
Consolidated financial statements of MTY Food Group Inc.

November 30, 2019 and 2018



Independent auditor's report

To the Shareholders of MTY Food Group Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of MTY Food Group Inc. and its subsidiaries (together, the Company) as at November 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of financial position as at November 30, 2019 and 2018;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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Other information

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

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

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

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

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

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

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

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



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

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

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

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



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other matter

The consolidated financial statements for the year ended November 30, 2017 (not presented herein but from which the comparative information in the consolidated statement of financial position as at December 1, 2017 has been derived), excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 15, 2018.

/s/PricewaterhouseCoopers LLP¹

Montréal, Quebec
February 23, 2020

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

MTY Food Group Inc.
Consolidated statements of income

Years ended November 30, 2019 and 2018

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

	Notes	2019	2018
		\$	\$ <i>Restated (note 4)</i>
Revenue	25 & 31	550,942	412,346
Expenses			
Operating expenses	26 & 31	403,547	287,495
Depreciation – property, plant and equipment	13	4,023	2,755
Amortization – intangible assets	14	29,185	24,749
Interest on long-term debt		17,649	11,717
Impairment charge on property, plant and equipment and intangible assets	13 & 14	2,619	5,531
		457,023	332,247
Other income (charges)			
Unrealized and realized foreign exchange gain		402	11
Interest income		856	649
Gain on disposal of property, plant and equipment and intangible assets		2,341	710
Gain (loss) on revaluation of financial liabilities recorded at fair value through profit and loss	23	931	(1,461)
Loss on settlement of promissory notes	23	(452)	—
		4,078	(91)
Income before taxes		97,997	80,008
Income tax expense (recovery)	30		
Current		17,492	18,721
Deferred		2,769	(34,900)
		20,261	(16,179)
Net income		77,736	96,187
Net income attributable to:			
Owners		77,675	95,776
Non-controlling interest		61	411
		77,736	96,187
Income per share	22		
Basic		3.09	3.95
Diluted		3.08	3.95

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, 2019 and 2018

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

	2019	2018
	\$	\$
		<i>Restated (note 4)</i>
Net income	77,736	96,187
Items that may be reclassified subsequently to net income:		
Unrealized (loss) gain on translation of foreign operations	(1,431)	14,571
Deferred income tax (expense) recovery on foreign currency translation adjustments	245	(1,020)
Other comprehensive (loss) income	(1,186)	13,551
Total comprehensive income	76,550	109,738
Total comprehensive income attributable to:		
Owners	76,489	109,327
Non-controlling interest	61	411
	76,550	109,738

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, 2019 and 2018

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

	Reserves					Equity attributable to non-controlling interest		
	Capital stock	Other	Contributed surplus	Foreign currency translation	Total reserves	Retained earnings	Total	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2017 (Restated, note 4)	114,545	(850)	882	(13,101)	(13,069)	215,352	316,828	1,702
Net income for the year ended November 30, 2018	—	—	—	—	—	95,776	95,776	411
Other comprehensive income	—	—	—	13,551	13,551	—	13,551	—
Total comprehensive income							109,327	109,738
Acquisition of non-controlling interest in 8825726 Canada Inc.	—	—	—	—	—	(257)	(257)	(802)
Issuance of shares on acquisition of Invescor Restaurant Group Inc.	197,616	—	—	—	—	—	197,616	—
Dividends	—	—	—	—	—	(14,530)	(14,530)	(30)
Share-based compensation (note 21)	—	—	630	—	630	—	630	—
Balance as at November 30, 2018 (Restated, note 4)	312,161	(850)	1,512	450	1,112	296,341	609,614	1,281
Net income for the year ended November 30, 2019	—	—	—	—	—	77,675	77,675	61
Other comprehensive loss	—	—	—	(1,186)	(1,186)	—	(1,186)	—
Total comprehensive income							76,489	76,550
Acquisition of non-controlling interest in 9974644 Canada Inc. (note 8)	—	—	—	—	—	2	2	(112)
Shares repurchased and cancelled (note 20)	(1,222)	—	—	—	—	(4,005)	(5,227)	—
Dividends	—	—	—	—	—	(16,713)	(16,713)	(498)
Share-based compensation (note 21)	—	—	583	—	583	—	583	—
Balance as at November 30, 2019	310,939	(850)	2,095	(736)	509	353,300	664,748	732

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, 2019 and 2018 and December 1, 2017

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

	Notes	November 30, 2019	November 30, 2018	December 1, 2017
		\$	\$	\$
			<i>Restated</i> <i>(notes 4 & 7)</i>	<i>Restated</i> <i>(note 4)</i>
Assets				
Current assets				
Cash		50,737	32,304	56,453
Accounts receivable	9	65,129	49,971	35,565
Inventories	10	7,531	4,029	3,593
Assets held for sale	11	11,080	—	—
Loans receivable	12	4,082	2,134	2,817
Income taxes receivable		563	—	1,408
Other assets		2,008	692	1,163
Prepaid expenses and deposits		9,284	7,915	5,901
		150,414	97,045	106,900
Loans receivable	12	3,063	5,970	3,109
Contract cost asset		6,074	3,717	2,062
Deferred income tax	30	238	114	351
Property, plant and equipment	13	21,363	17,333	13,081
Intangible assets	14	958,099	758,239	506,970
Goodwill	15	509,517	357,102	226,768
		1,648,768	1,239,520	859,241
Liabilities and Shareholders' equity				
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		100,762	67,812	56,947
Provisions	17	13,163	3,640	4,581
Gift card and loyalty program liabilities		92,800	86,399	70,750
Income taxes payable		20,506	24,989	19,273
Deferred revenue and deposits	18	18,761	20,784	19,488
Current portion of long-term debt	19	4,592	7,416	4,240
		250,584	211,040	175,279
Long-term debt	19	536,058	268,200	223,567
Deferred revenue and deposits	18	38,216	33,385	31,851
Deferred income taxes	30	158,430	116,000	110,014
		983,288	628,625	540,711

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

MTY Food Group Inc.**Consolidated statements of financial position (continued)**

As at November 30, 2019 and 2018 and December 1, 2017

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

		November 30, 2019	November 30, 2018	December 1, 2017
		\$	\$	
			<i>Restated</i> <i>(notes 4 & 7)</i>	<i>Restated</i> <i>(note 4)</i>
Shareholders' equity				
Equity attributable to owners				
Capital stock	20	310,939	312,161	114,545
Reserves		509	1,112	(13,069)
Retained earnings		353,300	296,341	215,352
		664,748	609,614	316,828
Equity attributable to non-controlling interest		732	1,281	1,702
		665,480	610,895	318,530
		1,648,768	1,239,520	859,241

Approved by the Board on February 23, 2020

_____, Director

_____, Director

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

MTY Food Group Inc.

Consolidated statements of cash flows

Years ended November 30, 2019 and 2018

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

	Notes	2019	2018
		\$	\$
			<i>Restated</i> <i>(notes 4 & 7)</i>
Operating activities			
Net income		77,736	96,187
Adjusting items:			
Interest on long-term debt		17,649	11,717
Depreciation – property, plant and equipment	13	4,023	2,755
Amortization – intangible assets	14	29,185	24,749
Gain on disposal of property, plant and equipment and intangible assets		(2,341)	(710)
Impairment charge on property, plant and equipment and intangible assets	13 & 14	2,619	5,531
(Gain) Loss on revaluation of financial liabilities recorded at fair value through profit and loss	23	(931)	1,461
Loss on settlement of promissory notes	23	452	—
Income tax expense (recovery)		20,261	(16,179)
Share-based payments	21	583	630
		149,236	126,141
Income tax refunds received		—	1,189
Income taxes paid		(22,537)	(13,865)
Interest paid		(15,405)	(9,448)
Changes in non-cash working capital items	32	(1,321)	(4,506)
Other		2,978	(1,631)
Cash flows provided by operating activities		112,951	97,880
Investing activities			
Net cash outflow on acquisitions	7	(332,098)	(123,243)
Cash acquired through acquisition	7	2,459	4,652
Additions to property, plant and equipment	13	(5,166)	(6,544)
Additions to intangible assets	14	(2,136)	(1,286)
Proceeds on disposal of assets held for sale, property, plant and equipment and intangible assets		11,289	2,548
Cash flows used in investing activities		(325,652)	(123,873)

MTY Food Group Inc.**Consolidated statements of cash flows (continued)**

Years ended November 30, 2019 and 2018

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

	Notes	2019	2018
		\$	\$
Financing activities			
Issuance of long-term debt		327,399	134,805
Repayment of long-term debt		(73,852)	(117,180)
Capitalized financing costs		(1,079)	(455)
Acquisition of the non-controlling interest	8	(110)	(1,059)
Shares repurchased and cancelled		(5,227)	—
Dividends paid to non-controlling shareholders of subsidiaries		(498)	(30)
Dividends paid		(16,713)	(14,530)
Cash flows provided by financing activities		229,920	1,551
Net increase (decrease) in cash		17,219	(24,442)
Effect of foreign exchange rate changes on cash		1,214	293
Cash, beginning of year		32,304	56,453
Cash, end of year		50,737	32,304

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

MTY Food Group Inc.

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MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

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, Trans-Canada Highway, Ville Saint-Laurent, Quebec.

2. Basis of preparation

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

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

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

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

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

The financial statements are presented in Canadian dollars, which is the functional currency of the Company, and tabular amounts are rounded to the nearest thousand (\$000) except when otherwise indicated.

