
Condensed
interim consolidated financial
statements of
MTY Food Group Inc.

For the three and nine-month periods ended August 31, 2018 and August 31,
2017

MTY Food Group Inc.

Condensed interim consolidated statements of income

For the three and nine-month periods ended August 31, 2018 and August 31, 2017

(unaudited)

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

		Three months ended August 31		Nine months ended August 31	
	Notes	2018	2017	2018	2017
		\$	\$	\$	\$
Revenue	11 and 15	91,236	72,372	244,780	206,350
Expenses					
Operating expenses	12 and 15	51,658	46,796	149,784	139,843
Depreciation – property, plant and equipment		674	591	2,056	2,148
Amortization – intangible assets		6,620	5,525	18,148	16,792
Interest on long-term debt		3,096	2,699	8,762	7,844
		62,048	55,611	178,750	166,627
Other income (charges)					
Unrealized and realized foreign exchange gain (loss)		(22)	1,745	27	2,364
Interest income		171	154	493	373
Gain on disposal of property, plant and equipment and intangible assets		317	328	498	1,072
Revaluation of financial liabilities recorded at fair value	10	(280)	—	(1,229)	—
Impairment of property, plant and equipment		—	—	(1,515)	—
		186	2,227	(1,726)	3,809
Income before taxes		29,374	18,988	64,304	43,532
Income tax (recovery) expense	14				
Current		5,649	5,918	16,419	13,772
Deferred		1,228	948	(38,161)	(589)
		6,877	6,866	(21,742)	13,183
Net income		22,497	12,122	86,046	30,349
Net income attributable to:					
Owners		22,275	12,035	85,647	30,083
Non-controlling interests		222	87	399	266
		22,497	12,122	86,046	30,349
Earnings per share	9				
Basic		0.89	0.56	3.58	1.40
Diluted		0.88	0.56	3.58	1.40

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

MTY Food Group Inc.**Condensed interim consolidated statements of comprehensive income**

For the three and nine-month periods ended August 31, 2018 and August 31, 2017

(unaudited)

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

	Three months ended August 31		Nine months ended August 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net income	22,497	12,122	86,046	30,349
Items that may be reclassified subsequently to net income				
Unrealized gain (loss) on translation of foreign operations	3,537	(28,851)	6,426	(27,947)
Deferred tax (expense) recovery on foreign currency translation adjustments	(265)	2,472	(414)	2,473
Other comprehensive income	3,272	(26,379)	6,012	(25,474)
Comprehensive income	25,769	(14,257)	92,058	4,875
Comprehensive income attributable to:				
Owners	25,547	(14,344)	91,659	4,609
Non-controlling interest	222	87	399	266
	25,769	(14,257)	92,058	4,875

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

MTY Food Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity

For the nine-month period ended August 31, 2018 and August 31, 2017

(unaudited)

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

	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, 2016	114,545	—	481	2,615	3,096	192,543	310,184	682
Net income for the nine-month period ended August 31, 2017	—	—	—	—	—	30,083	30,083	266
Other comprehensive income	—	—	—	(25,474)	(25,474)	—	(25,474)	—
Total comprehensive income							4,609	4,875
Dividends \$0.345 per common share	—	—	—	—	—	(7,375)	(7,375)	(17)
Acquisition of the non-controlling interest in 7687567 Canada Inc.	—	—	—	—	—	(26)	(26)	(4)
Acquisition of La Duperie, Steak Frites and Giorgio and Houston and Industria	—	(850)	—	—	(850)	—	(850)	694
Stock options	—	—	244	—	244	—	244	—
Balance as at August 31, 2017	114,545	(850)	725	(22,859)	(22,984)	215,225	306,786	1,621
Balance as at November 30, 2017	114,545	(850)	882	(13,145)	(13,113)	232,192	333,624	1,702
Net income for the nine-month period ended August 31, 2018	—	—	—	—	—	85,647	85,647	399
Other comprehensive income	—	—	—	6,012	6,012	—	6,012	—
Total comprehensive income							91,659	92,058
Dividends \$0.450 per common share	—	—	—	—	—	(10,754)	(10,754)	(30)
Stock options	—	—	473	—	473	—	473	—
Acquisition of Imvescor (note 5)	197,144	—	—	—	—	—	197,144	—
Balance as at August 31, 2018	311,689	(850)	1,355	(7,133)	(6,628)	307,085	612,146	2,071

