Ming Entreprises Inc., the acquisition of the assets of Dagwoods Sandwiches and Salads for a consideration of $2,916. 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	3,000
Discount on non-interest-bearing holdback	(20)
Working capital and assumed obligations	(64)
Net purchase price	2,916
Holdback	(330)
Net consideration paid and cash outflow	2,586

The final purchase price allocation is as follows:

	2017
Net assets acquired:	$
Franchise rights	640
Trademark	1,271
Goodwill [1]	1,070
	2,981
Current liabilities	
Accounts payable and accrued liabilities	11
Deferred revenue	54
	65
Net purchase price	2,916

(1) Goodwill is deductible for tax purposes

Total expenses incurred related to acquisition costs amounted to $nil. The purchase price has been finalized and no adjustments were recorded to the preliminary purchase price calculation.

7. Acquisition of non-controlling interest

In September 2018, the Company acquired the remaining 10% non-controlling interest of 8825726 Canada Inc. (Madison's) for a cash consideration of $1,059. Following the transaction, 8825726 Canada Inc. has become a wholly owned subsidiary.

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

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

8. Accounts receivable

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

	2018	2017
	$	$
Total accounts receivable	**58,488**	43,762
Less : Allowance for doubtful accounts	**9,320**	9,611
Total accounts receivable, net	**49,168**	34,151
Of which:		
Not past due	**40,521**	25,885
Past due for more than one day but for no more than 30 days	**1,559**	1,568
Past due for more than 31 days but for no more than 60 days	**2,168**	1,483
Past due for more than 61 days	**4,920**	5,215
Total accounts receivable, net	**49,168**	34,151

	2018	2017
	$	$
Allowance for doubtful accounts, beginning of year	**9,611**	8,007
Additions	**315**	2,566
Additions through acquisition	**379**	13
Reversals	**208**	402
Write-off	**(1,193)**	(1,377)
Allowance for doubtful accounts, end of year	**9,320**	9,611

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 and stock options)

9. Inventories

	2018	2017
	$	$
Raw materials	**1,709**	1,966
Finished goods	**1,865**	1,315
Total inventories	**3,574**	3,281

Inventories are presented net of a $46 allowance for obsolescence ($17 as at November 30, 2017). All of the inventories are expected to be sold within the next twelve months.

Inventories expensed during the year ended November 30, 2018 were $65,289 (2017 - $43,047).

10. Loans receivable

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

	2018	2017
	$	$
Loans receivable bearing interest between nil to 9% per annum, receivable in monthly installments of $342 in aggregate, including principal and interest, ending in 2030	**8,104**	5,926
	8,104	5,926
Current portion	**(2,134)**	(2,817)
	5,970	3,109

The capital repayments in subsequent years will be:

	$
2019	2,134
2020	833
2021	2,718
2022	1,667
2023	202
Thereafter	550
	8,104

There is currently an allowance for doubtful accounts offset against the loans receivable balance of $2,928 (2017 - $1,182).

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

11. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance at November 30, 2016	1,236	3,778	5,495	8,568	869	149	20,095
Additions	—	223	873	1,522	191	6	2,815
Disposals	—	(12)	(1,921)	(2,026)	(28)	(14)	(4,001)
Foreign exchange	—	—	1	(89)	(8)	(3)	(99)
Additions through business combinations	—	—	831	567	—	—	1,398
Balance at November 30, 2017	1,236	3,989	5,279	8,542	1,024	138	20,208
Additions	**—**	**1,077**	**1,855**	**3,130**	**419**	**63**	**6,544**
Disposals	**—**	**—**	**(1,053)**	**(1,149)**	**—**	**—**	**(2,202)**
Impairment [1]	**—**	**—**	**(867)**	**(1,193)**	**—**	**—**	**(2,060)**
Foreign exchange	**—**	**—**	**2**	**(53)**	**6**	**3**	**(42)**
Additions through business combinations	**—**	**—**	**3,695**	**1,270**	**461**	**267**	**5,693**
Balance at November 30, 2018	**1,236**	**5,066**	**8,911**	**10,547**	**1,910**	**471**	**28,141**

(1) During the year, as the result of a decline in the financial performance, the Company carried out a review of the recoverable amounts of the capital assets related to certain corporate stores. The review led to the recognition of a non-cash impairment loss of $2,060 composed of leasehold improvements and equipment. Of this amount, $1,515 was related to Canadian operations while $545 was related to the US operations.