Prior period comparative figures have been restated to reflect adoption of IFRS 15, Revenue from Contracts with Customers as discussed in Note 4 and as well for retrospectively for purchase price allocations adjustments, pursuant to IFRS 3 Business combinations in Note 7. The Company adopted IFRS 9 Financial Instruments; no adjustments were made as a result.

Statement of compliance

The Company's financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standard Board ("IASB").

These financial statements were authorized for issue by the Board of Directors on February 23, 2020.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

(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 Franchising Inc.	100
MTY Franchising USA, Inc.	100
BF Acquisition Holdings, LLC	100
Built Franchise Systems, LLC	100
CB Franchise Systems, LLC	100
Papa Murphy's Holdings Inc.	100
9974644 Canada Inc.	65
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 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. For the purpose of consolidating Papa Murphy's Holdings Inc., a period end date of December 2, 2019 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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

3. Accounting policies (continued)

Basis of consolidation (continued)

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

Changes in the Company's ownership interests in existing subsidiaries

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

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

Business combinations

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

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

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

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

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

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

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

3. Accounting policies (continued)

Business combinations (continued)

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

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

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

Goodwill

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

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

Revenue recognition

The Company's accounting policies are summarized below:

Revenue from franchise locations

- i) Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, as they are earned.
- ii) Initial franchise fees are recognized on a straight-line basis over the term of the franchise agreement as the performance obligation relating to franchise rights is fulfilled. Amortization begins once the restaurant has opened.
- iii) Upfront fees related to master license agreements are recognized over the term of the master license agreements on a straight-line basis.
- iv) Renewal fees and transfer fees are recognized on a straight-line basis over the term of the related franchise agreement.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

3. Accounting policies (continued)

Revenue from franchise locations (continued)

- v) Restaurant construction and renovation revenue is recognized when the construction and renovation are completed.
- vi) The Company earns rent revenue on certain leases it holds and sign rental revenue. Rental income is recognized on a straight-line basis over the term of the relevant lease in accordance with IAS 17.
- vii) The Company recognizes breakage income proportionately as each gift card is redeemed, based on the historical redemption pattern of the gift cards. The Company also charges various program fees to its franchisees as gift cards are redeemed. Notably, this does not apply to gift card liabilities assumed in a business acquisition, which are accounted for at fair value at the acquisition date.
- viii) The Company receives considerations from certain suppliers. Fees are generally earned based on the value of purchases during the year. Agreements that contain an initial upfront fee, in addition to ongoing fees, are recognized on a straight-line basis over the term of the respective agreement. Supplier contributions are recognized as revenue as they are earned and are recorded in other franchising revenue.

Revenue from food processing, distribution and retail

Food processing, distribution and retail revenue is recognized when the customer takes control of the product, which usually occurs upon shipment or receipt of the goods by the customer, depending on the specific terms of the agreement.

Revenue from promotional fund contributions

Promotional fund contributions are based on a percentage of gross sales as reported by the franchisees. Corresponding promotional fund transfers to the promotional funds are reported separately and included in accounts payable and accrued liabilities. The Company is not entitled to retain these promotional fund payments received and is obligated to transfer these funds to be used solely for use in promotional and marketing-related costs for specific restaurant banners. The Company sometimes charges a fee for the administration of the promotional funds. The combined amount payable resulting from the promotional fund reserves amounts to a surplus of \$10,046 (2018 – \$11,652). These amounts are included in accounts payable and accrued liabilities.

Revenue from corporate-owned locations

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

Contract cost asset

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

Assets held for sale

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

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

3. Accounting policies (continued)

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.

The Company as lessor

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

The Company as lessee

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

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

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year and adjustments to prior year provisions. Taxable profit differs from profit as reported in the consolidated statement of income 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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

3. Accounting policies (continued)

Taxation (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

Property, plant and equipment

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

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

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

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

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

3. Accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is based on the following terms:

Buildings	Straight-line	25 to 50 years
Equipment	Straight-line	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

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 on its books:

Franchise rights and master franchise rights

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

Step-in rights

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

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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

3. Accounting policies (continued)

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

Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of 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 CGU.

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

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

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

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

Impairment of goodwill

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

A CGU 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 CGU 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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

3. Accounting policies (continued)

Cash

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

Inventories

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

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

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

Financial instruments

Classification of financial assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss "FVTPL") are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognized immediately in profit or loss.

On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost, Fair Value through Other Comprehensive Income "FVOCI" or FVTPL, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is subsequently measured at amortized cost if the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest. Unless a financial asset is designated at FVTPL, a financial asset is subsequently measured at FVOCI if the asset is held within a business model in order to collect contractual cash flows and sell financial assets and the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest. Financial assets that do not meet either the contractual cash flow characteristics of solely payments of principal and interest or the business model of held to collect or held to collect and sell are measured at FVTPL. Financial assets measured at FVTPL and any subsequent changes therein are recognized in net income.

The Company currently classifies its cash, accounts receivable and loans receivable as assets measured at amortized cost.

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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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3. Accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

The Company uses the simplified expected credit-loss ("ECL") model for its trade receivables, as permitted by IFRS 9, Financial Instruments. The simplified approach under IFRS 9 permits the use of the lifetime expected loss provision for all trade receivables and also incorporates forward-looking information. Lifetime ECL represents the ECL that will result from all probable default events over the expected life of a financial instrument.

For its loans receivable balance carried at amortized cost, the Company has applied the general ECL model. Unlike the simplified approach, the general ECL model depends on whether there has been a significant increase in credit risk. The Company considers the probability of default upon initial recognition of the financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition of the financial asset.

A significant increase in credit risk is assessed based on changes in the probability of default since initial recognition along with borrower-specific qualitative information, or when loans are more than 30 days past due. Loans are considered impaired and in default when they are 90 days past due or there is sufficient doubt regarding the ultimate collectability of principal and/or interest. Loans that are 180 days past due are written down to the present value of the expected future cash flows. Impairment under the IFRS 9 general ECL model is assessed on an individual basis. In assessing the risk of default, the Company also incorporates available reasonable and supportive forward-looking information.

When credit risk is assessed as being low or when there has not been a significant increase in credit risk since initial recognition, the ECL is based on a 12-month ECL which represents the portion of lifetime ECL expected to occur from default events that are possible within 12 months after the reporting date. If a significant increase in credit risk has occurred throughout a reporting period, impairment is based on lifetime ECL.

Derecognition of financial assets

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

Derecognition of financial liabilities

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

Classification of financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized, except for financial liabilities classified as FVTPL. These financial liabilities, including derivative liabilities and certain obligations, are subsequently measured at fair value with changes in fair value recorded in net income in the period in which they arise. Financial liabilities designated as FVTPL are recorded at fair value with changes in fair value attributable to changes in the Company's own credit risk recorded in net income.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

3. Accounting policies (continued)

Financial instruments (continued)

Financial liabilities classification:

Accounts payable and accrued liabilities	Amortized cost
Revolving credit facility	Amortized cost
Non-interest-bearing contract cancellation fees and holdbacks	Amortized cost
Contingent consideration related to the acquisition of Yuzu Sushi and Allô! Mon Coco	FVTPL
Promissory notes Houston Avenue Bar & Grill	FVTPL
Promissory notes related to the buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	FVTPL
Non-controlling interest buyback obligation	FVTPL
Non-controlling interest option	FVTPL

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 26) 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.

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.

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.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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3. Accounting policies (continued)

Gift card and loyalty program liabilities (continued)

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

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

Deferred revenue and deposits

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

Share-based payment arrangements

The Company measures stock options granted to employees that vest in specified installments over the service period based on the fair value of each tranche on the grant date by using the Black-Scholes option-pricing model. Based on the Company's estimate of equity instruments that will eventually vest, a compensation expense is recognized over the vesting period applicable to the tranche with a corresponding increase to contributed surplus. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 21.

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 31). 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 ("COO's") to make decisions on resources to be allocated to the segment and to assess its performance.

4. Changes in accounting policies

IFRS 9 – Financial Instruments

Beginning on December 1, 2018, the Company adopted IFRS 9, issued in July 2014 and the related consequential amendments to IFRS 7. IFRS 9 introduces new requirements for the classification of financial assets based on the business model used by an entity to manage financial assets and the characteristics of the contractual cash flows of those financial assets. IFRS 9 provides three classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL, replacing previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

MTY Food Group Inc.

Notes to the consolidated financial statements

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

4. Changes in accounting policies (continued)

IFRS 9 – Financial Instruments (continued)

IFRS 9 also introduces a new ECL for calculating impairment on financial assets replacing the incurred loss model in IAS 39. The ECL model applies to financial assets measured at amortized cost. Under IFRS 9, ECLs are recognized on initial recognition of financial assets which is earlier than under IAS 39. The adoption of IFRS 9 has not resulted in a material change to the Company's allowance for trade receivables and loans receivable.

The Company also adopted amendments to IFRS 9, issued in October 2017, effective in 2018. The component of the amendments relevant to the Company relates to clarifying the accounting for the modification of financial liabilities and requires the Company to recognize any adjustments to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange, regardless of whether the changes are substantial and result in derecognition. The Company previously modified the terms for the revolving credit facility debts, which did not result in the derecognition of those debts. However, there was no impact on the carrying amount of the debt as a result of applying the amendments to IFRS 9.

IFRS 9 Transitional Adjustments

As a result of the Company electing not to restate comparative figures, the information presented in the financial statements for the prior year does not reflect the requirements of IFRS 9.

