Kahala Brands, Ltd.
(formerly Kahala Corp.)

Consolidated Financial Statements

Year Ended December 31, 2014

(Expressed in US Dollars, unless otherwise noted)

Independent Auditor's Report

To the Board Of Directors of Kahala Brands, Ltd.

We have audited the accompanying consolidated financial statements of Kahala Brands, Ltd., which comprise the consolidated statement of financial position as at December 31, 2014, and the statements of operations and comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kahala Brands, Ltd. as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
April 21, 2015

Kahala Brands, Ltd.
(formerly Kahala Corp.)
Consolidated Statement of Financial Position
As at December 31, 2014

		2014		2013
ASSETS				
Current assets				
Cash	$	**8,487,998**	$	6,199,904
Restricted cash (note 4)		**-**		2,447,894
Accounts receivable (note 11)		**14,285,985**		17,190,142
Prepaid expenses		**3,187,009**		3,645,724
Notes receivable, current portion (note 5)		**637,541**		4,586,213
Deferred rent asset, current portion (note 13)		**1,473,998**		1,238,460
Income taxes recoverable (note 17)		**2,000,000**		-
Assets held-for-sale (notes 6)		**1,112,568**		4,149,456
		31,185,099		39,457,793
Notes receivable (note 5)		**3,012,948**		1,485,422
Property and equipment (note 7)		**23,333**		7,966,591
Deferred tax asset (note 17)		**1,000,000**		-
Deferred rent asset (note 13)		**17,806,006**		17,558,938
Intangible assets (note 8)		**58,479,609**		61,285,132
Goodwill (note 8)		**67,149,341**		68,849,341
	$	**178,656,336**	$	196,603,217
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (note 9)	$	**12,542,000**	$	15,393,115
Deferred revenue and deposits, current portion (note 12)		**4,361,903**		6,390,593
Deferred rent liability, current portion (note 13)		**1,518,459**		1,393,043
Unredeemed gift cards liability		**55,048,392**		51,164,466
Notes payable, current portion (note 10)		**4,306,406**		738,386
		77,777,160		75,079,603
Deferred revenue and deposits (note 12)		**493,225**		1,700,292
Deferred rent liability (note 13)		**18,458,770**		18,529,412
Notes payable (note 10)		**11,518,960**		46,924,210
		108,248,115		142,233,517
Shareholders' equity				
Share capital (note 14)		**62,774,986**		62,774,986
Treasury share (note 14)		**(163,750)**		-
Contributed surplus		**159,805,067**		159,903,317
Deficit		**(152,009,074)**		(169,219,354)
Accumulated other comprehensive income		**992**		910,751
		70,408,221		54,369,700
Total liabilities and shareholders' equity	$	**178,656,336**	$	196,603,217

Nature of operations (Note 1)

Commitments and contingencies (Note 16)

Approved on behalf of the Board

"Michael Serruya" ***"Aaron Serruya"***

Signed: CEO Signed: President

The accompanying notes are an integral part of these consolidated financial statements

Kahala Brands, Ltd.

(formerly Kahala Corp.)
Consolidated Statement of Operations and Comprehensive Income (Loss)
for the Year Ended December 31, 2014

	2014	2013
Revenue (note 18)	$ **129,661,631**	$ **136,089,992**
Cost of sales (note 19)	28,335,068	30,200,916
	101,326,563	**105,889,076**
Expenses		
Rent (note 13)	52,470,887	54,836,905
Salaries and benefits (note 11)	17,027,465	21,419,484
General and administrative (note 20)	10,218,222	13,177,033
Depreciation and amortization (notes 7 and 8)	2,807,190	4,348,601
	82,523,764	**93,782,023**
Other (income) loss		
Impairment of transitional stores (note 6)	277,744	456,818
Impairment of notes receivable (note 5)	2,500,000	6,267,272
Impairment of property and equipment, intangible assets and goodwill (notes 7 and 8)	1,700,000	1,126,571
Gain on disposition of assets (notes 6 and 7)	(632,003)	(1,269,710)
Gain on disposition of investment in CSC Japan, LLC (note 15)	(2,288,586)	-
Exchange gain (loss)	1,634	-
Interest expense	1,033,730	11,199,743
	2,592,519	17,780,694
Income (loss) before income taxes	**16,210,280**	(5,673,641)
Income taxes recovery (note 17)	**1,000,000**	-
Net Income (loss) from continuing operations	**17,210,280**	(5,673,641)
Discontinued operations, net of tax (notes 7 and 15)	**-**	(1,810,383)
Net income (loss)	**17,210,280**	(7,484,024)
Foreign exchange translation on foreign operations	**992**	(586,934)
Comprehensive income (loss)	$ **17,211,272**	$ (8,070,958)

The accompanying notes are an integral part of these consolidated financial statements

Kahala Brands, Ltd.
(formerly Kahala Corp.)
Consolidated Statement of Changes in Equity
For the year ended December 31, 2014

	Common shares	Treasury Shares	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Deficit
Balance at December 31, 2012	$ 69,737,905	$ -	$ -	$ 1,497,685	$(161,735,330)	$ (90,499,740)
Net loss for the year ended December 31, 2013	-	-	-	-	(7,484,024)	(7,484,024)
Settlement of due to shareholder (note 14)	-	-	161,940,398	-	-	161,940,398
Repurchase and redemption of shares (note 14)	(6,962,919)	-	(2,037,081)	-	-	(9,000,000)
Foreign exchange translation	-	-	-	(586,934)	-	(586,934)
Balance at December 31, 2013	$ 62,774,986	$ -	$159,903,317	$ 910,751	$(169,219,354)	$ 54,369,700
Net Income for the year ended December 31, 2014	-	-	-	-	17,210,280	17,210,280
Repurchase and redemption of shares (note 14)	-	(163,750)	(98,250)	-	-	(262,000)
Sale of investment in CSC Japan, LLC	-	-	-	(910,751)	-	(910,751)
Foreign exchange translation	-	-	-	992	-	992
Balance at December 31, 2014	$ 62,774,986	$ (163,750)	$159,805,067	$ 992	$(152,009,074)	$ 70,408,221