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

MTY Food Group Inc.**Condensed interim consolidated statements of financial position**

As at August 31, 2018 and November 30, 2017

(unaudited)

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

	Notes	August 31, 2018	November 30, 2017
		\$	\$
			(As restated note 5 VI)
Assets			
Current assets			
Cash		49,113	56,453
Accounts receivable	6	44,105	34,151
Inventories		8,251	3,281
Loans receivable		2,144	2,817
Income taxes receivable		1,003	1,408
Other assets		447	1,163
Prepaid expenses and deposits		8,711	5,461
		113,774	104,734
Loans receivable		5,945	3,109
Deferred income tax		269	351
Property, plant and equipment		17,557	13,081
Intangible assets		720,920	506,970
Goodwill	7	341,735	226,768
		1,200,200	855,013
Liabilities and Shareholders' equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		69,558	57,555
Provisions		80,892	75,331
Income taxes payable		24,600	19,273
Deferred revenue and deposits		21,650	20,844
Current portion of long-term debt	8	4,919	4,240
		201,619	177,243
Long-term debt	8	268,602	223,567
Deferred revenue and deposits		1,306	1,946
Deferred income taxes		114,456	116,931
		585,983	519,687

MTY Food Group Inc.**Condensed interim consolidated statements of financial position (continued)**

As at August 31, 2018 and November 30, 2017

(unaudited)

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

	August 31, 2018	November 30, 2017
	\$	\$
		(As restated note 5 VI)
Shareholders' equity		
Equity attributable to owners		
Capital stock	311,689	114,545
Reserves	(6,628)	(13,113)
Retained earnings	307,085	232,192
	612,146	333,624
Equity attributable to non-controlling interest	2,071	1,702
	614,217	335,326
	1,200,200	855,013

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

Approved by the Board on October 9, 2018

_____, Director

_____, Director

MTY Food Group Inc.

Condensed interim consolidated statements of cash flows

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

		Three months ended August 31		Nine months ended August 31	
	Notes	2018	2017	2018	2017
		\$	\$	\$	\$
Operating activities					
Net income		22,497	12,122	86,046	30,349
Adjusting items:					
Interest on long-term debt and amortization of deferred financing fees		3,096	2,906	8,762	8,465
Depreciation – property, plant and equipment		674	591	2,056	2,148
Amortization – intangible assets		6,620	5,525	18,148	16,792
Gain on disposal of property, plant and equipment and intangible assets		(317)	(328)	(498)	(1,072)
Impairment – property, plant and equipment		—	—	1,515	—
Loss on revaluation of financial liabilities recorded at fair value through profit and loss		280	—	1,229	—
Income tax expense (recovery)		6,877	6,866	(21,742)	13,183
Deferred revenue and deposits		(1,833)	(515)	(661)	2,360
Share based payments		159	159	473	244
		38,053	27,326	95,328	72,469
Income tax refunds received		—	—	—	—
Income taxes paid		(3,522)	(1,673)	(11,087)	(10,186)
Interest paid		(2,513)	(2,226)	(7,037)	(6,337)
Changes in non-cash working capital items	16	(3,640)	1,488	(9,771)	13,659
Cash flows provided by operating activities		28,378	24,915	67,433	69,605
Investing activities					
Net cash outflow on acquisition	5	(790)	(19,895)	(81,075)	(21,392)
Additions to property, plant and equipment		(1,357)	(1,016)	(2,736)	(2,380)
Additions to intangible assets		(380)	(205)	(1,104)	(435)
Proceeds on disposal of property, plant and equipment and intangibles		1,229	360	1,614	3,504
Cash flows used in investing activities		(1,298)	(20,756)	(83,301)	(20,703)

MTY Food Group Inc.**Condensed interim consolidated statements of cash flows (continued)**

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

	Three months ended August 31		Nine months ended August 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Financing activities				
Issuance of banker's acceptance	—	—	121,000	—
Issuance of long-term debt	—	13,000	—	13,000
Repayment of long-term debt	(19,822)	(34,101)	(100,898)	(45,153)
Capitalized financing costs	(448)	(519)	(448)	(519)
Dividends paid to non-controlling shareholders of subsidiaries	—	—	(30)	(17)
Dividends paid to owners	(3,774)	(2,459)	(10,754)	(7,375)
Cash flows (used in) provided by financing activities	(24,044)	(24,079)	8,870	(40,064)
Net increase (decrease) in cash	3,036	(19,920)	(6,998)	8,838
Effect of foreign exchange rate changes on cash and cash equivalents	329	(4,128)	(342)	(4,164)
Cash, beginning of period	45,748	64,982	56,453	36,260
Cash end of period	49,113	40,934	49,113	40,934

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

MTY Food Group Inc.