The following table summarizes the change in classification

	Original classification under IAS 39	New classification under IFRS 9
Financial assets:		
Cash	Loans and receivable	Amortized cost
Accounts receivable	Loans and receivable	Amortized cost
Loans receivable	Loans and receivable	Amortized cost
Financial liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Revolving credit facility	Other financial liabilities	Amortized cost
Non-interest-bearing contract cancellation fees and holdbacks	Other financial liabilities	Amortized cost
Promissory notes related to the buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	FVTPL	FVTPL
Non-controlling interest buyback obligation	FVTPL	FVTPL
Non-controlling interest option	FVTPL	FVTPL

Following the adoption of IFRS 9, there were no further changes to the classification categories of financial assets and financial liabilities.

MTY Food Group Inc.

Notes to the consolidated financial statements

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4. Changes in accounting policies (continued)

IFRS 15 – Revenue from Contracts with Customers

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 Standing Interpretations Committee (“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. On December 1, 2018, the Company adopted IFRS 15 using the retrospective transition method.

The adoption of the new standard had the following impacts:

Initial franchise fees, master franchise fees, transfer fees and renewal fees: under previous guidance, the Company recognized these fees when all material obligations and services were performed. Under the new guidance, the Company defers these fees and recognizes them over the term of the related franchise agreement. This has no impact on the amount or timing of cash flows.

Promotional funds: under the previous guidance, the Company did not reflect promotional funds collected from franchisees and the related promotional expenditures in the consolidated statements of income. Under the new standard, the promotional funds collected, and the related expenditures are 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.

Costs to obtain a contract: under the new guidance, incremental costs to obtain a contract have to be deferred if they are expected to be recoverable, unless their amortization period would be less than one year, in which case a practical expedient can be used to expense them as incurred. Accordingly, the Company now recognizes those costs as an asset when incurred and amortizes this asset over the term of the related franchise agreement.

Gift cards: there is a change 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 now record expected breakage income proportionately as gift cards are redeemed.

Restaurant construction and renovation: restaurant construction and renovation revenue 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 now recognizes the revenue for these services at a point in time, when the construction and renovation are completed.

Additional disclosures have been included in notes 25 and 31.

MTY Food Group Inc.

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For the years ended November 30, 2019 and 2018

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

4. Changes in accounting policies (continued)

IFRS 15 – Revenue from Contracts with Customers (continued)

Impact on the financial statements

The following tables show the adjustments recognized for each line item impacted by the change.

Consolidated statements of income

	Year ended November 30, 2018		
	As previously reported	IFRS 15 adjustments	As restated
	\$	\$	\$
Revenue	353,303	59,043	412,346
Operating expenses	225,560	61,935	287,495
Income before taxes	82,900	(2,892)	80,008
Income tax expense (recovery)			
Deferred	(34,812)	(88)	(34,900)
Net income	98,991	(2,804)	96,187
Income per share – basic	4.07	0.12	3.95
Income per share – diluted	4.06	0.11	3.95

Consolidated statements of comprehensive income

	Year ended November 30, 2018		
	As previously reported	IFRS 15 adjustments	As restated
	\$	\$	\$
Unrealized gain (loss) on translation of foreign operations	14,748	(177)	14,571
Total comprehensive income	112,719	(2,981)	109,738

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

4. Changes in accounting policies (continued)

IFRS 15 – Revenue from Contracts with Customers (continued)

Impact on the financial statements (continued)

Consolidated statement of financial position

As at November 30, 2018

	As previously reported	IFRS 15 adjustments	As restated
	\$	\$	\$
Assets			
Current assets			
Accounts receivable	49,168	803	49,971
Inventories	3,574	455	4,029
Prepaid expenses and deposits ⁽¹⁾	7,291	624	7,915
Contract cost assets	—	3,717	3,717
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	68,700	(888)	67,812
Deferred revenue and deposits	20,122	662	20,784
Deferred revenue and deposits	705	32,680	33,385
Deferred income taxes ⁽²⁾	123,078	(7,078)	116,000
Reserves	1,245	(133)	1,112
Retained earnings	315,985	(19,644)	296,341

⁽¹⁾ Relates to the current portion of the contract costs assets.

⁽²⁾ As the previously reported balance was restated in the consolidated financial statements for year ended November 30, 2019. Refer to adjustment in Note 7.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

4. Changes in accounting policies (continued)

IFRS 15 – Revenue from Contracts with Customers (continued)

Impact on the financial statements (continued)

Consolidated statement of financial position

As at December 1, 2017

	As previously reported	IFRS 15 adjustments	As restated
	\$	\$	\$
Assets			
Current assets			
Accounts receivable	34,151	1,414	35,565
Inventories	3,281	312	3,593
Prepaid expenses and deposits	5,461	440	5,901
Contract cost assets	—	2,062	2,062
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	57,555	(608)	56,947
Deferred revenue and deposits	20,844	(1,356)	19,488
Deferred revenue	1,946	29,905	31,851
Deferred income taxes	116,931	(6,917)	110,014
Reserves	(13,113)	44	(13,069)
Retained earnings	232,192	(16,840)	215,352

5. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

Impairment of long-lived assets

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

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

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

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 statement of financial position on the acquisition date. In addition, the estimated useful lives of the acquired amortizable assets, the identification of intangible assets and the determination of the indefinite or finite useful lives of intangible assets acquired will have an impact on the Company's future profit or loss.

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

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

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 8.2% 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. A change of 1% in discounts rates in the US would result in an additional impairment of one brand representing 0.7% of the total carrying value of the franchise rights and trademarks in that CGU. A change of 1% in discounts rates in the Canada would result in an impairment of two brands representing 1.6% of the total carrying value of franchise rights and trademarks in that CGU.

During the year, the Company recognized an impairment on three 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 \$1,661 (2018 – \$5,827) represents a write-down of the carrying value to the fair value of the trademarks and franchise rights. In 2018, impairment 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 \$958 (2018 – \$2,060) 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 five years and a terminal value is calculated beyond this period, assuming no growth to the cash flows of previous periods. A cash flow period of five years was used as predictability for periods beyond this cannot be estimated with reasonable accuracy.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

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

Key sources of estimation uncertainty (continued)

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 CGU 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 8.2% in Canada, 8.3% in the US (excluding Papa Murphy's) and 8.3% for Papa Murphy's, for its assessment of goodwill. In the US, the recoverable amount of goodwill for all of the brands excluding Papa Murphy's would be breakeven using a discount rate of 8.9%, while for Papa Murphy's of 10.4%. Moreover, in Canada the recoverable amount of goodwill for the CGU would be breakeven using a discount rate of 14.9%.

Provisions

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

Gift card liabilities

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

Supplier contributions

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

6. Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the International Accounting Standard Board ("IASB") that are not yet effective for the period ended November 30, 2019 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 16 Leases	January 2016	December 1, 2019	In assessment
IFRIC 23 Uncertainty over Income Tax Treatments	June 2017	December 1, 2019	In assessment

IFRS 3 – Business Combinations

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

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

6. Future accounting changes (continued)

IFRS 16 – Leases

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. The Company anticipates a material change in the presentation of both the consolidated statement of financial position with a range of approximately \$550 – \$650 million of lease liabilities, \$25 – \$75 million of right-of-use-assets and \$475 – \$575 million of finance lease receivable and the consolidated statement of income. Lease-related expenses previously recorded in operating expenses, primarily as occupancy costs will be recorded as depreciation on the right-of-use assets and a finance charge from unwinding the discount on the lease liabilities. Lease-related revenues previously recorded in rent revenue will be recorded as finance income. IFRS 16 will also change the presentation of cash flows relating to leases in the Company's Consolidated Statements of cash flows, but it does not cause a difference in the amount of cash transferred between the parties of a lease.

Although the standard did not change the accounting for most lessors significantly, it does change the manner in which sublessors determine the classification of sublease arrangements between operating and finance leases. Under IFRS 16 this assessment is determined relative to whether the sublease transfers significant risks and rewards of the right of use asset. Accordingly, the Company expects that many of the Company's subleases will be classified as finance leases under IFRS 16 and that it will begin to record interest income on such subleases within the Company's financing income.

IFRS 16 will be applied for the fiscal year beginning on December 1, 2019 using the modified retrospective approach and the Company will therefore not be restating comparative information. In determining the lease term, management considers all factors that may create an economic incentive to exercise a renewal option or termination option when determining the lease term under the new standard.

In addition, the Company has elected to use the following practical expedients on adoption of IFRS 16:

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

MTY Food Group Inc.

Notes to the consolidated financial statements

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

7. Business acquisitions

I) Allô! Mon Coco (2019)

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

			2019
	As previously reported	Adjustment	Adjusted consideration
			\$
Consideration paid:			
Purchase price	30,000	—	30,000
Contingent consideration ⁽¹⁾	1,919	(492)	1,427
Working capital	(242)	—	(242)
Discount on non-interest-bearing holdback	(481)	(29)	(510)
Net purchase price	31,196	(521)	30,675
Contingent consideration	(1,919)	492	(1,427)
Holdback	(5,206)	29	(5,177)
Net consideration paid/cash outflow	24,071	—	24,071

⁽¹⁾ Adjusted in consequence of fair value assessment performed below.