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

11. Property, plant and equipment (continued)

Accumulated depreciation	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
Balance at November 30, 2016	—	804	1,934	2,852	386	32	6,008
Eliminated on disposal of assets	—	(7)	(836)	(720)	(12)	(14)	(1,589)
Foreign exchange	—	—	3	(17)	(2)	—	(16)
Depreciation expense	—	175	733	1,615	176	25	2,724
Balance at November 30, 2017	—	972	1,834	3,730	548	43	7,127
Eliminated on disposal of assets	**—**	**—**	**(120)**	**(393)**	**—**	**—**	**(513)**
Foreign exchange	**—**	**—**	**—**	**15**	**3**	**1**	**19**
Depreciation expense	**—**	**189**	**834**	**1,347**	**332**	**53**	**2,755**
Balance at November 30, 2018	**—**	**1,161**	**2,548**	**4,699**	**883**	**97**	**9,388**

Carrying amounts	Land	Buildings	Leasehold improve-ments	Equipment	Computer hardware	Rolling stock	Total
	$	$	$	$	$	$	$
November 30, 2017	1,236	3,017	3,445	4,812	476	95	13,081
November 30, 2018	**1,236**	**3,905**	**6,363**	**5,848**	**1,027**	**374**	**18,753**

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

12. Intangible assets

Cost	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
Balance at November 30, 2016	245,055	323,261	1,199	908	1,294	571,717
Additions	97	5	—	—	351	453
Disposals	(3,050)	(24)	—	(170)	—	(3,244)
Acquisition through business combinations *(Adjusted, see note 6 IX)*	8,268	11,100	—	—	—	19,368
Foreign exchange	(7,229)	(10,421)	—	—	—	(17,650)
Impairment	(309)	(731)	—	—	—	(1,040)
Balance at November 30, 2017 *(Adjusted, see note 6 IX)*	242,832	323,190	1,199	738	1,645	569,604
Additions	**—**	**—**	**—**	**—**	**1,286**	**1,286**
Disposals	**—**	**—**	**—**	**—**	**(2)**	**(2)**
Acquisition through business combinations	**80,159**	**159,342**	**—**	**—**	**579**	**240,080**
Foreign exchange	**5,910**	**8,680**	**—**	**—**	**16**	**14,606**
Impairment net of reversal	**(1,248)**	**(2,223)**	**—**	**—**	**—**	**(3,471)**
Balance at November 30, 2018	**327,653**	**488,989**	**1,199**	**738**	**3,524**	**822,103**

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

12. Intangible assets (continued)

Accumulated amortization	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
Balance at November 30, 2016	44,138	—	380	905	227	45,650
Disposals	(2,584)	—	—	(170)	—	(2,754)
Foreign exchange	(400)	—	—	—	—	(400)
Amortization	19,792	—	120	3	263	20,178
Impairment	(40)	—	—	—	—	(40)
Balance at November 30, 2017	60,906	—	500	738	490	62,634
Foreign exchange	**1,060**	**—**	**—**	**—**	**—**	**1,060**
Amortization	**24,187**	**—**	**120**	**—**	**442**	**24,749**
Balance at November 30, 2018	**86,153**	**—**	**620**	**738**	**932**	**88,443**

Carrying amounts	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Other[1]	Total
	$	$	$	$	$	$
November 30, 2017 (Adjusted*, see note 6 IX)*	181,926	323,190	699	—	1,155	506,970
November 30, 2018	**241,500**	**488,989**	**579**	**—**	**2,592**	**733,660**

[1] Other items include $579 ($347 as at November 30, 2017) of unamortizable licenses with an indefinite term.