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MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

(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 under a multitude of banners. The Company also operates a distribution center and a food processing plant, both of which are located in the province of Quebec.

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

2. Basis of preparation

The condensed interim consolidated financial statements (“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.

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

Statement of compliance

The Company’s condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting* and apply the same accounting policies as those described in the Company’s annual consolidated financial statements for the year ended November 30, 2017, prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”), with the exception of those identified in Note 3.

These condensed interim consolidated financial statements do not include all of the information required under IFRS for complete financial statements and should therefore be read in conjunction with the Company’s annual consolidated financial statements for the year ended November 30, 2017. The Company’s annual consolidated financial statements are available on the SEDAR website at www.sedar.com and on the Company’s website at www.mtygroup.com.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on October 9, 2018.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

2. Basis of preparation (continued)

Seasonality of interim operations

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

The Company expects that seasonality will be a material factor in the quarterly variation of its results. During January and February sales are historically lower than average due to weather conditions. Sales are historically above average during May to August; given the addition of Cold Stone Creamery, which is now MTY's largest concept and which is also extremely seasonal, this pattern is expected to be more important in the future. This is generally as a result of higher traffic in the street front locations, higher sales from seasonal locations only operating during the summer months and higher sales from shopping centre locations. Sales for shopping mall locations are also higher than average in December during the holiday shopping period.

Estimates, judgments and assumptions

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

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty are as those applied and described in the Company's audited annual consolidated financial statements for the year ended November 30, 2017.

3. Adoption of IFRS standards

The following standards issued by the IASB were adopted by the Company on December 1, 2017.

Amendment to IAS 12, Income taxes

The amendment to IAS 12 provided further clarification with regards to the recognition of deferred tax assets for unrealized losses. The adoption amendment did not have a significant impact on the Company's financial statements.

IAS 7, Statement of Cash Flows

IAS 7 has been amended to provide additional presentation related to the changes in liabilities arising from financing activities such as: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The adoption of the amended version of this standard had no impact on the Company's financial statements, except for new disclosure requirements that are presented in note 16.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

4. 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 August 31, 2018, and have not been applied in preparing these condensed interim consolidated financial statements.

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

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

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

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

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

4. Future accounting changes (continued)

The Company is currently assessing the impact of adopting this standard and has identified changes that will impact its consolidated financial statements. The Company has determined that the new standard will change the way the company recognizes franchise fees and renewal fees. Under the current guidance the Company recognizes these fees when we have performed all material obligations and services. Under the new guidance the Company will defer the initial franchise fee and renewal fees and recognize over the term of the related franchise agreement. This will have no impact on the amount or timing of cash flows. Moreover, under the current guidance the Company does not reflect promotional funds collected from franchisees and the related promotional expenditures in our consolidated statement of income. Upon adoption the promotional funds collected, and the related expenditures will be reported on a gross basis in the consolidated statement of income. To the extent that promotional funds received exceed the related promotional expenditures, the excess contributions are recorded in accounts payable and accrued liabilities. The Company is still evaluating the impact of adopting this standard, which may result in additional changes to be identified to accounting policies upon adoption.

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

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

IFRIC 23 clarifies the accounting for uncertainties in income taxes.

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

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

5. Business acquisitions

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

On December 1, 2017, the Company 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 \$30,961 (US\$ 24,323). The acquisition remains subject to post-closing working capital adjustments. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

Consideration paid:

Purchase price
Repayment of external debt
Working capital
Discount on non-interest-bearing holdback
Net purchase price
Holdback
Less cash acquired
Net consideration paid/cash outflow

2018
\$
28,893
1,261
1,141
(334)
30,961
(2,625)
(34)
28,302

MTY Food Group Inc.**Notes to the condensed interim consolidated financial statements**

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

5. Business acquisitions (continued)**I) Acquisition of the Counter Custom Burgers and Built Custom Burgers (continued)**

The preliminary 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⁾	5,146
	32,364
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	30,961

⁽¹⁾ Goodwill is deductible for tax purposes

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

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

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

5. Business acquisitions (continued)

II) Acquisition of Imvescor Restaurant Group Inc.