The preliminary purchase price allocation is as follows:

			2019
	As previously reported	Adjustment	Adjusted consideration
Net assets acquired:	\$	\$	\$
Current assets			
Accounts receivable	47 (3)	(47)	—
Loans receivable	— (3)	47	47
	47	—	47
Deferred income taxes	— (2)	213	213
Property, plant and equipment	— (2)	19	19
Franchise rights	— (2)	9,709	9,709
Trademark	— (2)	13,597	13,597
Goodwill	31,426 (1 & 2)	(24,163)	7,263
	31,473	(625)	30,848
Current liabilities			
Accounts payable and accrued liabilities	185 (3 & 4)	(185)	—
Gift card liability	92	—	92
	277	(185)	92
Deferred revenues	— (3 & 4)	81	81
	277	(104)	173
Net purchase price	31,196	(521)	30,675

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

7. Business acquisitions (continued)

I) Allô! Mon Coco (2019) (continued)

- (1) Goodwill is deductible for tax purposes.
- (2) Given the timing of the acquisition, the Company had not completed its fair value assessment of the intangible assets and goodwill acquired as at August 31, 2019. Consequently, most of the fair value adjustments related to property, plant and equipment, franchise rights, trademark and deferred income tax were included in goodwill in the preliminary fair value assessment.
- (3) Reclass of presentation.
- (4) Adjustment for 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, and as such, further adjustments may still be made.

II) Yuzu Sushi (2019)

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

	2019	
	As previously reported	Adjusted consideration
	\$	\$
Consideration paid:		
Purchase price	25,389	25,389
Settlement of obligations	260	260
Contingent consideration ⁽¹⁾	1,968	2,224
Working capital	(285)	(285)
Net purchase price	27,332	27,588
Contingent consideration	(1,968)	(2,224)
Net consideration paid/cash outflow	25,364	25,364

- (1) Adjusted in consequence of fair value assessment performed below.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

7. Business acquisitions (continued)

II) Yuzu Sushi (2019) (continued)

The preliminary purchase price allocation is as follows:

			2019
	As previously reported	Adjustment	Adjusted Consideration
Net assets acquired:	\$	\$	\$
Current assets			
Prepaid expenses	6	—	6
	6	—	6
Deferred income taxes	— (2)	588	588
Property, plant and equipment	— (2)	491	491
Other intangible assets	— (2)	195	195
Franchise rights	— (2)	2,362	2,362
Trademark	— (2)	9,491	9,491
Goodwill	27,617 (1 & 2)	(12,881)	14,736
	27,623	246	27,869
Current liabilities			
Accounts payable and accrued liabilities	102 (3)	(20)	82
Gift card liability and loyalty program liability	189	—	189
	291	(20)	271
Deferred revenues	— (3)	10	10
	291	(10)	281
Net purchase price	27,332	256	27,588

(1) Goodwill is deductible for tax purposes.

(2) Given the timing of the acquisition, the Company had not completed its fair value assessment of the intangible assets and goodwill acquired as at August 31, 2019. Consequently, most of the fair value adjustments are related to property plant and equipment, other intangible assets, franchise rights, trademark and deferred income tax were included in goodwill in the preliminary fair value assessment.

(3) Adjustment for working capital items.

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

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

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

7. Business acquisitions (continued)

III) Papa Murphy's (2019)

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

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

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

The preliminary purchase price allocation is as follows:

	As previously reported	Adjustments	2019 Adjusted purchase price allocation
	\$	\$	\$
Net assets acquired:			
Current assets			
Cash	2,435	—	2,435
Accounts receivable	3,873	—	3,873
Inventory	1,195	—	1,195
Prepaid expenses and deposits	1,992	(5)	2,344
Assets held for sale	20,724	(3)	20,366
	30,219	(6)	30,213
Property, plant and equipment	930	(3)	1,054
Other intangible assets	1,277	—	1,277
Franchise rights	51,216	(2)	45,259
Trademark	137,561	(2)	131,551
Goodwill	115,012	(1 & 2)	126,646
	336,215	(215)	336,000
Current liabilities			
Accounts payable and accrued liabilities	26,131	(4 & 5)	22,475
Provisions	—	(2 & 6)	12,093
Gift card liability	2,840	—	2,840
	28,971	8,437	37,408
Other long-term liabilities	1,083	(4)	—
Deferred income taxes	48,565	(1 & 2)	40,996
	78,619	(215)	78,404
Net purchase price	257,596	—	257,596

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

7. Business acquisitions (continued)

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

- (1) Goodwill is not deductible for tax purposes.
- (2) The Company has recorded adjustments to its previously reported preliminary purchase price allocation reported as at August 31, 2019. The adjustments relate to finalizing the fair value assessment relating to franchise rights, and trademark and provisions.
- (3) The Company has completed the fair value assessment of the property, plant and equipment, and assets held for sale acquired. Based on this assessment the Company has adjusted the purchase price allocation.
- (4) Reclass of presentation.
- (5) Adjustment for working capital items.
- (6) Provisions includes litigations amounting to \$9,236.

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

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

IV) South Street Burger (2019)

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

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

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

7. Business acquisitions (continued)

IV) South Street Burger (2019) (continued)

The preliminary purchase price allocation is as follows:

			2019
	As previously reported	Adjustments	Adjusted purchase price allocation
Net assets acquired:	\$	\$	\$
Current assets			
Cash	24	—	24
Inventory	163	—	163
Prepaid expenses and deposits	186	—	186
	373	—	373
Property, plant and equipment	1,626	(2)	1,128
Franchise rights	395	—	395
Trademark	2,649	—	2,649
Goodwill	129	(1 & 2)	635
	5,172	8	5,180
Current liabilities			
Accounts payable and accrued liabilities	304	—	304
Gift card liability	11	—	11
	315	—	315
Deferred income taxes	—	(2)	8
	315	8	323
Net purchase price	4,857	—	4,857

(1) Goodwill is deductible for tax purposes.

(2) The Company has recorded adjustments to its previously reported preliminary purchase price allocation, as at August 31, 2019. The Company has adjusted the fair value assessment of the corporate store equipment and leasehold improvements acquired and based on this assessment has adjusted the purchase price allocation.

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

Total expenses incurred related to acquisition costs amounted to nil.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

7. Business acquisitions (continued)

V) Casa Grecque (2019)

On December 10, 2018, the Company's Canadian operations completed its acquisition of the assets of Casa Grecque. The total consideration for the transaction was \$22,023. The purpose of the transaction was to diversify the Company's range of offering as well as add to its current distribution portfolio.

	2019
	\$
Consideration paid:	
Purchase price	22,350
Working capital	(194)
Discount on non-interest-bearing holdback	(133)
Net purchase price	22,023
Holdback	(1,117)
Net consideration paid/cash outflow	20,906

The final purchase price allocation is as follows:

			2019
	As previously reported	Adjustments	Final purchase price allocation
Net assets acquired:			\$
Current assets			
Inventory	3,229	—	3,229
Prepaid expenses and deposits	2	—	2
	3,231	—	3,231
Property, plant and equipment	150	—	150
Trademark	4,859	(2) (737)	4,122
Customer List	11,623	(2) (1,305)	10,318
Goodwill	2,333	(1 & 2) 2,042	4,375
	22,196	—	22,196
Current liabilities			
Accounts payable and accrued liabilities	3	—	3
Unredeemed gift card liability	170	—	170
	173	—	173
Net purchase price	22,023	—	22,023

(1) Goodwill is deductible for tax purposes.

(2) The Company has recorded adjustments to its previously reported preliminary purchase price allocation as at August 31, 2019. The adjustments relate to finalizing the fair value assessment relating to goodwill, customer list and trademark.

Total expenses incurred related to acquisition costs amounted to nil.

The purchase price allocation is final.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

7. Business acquisitions (continued)

VI) SweetFrog (2018)

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 final purchase price allocation is as follows:	
	2018
	\$
Net assets acquired:	
Current assets	
Inventory	254
Prepaid expenses	30
	284
Franchise rights ⁽²⁾	9,587
Trademark ⁽²⁾	14,335
Goodwill ^(1 & 2)	20,233
	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⁾ The Company has recorded adjustments to its previously reported preliminary purchase price allocation reported in the prior year. The adjustments relate to the fair value relating to the franchise rights and trademark. This purchase price allocation was finalized as at August 31, 2019.

Total expenses incurred related to acquisition costs amounted to nil.

The purchase price allocation is final.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

7. Business acquisitions (continued)

VII) Timothy's World Coffee and Mmmuffins (2018)

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.

	2018
	\$
Consideration paid:	
Purchase price	1,675
Net obligations assumed	(130)
Working capital	(208)
Discount on non-interest-bearing holdback	(16)
Net purchase price	1,321
Holdback	(93)
Less Cash acquired	(3)
Net consideration paid/cash outflow	1,225
The purchase price allocation is as follows:	
	2018
	\$
Net assets acquired:	
Current assets	
Cash	3
Inventory	64
Prepaid expenses and deposits	43
	110
Property, plant and equipment	100
Franchise rights	417
Perpetual license	232
Goodwill ⁽¹⁾	966
	1,825
Current liabilities	
Accounts payable and accrued liabilities	101
Unredeemed gift card liability	403
	504
Net purchase price	1,321

⁽¹⁾ Goodwill is deductible for tax purposes

Total expenses incurred related to acquisition costs amounted to nil.

The purchase price allocation is final.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

7. Business acquisitions (continued)

VIII) Grabbagreen (2018)

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:

	2018
	\$
Net assets acquired:	
Current assets	
Prepaid expenses and deposits	17
Property, plant and equipment	15
Franchise rights	377
Trademarks	1,940
Goodwill ⁽¹⁾	1,106
	3,455
Current liabilities	
Unredeemed gift card liability	46
Net purchase price	3,409

⁽¹⁾ Goodwill is deductible for tax purposes

Total expenses incurred related to acquisition costs amounted to nil.