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

12. 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:

	2018	2017
	$	$ *(Adjusted, note 6 IX)*
Valentine	**3,338**	3,338
Jugo Juice	**5,425**	5,425
Mr. Sub	**11,320**	11,320
Extreme Pita	**3,179**	3,179
Mucho Burrito	**9,816**	9,816
ThaïZone	**7,417**	7,417
Madisons New York Grill & Bar	**3,410**	3,410
Manchu Wok (1)	**5,831**	5,772
Big Smoke Burger	**3,305**	3,305
Blimpie (1)	**6,112**	5,922
Cold Stone Creamery(1)	**155,674**	150,840
Great Steak (1)	**3,774**	3,657
Pinkberry (1)	**8,928**	8,650
Planet Smoothie(1)	**9,521**	9,226
Surf City Squeeze	**3,041**	2,946
Taco Time(1)	**35,068**	33,979
Baja Fresh (1)	**20,162**	19,536
The Works Gourmet Burger Bistro	**3,481**	3,481
Houston Avenue Bar & Grill	**3,963**	3,963
The Counter Custom Burger (2)	**12,503**	—
Built Custom Burger	**5,054**	—
Pizza Delight	**16,000**	—
Mikes	**33,300**	—
Scores	**29,400**	—
Baton Rouge	**32,000**	—
Ben & Florentine	**15,000**	—
Retail	**14,900**	—
Other	**28,646**	28,355
	489,568	323,537

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

(2) Amount impacted by foreign exchange conversion since the acquisition date.

During the year, as the result of a decline in the financial performance of certain brands, the Company carried out a review of the recoverable amounts of the intangible assets. The review led to the recognition of a non-cash impairment loss of $1,248 in franchise rights and $4,579 in trademarks for the US segment, which have been recognized in the consolidated statement of income. This was offset by a $2,356 reversal of the Country Style impairment loss taken in 2014 in the Canadian segment. The reversal was the result of favourable performance in the last few years by the brand as a result of increases in the number of non-traditional locations opened.

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

13. Goodwill

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

	2018	2017
	$	$ *(Adjusted, note 6 IX)*
Balance, beginning of year	**226,768**	220,928
Additional amounts recognized from business acquisitions (note 6)	**143,412**	12,586
Houston Avenue Bar & Grill and Industria Pizzeria + Bar purchase price adjustment	**—**	(168)
Foreign Exchange	**6,467**	(6,578)
Balance, end of year	**376,647**	226,768

Goodwill was allocated to two CGU's in 2018, these two CGUs being Canada and the US & International. 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. As at November 30, 2018, goodwill for Canada and the US represent $163,327 and $213,320 respectively (November 30, 2017 - $69,286 and $157,482 respectively).

14. Credit facilities

During the year the Company modified its existing credit facilities payable to a syndicate of lenders. The modification resulted in an increase to the revolving credit facility which now has an authorized amount of $500,000 (November 30, 2017 - $305,000). Transaction costs of $652 were incurred and will be deferred and amortized over the remaining 3 years of the life of the revolving credit facility. As at November 30, 2018, $256,143 was drawn from the revolving credit facility (November 30, 2017 - $210,522).

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 November 30, 2018 (4.75% as at November 30, 2017), plus a margin not exceeding 2.00%, or based on LIBOR plus a margin not exceeding 2.50% (November 30, 2017 – 2.00% and 3.00% respectively). For amounts drawn in Canadian dollars, the Company has the option to pay interest based on the Canada Prime rate, 3.95% as at November 30, 2018 (4.20% as at November 30, 2017), as determined by the Toronto-Dominion Bank of Canada, plus a margin not exceeding 2.00% or based on Banker's Acceptances, plus a margin not exceeding 3.00%.

Under this facility, the Company is required to comply with certain financial covenants, including a debt to EBITDA ratio and interest and rent coverage ratio. As at November 30, 2018, the Company was in compliance with those financial covenants.

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

15. Provisions

Included in provisions are the following amounts:

	2018	2017
	$	$
Litigations and disputes	2,390	3,168
Closed stores	1,250	1,413
	3,640	4,581
Gift card liabilities/loyalty programs liabilities	86,399	70,750
Total	90,039	75,331

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

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

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

	2018	2017
	$	$
Provision for litigation and disputes and closed stores, beginning balance	4,581	2,641
Reversals	(1,897)	(637)
Amounts used	(2,810)	(1,475)
Additions	3,710	4,134
Impact of foreign exchange	56	(82)
Provision for litigation and disputes and closed stores, ending balance	3,640	4,581

The gift card and loyalty programs liabilities are the estimated balance in gift cards and points outstanding at the date of the consolidated 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.

