

**AAA UK Holding Co. Limited**

**Annual Report and Financial Statements**

**For the year ended 30 November 2017**

**Registered Number - 09441512**

**MACFARLANES LLP  
20 CURSITOR STREET  
LONDON  
EC4A 1LT**

**WEDNESDAY**



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**16/05/2018**

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**COMPANIES HOUSE**

**AAA UK Holding Co. Limited**  
**Annual Report and Financial Statements**  
**For the year ended 30 November 2017**

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**AAA UK Holding Co. Limited**  
**Directors and Advisors**

**Directors**

Cary Jay Davis (Appointed on 16 February 2015)  
Jitij Dwivedi (Appointed on 16 February 2015)  
Michael Edward Martin (Appointed on 16 February 2015)  
John Redett (Appointed on 16 February 2015)

**Company secretary**

Joe Travis Stroud (Appointed on 7 March 2016)

**Registered office**

20 Fenchurch Street  
31<sup>st</sup> Floor  
London  
EC3M 3BY  
England

**Registered in England**

Registered number 09441512

**Independent Auditors**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London, England  
WC2N 6RH

## **AAA UK Holding Co. Limited**

### **Strategic Report**

The Directors present their Annual Report together with the audited Financial Statements of AAA UK Holding Co. Limited ("the Company") for the year ended 30 November 2017.

#### **Principal activities**

The principal activity of the Company is that of an investment company. The Company expects to continue current activities.

#### **Risks and uncertainties**

Risk management is integrated into the process of planning and performance management at a Group level and is monitored by DBRS Group through quarterly performance reviews. Company level risks have been considered and classified as credit, market, foreign currency, and liquidity risks that are inherent in the environment in which the Company operates in.

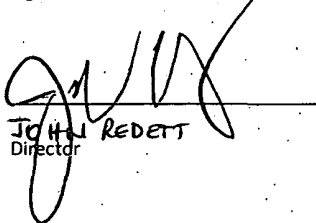
Details of how key risks are managed can be found in Note 7.

#### **Financial overview**

The Directors report a loss in the current year (before taxation) of \$22,583 (2016: 10,894) and net assets were \$153,406,464 (2016: \$153,429,047). The directors did not recommend a payment of a dividend (2016: \$nil).

The DBRS Group manages its Key Performance Indicators (KPIs) at a group level. As this is an investment company, there are no relevant KPIs in respect of this entity.

**Signed on behalf of the Directors**



JOHN REDETT  
Director

Approved by the Board of Directors on 13 April 2018

## **AAA UK Holding Co. Limited Directors' Report**

### **Directors**

The Directors of AAA UK Holding Co. Limited ("the Company") who held office during the year from 1 December 2016 to 30 November 2017 and up to the date of signing the Financial Statements were:

Cary Jay Davis (Appointed on 16 February 2015)  
Jitij Dwivedi (Appointed on 16 February 2015)  
Michael Edward Martin (Appointed on 16 February 2015)  
John Redett (Appointed on 16 February 2015)

There are currently no employees at the Company.

No dividend is proposed to be paid in this year (2016: \$nil).

The Company is wholly owned by Ratings Acquisition Corp who are incorporated in the Cayman Islands.

The Company intends to continue operating as a holding company and continue current activities acting primarily as an intermediate holding company for the foreseeable future.

A qualifying third party indemnity provision was in force for the benefit of one or more directors during the financial year.

## **AAA UK Holding Co. Limited**

### **Directors' Report (continued)**

#### **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation. Details of future developments are included in the Strategic Report.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Statement of Disclosure of Information to Auditors'**

In the case of each director in office at the date the Directors' Report is approved:

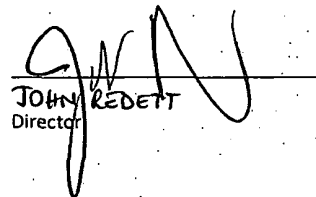
- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

**AAA UK Holding Co. Limited**  
**Directors' Report (continued)**

**Independent Auditors**

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier.

**Signed on behalf of the Board of Directors**

  
JOHN REDETT  
Director

Approved by the Board of Directors on 13 April 2018

# ***Independent auditors' report to the members of AAA UK Holding Co. Limited***

## **Report on the audit of the financial statements**

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### **Opinion**

In our opinion, AAA UK Holding Co. Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 November 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 30 November 2017; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.



Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### ***Strategic Report and Directors' Report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 November 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

#### **Responsibilities for the financial statements and the audit**

##### ***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

##### ***Auditors' responsibilities for the audit of the financial statements***

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

##### ***Use of this report***

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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#### **Other required reporting**

##### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

*A. Barford*

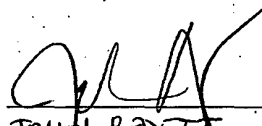
Andrew Barford (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
April 2018

**AAA UK Holding Co. Limited**  
**Statement of Financial Position**

As at 30 November	Note	2017 \$ USD	2016 \$ USD
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	8,081	3,671
		<b>8,081</b>	<b>3,671</b>
<b>Non-current assets</b>			
Investments	5	153,455,368	153,455,368
		<b>153,455,368</b>	<b>153,455,368</b>
<b>Total Assets</b>		<b>153,463,449</b>	<b>153,459,039</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		14,627	13,134
		<b>14,627</b>	<b>13,134</b>
<b>Non-current liabilities</b>			
Loans payable to related companies	8	42,358	16,858
		<b>42,358</b>	<b>16,858</b>
<b>Total Liabilities</b>		<b>56,985</b>	<b>29,992</b>
<b>Equity</b>			
Share capital	6	154	154
Share premium	6	127,050,078	127,050,078
Capital reserve	6	26,405,078	26,405,078
Accumulated losses		(48,846)	(26,263)
<b>Total equity</b>		<b>153,406,464</b>	<b>153,429,047</b>
<b>Total equity and liabilities</b>		<b>153,463,449</b>	<b>153,459,039</b>

The notes are an integral part of these financial statements.

The Financial Statements on pages 8 to 22 were approved by the Board of Directors on 13 April 2018 and signed on its behalf by:

  
**JOHN RADETT**  
 Director  
 Registered number 09441512

**AAA UK Holding Co. Limited**  
**Statement of Comprehensive Income**

	Note	For the year ended 30 November 2017 \$ USD	For the year ended 30 November 2016 \$ USD
Expenses			
Operating expenses	11	(20,088)	(13,134)
		(20,088)	(13,134)
Operating loss		(20,088)	(13,134)
Foreign exchange (loss) / gain		(2,495)	2,240
Loss before taxation		(22,583)	(10,894)
Taxation	9		
Loss and total comprehensive loss for the year		(22,583)	(10,894)

The notes are an integral part of these financial statements.

**AAA UK Holding Co. Limited**  
**Statement of Changes in Equity**

For the year from 1 December 2015 to 30 November 2016

	Note	Share capital \$ USD	Share premium \$ USD	Capital reserve \$ USD	Accumulated losses \$ USD	Total Equity \$ USD
At 1 December 2015		154	157,802,824	-	(15,369)	157,787,609
Capital injection	6	-	-	25,669,440	-	25,669,440
Employee share scheme	6	-	-	735,638	-	735,638
Return of Capital	6	-	(30,752,746)	-	-	(30,752,746)
Loss from continuing operations		-	-	-	(10,894)	(10,894)
At 30 November 2016		154	127,050,078	26,405,078	(26,263)	153,429,047

For the year from 1 December 2016 to 30 November 2017

	Note	Share capital \$ USD	Share premium \$ USD	Capital reserve \$ USD	Accumulated losses \$ USD	Total Equity \$ USD
At 1 December 2016		154	127,050,078	26,405,078	(26,263)	153,429,047
Loss from continuing operations		-	-	-	(22,583)	(22,583)
At 30 November 2017		154	127,050,078	26,405,078	(48,846)	153,406,464

The notes are an integral part of these financial statements.

**AAA UK Holding Co. Limited**  
**Statement of Cash Flows**

		For the year ended Note 30 November 2017 \$ USD	For the year ended 30 November 2016 \$ USD
<b>Cash flows from operating activities</b>			
Cash paid to suppliers and related parties		(4,512)	-
<b>Net cash used in operating activities</b>	14	<b>(4,512)</b>	-
<b>Cash flows from investing activities</b>			
<b>Net cash from / (used in) investing activities</b>			-
<b>Cash flows from financing activities</b>			
Loans advanced from related companies		9,112	3,812
<b>Net cash generated from financing activities</b>		<b>9,112</b>	<b>3,812</b>
Foreign exchange loss		(190)	(141)
<b>Net increase in cash and cash equivalents</b>		<b>4,410</b>	<b>3,671</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>3,671</b>	-
<b>Cash and cash equivalents, end of year</b>		<b>8,081</b>	<b>3,671</b>

The notes are an integral part of these financial statements.