The purchase price allocation is final.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

7. Business acquisitions (continued)

IX) Imvescor Restaurant Group Inc. (2018)

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.

	<u>2018</u>
	\$
Consideration paid:	
Cash and amount paid for early settlement of options	53,198
Shares issued	<u>197,616</u>
Total consideration	250,814
Less Cash acquired	<u>(4,615)</u>
Total consideration	<u>246,199</u>

MTY Food Group Inc.

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7. Business acquisitions (continued)

IX) Imvescor Restaurant Group Inc. (2018) (continued)

The purchase price allocation is as follows:

	2018
Net assets acquired:	\$
Current assets	
Cash	4,615
Accounts receivable	9,788
Notes receivable	367
Inventory	214
Prepaid expenses and deposits	204
	<u>15,188</u>
Notes receivable	1,134
Projects under construction	1,242
Property, plant and equipment	3,525
Other intangible assets	347
Franchise rights	70,200
Trademarks	140,600
Goodwill ⁽¹⁾	98,063
	<u>330,299</u>
Current liabilities	
Accounts payable and accrued liabilities	14,610
Unredeemed gift card liability and loyalty points	5,157
Deferred revenues	539
Income tax payable	175
	<u>20,481</u>
Credit facility	20,000
Deferred revenues	138
Deferred income tax	38,866
	<u>79,485</u>
Net purchase price	<u>250,814</u>

⁽¹⁾ Goodwill is not deductible for tax purposes.

Total expenses incurred related to acquisition costs amounted \$1,720. The purchase price allocation is final.

MTY Food Group Inc.

Notes to the consolidated financial statements

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

7. Business acquisitions (continued)

X) Counter Custom Burgers and Built Custom Burgers (2018)

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.

	2018
	\$
Consideration paid:	
Purchase price	28,893
Repayment of external debt	1,261
Working capital	151
Discount on non-interest-bearing holdback	(334)
Net purchase price	29,971
Holdback	(1,635)
Less: cash acquired	(34)
Net consideration paid/cash outflow	28,302

The purchase price allocation is as follows:

	2018
	\$
Net assets acquired:	
Current assets	
Cash	34
Accounts receivable	426
Inventory	71
Prepaid expenses and deposits	87
	618
Property, plant and equipment	633
Franchise rights	9,165
Trademarks	16,802
Goodwill ⁽¹⁾	4,156
	31,374
Current liabilities	
Accounts payable and accrued liabilities	956
Unredeemed gift card liability	291
Deferred revenues	104
Deferred income tax	52
	1,403
Net purchase price	29,971

⁽¹⁾ Goodwill is deductible for tax purposes.

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

The purchase price allocation is final.

MTY Food Group Inc.

Notes to the consolidated financial statements

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8. Acquisition of non-controlling interest

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

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.

9. Accounts receivable

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

	2019	2018
	\$	\$
		<i>Restated</i>
		<i>(Note 4)</i>
Total accounts receivable	73,305	59,291
Less: Allowance for credit losses	8,176	9,320
Total accounts receivable, net	65,129	49,971
Of which:		
Not past due	48,273	41,324
Past due for more than 1 day but no more than 30 days	2,943	1,559
Past due for more than 31 day but no more than 60 days	2,433	2,168
Past due for more than 61 days	11,480	4,920
Total accounts receivable, net	65,129	49,971

	2019	2018
	\$	\$
Allowance for credit losses, beginning of year	9,320	9,611
Current period provision	30	315
Additions through acquisition	98	379
Reversals amounts previously written off	221	208
Write-off	(1,493)	(1,193)
Allowance for credit losses, end of year	8,176	9,320

MTY Food Group Inc.

Notes to the consolidated financial statements

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10. Inventories

	2019	2018
	\$	\$
		<i>Restated</i>
		<i>(Note 4)</i>
Raw materials	3,498	1,709
Work in progress	359	455
Finished goods	3,674	1,865
Total inventories	7,531	4,029

Inventories are presented net of a \$14 allowance for obsolescence (2018 – \$46). All of the inventories are expected to be sold within the next 12 months.

Inventories expensed during the year ended November 30, 2019 were \$119,084 (2018 – \$65,289).

11. Assets held for sale

Assets held for sale as at November 30, 2019 are stated at fair value less costs to sell and are composed of leasehold improvements and equipment of two portfolios comprised of 7 and 9 corporately owned locations in the US segment that will be refranchised upon completion of the sale.

During the year the Company disposed of one portfolio of corporately owned locations acquired through the acquisition of Papa Murphy's Holding Inc.

	2019
	\$
Asset held for sale, beginning balance	—
Additions from acquisitions (note 7)	20,366
Disposal	(6,353)
Transfer to property, plant and equipment ⁽¹⁾	(2,711)
Impact of foreign exchange	(222)
Asset held for sale, ending balance	11,080

- ⁽¹⁾ As part of the acquisition of Papa Murphy's Holdings Inc., the Company identified several portfolios of corporate stores that were deemed to be assets held for sale. During the year a change in facts and circumstance led one portfolio to no longer meet the definition of assets held for sale and the carrying amount was transferred to property, plant and equipment. The Company recorded depreciation expense to reflect as though the asset was recorded initially to property, plant and equipment on acquisition.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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12. Loans receivable

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

	2019	2018
	\$	\$
Loans receivable bearing interest between 0% and 9% per annum, receivable in monthly installments of \$196 in aggregate, including principal and interest, ending in 2026	7,145	8,104
Current portion	(4,082)	(2,134)
	3,063	5,970

The capital repayments in subsequent years will be:

	\$
2020	4,082
2021	661
2022	1,700
2023	320
2024	233
Thereafter	149
	7,145

There is currently an allowance for credit losses offset against the loans receivable balance of \$2,031 (2018 – \$2,928).

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

13. Property, plant and equipment

Cost	Land	Buildings	Leasehold improve- ments	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
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	—	—	(867)	(1,193)	—	—	(2,060)
Foreign exchange	—	—	2	(53)	6	3	(42)
Additions through business combinations (Restated – note 7) ⁽²⁾	—	—	2,297	1,248	461	267	4,273
Balance at November 30, 2018 (Restated) ⁽²⁾	1,236	5,066	7,513	10,525	1,910	471	26,721
Additions	—	157	2,197	2,237	560	15	5,166
Transfer from assets held for sale (note 11)	—	—	2,169	542	—	—	2,711
Disposals	—	—	(985)	(1,699)	(15)	(63)	(2,762)
Impairment ⁽¹⁾	—	—	(695)	(365)	—	—	(1,060)
Foreign exchange	—	—	11	7	—	—	18
Additions through business combinations (note 7)	—	—	1,273	1,425	—	144	2,842
Balance at November 30, 2019	1,236	5,223	11,483	12,672	2,455	567	33,636

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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

13. Property, plant and equipment (continued)

Accumulated depreciation	Land	Buildings	Leasehold improvements	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
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 (Restated) ⁽²⁾	—	1,161	2,548	4,699	883	97	9,388
Eliminated on disposal of assets	—	—	(399)	(613)	(11)	(10)	(1,033)
Impairment ⁽¹⁾	—	—	(54)	(47)	—	—	(101)
Foreign exchange	—	—	(3)	(1)	—	—	(4)
Depreciation expense	—	232	1,580	1,676	462	73	4,023
Balance at November 30, 2019	—	1,393	3,672	5,714	1,334	160	12,273

Carrying amounts	Land	Buildings	Leasehold improvements	Equipment	Computer hardware	Rolling stock	Total
	\$	\$	\$	\$	\$	\$	\$
November 30, 2018	1,236	3,905	4,965	5,826	1,027	374	17,333
November 30, 2019	1,236	3,830	7,811	6,958	1,121	407	21,363

(1) During the year ended November 30, 2019, as the result of a decline in the financial performance, the Company carried out a review of the recoverable amounts of property plant and equipment and leasehold improvements related to certain corporate stores. The review led to the recognition of a non-cash impairment loss of \$959 composed of leasehold improvements and equipment related to Canadian operations.

(2) During the year ended November 30, 2019, the Company completed the fair value assessment of the corporate store equipment and leasehold improvements acquired through Imvescor Restaurant Group Inc. and the purchase price allocation was adjusted by \$1,420.

MTY Food Group Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2019 and 2018

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14. Intangible assets

Cost	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Customer list	Other ⁽¹⁾	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at November 30, 2017	242,832	323,190	1,199	738	—	1,645	569,604
Additions	—	—	—	—	—	1,286	1,286
Disposals	—	—	—	—	—	(2)	(2)
Acquisition through business combinations (Restated) ⁽²⁾	89,746	173,677	—	—	—	579	264,002
Foreign exchange	6,171	9,076	—	—	—	16	15,263
Impairment net of reversal	(1,248)	(2,223)	—	—	—	—	(3,471)
Balance at November 30, 2018 (Restated) ⁽²⁾	337,501	503,720	1,199	738	—	3,524	846,682
Additions	—	8	—	—	—	2,128	2,136
Disposals	—	—	—	—	—	(500)	(500)
Acquisition through business combinations	57,725	161,410	—	—	10,318	1,472	230,925
Foreign exchange	(616)	(1,460)	—	—	—	(12)	(2,088)
Impairment	(1,976)	(284)	—	—	—	—	(2,260)
Balance at November 30, 2019	392,634	663,394	1,199	738	10,318	6,612	1,074,895

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14. Intangible assets (continued)

Accumulated amortization	Franchise and master franchise rights	Trademarks	Step-in rights	Leases	Customer list	Other ⁽¹⁾	Total
\$	\$	\$	\$	\$	\$	\$	\$
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 (Restated) ⁽²⁾	86,153	—	620	738	—	932	88,443
Disposals	—	—	—	—	—	(246)	(246)
Foreign exchange	13	—	—	—	—	1	14
Amortization	27,379	—	120	—	819	867	29,185
Impairment	(600)	—	—	—	—	—	(600)
Balance at November 30, 2019	112,945	—	740	738	819	1,554	116,796
Carrying amounts							
	\$	\$	\$	\$	\$	\$	\$
November 30, 2018 (Restated) ⁽²⁾	251,348	503,720	579	—	—	2,592	758,239
November 30, 2019	279,689	663,394	459	—	9,499	5,058	958,099

⁽¹⁾ Other items include \$459 (2018 – \$579) of unamortizable licenses with an indefinite term.