The accompanying notes are an integral part of these consolidated financial statements

Kahala Brands, Ltd.
(formerly Kahala Corp.)
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2014

		2014	2013
Operating Activities			
Net income (loss) from continuing operations	$	17,210,280	$ (5,673,641)
Items not affecting cash:			
Recovery of deferred tax		(1,000,000)	-
Depreciation of equipment		1,667	1,766,421
Amortization of intangible assets		2,805,563	2,582,180
Gain on disposition of assets		(482,081)	(1,048,350)
Gain on disposition of CSC Japan, LLC		(2,288,586)	-
Impairment expense		4,477,794	7,850,661
Write off of notes receivable		609,510	405,955
Interest on notes payable and receivable		1,036,768	11,198,142
Non-cash rent expense (income)		(427,832)	(141,606)
Accounts receivable converted into notes		(2,914,438)	(1,997,897)
Accounts payable converted into notes		183,917	-
Note receivable issued upon settlement with former owner		-	(600,000)
Notes payable issued for expenses		-	480,000
Changes in non-cash operating working capital:			
Accounts receivable		2,904,158	(5,975,216)
Prepaid expenses		458,715	(2,417,824)
Accounts payable and accrued liabilities		(2,851,254)	(2,244,426)
Deferred revenue and deposits, current portion		(3,235,757)	(2,726,871)
Unredeemed gift cards liability		3,883,926	8,067,269
Income taxes refundable		(2,000,000)	-
Cash provided by continuing operations		18,372,350	9,524,797
Cash used in discontinued operations		-	(69,517)
		18,372,350	9,455,280
Investing Activities			
Proceeds from disposition of transitional stores		1,924,202	167,096
Acquisition of transitional stores		(296,157)	(1,169,659)
Purchase of equipment		(25,000)	-
Proceeds from disposition of equipment		7,744,756	4,763,071
Proceeds from disposition of CSC Japan, LLC		3,212,900	-
Proceeds from disposition of long-term investments		-	2,491,654
Cash provided by continuing operations		12,560,701	6,252,162
Cash used in discontinued operations		-	(673,952)
		12,560,701	5,578,210
Financing Activities			
Repurchase of shares		(262,000)	-
Receipts (advances) of notes receivable		2,355,898	6,770,907
Advances of notes receivable		-	(6,816,755)
Advances of notes payable		148,500	-
Payments of notes payable		(33,336,240)	(14,177,896)
Change in restricted cash		2,447,893	(17,006)
Cash used in continuing operations		(28,645,949)	(14,240,750)
Total cash provided by continuing operations		2,287,102	1,536,209
Total cash used in discontinued operations		-	(743,469)
Effect of exchange rate on the balance of cash held in foreign currencies		992	-
Cash, beginning of the year		6,199,904	5,407,164
Cash, end of the year	$	8,487,998	$6,199,904

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of operations

Kahala Brands, Ltd. (formerly Kahala Corp. with name changed in December 2014) (the "Company" or "Kahala") is a franchisor of quick service food restaurants. The Company's core business activities are to franchise and license intellectual property and to administer, finance, manage and operate such intellectual property in the business of quick service food stores under the following trade names, trademarks, and associated insignia: Cold Stone Creamery, Blimpie, Taco Time, Surf City Squeeze, The Great Steak & Potato Company, NrGize Lifestyle Cafe, Samurai Sam's Teriyaki Grill, Frullati Café & Bakery, Rollerz, Johnnie's New York Pizzeria, Ranch One, America's Taco Shop and Cereality, (collectively, the "Concepts"). The Company also temporarily operates certain restaurant locations as corporate-owned until such locations can be re-franchised.

During the year ended December 31, 2013, the Company had holdings in investments which were not part of the Company's principal business activities. These investments included: operations of a resort property located in Idaho (note 7); significant influence holdings of Film Fresh Inc. ("FFI"); and minority interest holdings in Miami International Holdings Inc. ("MIAX"), O'Benco IV LP ("O'Benco") and Micron Resources Corporation ("Micron") (note 15). Management of the Company determined that these investments were not relevant to the current strategy and activities of the Company and, as a result, these investments were disposed of during the year ended December 31, 2013.

The Company is incorporated in Delaware. The address of its registered office is 9311 East Via de Ventura, Scottsdale, Arizona. The controlling shareholder of the Company is USKAL Corporation LLC.

These consolidated financial statements were approved by the Company's board of directors on April 21, 2015.

Statement of compliance

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

Basis of presentation

The consolidated financial statements are prepared on a going concern basis and have been presented in US dollars which is the Company's reporting currency. Standards not effective for the current accounting period are described in note 2. A summary of the significant accounting policies is set out below.

Basis of measurement

The consolidated financial statements have been prepared on the cost basis except as otherwise noted.