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

16. Deferred revenue and deposits

	2018	2017
	$	$
Franchise fee deposits	**8,682**	9,105
Unearned rent	**3,415**	3,377
Supplier contributions and other allowances	**8,730**	10,308
	20,827	22,790
Current portion	**(20,122)**	(20,844)
	705	1,946

17. Long-term debt

	2018	2017
	$	$ *(Adjusted, note 6 IX)*
Non-interest bearing contract cancellation fees and holdbacks on acquisitions	**11,898**	11,367
Fair value of promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar, repayable October 2019 and June 2022 (note 6 and note 21)	**7,034**	6,041
Fair value non-controlling interest buyback obligation in 10220396 Canada Inc (note 6 and note 21)[(1)]	**1,501**	1,026
Fair value non-controlling interest option in La Diperie (note 21)[(2)]	**994**	1,001
Revolving credit facility payable to a syndicate of lenders (note 14)[(3)]	**256,143**	210,522
Credit facility financing costs	**(1,954)**	(2,150)
	275,616	227,807
Current portion	**(7,416)**	(4,240)
	268,200	223,567

(1) Payable at the earlier of 3 years from the date option is exercised or June 2022.
(2) Payable on demand.
(3) Under the revolving credit facility, the Company has the option to draw funds in Canadian or in US dollars, at its discretion. The facility's maturity is July 21, 2021 and must be repaid in full at that time. As at November 30, 2018, the Company had drawn C$237,522 and US$14,000 (C$18,621), (2017-US$ nil and C$210,522) and had elected to pay interest based on LIBOR and bankers' acceptances plus the applicable margins.

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

18. Capital Stock

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

	2018		2017	
	Number	**Amount**	Number	Amount
		$		$
Balance beginning of period	**21,374,497**	**114,545**	21,374,497	114,545
Shares issued as part of acquisition (note 6)	**3,795,281**	**197,616**	—	—
Balance end of year	**25,169,778**	**312,161**	21,374,497	114,545

19. Stock options

The Company offered for the benefit of the CEO 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. 300,000 shares are available for issuance under the share option plan as of November 30, 2018 (2017- 300,000).

Under the Stock Option Plan of the Company, the following options were granted and are outstanding as at November 30:

	2018		2017	
	Number of Options	**Weighted average exercise price**	Number of Options	Weighted average exercise price
		$		$
Outstanding beginning of period	**200,000**	**48.36**	—	—
Granted	—	—	200,000	48.36
Outstanding end of year	**200,000**	**48.36**	200,000	48.36
Vested end of period	**—**	**—**	—	—

Options granted during the period ended November 30, 2017 have a service condition in order to vest and excluding the first year, will vest pro-rata over a service period of 10 years. The options will expire on April 11, 2027.

The fair value of the stock options granted for the period ended November 30, 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.

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

19. Stock options (continued)

The following assumptions were used:

	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 $630 was recorded for period ended November 30, 2018 (2017-$401). The expense is presented in wages and benefits that is included in operating expenses in the consolidated statements of income.

20. Income per share

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

	2018	2017
Weighted daily average number of common shares - basic	24,228,206	21,374,497
Assumed exercise of stock options (1)	44,444	—
Weighted daily average number of common shares - diluted	24,272,650	21,374,497

(1) The calculation of the assumed exercise of stock options includes the effect of the average unrecognized future compensation cost of dilutive options. The number of excluded options was 155,556 (November 30, 2017 – 200,000).

21. 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.

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

21. Financial instruments (continued)

Fair value of recognized financial instruments

Promissory notes

The Company issued as part of its consideration for the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar promissory notes to the vendors and the minority shareholders of 10220396 Canada Inc. These promissory notes are subject to earn out provisions, which are based on future earnings. These promissory notes are repayable in October 2019 and June 2022. These promissory notes have been recorded at fair value and are remeasured on a recurring basis. Of the $7,034 promissory note, $4,487 is subject to an earn-out provision.

A discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company, with respect to these promissory notes. These notes are subject to significant unobservable inputs such as discount rates and projected revenues and EBITDA. An increase or decrease by 1% in the discount rates used would have an impact of $145 on the fair value, as at November 30, 2018 (November 30, 2017 - $254).