⁽²⁾ During 2019, the Company recorded adjustments to the SweetFrog purchase price allocation. The adjustments related to the fair value of franchise rights and trademark.

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14. Intangible assets (continued)

Indefinite life intangible assets, which consist of trademarks and perpetual licenses have been allocated for impairment-testing purposes to the following CGUs:

	2019	2018
	\$	\$
		<i>Restated (Note 7)</i>
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
ThaiZone	7,417	7,417
Madisons New York Grill & Bar	3,410	3,410
Manchu Wok ⁽¹⁾	5,830	5,831
Big Smoke Burger	3,305	3,305
Blimpie ⁽¹⁾	6,106	6,112
Cold Stone Creamery ⁽¹⁾	155,534	155,674
Great Steak ⁽¹⁾	3,771	3,774
Pinkberry ⁽¹⁾	8,920	8,928
Planet Smoothie ⁽¹⁾	9,513	9,521
Surf City Squeeze ⁽¹⁾	3,038	3,041
Taco Time ⁽¹⁾	35,037	35,068
Baja Fresh ⁽¹⁾	20,143	20,162
The Works Gourmet Burger Bistro	3,481	3,481
Houston Avenue Bar & Grill	3,963	3,963
The Counter Custom Burger ⁽¹⁾	12,492	12,503
Built Custom Burger ⁽¹⁾	5,050	5,054
Pizza Delight	16,000	16,000
Mikes	33,300	33,300
Scores	29,400	29,400
Baton Rouge	32,000	32,000
Ben & Florentine	15,000	15,000
Retail	14,900	14,900
SweetFrog ⁽¹⁾	14,689	14,731
Papa Murphy's ⁽²⁾	130,374	—
South Street Burger	2,649	—
Casa Grecque	4,121	—
Allô! Mon Coco	13,597	—
Yuzu	9,491	—
Other ⁽¹⁾	28,244	28,646
	663,853	504,299

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

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

MTY Food Group Inc.

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

14. Intangible assets (continued)

During the year ended November 30, 2019, 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 \$1,376 in franchise rights (2018 – \$1,248) and \$284 (2018 – \$4,579) in trademarks for the US segment, which have been recognized in the consolidated statement of income. In 2018, impairments were offset by a \$2,356 reversal of the Country Style impairment loss taken in 2014 in the Canadian segment.

15. Goodwill

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

	2019	2018
	\$	\$
Balance, beginning of year	357,102	226,768
Additional amounts recognized from business acquisitions (note 7)	153,655	124,524
Foreign exchange	(1,240)	5,810
Balance, end of year	509,517	357,102

Goodwill was allocated to three CGU's in 2019, these CGUs being Canada, the US & International excluding Papa Murphy's. 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, 2019, goodwill for Canada, the US & International excluding Papa Murphy's, and Papa Murphy's represent \$195,325, \$188,679 and \$125,513 respectively (2018 – \$168,361, \$188,741 and nil, respectively).

16. Credit facility

During the year ended November 30, 2019 the Company modified its existing credit facility payable to a syndicate of lenders. The modification resulted in an increase to the revolving credit facility which now has an authorized amount of \$700,000 (2018 – \$500,000). Transaction costs of \$1,079 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, 2019, \$518,922 was drawn from the revolving credit facility (2018 – \$256,143).

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.

The Company has the following interest options:

- Amount drawn in Canadian dollars – option to pay interest based on Canada prime rate as determined by the Toronto-Dominion Bank of Canada, plus a margin not exceeding 1.40% or interest based on banker's acceptance, plus a margin not exceeding 2.40%
- Amounts drawn in US dollars – option to pay interest based on US base rates plus a margin not exceeding 2.00% or interest based on LIBOR plus a margin not exceeding 2.50%

Canada prime rate as at November 30, 2019 was 3.95% (2018 – 3.95%) and US base rate was 5.25% (2018 – 5.75%).

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.

On January 15, 2019, the Company entered into an interest rate swap fixing the interest rate at 2.273% on \$100,000 of the outstanding revolving credit facility until July 21, 2021.

As at November 30, 2019, the Company was in compliance with those financial covenants.

MTY Food Group Inc.

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17. Provisions

Included in provisions are the following amounts:

	2019	2018
	\$	\$
Litigations, disputes and other contingencies	11,216	2,390
Closed stores	1,947	1,250
	13,163	3,640

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

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.

	2019	2018
	\$	\$
Provision for litigations, disputes and closed stores, beginning balance	3,640	4,581
Reversals	(1,226)	(1,897)
Amounts used	(3,252)	(2,810)
Additions from acquisitions (note 7)	12,093	—
Additions	1,912	3,710
Impact of foreign exchange	(4)	56
Provision for litigations, disputes and closed stores, ending balance	13,163	3,640

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18. Deferred revenue and deposits

	2019	2018 ⁽¹⁾
	\$	\$
Franchise fee deposits	44,876	42,024
Unearned rent	5,060	3,415
Supplier contributions and other allowances	7,041	8,730
	56,977	54,169
Current portion	(18,761)	(20,784)
	38,216	33,385

⁽¹⁾ 2018 Figures have been adjusted to reflect IFRS15 figures that were adopted by the Company on December 1, 2019.

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

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

\$7,946 of franchise fee deposit revenue recognized in the current year was included in the deferred revenue balance at the beginning of the year (2018 – \$5,332).

The following table provides estimated revenues expected to be recognized in future years related to performance obligations that are unsatisfied as at November 30, 2019:

Estimate for fiscal year:	\$
2020	18,761
2021	6,469
2022	5,577
2023	4,516
2024	3,598
Thereafter	18,056
	<u>56,977</u>

MTY Food Group Inc.

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19. Long-term debt

	2019	2018
	\$	\$
Non-interest-bearing contract cancellation fees and holdbacks on acquisitions	14,423	11,898
Contingent consideration related to the acquisition of Yuzu Sushi (repayable August 2021) and Allô! Mon Coco (repayable October 2020 and January 2022) (note 23)	3,874	—
Fair value of promissory notes for Houston Avenue Bar & Grill repayable May 2021 (note 23)	329	—
Fair value of promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar (note 23) ⁽¹⁾	2,738	7,034
Fair value non-controlling interest buyback obligation in 10220396 Canada Inc. (note 23) ⁽¹⁾	1,549	1,501
Fair value non-controlling interest option in 9974644 Canada Inc. (note 23) ⁽²⁾	964	994
Revolving credit facility payable to a syndicate of lenders (note 16) ⁽³⁾	518,922	256,143
Credit facility financing costs	(2,149)	(1,954)
	540,650	275,616
Current portion	(4,592)	(7,416)
	536,058	268,200

⁽¹⁾ Payable 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 September 23, 2022 and must be repaid in full at that time. As at November 30, 2019, the Company had drawn C\$518,922 and US\$nil, (2018 – C\$237,522 and US\$14,000) and had elected to pay interest based on LIBOR and bankers' acceptances plus the applicable margins.

20. Capital stock

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

	2019		2018	
	Number	Amount	Number	Amount
		\$		\$
Balance beginning of year	25,169,778	312,161	21,374,497	114,545
Shares repurchased and cancelled	(98,543)	(1,222)	—	—
Shares issued as part of acquisition (note 7)	—	—	3,795,281	197,616
Balance end of year	25,071,235	310,939	25,169,778	312,161

On June 27, 2019, the Company announced the renewal of the normal course issuer bid (NCIB) to purchase up to 1,258,488 of its common shares. The NCIB began on July 3, 2019 and will end on July 2, 2020 or on such earlier date when the Company completes its purchases or elects to terminate the NCIB. These purchases will be made on the open market plus brokerage fees through the facilities of the TSX and/or alternative trading systems at the prevailing market price at the time of the transaction, in accordance with the TSX's applicable policies. All common shares purchased pursuant to the NCIB will be cancelled.

MTY Food Group Inc.

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20. Capital stock (continued)

In fiscal 2019, the Company repurchased and cancelled a total of 98,543 common shares under the previous and current NCIB (2018 – nil), at a weighted average price of \$53.04 per common share (2018 – nil), for a total consideration of \$5,227 (2018 – nil). An excess of \$4,005 (2018 – nil) of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

21. Stock options

The Company offered for the benefit of certain key member's of management a stock option plan. In accordance with the terms of the plan the Company may grant stock options on the common shares at the discretion of the Board of Directors. 100,000 shares are available for issuance under the stock option plan as at November 30, 2019 (2018 – 300,000).