2. Significant 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 include the accounts of the Company and entities controlled directly or indirectly by the Company (its subsidiaries). Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Principal subsidiaries are as follows:

Principal subsidiary	Percentage of equity interest
ActsInfo USA LLC	100%
KAHA Acquisition I, LLC	100%
KAHA Acquisition IV, LLC	100%
Kahala Advertising, LLC	100%
Kahala Brands Canada Inc.	100%
Kahala Franchising, LLC	100%
Kahala Management, LLC	100%
Kahala Operations, LLC	100%
Kahala Real Estate, LLC	100%
Kahala Support, LLC	100%
KGC, LLC	100%
Surf City Squeeze, Inc.	100%
Taco Time International, Inc.	100%

Revenues and expenses of subsidiaries are included in the consolidated statement of operations and comprehensive income (loss) from the effective date of acquisition. The subsidiaries are consolidated from the acquisition date until the date on which the Company ceases to control them. Total comprehensive income or loss 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.

All intercompany transactions, balances, revenues and expenses are eliminated in full upon consolidation.

Functional currency

The functional currency of the Company and its subsidiaries is US dollars, except for Kahala Brands Canada, Inc., which is in Canadian dollars. For this subsidiary, the Company translates monetary and non-monetary assets and liabilities that are denominated in foreign currencies into US dollars, which is the reporting currency of the Company at the exchange rates prevailing at the end of the reporting period; all revenue and expense items are translated at the exchange rate at the transaction date. Transaction gains and losses are reported in profit or loss and unrealized translation foreign exchange gains and losses are reported in other comprehensive income.

2. Significant accounting policies - continued

Functional currency - continued

For the Company and other subsidiaries with functional currency being US dollars, the Company translates monetary assets and liabilities that are denominated in currencies other than the US dollar at the exchange rates prevailing at the end of the reporting period; non-monetary assets denominated in foreign currencies are translated using the exchange rate at the transaction date; all revenue and expense items denominated in foreign currencies are translated at the exchange rate at the transaction date. All foreign exchange gains and losses are reported in profit or loss.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Where goodwill forms part of a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the cash-generating unit retained.

Revenue recognition

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

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

i. Revenue from franchise locations

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

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

Revenue from the sales of franchise locations temporarily owned by the Company is recognized at the time the acquiring franchisee assumes control of the franchise location.

Revenue from equipment sales is recognized when risk of ownership and title pass to the buyer, generally upon the shipment of the product.

Renewal and transfer fees are recognized when substantially all applicable services required by the Company under the initial franchise agreement have been performed. This generally occurs on the effective date of the renewal or transfer agreement.

The Company has a store lease program whereby it is the master lessee and sub-lessor for leases on certain store locations. Under this program the Company earns rent revenues on those leases as sublessor and incurs rent expense as the master lessee. The Company’s policy regarding the store lease program is more completely described below under Leasing.

2. Significant accounting policies - continued

ii. Revenue from corporate-owned locations

Revenue from corporate-owned locations is recorded as Store Sales within revenue when goods are delivered to customers.

iii. Revenue from suppliers

The Company receives considerations from certain suppliers. Supplier contributions are recognized as revenues as they are earned and are recorded in other revenue.

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 does not have material finance leases.

The Company as sub-lessor

Revenues from operating leases are generally recognized on a straight-line basis over the term of the relevant leases except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are realized. Contingent rental revenues arising under operating leases are recognized as revenue in the period in which they are earned. The difference between the actual annual lease obligation and the amount recognized on a straight-line basis is deferred.

The Company as master 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. The difference between the actual annual lease obligation and the amount recognized on a straight-line basis is deferred.

In the event that lease incentives are received by the Company as the master lessee to enter into certain operating leases, such incentives are recognized as a liability. The aggregate benefit of such incentives are 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.

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and highly liquid investments that are readily convertible into known amounts of cash with maturities of three months or less.

2. Significant accounting policies – continued

Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis, over a life of between 5 to 10 years.

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 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 equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Transitional stores

The Company has a transition store program whereby it may revoke a franchise agreement from franchisees when they are in default. The Company acquires the assets held by the previous franchisee and cancels the sublease. The store location will be operated by the Company for a period of up to 48 months, with the intention of either refranchising or maintaining these locations as corporate-owned stores.

Upon acquisition, costs of purchasing store equipment and capital improvements are recorded at cost and classified as assets held-for-sale for stores that the Company intend to sell and re-franchise immediately after the improvement. Profit and loss during the 48-month probation period is recorded as part of continuing operations.

The Company reviews for indicators of impairment on transitional stores at the end of each reporting period. At the end of the 24 month period post-acquisition, the Company recognizes a full impairment of the store's cost basis, and its carrying value is reduced to nil.

After a location converts to a corporate-owned store at the end of the probation period, any subsequent costs are capitalized and depreciated according to the Company's policy on property and equipment.

Investment in associates

The equity method of accounting is applied where the Company owns a non-controlling interest but has significant influence over the investee. Under the equity method, original investments are recorded at cost and adjusted for the Company's share of undistributed earnings or losses of these entities.

Assets held-for-sale

An asset is classified as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the investment is available for immediate sale in its present condition. Management must be committed to the sale and expect the sale to be completed within a year from the date the investment is classified as held-for-sale. An asset classified as held-for-sale is measured at the lower of its carrying amount and its fair value less costs to sell. Impairment losses on an investment initially classified as held-for-sale and gains or losses on subsequent re-measurement are recognized in profit or loss. Once classified as held-for sale, property, plant and equipment and intangible assets are no longer depreciated and amortized.

2. Significant accounting policies - continued

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. 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.

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, 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.

Franchise rights

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

Trademarks

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

Impairment of tangible and intangible assets other than goodwill

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 that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to an individual CGU, or otherwise they are allocated to the smallest group of CGU’s for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell 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.