A fair value re-measurement loss of $993 was recorded for these promissory notes for the period ended November 30, 2018 (November 30, 2017 - $188).

Obligations to repurchase non-controlling interests

The Company has entered into an agreement to purchase the shares of a minority interest shareholder of 9974644 Canada Inc. at the option of the holder at any time after December 9, 2017. The consideration is based on a multiplier of EBITDA, as prescribed by the terms of the shareholder agreement. The Company records a liability at fair value (note 17) which is remeasured at each reporting period.

A fair value remeasurement gain of $7 (2017- loss of $152) was recorded for this non-controlling interest obligation.

The Company, in conjunction with the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar, entered into an agreement to acquire the non-controlling interest in 10220396 Canada Inc., in June 2022. The consideration to be paid for this acquisition will be based on future earnings. The Company recorded a liability at fair value (note 17) which is remeasured at each reporting period.

A discounted cash flow method was used to capture the present value of the expected future economic benefits that will flow out of the Company with respect to this obligation. The non-controlling interest buyback obligation is subject to significant unobservable inputs such as a discount rate and projected EBITDA. An increase or decrease by 1% in the discount rates used would have an impact of $52 on the carrying amount as at November 30, 2018 (November 30, 2017 - $52).

A fair value re-measurement loss of $475 (2017 - $69) was recorded for this non-controlling interest obligation.

Fair value hierarchy

	Level 3	
	2018	**2017**
Financial liabilities		
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	**7,034**	6,041
Non-controlling interest buyback options	**2,495**	2,027
Financial Liabilities	**9,529**	8,068

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash, accounts receivables, accounts payable and accrued liabilities and deposits. The table below shows the fair value and the carrying value of other financial instruments as at November 30, 2018 and November 30, 2017. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

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

21. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

	2018		2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Financial assets				
Loans receivable	**8,104**	**8,104**	5,926	5,926
Financial liabilities				
Long-term debt[1]	**266,087**	**268,954**	219,739	221,889

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

Determination of fair value

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

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

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

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at November 30, 2018.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the 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 the loans receivable is similar to that of accounts receivable.

Foreign exchange risk

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

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

21. Financial instruments (continued)

Foreign exchange risk (continued)

Total US net income for the period was C$56,424 (2017 - C$18,855). A 5% change to foreign exchange would represent a gain or loss to the Company of C$2,821 (2017 - C$942).

As at November 30, 2018, the Company has the following financial instruments denominated in foreign currencies:

	November 30, 2018		November 30, 2017	
	USD	**CAD**	USD	CAD
	$	**$**	$	$
Financial assets				
Cash	**980**	**1,304**	160	206
Accounts receivable	**330**	**439**	313	403
Financial liabilities				
Accounts payable and deposits	**(32)**	**(43)**	(24)	(31)
Long-term debt	**(14,000)**	**(18,621)**	—	—
Net Financial (Liabilities) Assets	**(12,722)**	**(16,921)**	449	578

All other factors being equal, a reasonable possible 5% rise in foreign currency exchange rates per Canadian dollar would result in a loss of C$846 (November 30, 2017 - C$29 gain) change on the consolidated statements of income and comprehensive income.

Interest rate risk

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

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

Long-term debt stems mainly from acquisitions of long-term assets and business combinations. The Company is exposed to interest rate risk with its revolving credit facility which is used to finance the Company's acquisitions. The facility bears interest at a variable rate and as such the interest burden could change materially. $256,143 (2017 - $210,522) of the credit facility was used as at November 30, 2018. A 100 basis points increase in the bank's prime rate would result in additional interest of $2,561 per annum (2017 - $2,105) on the outstanding credit facility.

Liquidity risk

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

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

21. Financial instruments (continued)

Liquidity risk (continued)

As at November 30, 2018, the Company had an authorized revolving credit facility for which the available amount may not exceed $500,000 to ensure that sufficient funds are available to meet its financial requirements. The terms and conditions related to this revolving credit facility is described in note 14.