On March 1, 2018, the Company, 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.

During the quarter the total merger consideration was adjusted to \$250,220, to reflect an adjustment to the accounting treatment of certain stock options that were settled on acquisition and had previously been expensed.

	As previously reported	Adjustment	Adjusted Consideration
			\$
Consideration paid:			
Cash and amount paid for early settlement of options	52,373	703	53,076
Shares issued	197,144	—	197,144
Total consideration	249,517	703	250,220
Less cash acquired	(4,702)	87	(4,615)
Total merger consideration	244,815	790	245,605

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

5. Business acquisitions (continued)

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

The preliminary purchase price allocation is as follows:

	As previously reported		Adjustment	Adjusted Purchase price allocation
	\$		\$	\$
Net assets acquired:				
Current assets				
Cash	4,702	(i)	(87)	4,615
Accounts receivable	11,121	(i & ii)	(498)	10,623
Notes receivable	—	(ii)	367	367
Inventory	214		—	214
Prepaid expenses and deposits	387	(i)	(26)	361
	16,424		(244)	16,180
Notes receivable	915	(i)	(71)	844
Property, plant and equipment under construction	567		—	567
Property, plant and equipment	6,248	(iii)	(764)	5,484
Other intangible assets	—	(ii)	347	347
Franchise rights	70,200		—	70,200
Trademarks	125,700		—	125,700
Goodwill ⁽¹⁾	104,403		1,487	105,890
	324,457		755	325,212
Current liabilities				
Accounts payable and accrued liabilities	13,967	(i)	(84)	13,883
Unredeemed gift card liability and loyalty points	4,800	(iv)	357	5,157
Deferred revenues	549		—	549
Income tax payable	390		(381)	9
	19,706		(108)	19,598
Credit facility	20,000		—	20,000
Deferred income tax	35,234		160	35,394
	74,940		52	74,992
Net purchase price	249,517		703	250,220

⁽¹⁾ Goodwill is not deductible for tax purposes

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

5. Business acquisitions (continued)

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

The Company has recorded adjustments to its previously reported preliminary purchase price allocation during the period. The adjustments are as follows:

- (i) Adjustment for working capital items.
- (ii) Reclass of presentation.
- (iii) Adjustment of fair value for certain items of property, plant and equipment.
- (iv) To record loyalty points assumed.

Total expenses incurred related to acquisition costs amounted to approximately \$1,653 and are recorded as an operating expense on the condensed interim consolidated statements of income.

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

III) Acquisition of Grabbagreen

On March 15, 2018, the Company 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

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

5. Business acquisitions (continued)

III) Acquisition of Grabbagreen (continued)

The preliminary purchase price allocation is as follows:

	2018
Net assets acquired:	\$
Current assets	
Prepaid expenses and deposits	17
Property, plant and equipment	73
Franchise rights	377
Trademarks	2,070
Goodwill ⁽¹⁾	918
	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 still preliminary as post-closing adjustments have not been finalized.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

For the three and nine-month periods ended August 31, 2018 and 2017

(unaudited)

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

5. Business acquisitions (continued)

IV) Acquisition of Timothy's World Coffee and Mmmuffins

On April 4, 2018, the Company completed its acquisition of the assets of Timothy's World Coffee and Mmmuffins. The total consideration for the transaction was \$1,529. 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)
Discount on non-interest-bearing holdback	(16)
Net purchase price	1,529
Holdback	(301)
Less cash acquired	(3)
Net consideration paid/cash outflow	1,225

The preliminary 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⁾	846
	1,705
Current liabilities	
Accounts payable and accrued liabilities	101
Unredeemed gift card liability	75
	176
Net purchase price	1,529

⁽¹⁾ Goodwill is deductible for tax purposes

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.