2. Significant accounting policies - continued

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.

If an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but only to the extent 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.

Impairment of goodwill

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

At the end of each reporting period, the Company reviews the carrying amount of goodwill to determine whether there is any indication that it has suffered an impairment loss. If any such indication exists, the recoverable amount of the CGU to which goodwill is allocated is estimated in order to determine the extent of the impairment loss (if any). 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 operations and comprehensive income (loss). An impairment loss recognized for goodwill is not reversed in subsequent periods. Regardless of whether there is an indication of impairment or not, goodwill is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or other comprehensive income.

Current tax

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit or loss and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

2. Significant accounting policies - continued

Financial instruments

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

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

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

Classification

Cash	Loans and receivables
Accounts receivable	Loans and receivables
Notes receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Notes payable	Other financial liabilities

Financial assets are classified into one of four categories:

- fair value through profit or loss ("FVTPL");
- held-to-maturity ("HTM");
- available-for-sale ("AFS"); and
- loans and receivables.

i. FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

ii. HTM investments

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs and subsequently at amortized cost.

2. Significant accounting policies - continued

iii. AFS financial assets

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, HTM or FVTPL. Gains and losses arising from changes in fair value are recognized in other comprehensive income, net of tax, and accumulated in equity in the investments revaluation reserve. Impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, are recognized directly in profit or loss rather than equity. When an investment is disposed of or is determined to be impaired, the cumulative gain or loss accumulated in the investments revaluation reserve is included in profit or loss for the period.

iv. Loans and receivables

Other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognized at the transaction value and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at the end of the reporting period. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

v. Impairment of financial assets

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

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

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

The carrying amount of all financial assets is directly reduced by the impairment loss. Changes in the carrying amount are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

2. Significant accounting policies - continued

vi. Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

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

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

vii. Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

viii. Fair value hierarchy

The Company classifies its fair value measurements in accordance with the three levels fair value hierarchy as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company does not have any financial instrument that requires fair value adjustment on a recurring basis.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

2. Significant accounting policies - continued

Unredeemed gift cards liability

The prepaid cards liability represents the Company's obligations related to unredeemed balances on activated prepaid program cards. At the end of the third year after the end of the year in which a prepaid gift card is activated, the Company estimates and recognizes as revenue the amount that would likely not be redeemed. The estimate is based on historical redemption patterns. Subsequent redemptions of gift cards that have been recognized as revenue are charged as expense during the period they are redeemed.

Advertising funds

The Company, acting as an agent, manages the advertising funds of its concepts. They are established specifically for each concept to collect and administer funds dedicated for use in advertising and promotional programs as well as other initiatives designed to increase sales and enhance the image and reputation of the concepts. Contributions to the funds are made based on a percentage of sales. The revenue and expenses of the promotional funds are not included in the Company's net income because the contributions to these funds are segregated and designated for specific purposes. These amounts are included in accounts payable and accrued liabilities.

Pursuant to the franchise agreements, franchisees must pay a fee based on sales to their respective advertising fund(s). These amounts are collected by the Company in its capacity as agent and must be used for promotional and advertising purposes, since the amounts are set aside to promote the respective concepts for the franchisees' benefit. The fees collected by the Company for the advertising funds are not recorded in the Company's consolidated statement of operations and comprehensive income (loss), but rather as accrued obligations in its capacity as agent operating on behalf of the respective advertising funds.

Segmented reporting

The Company currently operates as a single segment. Its principal business relates to franchising operations in the United States.

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 year ended December 31, 2014, 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	**Effective date** [1]	**Impact** [2]
IFRS 9 *Financial Instruments*	January 1, 2018	In assessment
IFRS 15 *Revenue from contracts with customers*	January 1, 2017	In assessment
Annual Improvement to IFRS (2010-2012 cycle)	July 2014	In assessment [3]

1) *Effective for annual periods starting on or after:*
2) *Impact on the consolidated financial statements estimated by the Company.*
3) *The Company will present the required disclosures in its annual consolidated financial statements for the year ending December 31, 2015.*

2. Significant accounting policies - continued

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities. The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. This is the first phase of that project.

IFRS 9 provides additional guidance on the classification and measurement so that financial assets will be classified by reference to the business model within which they are held. Also introduced is the "expected credit loss" model for the measurement of impairment. The de-recognition requirements are carried forward from IAS 39. Management is assessing the impact of the new standard.

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

Management is assessing the impact of the new standard as it would apply to franchise agreements which encompass initial franchise fees and royalties. Although early adoption is permitted, management has not applied this standard for the year ended December 31, 2014.

Annual improvement to IFRS (2010-2012 cycle) was performed by IASB as part of its annual improvement process. Several standards were amended:

- IFRS 3: *Business Combinations*: Accounting for contingent consideration in business combination;
- IFRS 8: *Operating segments*: Disclosure for aggregation of operating segments; and
- IAS 24: *Related Party Disclosures*: Disclosures related to key management personnel.

3. Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. 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 further periods if the review affects both current and future periods.

Critical judgments in applying accounting policies

Identification of cash-generating units

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting period date. Doing so requires the identification of cash-generating units ("CGU"); the determination is done based on management's best estimation of what constitutes the lowest level at which an asset or group of asset has the possibility of generating cash inflows.

Management identifies each brand as a CGU and makes critical judgments pertaining to the future cash flow projections and the weighted average cost of capital ("WACC").