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

	2019		2018	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
		\$		\$
Outstanding beginning of year	200,000	48.36	200,000	48.36
Granted	200,000	52.01	—	—
Outstanding end of year	400,000	50.19	200,000	48.36
Vested end of year	22,222	48.36	—	—

At November 30, 2019, the range of exercise prices and the weighted average remaining contractual life of options are as follows:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life
		(years)
48.36	200,000	7.3
52.01	200,000	9.8
	400,000	8.6

Options granted during the year ended November 30, 2019 have a service condition in order to vest and will be fully vested and exercisable in 5 years from date of grant. The options will expire on October 21, 2029.

MTY Food Group Inc.

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21. Stock options (continued)

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

The following weighted average assumptions were used:

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

A compensation expense of \$583 was recorded for the year ended November 30, 2019 (2018 – \$630). The expense is presented in wages and benefits in operating expenses in the consolidated statements of income.

22. 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:

	2019	2018
Weighted daily average number of common shares - basic	25,145,210	24,228,206
Assumed exercise of stock options ⁽¹⁾	41,273	44,444
Weighted daily average number of common shares - diluted	25,186,483	24,272,650

⁽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 200,000 (2018 – 155,556).

MTY Food Group Inc.

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23. Financial instruments

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

Fair value of recognized financial instruments

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

The Company settled and cancelled 4 of the 6 promissory notes that were recorded as part of the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar. These 4 promissory notes were subject to earn-out provisions and the Company realized a loss on settlement of \$452 on the consolidated statement of income for the year ending November 30, 2019. The Company issued as part of the settlement a new promissory note based on future earnings amounting to \$329. This note is payable in May 2021.

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 \$80 on the fair value, as at November 30, 2019 (2018 – \$145).

A fair value re-measurement gain of \$1,897 was recorded for these promissory notes for the year ended November 30, 2019 (2018 – loss of \$993).

Contingent considerations on acquisitions

The Company issued as part of its consideration for the acquisition of Yuzu Sushi and Allô! Mon Coco contingent considerations to the vendors. These contingent considerations are subject to earn-out provisions, which are based on future earnings and are repayable in August 2021 for Yuzu Sushi and October 2020 and January 2022 for Allô! Mon Coco. These contingent considerations have been recorded at fair value and are remeasured on a recurring basis.

A fair value re-measurement loss of \$223 was recorded for the contingent considerations for the year ended November 30, 2019 (2018 – nil).

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 19) which is remeasured at each reporting period.

A fair value remeasurement gain of \$30 (2018 – \$7) 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 19) 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 \$21 on the carrying amount as at November 30, 2019 (2018 – \$52).

A fair value re-measurement loss of \$48 (2018 – loss of \$475) was recorded for this non-controlling interest obligation.

MTY Food Group Inc.

Notes to the consolidated financial statements

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23. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

Interest rate swap

The Company holds an interest rate swap that is contracted to a fix rate on a notional amount of \$100,000 and is maturing in July 21, 2021. The fair value of this interest rate swap amounted to \$725 and the company recorded a fair value remeasurement loss of \$725 for the year ended in November 30, 2019.

Fair value hierarchy

	Level 3	
	2019	2018
Financial liabilities		
Promissory notes for Houston Avenue Bar & Grill	329	—
Promissory notes related to buyback obligation of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	2,738	7,034
Contingent considerations on acquisitions	3,874	—
Non-controlling interest buyback options	2,513	2,495
Financial liabilities	9,454	9,529

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 amount of other financial instruments as at November 30, 2019 and November 30, 2018. 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.

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Loans receivable	7,145	7,145	8,104	8,104
Financial liabilities				
Long-term debt ⁽¹⁾	531,196	542,147	266,087	268,954

⁽¹⁾ Excludes promissory notes, contingent considerations on acquisition 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 similar debt.

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23. Financial instruments (continued)

Determination of fair value (continued)

The Company, through its financial assets and financial liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at November 30, 2019.

Credit risk

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

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

Foreign exchange risk

Foreign exchange risk is the Company's exposure to decreases or increases in financial instrument values caused by fluctuations in exchange rates. The Company's exposure to foreign exchange risk mainly comes from sales denominated in foreign currencies. The Company's 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 US dollars, other working capital items and financial obligations from its USA operations.

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

As at November 30, 2019, the Company has the following financial instruments denominated in foreign currencies:

	November 30, 2019		November 30, 2018	
	USD	CAD	USD	CAD
	\$	\$	\$	\$
Financial assets				
Cash	5,194	6,902	980	1,304
Accounts receivable	253	337	330	439
Financial liabilities				
Accounts payable and deposits	(33)	(44)	(32)	(43)
Long-term debt	—	—	(14,000)	(18,621)
Net financial Assets (liabilities)	5,414	7,195	(12,722)	(16,921)

All other factors being equal, a reasonable possible 5% rise in foreign currency exchange rates per Canadian dollar would result in a profit of C\$360 (2018 – C\$846 loss) on the consolidated statements of income and comprehensive income.

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23. Financial instruments (continued)

Interest rate risk

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

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

Long-term debt stems mainly from acquisitions of long-term assets and business combinations. The Company is exposed to interest rate risk with its revolving credit facility 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. \$518,922 (2018 – \$256,143) of the credit facility was used as at November 30, 2019. A 100 basis points increase in the bank's prime rate would result in additional interest of \$5,189 per annum (2018 – \$2,561) on the outstanding credit facility.

Liquidity risk

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

As at November 30, 2019, the Company had an authorized revolving credit facility for which the available amount may not exceed \$700,000 (2018 – \$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 16.

The following are the contractual maturities of financial liabilities as at November 30, 2019

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	Thereafter
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	100,762	100,762	100,762	—	—	—
Long-term debt (note 19)	540,650	542,631	3,418	1,647	11,185	526,381
Interest on long-term debt ⁽¹⁾	n/a	40,475	7,143	7,143	14,285	11,904
	641,412	683,868	111,323	8,790	25,470	538,285

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

MTY Food Group Inc.

Notes to the consolidated financial statements

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24. Capital disclosures

The Company's objectives when managing capital are:

- (a) To safeguard its ability to obtain financing should the need arise;
- (b) To provide an adequate return to its shareholders; and
- (c) To maintain financial flexibility in order to have access to capital in the event of future acquisitions.

The Company defines its capital as follows:

- (a) Shareholders' equity;
- (b) Long-term debt including the current portion;
- (c) Deferred revenue including the current portion; and
- (d) Cash

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

The Company monitors capital on the basis of the debt-to-equity ratio. The debt-to-equity ratios at November 30, 2019 and 2018 were as follows:

	2019	2018
	\$	\$
Debt	540,650	275,616
Equity	665,480	610,895
Debt-to-equity ratio	0.81	0.45

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

The Company's credit facility imposes a maximum debt-to- proforma EBITDA ratio of 4:1 after an acquisition in excess of \$150,000 for a period of twelve months after acquisition; 3.5:1 anytime thereafter and until the maturity date of September 23, 2022.

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25. Revenue

	For the year ended					
	November 30, 2019			November 30, 2018		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
						<i>Restated (note 4)</i>
Royalties	84,477	97,239	181,716	73,781	67,259	141,040
Franchise and transfer fees	5,488	3,476	8,964	4,609	3,708	8,317
Retail, food processing and distribution revenues	90,689	4,176	94,865	46,741	3,492	50,233
Rent	1,342	—	1,342	1,820	—	1,820
Sale of goods, including construction revenues	48,710	51,431	100,141	50,172	29,003	79,175
Gift card breakage income	318	6,084	6,402	553	6,262	6,815
Promotional funds	42,461	42,999	85,460	35,400	28,559	63,959
Other franchising revenue	38,791	24,954	63,745	33,851	21,678	55,529
Other	3,267	5,040	8,307	2,729	2,729	5,458
	315,543	235,399	550,942	249,656	162,690	412,346

26. Operating expenses

	For the year ended					
	November 30, 2019			November 30, 2018		
	Canada	US & International	TOTAL	Canada	US & International	TOTAL
	\$	\$	\$	\$	\$	\$
						<i>Restated (note 4)</i>
Cost of goods sold and rent	35,859	28,350	64,209	37,864	16,921	54,785
Retail, food processing and distribution costs	80,388	—	80,388	39,997	—	39,997
Wages and benefits	47,762	59,847	107,609	39,057	36,089	75,146
Consulting and professional fees	8,999	7,125	16,124	6,443	1,806	8,249
Gift cards – related costs	—	9,083	9,083	—	7,452	7,452
Royalties	266	6,355	6,621	477	6,605	7,082
Promotional funds	42,461	42,999	85,460	35,400	28,559	63,959
Other ⁽¹⁾	14,128	19,925	34,053	10,162	20,663	30,825
	229,863	173,684	403,547	169,400	118,095	287,495

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

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27. 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
	\$	\$	\$
2020	138,027	123,713	14,314
2021	119,814	107,015	12,799
2022	101,299	89,895	11,404
2023	81,376	71,566	9,810
2024	62,026	55,125	6,901
Thereafter	145,903	125,716	20,187
	648,445	573,030	75,415

Payments recognized as a net expense during the year ended November 30, 2019 amount to \$22,965 (2018 – \$18,331).

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 \$1,342 (2018 – \$1,820).

The Company has recognized a liability of \$1,947 (2018 – \$1,250) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (note 17).

28. Guarantee

The Company has provided a guarantee on certain leases for which it is not the lessee, for a cumulative amount of \$15,057 (2018 – \$9,330).

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

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30. 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 (prior year), the Company recorded a net tax benefit of \$34,853 during the year, which is primarily derived from the re measurement of the Company’s deferred income tax balances.