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5. Business acquisitions (continued)

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

On June 9, 2017, the Company announced it had completed through its 100% owned subsidiary MTY Tiki Ming Enterprises Inc., the acquisition of the assets of The Works Gourmet Burger Bistro. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

	<u>2017</u>
	\$
Consideration paid:	
Purchase price	8,200
Discount on non-interest-bearing holdback	(43)
Working capital and assumed obligations	<u>(273)</u>
Net purchase price	7,884
Holdback	<u>(747)</u>
Net consideration paid and net cash outflow	<u>7,137</u>

The purchase price allocation is as follows:

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

⁽¹⁾ Goodwill is deductible for tax purposes

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5. Business acquisitions (continued)

V) Acquisition of The Works Gourmet Burger Bistro (2017) (continued)

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

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

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

On June 16, 2017, the Company announced it had completed through its 80% controlling interest in 10220396 Canada Inc., the acquisition of the assets of Houston Avenue Bar & Grill and Industria Pizzeria + Bar. The Company's share of the purchase consideration amounted to \$16,778. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY brands.

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

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

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5. Business acquisitions (continued)

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

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

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

⁽²⁾ Goodwill is deductible for tax purposes

6. Accounts receivable

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

	August 31, 2018	November 30, 2017
	\$	\$
Total accounts receivable	54,191	43,762
Less: Allowance for doubtful accounts	(10,086)	(9,611)
Total accounts receivable, net	44,105	34,151
Of which:		
Not past due	34,308	25,885
Past due for more than one day but for no more than 30 days	2,228	1,568
Past due for more than 31 days but for no more than 60 days	1,384	1,483
Past due for more than 61 days	6,185	5,215
Total accounts receivable, net	44,105	34,151

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7. Goodwill

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

	August 31, 2018	November 30, 2017
	\$	\$
		As restated Note 5 VI
Balance, beginning of year	226,768	220,928
Additional amounts recognized from business acquisitions (note 5)	112,800	12,586
Houston Avenue Bar & Grill and Industria Pizzeria + Bar purchase price adjustment	—	(168)
Foreign exchange	2,167	(6,578)
Balance, end of period	341,735	226,768

8. Long-term debt

	August 31, 2018	November 30, 2017
	\$	\$
Non-interest bearing contract cancellation fees and holdbacks on acquisitions	10,836	11,367
Fair value of promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar, repayable October 2019 and June 2022 (note 10)	6,879	6,041
Fair value non-controlling interest buyback obligation in 10220396 Canada Inc (note 10) ⁽¹⁾	1,439	1,026
Fair value non-controlling interest option in La Diperie (note 10) ⁽²⁾	979	1,001
Revolving credit facility payable to a syndicate of lenders ⁽³⁾	255,522	210,522
Credit facility financing costs	(2,134)	(2,150)
	273,521	227,807
Current portion	(4,919)	(4,240)
	268,602	223,567

(1) Payable at the earlier of 3 years from the date option is exercised or June 2022.

(2) Payable on demand.

(3) Under the revolving credit facility, the Company has the option to draw funds in Canadian or in US dollars, at its discretion. The facility's maturity is July 21, 2021 and must be repaid in full at that time. As at August 31, 2018, the Company had drawn US\$-Nil and CA\$255,522 (2017-US\$Nil CA\$210,522) and had elected to pay interest based on LIBOR and CDOR plus the applicable margins.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

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9. Earnings per share

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

	Three months ended August		Nine months ended August	
	2018	2017	2018	2017
Weighted daily average number of common shares - basic	25,160,493	21,374,497	23,916,917	21,374,497
Assumed exercise of stock options ⁽¹⁾	22,222	—	—	—
Weighted daily average number of common shares - diluted	25,182,715	21,374,497	23,916,917	21,374,497

- ⁽¹⁾ The calculation of the assumed exercise of stock options includes the effect of the average unrecognized future compensation cost of dilutive options. It excludes options for which the exercise price is higher than the average market value of the Company common share. The number of excluded options was respectively 177,778 for the three-month period (2017 – 200,000) and 200,000 for the nine-month period ended August 31, 2018 (2017 – 200,000).

10. Financial instruments

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

Fair value of recognized financial instruments

Promissory notes

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

A fair value re-measurement of \$(468) was recorded for these promissory notes for the three-month period and \$838 for the nine-month period ended August 31, 2018 (2017-\$nil).