3. Critical accounting judgments and key sources of estimation uncertainty - continued

Key sources of estimation uncertainty

Impairment of non-financial assets

The recoverable amounts of the Company's assets are generally estimated based on value-in-use calculations as the values determined by this method are higher than their fair value less cost to sell. The fair value less cost to sell of corporate stores is generally determined by estimating the liquidation value of the restaurant equipment.

The value-in-use calculations take into account the Company's best estimate of future cash flows, using the previous year's cash flows for each CGU to extrapolate that CGU's future performance to the earlier of the termination of the lease (if applicable) or 5 years with a terminal value calculated beyond this period, assuming no growth to the cash flows of previous periods. For the current reporting period, a cash flow period of 5 years was used as predictability for periods beyond this cannot be estimated with reasonable accuracy.

Determining whether goodwill is impaired requires an estimation of the value 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, the Company recorded impairment on assets held-for-sale; property and equipment; and intangibles and goodwill of $277,744, $nil, and $1,700,000, respectively (2013 - $456,818, $777,571 and $349,000).

Useful lives of property and equipment and intangible assets

As described in Note 2 above, the Company reviews the estimated useful lives of property and equipment and intangible assets with definite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings. During the years ended December 31, 2014 and 2013, the Company was not required to adjust the useful lives of any assets based on the factors described above.

Gift cards revenue

The Company makes an annual assessment and recognizes revenue related to activated gift cards that will likely never be redeemed. Management makes assumptions and estimations based on historical trends of customer redemption patterns. The Company recognized breakage revenue of $6,923,174 in 2014 (2013 - $6,225,935).

4. Restricted cash

The Company held $Nil in restricted cash as at December 31, 2014. The restricted cash held as of December 31, 2013 was $2,477,894, made up of $2,041,842 as security for a collateralized note on certain aircraft equipment owned by the Company and $406,052 held as security on certain real estate leases.

5. Notes receivable

	December 31, 2014	December 31, 2013
Loans made to franchisees, area developers and others at varying interest rates ranging from 5% - 8% and a term of 3 to 8 years	$ **4,362,861**	$ 3,378,936
Less: impairment allowance	**(712,372)**	(407,301)
Note issued to former officer in conjunction with the sales of investments (note 10), payable in monthly installments of $100,000, non-interest bearing and matures on June 15, 2014	**-**	600,000
Demand notes to Hydration Technology Innovations, LLC at interest rates up to 24% (i)	**2,500,000**	2,500,000
Less: impairment allowance	**(2,500,000)**	-
	3,650,489	6,071,635
Less: current portion	**(637,541)**	(4,586,213)
	$ **3,012,948**	$1,485,422

i) On December 2, 2013, the Company sold its note to Hydration Technology Innovations, LLC ("HTI") and Innovations Management, LLP ("IM") to HTI International Holdings, LLC, a company controlled by a former officer for total consideration of $7,500,000. The carrying value of the note was $7,500,000, net of total impairment of $25,761,126 prior to the sale of the note. $5,000,000 was paid in cash by the former officer, with the remainder in the form of a secured note bearing interest at 24% per annum. The note matured on December 31, 2014 and is secured against equity interests in HTI. The carrying value of the note has been treated as fully impaired as a result of a default in payment.

6. Transitional stores

As at December 31, 2014, the Company had 23 stores (2013 – 50) under its transitional program with a carrying value of $1,112,568 (2013 – $2,285,215). During the year, an impairment charge of $277,744 (2013 – $456,818) was recognized on these stores. The Company recorded a gain of $703,966 (2013 - $262,164) as a result of re-franchising certain of these transitional stores.

7. Property and Equipment

Cost	Land	Building	Improvements	Equipment	Aircraft	Vehicle	Total
Balance at January 1, 2013	$ 1,147,000	$ 812,755	$ 684,718	$ 579,418	$ 21,998,557	$ -	$ 25,222,448
Additions	-	245,812	223,438	204,702	-	-	673,952
Disposals	(1,147,000)	(1,058,567)	(908,156)	(784,120)	(4,007,490)	-	(7,905,333)
Impairment	-	-	-	-	(1,328,778)	-	(1,328,778)
Balance at December 31, 2013	**$ -**	**$ -**	**$ -**	**$ -**	**$ 16,662,289**	**$ -**	**$ 16,662,289**
Additions	-	-	-	-	-	25,000	25,000
Disposals	-	-	-	-	(16,662,289)	-	16,662,289)
Impairment					-	-	-
Balance at December 31, 2014	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 25,000**	**$ 25,000**
Accumulated amortization							
Balance at January 1, 2013	$ -	$ 162,763	$ 237,506	$ 168,668	$ 9,266,967	$ -	$ 9,835,904
Eliminated on disposal of assets	-	35,286	106,192	102,927	1,499,253	-	1,743,658
Depreciation expense	-	(198,049)	(343,698)	(271,595)	(2,070,522)	-	(2,883,864)
Balance at December 31, 2013	**$ -**	**$ -**	**$ -**	**$ -**	**$ 8,695,698**	**$ -**	**$ 8,695,698**
Depreciation expense	-	-	-	-	449,777	1,667	451,444
Eliminated on disposal of assets	-	-	-	-	(9,145,475)	-	(9,145,475)
Balance at December 31, 2014	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,667**	**$ 1,667**
Carrying amounts							
Balance at December 31, 2013	**$ -**	**$ -**	**$ -**	**$ -**	**$ 7,966,591**	**$ -**	**$ 7,966,591**
Balance at December 31, 2014	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 23,333**	**$ 23,333**

In 2013, the Company divested its ownership in KCBR, LLC, a business of improving and operating a resort in Idaho, to a former officer for gross proceeds of approximately $2.0 million. As part of the transaction, the purchaser also acquired working capital of $312,027 and assumed debt of KCBR in the amount of $1.2 million. The loss from this discontinued operation was $536,565 during the year ended December 31, 2013. The Company incurred a loss of $146,803 on the sale of this investment.