The following are the contractual maturities of financial liabilities as at November 30, 2018

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	Thereafter
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**68,700**	**68,700**	**68,700**	—	—	—
Long-term debt	**275,616**	**278,483**	**1,449**	**7,444**	**4,326**	**265,264**
Interest on long-term debt [1]	**n/a**	**24,581**	**4,609**	**4,609**	**9,218**	**6,145**
	344,316	**371,764**	**74,758**	**12,053**	**13,544**	**271,409**

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

22. 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.

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

22. Capital disclosures (continued)

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at November 30, 2018 and November 30, 2017 were as follows:

	2018	2017
	$	$
Debt	**480,171**	402,756
Equity	**630,672**	335,326
Debt-to-equity ratio	**0.76**	1.20

The decrease in debt-to-equity ratio is due to the increase in common shares outstanding as a result of the acquisition of Imvescor Restaurant Group. 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 maintain a low ratio by continuously using the expected cash flows from the newly acquired business in both the US and Canada to reduce the level of long-term debt.

The Company's credit facilities impose a maximum debt-to-EBITDA ratio of 3:1 until the maturity date of July 21, 2021.

23. Revenue

	2018	2017
	$	$
Royalties	**141,040**	118,655
Franchise and transfer fees	**13,208**	11,090
Rent	**1,820**	2,317
Sale of goods, including construction revenues	**130,620**	90,438
Gift card breakage income	**6,815**	6,528
Other franchising revenue	**55,529**	40,873
Other	**4,271**	6,182
	353,303	276,083

24. Operating expenses

	2018	2017
	$	$
Cost of goods sold, retail costs and rent	**89,814**	61,788
Wages and benefits	**78,692**	67,648
Consulting and professional fees	**11,685**	12,310
Gift cards related costs	**7,452**	8,132
Royalties	**7,082**	7,109
Other (1)	**30,835**	25,370
	225,560	182,357

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

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

25. 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
	$	$	$
2019	134,272	123,893	10,379
2020	119,617	110,145	9,472
2021	107,035	98,327	8,708
2022	91,606	83,605	8,001
2023	74,538	68,616	5,922
Thereafter	207,773	186,272	21,501
	734,841	**670,858**	**63,983**

Payments recognized as a net expense during the year ended November 30, 2018 amount to $18,331 (2017 - $21,608).

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 year, the Company earned rental revenue of $1,820 (2017 - $2,317).

The Company has recognized a liability of $1,250 (November 30, 2017 - $1,413) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (note 15).

26. Guarantee

The Company has provided a guarantee on certain leases for which it is not the lessee, for a cumulative amount of $9,330 (November 30, 2017 - $1,398).

27. 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 15. 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 and stock options)

28. Income taxes

On December 22, 2017, the United States enacted the “U.S. Tax Cuts and Job Act”, commonly referred to as U.S. tax reform, which resulted in the U.S statutory federal income tax rate to be reduced to 21.0% from the previous rate of 35.0%, effective January 1, 2018.

Consequently, for its fiscal year ending on November 30, 2018, the Company estimated that its effective U.S. federal tax rate will be 22.19%. The Company recorded a net tax benefit of $35,491 during the year, which is primarily derived from the re measurement of the Company’s deferred income tax balances. The benefit is estimated based on our initial analysis of the “U.S. Tax Cuts and Job Act”, and given the complexity of this act, this estimate is subject to adjustment when further guidance becomes available.

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:

	2018		2017	
	$	**%**	$	%
Combined income tax rate in Canada	**22,134**	**26.7**	16,794	26.8
Add effect of:				
Difference between Canadian and foreign statutory rate	**(4,033)**	**(4.9)**	(2,895)	(4.6)
Non-taxable portion of capital gains	**8**	**0.0**	(268)	(0.4)
Permanent differences	**1,356**	**1.6**	794	1.3
Recognition of previously unrecognized deferred tax assets	**(758)**	**(0.9)**	(327)	(0.5)
Losses in subsidiaries for which no deferred income tax assets is recognized	**132**	**0.2**	982	1.5
Rate variation on deferred income tax	**(35,491)**	**(42.8)**	(1,595)	(2.6)
Adjustment to prior year provisions	**649**	**0.8**	(586)	(1.0)
Other – net	**(88)**	**(0.1)**	(89)	(0.1)
Provision for income taxes	**(16,091)**	**(19.4)**	12,810	20.4