Obligations to repurchase non-controlling interests

The Company has entered into an agreement to purchase the shares of a minority interest shareholder of La Duperie at the option of the holder at anytime after December 9, 2017. The consideration is based on a multiplier of EBITDA, as prescribed by the terms of the shareholder agreement. As a result, the Company recorded a liability at fair value (note 8) re-measured at each reporting period.

A fair value re-measurement of \$345 for the three-month period ended August 31, 2018 and \$(22) for the nine-month period ended August 31, 2018 (2017-\$nil) was recorded for this non-controlling interest obligation.

MTY Food Group Inc.

Notes to the condensed interim consolidated financial statements

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10. Financial instruments (continued)

Fair value of recognized financial instruments (continued)

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., at the latest in June 2022. The consideration to be paid for this acquisition will be based on future earnings. As a result, the Company recorded a liability at fair value (note 8) and is re-measured at each reporting period.

A fair value re-measurement of \$403 for the three-month period ended and of \$413 for the nine-month period ended August 31, 2018 (2017-\$ nil) was recorded for this non-controlling interest obligation.

Fair value hierarchy as at August 31, 2018

	Level 1	Level 2	Level 3
Financial liabilities			
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	—	—	6,879
Non-controlling interest options	—	—	2,418
Financial Liabilities	—	—	9,297

Fair value hierarchy as at November 30, 2017

	Level 1	Level 2	Level 3
Financial liabilities			
Promissory notes related to the acquisition of Houston Avenue Bar & Grill and Industria Pizzeria + Bar	—	—	6,041
Non-controlling interest options	—	—	2,027
Financial Liabilities	—	—	8,068

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10. Financial instruments (continued)

The table below shows the fair value and the carrying value of other financial instruments for which the carrying value does not approximate fair value as at August 31, 2018 and November 30, 2017. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	August 31, 2018		November 30, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Loans receivable	8,089	8,089	5,926	5,926
Financial liabilities				
Long-term debt ⁽¹⁾	264,224	266,293	219,739	221,889

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

The Company, through its financial liabilities, is exposed to liquidity risk. The following analysis provides a measurement of liquidity as at August 31, 2018.

Liquidity risk

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

As at August 31, 2018, the Company had an authorized revolving credit facility for which the available amount may not exceed \$500,000 to ensure that sufficient funds are available to meet its financial requirements. The terms and conditions related to this revolving credit facility are described in note 8.

The following are the contractual maturities of financial liabilities as at August 31, 2018

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	Thereafter
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	69,558	69,558	69,558	—	—	—
Long-term debt	273,521	277,725	2,521	4,031	7,815	263,358
Interest on long-term debt ⁽¹⁾	n/a	27,053	4,638	4,638	9,275	8,502
	343,079	374,336	76,717	8,669	17,090	271,860

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

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11. Revenue

The Company's revenue includes:

	Three months ended August 31		Nine months ended August 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Royalties	40,331	33,145	105,132	90,727
Franchise and transfer fees	3,069	3,190	9,053	9,383
Rent	423	561	1,341	1,706
Sale of goods, including construction revenues	26,904	23,023	76,361	68,198
Gift card program fees and breakage	1,798	591	5,344	2,020
Other franchising revenue	15,873	10,947	40,394	30,550
Other	2,838	915	7,155	3,766
	91,236	72,372	244,780	206,350

12. Operating expenses

Operating expenses are broken down as follows:

	Three months ended August 31		Nine months ended August 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cost of goods sold and rent	16,522	14,738	47,029	46,565
Wages and benefits	20,085	16,859	58,880	51,397
Consulting and professional fees	2,925	2,981	8,886	9,626
Gift cards costs	1,444	2,501	5,851	6,354
Royalties	2,063	2,098	5,176	5,583
Other ⁽¹⁾	8,619	7,619	23,962	20,318
	51,658	46,796	149,784	139,843

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

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13. Operating lease arrangements

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

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

	Lease commitments	Sub-leases	Net commitments
	\$	\$	\$
2019	135,432	124,041	11,391
2020	122,096	111,213	10,883
2021	109,166	99,045	10,121
2022	94,785	85,520	9,265
2023	77,732	70,762	6,970
Thereafter	219,924	196,456	23,468
	759,135	687,037	72,098

Payments recognized as a net expense during the three and nine-month periods ended August 31, 2018 amounted to \$5,071 and \$15,037 (2017 - \$5,013 and \$17,202).