The Company also sold one of its aircraft during 2013 and recognized a gain of $1,154,348.

During 2014, the Company sold its Cessna aircraft to a third party for approximately $8.4 million and recognized a loss of $71,963. An impairment charge of $1,328,778 was recognized in 2013. The proceeds from the sale along with $2.0 million of restricted cash held as security, and additional cash of $2.3 million were used to repay the balance of the secured note outstanding (note 10).

8. Intangible assets and goodwill

Cost	Franchise agreements	Trade names	Goodwill	Total
Balance at January 1, 2013	**$ 32,794,735**	**$ 51,919,962**	**$ 69,198,341**	**$ 153,913,038**
Additions	**-**	-	-	-
Impairment	**-**	-	(349,000)	(349,000)
Balance at December 31, 2013	$ **32,794,735**	$ **51,919,962**	$ **68,849,341**	$ **153,564,038**
Additions				
Impairment			(1,700,000)	(1,700,000)
Balance at December 31, 2014	**$ 32,794,735**	$ **51,919,962**	$ **67,149,341**	$ **151,864,038**

Accumulated amortization	Franchise agreements	Trade names	Goodwill	Total
Balance at January 1, 2013	**$ 20,847,385**	**$ -**	**$ -**	**20,847,385**
Eliminated on disposal of assets	**-**	-	-	-
Amortization expense	2,582,180	-	-	2,582,180
Balance at December 31, 2013	$ **23,429,565**	$ **-**	$ **-**	$ **23,429,565**
Eliminated on disposal of assets				
Amortization expense	2,805,523			2,805,523
Balance at December 31, 2014	**$ 26,235,088**	$ **-**	$ **-**	$ **26,235,088**

Carrying amounts	Franchise agreements	Trade names	Goodwill	Total
Balance at December 31, 2013	$ **9,365,170**	$ **51,919,962**	$ **68,849,341**	$ **130,134,473**
Balance at December 31, 2014	**$ 6,559,647**	$ **51,919,962**	$ **67,149,341**	$ **125,628,950**

Goodwill was allocated to individual CGUs for impairment testing purposes. Each of the Company's brands is considered a separate CGU for goodwill impairment testing.

The Company recognized an impairment charge of $1,700,000 on the Blimpie brand CGU (2013 - $349,000 on the Great Steak brand CGU) in the consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2014. This CGU is an identifiable business operation for which discrete cash flows can be attributed. The Company identified lower than forecasted sales as an indicator of impairment and forecasted growth to be no greater than inflationary growth. The recoverable amount was determined based on its value in use using a pre-tax weighted average cost of capital ("WACC") of 19%. The recoverable amount as at December 31, 2014 was $19,505,000 (2013 - $28,058,000).

9. Accounts payable and accrued liabilities

	December 31, 2014	**December 31, 2013**
Accounts payable	$ **6,648,687**	$ **8,528,496**
Accrued liabilities		
Advertising	**310,573**	**2,184,528**
Gift card commissions	**1,821,935**	**1,428,037**
Provision (note 16)	**806,500**	**884,000**
Professional fees	**250,000**	**-**
Accrued payroll expense	**788,616**	**996,487**
Accrued lease termination agreements	**862,306**	**337,549**
Refundable security deposits	**501,679**	**301,685**
Earnout provision (i)	**364,411**	**407,437**
Miscellaneous	**187,293**	**324,896**
	$ **12,542,000**	$ 15,393,115

9. Accounts payable and accrued liabilities - continued

(i) Pursuant to the acquisition of the America's Taco Shop concept in 2011, the Company agreed to pay the vendors 33$^{1}/_{3}$% of all franchise fees from stores operating under the America's Taco Shop brand in the United States; 10% of all franchise fees and 16$^{2}/_{3}$% of all royalties from locations outside of the United States. The Company has accrued amounts owing to the vendor of $364,411 (2013 – $607,857).

10. Notes payable

	December 31, 2014	December 31, 2013
Note due to an unrelated party, bearing no interest, due in varying monthly installments of $800 - $28,000, through June, 2016	**$ 190,122**	$ 368,000
Note due to an unrelated party, bearing interest at 6.8% per annum, due in monthly installments of $2,936, including principal and interest with final payment due in 2014.	**-**	8,710
Note, due to Cessna Finance Corporation, bearing interest at 8.5% per annum due in monthly installments of $137,223, including principal and interest. A letter of credit for $2 million, supported by cash on deposit with a financial institution (restricted cash as disclosed in note 5), was issued as collateral for the debt. The aircraft was sold to a third party in 2014 and the note was fully paid.	**-**	13,187,546
Note due to an unrelated party, bearing interest at 6% per annum, due in varying monthly payments of principal and interest with final payment due in 2015. This note is convertible, at par, to common shares of the Company upon an initial public offering.	**635,244**	598,340
Note due to an entity related to the controlling shareholders, bearing an interest rate of 4% per annum, (6% on past due amounts). Interest is payable monthly while principal is payable in a single installment at maturity on August 1, 2028. The Company may prepay principal at any time without penalty. The Company is required to retire principal equal to 50% of net proceeds received from the issuance of debt.	**15,000,000**	33,500,000
	15,825,366	47,662,596
Less: current portion	**(4,306,406)**	(738,386)
	$ **11,518,960**	$ 46,924,210