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

28. Income taxes (continued)

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

	November 30, 2017	**Recognized in profit or loss**	**Recognized in other comprehen-sive income**	**Acquisition**	**Foreign exchange**	**November 30, 2018**
	$ *Adjusted, note 6 IX*	**$**	**$**	**$**	**$**	**$**
Net deferred tax assets (liabilities) in relation to:						
Property, plant and equipment	801	**46**	**—**	**438**	**24**	**1,309**
Accounts receivable	1,929	**(932)**	**—**	**—**	**40**	**1,037**
Provisions	18,814	**(4,811)**	**—**	**591**	**473**	**15,067**
Long-term debt	(336)	**766**	**(1,020)**	**(54)**	**(2)**	**(646)**
Non-capital losses	461	**(194)**	**—**	**22**	**—**	**289**
Intangible assets	(145,625)	**42,835**	**—**	**(36,439)**	**(1,937)**	**(141,166)**
Accrued expenses	5,352	**(2,149)**	**—**	**138**	**102**	**3,443**
Deferred revenue	2,024	**(749)**	**—**	**—**	**42**	**1,317**
	(116,580)	**34,812**	**(1,020)**	**(35,304)**	**(1,258)**	**(119,350)**

	November 30, 2016	**Recognized in profit or loss**	**Recognized in other comprehen-sive income**	**Acquisition**	**Foreign exchange**	**November 30, 2017**
	$	**$**	**$**	**$** *Adjusted, note 6 IX*	**$**	**$**
Net deferred tax assets (liabilities) in relation to:						
Property, plant and equipment	625	62	—	141	(27)	801
Accounts receivable	1,500	497	—	—	(68)	1,929
Provisions	23,484	(3,797)	—	—	(873)	18,814
Long-term debt	(285)	(1,219)	1,547	(377)	(2)	(336)
Non-capital losses	280	181	—	—	—	461
Intangible assets	(152,418)	906	—	25	5,862	(145,625)
Accrued expenses	4,850	700	—	—	(198)	5,352
Deferred revenue	2,569	(455)	—	—	(90)	2,024
	(119,395)	(3,125)	1,547	(211)	4,604	(116,580)

28. Income taxes (continued)

As at November 30, 2018 there were approximately $311 (2017 – $275) of capital losses which may be applied against capital gains for future years and be carried forward indefinitely. The deferred income tax benefit of these capital losses has not been recognized.

As at November 30, 2018, there were approximately $1,026 (2017 - $677) in non-capital losses accumulated in one of the Company's subsidiaries for which no deferred income tax asset was recognized. These capital losses will expire between 2035 to 2038.

The deductible temporary difference in relation to foreign exchange on intercompany loans for which a deferred tax asset has not been recognized amounts to $15 (2017 - $3,048).

No deferred income tax liability is recognized on unremitted earnings of $52,000 related to the investments in subsidiaries. Such unremitted earnings are reinvested in the subsidiaries and will not be repatriated in the foreseeable future.

29. Segmented information

Management monitors and evaluates results of the Company based on geographical segments; these two segments being Canada and US & International. The Company and its chief operating decision maker assess the performance of each operating segment based on its segment profit and loss which is equal to revenue less operating expenses.

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

29. Segmented information (continued)

Below is a summary of each geographical segment's performance during the period.

	Canada	US & International	Total Consolidated 2018	Canada	US & International	Total Consolidated 2017
	$	$	$	$	$	$
Revenues	215,293	138,010	353,303	141,867	134,216	276,083
Operating expenses	134,629	90,931	225,560	86,615	95,742	182,357
Segment profit	80,664	47,079	127,743	55,252	38,474	93,726
Other expenses						
Depreciation – property, plant and equipment	2,353	402	2,755	1,645	1,079	2,724
Amortization – intangible assets	10,027	14,722	24,749	5,926	14,252	20,178
Interest on long-term debt	10,150	1,567	11,717	8,448	1,866	10,314
Impairment charge on property, plant and equipment and intangible assets	(841)	6,372	5,531	—	1,000	1,000
Other income (expense)						
Unrealized foreign exchange gain (loss)	22	(11)	11	2,013	(9)	2,004
Interest income	364	285	649	101	338	439
Gain on disposal of property, plant and equipment and intangible assets	520	190	710	584	536	1,120
Loss on revaluation on financial liabilities recorded at fair value	(1,461)	—	(1,461)	(409)	—	(409)
Income before taxes	58,420	24,480	82,900	41,522	21,142	62,664
Current income taxes	14,402	4,319	18,721	9,088	597	9,685
Deferred income taxes	1,451	(36,263)	(34,812)	1,435	1,690	3,125
Net income	42,567	56,424	98,991	30,999	18,855	49,854
Total assets	813,354	416,953	1,230,307	473,190	381,155	854,345
Total liabilities	375,116	224,519	599,635	269,612	249,407	519,019