**AAA UK Holding Co. Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 November 2017**

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**1 Nature of operations**

The principal activity of the Company is that of a holding company. The Company expects to continue current activities. The Directors expect the Company to continue acting primarily as an intermediate holding company for the foreseeable future.

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**2 General information and statement of compliance with IFRS**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union ("EU"), the Companies Act 2006 as applicable to companies reporting under IFRS, interpretations issued by the IFRS Interpretations Committee (IFRS IC), and Article 4 of the International Accounting Standard ("IAS") Regulations.

The immediate parent undertaking is Ratings Acquisition Corp. The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Ratings Acquisition Corp, incorporated in the Cayman Islands. These financial statements are available upon request from Companies House.

The Company was incorporated on 16 February 2015 in England and Wales and is domiciled in the United Kingdom under the Companies Act 2006. The Company is limited by shares. The ultimate parent company is Ratings Acquisition Corp (incorporated in the Cayman Islands). The address of its principal place of business is 20 Fenchurch Street, 31<sup>st</sup> Floor, London, EC3M 3BY. The principal activities of the Company are disclosed in the Strategic report.

AAA UK Holdings Co. Limited is exempt from preparing and delivering consolidated financial statements for the year ended 30 November 2017, to the Registrar of Companies in accordance with the UK Companies Act 2006, Section 401. Consolidated financial statements have been prepared under US GAAP by Ratings Acquisition Corp, the ultimate holding company. Ratings Acquisition Corp is domiciled in the Cayman Island and the company is situated at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005.

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**3 Summary of accounting policies**

**Basis of preparation**

The Financial Statements are prepared under the historical cost convention, and are prepared in US Dollars. The Company's functional currency is US Dollars. US Dollar reporting is the most relevant presentation of the Company's financial position, funding and treasury functions, financial performance and its cash flows.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below. The accounting policies have been applied consistently throughout these financial statements.

**Going concern**

These financial statements have been prepared on a going concern basis as the Directors believe that the Company continues to operate with satisfactory cash flow and receives satisfactory support from Ratings Acquisition Corp, the ultimate parent undertaking of the Company. Ratings Acquisition Corp has provided a letter of support to the Company effective for an 18 month period from 20 March 2018.

**AAA UK Holding Co. Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 November 2017**

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**3 Summary of accounting policies (continued)**

**Foreign currency translation**

Amounts in the financial statements are presented in U.S. Dollars. Transactions in foreign currencies are translated to U.S. Dollars at exchange rates at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in the income statement for the year.

Non-monetary items measured at historical cost are translated using the exchange rates at the balance sheet date.

**Loans payable to related companies**

The related party loans are non-interest bearing and are initially measured at fair value (which is equal to the cost at inception).

**Accounting Estimates**

Due to the nature of the transactions undertaken by the Company, the only significant accounting estimates are those made during the annual impairment assessment for investments.

**Financial instruments**

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged or expires.

The Company's financial instruments include cash and cash equivalents, trade receivables, investment, trade and other payables and loans payable to related parties. The fair value of the Company's financial instruments other than loans payable to related parties approximate their carrying value due to the short term to maturity of these financial instruments.

**Financial assets**

Financial assets are classified into one of the following four categories: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition. The category determines subsequent measurements and whether any resulting income and expense is recognised in profit or loss or in comprehensive income for the year. All financial assets are initially recorded at fair value.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Investments through which we are not able to exercise significant influence over the investee and which do not have readily determinable fair values are accounted for under the cost method.

All financial assets except those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

**AAA UK Holding Co. Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 November 2017**

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**3 Summary of accounting policies (continued)**

**Financial instruments (continued)**

*Loans and receivables*

Financial assets are classified as loans and receivables if they are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are carried at amortised cost using the effective interest rate method with gains and losses recognised when the asset is derecognised. The Company's cash and cash equivalents fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence exists that a specific counterparty may default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of write down is then based on recent historical counterparty default rates for each identified group.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that do not meet the hedge accounting criteria as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with gains or losses recognised in the statement of comprehensive income.