11. Related party transactions

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

On August 19, 2013, an unrelated entity acquired a controlling interest in the Company. As a part of this transaction, the Company entered into a Contribution, Redemption, and Share Purchase Agreement ("Contribution Agreement") providing for contribution of the aggregate balance of approximately $192 million, which represented the note due to a former shareholder including accrued interest, to the capital of the Company. In connection with the Contribution Agreement, the Company entered into a Credit Agreement resulting in the Company issuing a secured promissory note to the former shareholder in the amount of $31 million. The promissory note, which bears interest at 4% per annum, may be repaid in whole or in part at any time by the Company without penalty. As a result, approximately $162 million was recognized as an addition to contributed surplus during 2013. The Company also repurchased and redeemed 303,124 common shares from the former shareholder in exchange for $9 million, payable as a note under the same terms. $2.04 million was recorded as a reduction in contributed surplus in connection with the repurchase and redemption of shares. During the year, the Company repaid $18.5 million of the aggregate note (2013 - $6.5 million).

As part of the change of control acquisition, 2 former officers agreed to repay certain payments made by the Company on behalf of these individuals. As at year end, approximately $nil (2013 - $3.7 million) remains outstanding.

Key management includes the CEO, COO, CFO, General Counsel and directors who have the authority and responsibility for planning, directing, and controlling the activities of the Company. The compensation was paid in the form of cash and short-term benefits. Total compensation for key management personnel for the year was $906,398 (2013 - $1,527,166).

12. Deferred revenue and deposits

	December 31, 2014	December 31, 2013
Franchise fee deposits	**$ 1,069,182**	$ 2,422,611
Deferred rental revenue	**1,901,196**	1,944,666
Supplier contributions and other allowances	**1,884,750**	3,723,608
	4,855,128	8,090,885
Less: current portion	**(4,361,903)**	(6,390,593)
	$ 493,225	$ 1,700,292

13. Deferred rent and 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
2015	$ 37,843,154	$ 35,078,910	$ 2,764,244
2016	35,190,221	32,437,194	2,753,027
2017	30,443,709	29,243,362	1,200,347
2018	27,101,388	25,944,711	1,156,678
2019	22,951,643	22,125,310	826,332
Thereafter	104,603,653	104,409,504	194,149
	$ 258,133,768	**$ 249,238,991**	**$ 8,894,776**

The Company recognized rental expense of $52,470,887 during the year ended December 31, 2014 (2013 - $54,836,905) and earned rental income of $46,849,244 (2013 - $47,429,001). The Company has recognized a deferred rent liability related to its lease commitments of $19,977,229 (2013 - $19,922,455) including a current liability of $1,518,459 (2013 - $1,393,043).

Operating leases as sub-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 up to five renewal periods each of five years in duration. None of the agreements contain clauses that would enable the lessee or sub-lessee to acquire the property.

14. Share capital

As at December 31, 2014, the Company had issued 1,649,027 commons shares with 1,642,477 outstanding (2013 – 1,649,027 issued and outstanding). On September 2, 2014, the Company purchased and redeemed 6,550 common shares from a shareholder for $262,000. The amount paid in excess of the original value of the shares of $98,250 is recorded against contributed surplus.

15. Investments

During 2013, the Company sold its non-controlling interests in FFI, MIAX, O'BENCO and Micron to a former officer of the Company for gross proceeds of approximately $1.24 million. No gain or loss was recognized on the sale.

The Company held a 45% ownership in its Japanese affiliate. This investment was accounted for under the equity method. The carrying amount of this investment as at December 31, 2013 was $1,864,241 and was classified as held-for-sale. The Company recorded a loss from discontinued operations of $1,273,818 for the year ended December 31, 2013. On January 1, 2014, the Company divested this ownership interest for gross proceeds of $3,562,500. A gain of $2,288,586 upon disposition has been recognized in the consolidated statement of operations and comprehensive income (loss).

16. Commitments and Contingencies

On August 25, 2014, the Company was served with a complaint that was filed in Oregon against the Company and a number of other defendants claiming that the Company aided and abetted a breach of fiduciary duty by other defendants allegedly owed to the Plaintiff, purported to result from the sale of Hydration Technology Innovations, LLC and Hydration Systems, LLC (collectively, "HTI"). The Company did not have any equity interest in HTI but had provided significant loans to HTI and its affiliates over the past several years. The Company in due course will be preparing its defenses against the claims denying any responsibility. A Motion to Dismiss the claims was filed, fully briefed and argued before the Court on March 13, 2015 and is pending decision. The Company intends to vigorously defend itself against the complaints. Pursuant to Oregon procedure, the Company and the other parties to the lawsuit are engaged in discovery. The amount of the estimated loss, if any, cannot be determined at this time.

In the ordinary course of conducting its business, the Company may periodically be a defendant in various legal proceedings. Any estimated loss contingencies in excess of amounts covered by business liability insurance are included in accrued expenses. The Company determines the amount of the loss contingency based on the amount of exposure and an analysis of the likelihood that the Company will incur a loss. It is the best judgment of management that neither the financial position nor results of operations of the Company will be materially affected by the final outcome of these legal proceedings. As of December 31, 2014, the Company has recorded a provision of $806,000 (2013 - $884,000) in respect of these proceedings. Management reviews this provision on a monthly basis and adjusts the provision to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

The Company guarantees the leases of 12 of its store locations where the franchisees are the lessees. These lease terms range from 5 to 14 years and require monthly payments ranging from $1,000 - $9,800.