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

30. Statement of cash flows

Changes in liabilities and assets arising from financing and investing activities:

	Revolving credit facility	Line of credit	Loan financing costs	Non-interest-bearing contracts and holdback	Promissory notes	Non -controlling interest buyback obligation	Non-controlling interest option	Total
	$		$	$	$	$	$	$
Balance as at November 30, 2017	210,522	—	(2,150)	11,367	6,041	1,026	1,001	227,807
		—						
Changes arising from financing activities:								
Increase in term revolving credit facility	**134,805**	—	—	—	—	—	—	**134,805**
Repayment in term revolving credit facility	**(89,512)**	**(20,000)**	—	—	—	—	—	**(109,512)**
Repayment of holdback	—	—	—	**(7,668)**	—	—	—	**(7,668)**
Payment of upfront fees	—	—	**(455)**	—	—	—	—	**(455)**
Changes from non-cash transactions:								
Amortization of transaction costs directly attributable to a financing arrangement	—		**651**	—	—	—	—	**651**
Accretion of interest on non-interest-bearing holdbacks	—	—	—	**1,618**	—	—	—	**1,618**
Revaluation of financial liabilities recorded at fair value through profit and loss (note 10)	—	—	—	—	**993**	**475**	**(7)**	**1,461**
Foreign exchange	**328**	—	—	**417**	—	—	—	**745**
		—						
Changes arising from investing activities:			—					
Issuance of holdback	—	—	—	**6,164**	—	—	—	**6,164**
Business acquisition (note 6)	—	**20,000**	—	—	—	—	—	**20,000**
Balance as at November 30, 2018	**256,143**	**—**	**(1,954)**	**11,898**	**7,034**	**1,501**	**994**	**275,616**

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

30. Statement of cash flows (continued)

Changes in non-cash operating activities are as follows:

	2018	2017
	$	$
Accounts receivable	**(4,349)**	1,249
Inventories	**1,569**	79
Loans receivable	**1,050**	32
Prepaid expenses and deposits	**(1,274)**	2,245
Other asset	**326**	(1,165)
Accounts payable and accrued liabilities	**(5,366)**	9,741
Provisions	**3,578**	(1,437)
Deferred revenue & deposits	**(3,182)**	2,249
	(7,648)	12,993

Other includes changes in non-cash proceeds from dispositions of capital assets amounting to $145 (2017-$242).

31. 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:

	2018	2017
	$	$
Short-term benefits	**2,051**	1,406
Share based payment	**659**	401
Board member fees	**64**	49
Total remuneration of key management personnel	**2,774**	1,856

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

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

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

31. Related party transactions (continued)

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

	2018	2017
	$	$
Short-term benefits	**452**	660
Share based payment	**20**	30
Consulting services	**13**	—
Total remuneration of individuals related to key management personnel	**485**	690

32. Subsequent Events

Acquisition of Casa Grecque

On December 11, 2018, the Company completed its acquisition of substantially most of the assets of Casa Grecque for a total consideration of $22,352, of which $20,806 was financed from MTY's cash on hand and existing credit facilities, while $296 in net liabilities was assumed and $1,250 was held back. As at February 14, 2019, a preliminary purchase price allocation has not yet been completed.

Acquisition of South St. Burger

On December 11, 2018, the Company announced that one of its wholly owned subsidiaries had signed an agreement to acquire the assets of South St. Burger, a chain of gourmet burger restaurants operating 26 franchised and 14 corporate restaurants. The acquisition is expected to be completed within 90 days of the announcement.

Dividends

On January 21, 2019, the Company approved a quarterly dividend of $0.165 per common share to be paid out February 15, 2019.