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

During the three and nine-month periods ended August 31, 2018, the Company earned rental revenue of \$423 and \$1,341 (2017 - \$561 and \$1,706).

The Company has recognized a liability of \$1,137 (November 30, 2017 - \$1,413) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement.

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14. Income taxes

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

Consequently, for its fiscal year ending on November 30, 2018, the Company estimated that its effective U.S. federal tax rate will be 22.19%. The Company recorded a net tax benefit of \$36,270 in its three-month period ended February 28, 2018, which is primarily derived from the re measurement of the Company’s deferred income tax balances. The benefit is estimated based on our initial analysis of the “U.S. Tax Cuts and Job Act”, and given the complexity of this act, this estimate is subject to adjustment when further guidance becomes available.

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

	Nine months ended August 31, 2018		Nine months ended August 31, 2017	
	\$	%	\$	%
Combined income tax rate	17,103	26.6	11,667	26.8
Add effect of:				
Difference between Canadian and foreign statutory rate	(2,666)	(4.2)	(1,165)	(2.7)
Impact capital gains treatment	13	0.0	(336)	(0.8)
Permanent differences	686	1.1	550	1.3
Unrealized losses for which no deferred income tax asset was recorded	—	—	1,712	3.9
Recognition of previously unrecognized losses	(411)	(0.6)	—	—
Losses in a subsidiary for which no deferred income tax asset was recorded	78	0.1	—	—
Variation in current and deferred taxes attributable to foreign exchange	695	1.1	144	0.3
Adjustment to prior year provisions	(26)	(0.1)	613	1.4
Rate variation on deferred income tax	(37,125)	(57.7)	—	—
Other – net	(89)	(0.1)	(2)	—
Provision for income taxes	(21,742)	(33.8)	13,183	30.2

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15. Segmented information

Management monitors and evaluates results of the Company based on geographical segments; these two segments being Canada and United States of America / International. Each geographical area is managed by their respective Chief Operating Officers (COO) whom brand leaders report to account for the results of their operations. 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.

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15. Segmented information (continued)

Below is a summary of each geographical segment's performance during the three-month period ended August 31, 2018 and August 31, 2017.

	Canada	USA & International	Total August 31, 2018	Canada	USA & International	Total August 31, 2017
	\$	\$	\$	\$	\$	\$
Operating revenues	51,969	39,267	91,236	36,642	35,730	72,372
Operating expenses	28,867	22,791	51,658	22,960	23,836	46,796
	23,102	16,476	39,578	13,682	11,894	25,576
Other expenses						
Depreciation – property, plant and equipment	564	110	674	442	149	591
Amortization – intangible assets	2,942	3,678	6,620	1,507	4,018	5,525
Interest on long-term debt	2,703	393	3,096	2,235	464	2,699
Other income (expense)						
Unrealized and realized foreign exchange gain (loss)	(15)	(7)	(22)	1,707	38	1,745
Interest income	93	78	171	32	122	154
Gain on disposal of property, plant and equipment and intangibles	308	9	317	276	52	328
Loss on revaluation of financial liabilities recorded at fair value through profit or loss	(280)	—	(280)	—	—	—
Operating income	16,999	12,375	29,374	11,513	7,475	18,988
Current income taxes	4,666	983	5,649	2,341	3,577	5,918
Deferred income taxes	(194)	1,422	1,228	2,689	(1,741)	948
Net income	12,527	9,970	22,497	6,483	5,639	12,122

MTY Food Group Inc.

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15. Segmented information (continued)

Below is a summary of each geographical segment's performance during the nine-month period ended August 31, 2018 and August 31, 2017.