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:

	2019		2018	
	\$	%	\$	%
Combined income tax rate in Canada	26,067	26.6	21,362	26.7
Add effect of:				
Difference between Canadian and foreign statutory rate	(4,511)	(4.6)	(3,987)	(5.0)
Non-taxable portion of capital gains	(103)	(0.1)	8	0.0
Permanent differences	(376)	(0.4)	1,356	1.7
Recognition of previously unrecognized deferred tax assets	(106)	(0.1)	(758)	(0.9)
Losses in subsidiaries for which no deferred income tax assets is recognized	273	0.3	132	0.2
Rate variation on deferred income tax	(676)	(0.7)	(34,853)	(43.6)
Adjustment to prior year provisions	208	0.2	649	0.8
Other – net	(515)	(0.5)	(88)	(0.1)
Provision for income taxes	20,261	20.7	(16,179)	(20.2)

MTY Food Group Inc.

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30. Income taxes (continued)

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

	November 30, 2018	Recognized in profit or loss	Recognized in other comprehen- sive income	Acquisition	Foreign exchange	November 30, 2019
	\$	\$	\$	\$	\$	\$
Net deferred tax assets (liabilities) in relation to:						
Property, plant and equipment	1,691	(1,080)	—	(3,138)	(14)	(2,541)
Accounts receivable	824	(868)	—	(3)	(4)	(51)
Deferred costs	(1,134)	(218)	—	—	—	(1,352)
Inventory	(121)	37	—	156	—	72
Provisions and gift card	15,067	543	—	569	(11)	16,168
Long-term debt	(646)	1	245	1,522	2	1,124
Non-capital losses	289	483	—	1,566	6	2,344
Intangible assets	(145,162)	(2,286)	—	(44,009)	430	(191,027)
Accrued expenses	3,207	(159)	—	3,165	4	6,217
Deferred revenue	10,099	778	—	(30)	7	10,854
	(115,886)	(2,769)	245	(40,202)	420	(158,192)

	November 30, 2017	Recognized in profit or loss	Recognized in other comprehen- sive loss	Acquisition	Foreign exchange	November 30, 2018
	\$	\$	\$	\$	\$	\$
Net deferred tax assets (liabilities) in relation to:				<i>Adjusted, note 7</i>		
Property, plant and equipment	801	46	—	820	24	1,691
Accounts receivable	1,553	(766)	—	—	37	824
Deferred costs	(783)	(341)	—	—	(10)	(1,134)
Inventory	(83)	(37)	—	—	(1)	(121)
Provisions and gift card	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	—	(40,434)	(1,938)	(145,162)
Accrued expenses	5,190	(2,221)	—	138	100	3,207
Deferred revenue	10,345	(377)	—	—	131	10,099
	(109,663)	34,900	(1,020)	(38,917)	(1,186)	(115,886)

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30. Income taxes (continued)

As at November 30, 2019, there were approximately \$52 (2018 – \$311) 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, 2019, there were approximately \$1,273 (2018 – \$1,026) 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 and 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 \$633 (2018 – \$15).

No deferred income tax liability is recognized on unremitted earnings of \$60,279 (2018 – \$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.

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

31. Segmented information

Management monitors and evaluates results of the Company based on geographical segments; these two segments being Canada and US & International. The Company and its chief operating decision-maker assess the performance of each operating segment based on its segment profit and loss which is equal to revenue less operating expenses. Within those geographical segments, the Company's chief operating decision-maker also assesses the performance of subdivisions based on the type of product or service provided. These subdivisions include franchising, corporate stores, food processing, retail and distribution and promotional fund revenues and expenses. This information is disclosed below.

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31. Segmented information (continued)

Below is a summary of each geographical and operating segment's performance during the year ended November 30, 2019 and 2018. 2018 amounts have been restated to reflect change in IFRS 15, detail of which can be found in note 4.

November 30, 2019

November 30, 2019

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total US & International	Total Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	146,598	39,133	91,570	42,461	(4,219)	315,543	138,788	51,283	4,176	42,999	(1,847)	235,399	550,942
Operating expenses	68,437	40,688	81,294	42,461	(3,017)	229,863	76,663	57,071	—	42,999	(3,049)	173,684	403,547
Segment profit (loss)	78,161	(1,555)	10,276	—	(1,202)	85,680	62,125	(5,788)	4,176	—	1,202	61,715	147,395
Total assets	995,215	6,132	17,862	5,708	—	1,024,917	605,559	11,946	—	6,346	—	623,851	1,648,768
Total liabilities	663,859	3,657	5,030	5,359	—	677,905	297,615	3,081	—	4,687	—	305,383	983,288

November 30, 2018

	CANADA						US & INTERNATIONAL						
	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total Canada	Franchising	Corporate	Processing, Distribution and Retail	Promotional funds	Interco	Total US & International	Total Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	136,935	34,848	46,741	35,401	(4,269)	249,656	106,023	24,928	3,492	28,559	(312)	162,690	412,346
Operating expenses	61,576	35,351	39,997	35,401	(2,925)	169,400	62,066	29,126	—	28,559	(1,656)	118,095	287,495
Segment profit (loss)	75,359	(503)	6,744	—	(1,344)	80,256	43,957	(4,198)	3,492	—	1,344	44,595	124,851
Total assets	821,486	4,900	10,112	6,470	—	842,968	389,513	781	—	6,258	—	396,552	1,239,520
Total liabilities	388,499	2,371	1,703	5,922	—	398,495	222,119	1,897	—	6,114	—	230,130	628,625

MTY Food Group Inc.

Notes to the consolidated financial statements

Years ended November 30, 2019 and 2018

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

32. Statement of cash flows

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

	Revolving credit facility	Loan financing costs	Non-interest- bearing contracts and holdback	Promissory notes	Non -controlling interest buyback obligation	Non-controlling interest option	Contingent consideration	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2018	256,143	(1,954)	11,898	7,034	1,501	994	—	275,616
Changes from financing activities:								
Increase in term revolving credit facility	327,399	—	—	—	—	—	—	327,399
Repayment in term revolving credit facility	(64,583)	—	—	—	—	—	—	(64,583)
Repayment of holdback	—	—	(8,813)	—	—	—	—	(8,813)
Payment of upfront fees	—	(1,079)	—	—	—	—	—	(1,079)
Recovery of accounts receivable from creditor	—	—	—	(2,076)	—	—	—	(2,076)
Repayment of promissory notes	—	—	—	(446)	—	—	—	(446)
Other	2	—	72	—	—	—	—	74
Changes from non-cash transactions:								
Amortization of transaction costs directly attributable to a financing arrangement	—	884	—	—	—	—	—	884
Accretion of interest on non-interest-bearing holdbacks	—	—	1,360	—	—	—	—	1,360
Revaluation of financial liabilities recorded at fair value through profit and loss (note 23)	—	—	—	(1,897)	48	(30)	223	(1,656)
Loss on settlement of promissory note	—	—	—	452	—	—	—	452
Foreign exchange	(39)	—	(67)	—	—	—	—	(106)
Changes from investing activities:								
Issuance of holdback (note 7)	—	—	6,990	—	—	—	—	6,990
Transfer to accounts receivable	—	—	2,983	—	—	—	—	2,983
Issuance of contingent consideration (note 7)	—	—	—	—	—	—	3,651	3,651
Balance as at November 30, 2019	518,922	(2,149)	14,423	3,067	1,549	964	3,874	540,650

MTY Food Group Inc.

Notes to the consolidated financial statements

Years ended November 30, 2019 and 2018

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

32. Statement of cash flows (continued)

Changes in non-cash operating activities are as follows:

	2019	2018
	\$	\$
Accounts receivable	(10,381)	(3,738)
Inventories	1,073	1,426
Loans receivable	(1,948)	1,050
Prepaid expenses and deposits	(1,218)	(3,113)
Other asset	(1,316)	326
Accounts payable and accrued liabilities	9,431	(5,645)
Provisions	(2,390)	(991)
Gift card and loyalty program liabilities	3,126	4,569
Deferred revenue & deposits	2,302	1,610
	(1,321)	(4,506)

Non-cash items are included in proceeds from dispositions of capital assets amounting to \$612 (2018 – \$145).

The variation of accounts receivables includes non-cash transfers from long-term debt amounting to \$906.

33. 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 years ended November 30 was as follows:

	2019	2018
	\$	\$
Short-term benefits	2,497	2,051
Share-based payment	657	659
Board member fees	75	64
Total remuneration of key management personnel	3,229	2,774

Key management personnel is composed of the Company's CEO, COO's and CFO. The remuneration of directors and key executives is determined by the Board of Directors having regard to the performance of individuals and market 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 19.5% of the outstanding shares.

MTY Food Group Inc.

Notes to the consolidated financial statements

Years ended November 30, 2019 and 2018

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

33. 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:

	2019	2018
	\$	\$
Short-term benefits	494	452
Share-based payment	22	20
Consulting services	38	13
Total remuneration of individuals related to key management personnel	554	485

34. Subsequent events

Acquisition of Turtle Jack's Muskoka Grill, COOP Wicked Chicken and Frat's Cucina

On December 3, 2019, one of the Company's wholly owned subsidiaries completed its acquisition of a 70% interest in Turtle Jack's Muskoka Grill, COOP Wicked Chicken and Frat's Cucina (together "Tortoise Group"), three casual dining concepts operating in the province of Ontario, for a consideration of \$19,106. There are currently 19 franchised Turtle Jack's restaurants in operation. The two COOP Wicked Chicken and the Frat's Cucina restaurants are company-owned, both concepts being in their start-up period.

Dividends

On January 13, 2020, the Company approved a quarterly dividend of \$0.185 per common share to be paid out on February 14, 2020.