17. Income taxes

The reconciliation of the combined US federal and states statutory income tax rate of 38% (2013 – 35%) to the effective tax rate is as follows:

		2014	2013
Income (loss) before income taxes	**$**	**16,211,270**	$ (7,484,023)
Expected income tax expense (recovery)	**$**	**6,160,280**	$ (2,619,410)
Tax rate changes and other adjustments		**(1,965,830)**	(402,120)
Non-deductible expenses		**86,060**	146,920
Change in tax benefits not recognized		**(5,280,510)**	2,874,610
Income tax (recovery) expense	**$**	**(1,000,000)**	$ -

The Company's income tax (recovery) is allocated as follows:

		2014		2013
Current tax (recovery) expense	$	**-**	$	**-**
Deferred tax (recovery) expense	$	**(1,000,000)**	$	**-**

17. Income taxes - continued

Deferred Tax

The following table summarizes the components of deferred tax:

		2014		2013
Deferred tax assets:				
Assets held for sale	$	225,880	$	408,350
Accounts and notes receivable		497,060		-
Property and equipment		630		-
Unredeemed gift card and other deferred revenue		12,276,850		-
Long-term investments		-		1,109,800
Non-capital losses carried forward		4,638,060		14,963,630
		17,638,480		16,481,780
Deferred tax liabilities:				
Property and equipment		-		(2,425,610)
Intangible assets		(16,638,480)		(14,056,170)
		(16,638,480)		(16,481,780)
Net deferred tax assets	$	1,000,000	$	-

The Company's US non-capital income tax losses expire as follows:

2034	**$ 12,205,420**

18. Revenue

		December 31, 2014		December 31, 2013
Royalty fees	$	37,909,390	$	39,609,186
Franchise fees		4,869,599		2,191,714
Rental income		46,849,244		47,429,001
Store sales		14,021,477		19,502,366
Other revenue		26,011,921		27,357,725
	$	129,661,631	$	136,089,992

19. Cost of sales

The table below summarizes cost of sales expenses according to their nature:

	December 31, 2014	December 31, 2013
Payroll	**$ 10,150,981**	$ 12,685,639
Advertising	**4,976,770**	5,634,879
Franchising	**2,246,231**	3,223,266
Gift Card	**9,457,666**	5,942,188
Equipment Sale	**1,503,420**	2,714,944
	$ 28,335,068	$ 30,200,916

20. General and administrative expenses

The table below summarizes general and administrative expenses according to their nature:

	December 31, 2014	December 31, 2013
Professional fees	**$ 2,557,197**	$ 2,380,824
Repairs and maintenance	**876,904**	1,141,359
Office and general	**3,141,423**	2,861,936
Advertising	**1,357,334**	1,487,487
Franchise expenses	**(251,703)**	1,211,243
Travel and entertainment	**1,861,051**	3,405,109
Insurance	**676,016**	689,075
	$ 10,218,222	$ 13,177,033

21. Financial instruments and risk management

Risk management

In the normal course of its business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks, and the actions taken to manage them, are as noted below.

Market risk

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in the market prices. The Company’s cash and restricted cash include cash held in bank accounts that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values.

21. Financial instruments and risk management - continued

Interest rate risk

The Company is subject to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates. As all loans receivable and notes payable bear interest at fixed rates, interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered American financial institutions. As a result of debt not being subject to floating interest rates, changes in prevailing interest rates would not be expected to have a material impact on profit or loss. The Company considers this risk to be immaterial.

Credit risk and concentration risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Financial instruments which are potentially subject to credit risk for the Company consists primarily of accounts and notes receivable. The Company mitigates this risk by monitoring the payment history of its franchisees and sub-lessees. Virtually all of the Company's sub-lessees are also its franchisees. Credit risk, or the risk of a counterparty defaulting, is controlled by the application of regular monitoring procedures. Where appropriate, the Company obtains security deposits as collateral. The Company has the right to offset any monies owed to and from a franchisee.

The Company does not recognize an allowance for doubtful accounts for its accounts receivable. When management observes a deterioration of credit quality of certain accounts receivable from franchisees, the Company negotiates a payment plan with the franchisee and converts the receivable balance into a note, bearing interest between 4% and 10% per annum, and secured against the assets of the franchisee. Notes receivable are reviewed periodically for impairment. An allowance of $712,372 (2013 - $407,301) has been provided on these notes receivable (note 5).

The credit risk on cash is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the consolidated financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk.

The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. Amounts written off directly to bad debts were $400,080 (2013 – $110,850).

Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations as they fall due. The Company's strategy is to satisfy its liquidity needs using cash on hand, cash flow generated from operating activities, and cash flow provided by financing activities. As at December 31, 2014, the Company had a working capital deficiency of $47.2 million (2013 – $35.6 million). Excluding the unredeemed gift cards liability, the Company would be in a positive working capital position. Management does not expect the entire unredeemed gift cards liability to be redeemed within the next 12 months.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of the Company's cash and restricted cash, accounts receivable, and accounts payable and accrued liabilities are estimated by management to approximate their carrying values due to their short-term nature. Notes receivable and payable are also fairly reflected by their carrying values as they have been financed at interest rates which are similar to current market interest rates.

22. Capital risk management

The capital of the Company includes equity, which is comprised of issued share capital, contributed surplus, and deficit. The Company's objective when managing its capital is to safeguard the ability to continue as a going concern in order to provide returns for its shareholders, and other stakeholders and to maintain a strong capital base to support the Company's core activities, the franchising of restaurant under various trade names, trademarks, and associated insignia. There was no change in objective and approach in managing the Company's capital.