	Canada	USA & International	Total August 31, 2018	Canada	USA & International	Total August 31, 2017
	\$	\$	\$	\$	\$	\$
Operating revenues	138,641	106,139	244,780	102,248	104,102	206,350
Operating expenses	80,897	68,887	149,784	65,377	74,466	139,843
	57,744	37,252	94,996	36,871	29,636	66,507
Other expenses						
Depreciation – property, plant and equipment	1,755	301	2,056	1,178	970	2,148
Amortization – intangible assets	7,342	10,806	18,148	4,401	12,391	16,792
Interest on long-term debt	7,541	1,221	8,762	6,357	1,487	7,844
Other income (expense)						
Unrealized and realized foreign exchange gain (loss)	38	(11)	27	2,353	11	2,364
Interest income	263	230	493	66	307	373
Gain on disposal of property, plant and equipment intangibles	322	176	498	570	502	1,072
Loss on revaluation of financial liabilities recorded at fair value through profit or loss	(1,229)	—	(1,229)	—	—	—
Impairment of property, plant and equipment	(1,515)	—	(1,515)	—	—	—
Operating income	38,985	25,319	64,304	27,924	15,608	43,532
Current income taxes	10,691	5,728	16,419	5,963	7,809	13,772
Deferred income taxes	(138)	(38,023)	(38,161)	3,219	(3,808)	(589)
Net income	28,432	57,614	86,046	18,742	11,607	30,349

MTY Food Group Inc.**Notes to the condensed interim consolidated financial statements**

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16. 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	Total
	\$	\$	\$	\$	\$	\$	\$
Balance as at November 30, 2017	210,522	(2,150)	11,367	6,041	1,026	1,001	227,807
Changes arising from financing activities:							
Increase in term revolving credit facility	45,000	—	—	—	—	—	45,000
Repayment of holdback	—	—	(4,898)	—	—	—	(4,898)
Payment of upfront fees	—	(448)	—	—	—	—	(448)
Changes from non-cash transactions:							
Amortization of transaction costs directly attributable to a financing arrangement	—	464	—	—	—	—	464
Accretion of interest on non- interest-bearing holdbacks	—	—	1,260	—	—	—	1,260
Revaluation of financial liabilities recorded at fair value through profit and loss (note 10)	—	—	—	838	413	(22)	1,229
Foreign exchange	—	—	(142)	—	—	—	(142)
Changes arising from investing activities:							
Issuance of holdback	—	—	3,249	—	—	—	3,249
Balance as at August 31, 2018	255,522	(2,134)	10,836	6,879	1,439	979	273,521

MTY Food Group Inc.**Notes to the condensed interim consolidated financial statements**

For the three and six-month periods ended August 31, 2018 and 2017

(unaudited)

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

16. Statement of cash flows (continued)

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

	Three months ended		Nine months ended	
	August 31		August 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Accounts receivable	646	(2,312)	1,222	877
Inventories	(1,666)	(532)	(4,048)	(2,355)
Loans receivable	2,007	1,322	(920)	1,488
Other Assets	523	(1,159)	716	(1,159)
Prepaid expenses and deposits	(2,695)	(100)	(2,654)	3,948
Accounts payable and accrued liabilities	(2,337)	4,041	(3,151)	5,235
Provisions	(118)	228	(936)	5,625
	(3,640)	1,488	(9,771)	13,659

17. Related party transactions

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

Compensation of key management personnel

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

	Three months ended		Nine months ended	
	August 31		August 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Short-term benefits	480	359	1,321	1,062
Share based payment	159	159	473	244
Board member fees	12	13	37	37
Total remuneration of key management personnel	651	531	1,831	1,343

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

Given its widely held share base, the Company does not have an ultimate controlling party; its most important shareholder is its CEO, who controls 19.4% of the outstanding shares.

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

MTY Food Group Inc.**Notes to the condensed interim consolidated financial statements**

For the three and six-month periods ended August 31, 2018 and 2017

(unaudited)

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

17. Related party transactions (continued)

	Three months ended August 31		Nine months ended August 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Short-term benefits	232	210	584	541
Total remuneration of individuals related to key management personnel	232	210	584	541

18. Subsequent Event**Acquisition of sweetFrog**

On September 26, 2018, the Company announced that one of its wholly-owned subsidiaries had acquired substantially all of the assets of the sweetFrog Premium Frozen Yogurt franchise system ("sweetFrog") for a consideration of approximately US\$35 million. A total of approximately US \$28.9 million was paid on closing, financed from MTY's cash on hand and existing credit facilities, while US \$2.6 million in liabilities was assumed and US \$3.5 million was held back. Due to the timing of the acquisition, a purchase price allocation could not be completed and as such no financial information is disclosed.