The Company has not designated any financial assets as fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognised in the statement of comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

*Financial liabilities*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

The Company's financial liabilities include trade and other payables and loan payable to related parties. Financial liabilities are initially measured at fair value with subsequent measurement determined based on their classification as follows.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that do not meet hedge accounting criteria as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

The Company has not designated any financial liabilities as fair value through profit or loss.



**AAA UK Holding Co. Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 November 2017**

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**3 Summary of accounting policies (continued)**

**Financial instruments (continued)**

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

**Equity and reserves**

Share capital represents cumulative consideration received for shares that have been issued, net of appropriate adjustments.

Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits. Retained earnings include all current retained deficits.

All transactions with owners of the Company are recorded separately within equity.

**Investments**

Investment is stated at cost less provision for impairment. Impairment is assessed annually.

**Operating expenses**

Operating expenses are recognised in the income statement upon utilisation of the service or at the date of their origin.

**Cash and cash equivalents**

Cash and cash equivalents comprised of cash on hand and deposits held with banks with maturities of less than three months.

**Trade payables**

Trade payables consist of amounts billed to the Company by its suppliers for goods and services. All trade payables have contractual maturities within 6 months and are classified as current assets on the balance sheet.

**Standards and interpretations in issue but not effective**

At the time these financial statements were authorised for issue by the directors the following Standards and Interpretations, which are relevant to the Company, were in issue but not yet effective:

- IFRS 9 Financial Instruments (IASB effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)
- IFRS 2 - Share based payments (effective January 1, 2018)

The Directors have been working on determining the future impact of the standards.

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**AAA UK Holding Co. Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 November 2017**

**4 Cash and cash equivalents**

Cash and cash equivalents of the Company are comprised of bank balances. The Company's bank balances carry prevailing market interest rates. See Note 7 for cash and cash equivalents denominated by currency.

**5 Investments**

	2017 \$ USD	2016 \$ USD
Opening	153,455,368	157,802,978
Capital injection	-	25,669,440
Employee share scheme	-	735,638
Investment in DBRS Ratings Mexico, Institucion Calificadora de Valores, S.A. de C.	-	58
Return on capital	-	(30,752,746)
Ending	153,455,368	153,455,368
Impairment	-	-
Net Book Value	153,455,368	153,455,368

**Subsidiary Undertakings**

**Principal subsidiary undertakings**

The company holds investments in common shares of the following subsidiary undertakings:

<u>Company Name</u>	<u>Country of Incorporation</u>	<u>Principal Activity</u>	<u>Holding Company</u>	<u>%</u>	<u>Registered Address</u>
AAA UK Acquisition Co. Limited	England and Wales	Investment	AAA UK Holding Co. Limited	100	20 Fenchurch Street, 31st Floor London EC3M 3BY
DBRS Ratings Mexico, Institucion Calificadora de Valores, S.A. de C.	Mexico	Credit Rating Agency	AAA UK Acquisition Co. Limited	1	Paseo de la Reforma No.350-Pisos 10 y 11 Co. Juárez, México, DF 06600 Mexico

**Indirect Undertakings**

<u>Company Name</u>	<u>Country of Incorporation</u>	<u>Principal Activity</u>	<u>Holding Company</u>	<u>%</u>	<u>Registered Address</u>
DBRS Limited	Canada	Credit Rating Agency	AAA UK Acquisition Co. Limited	100	181 University Avenue, Suite 700 Toronto ON, M5H 3M7
DBRS, Inc.	USA	Credit Rating Agency	AAA UK Acquisition Co. Limited	100	140 Broadway, 35th Floor New York, NY 10005
DBRS Ratings Limited	England and Wales	Credit Rating Agency	AAA UK Acquisition Co. Limited	100	20 Fenchurch Street, 31st Floor London EC3M 3BY
DBRS Ratings Mexico, Institucion Calificadora de Valores, S.A. de C.	Mexico	Credit Rating Agency	AAA UK Acquisition Co. Limited	99	Paseo de la Reforma No.350-Pisos 10 y 11 Co. Juárez, Mexico, DF 06600 Mexico

**AAA UK Holding Co. Limited**  
**Notes to the Financial Statements**  
For the year ended 30 November 2017

**6 Share capital, share premium and capital reserve**

	2017 \$ USD	2016 \$ USD
Issued		
100 Ordinary Shares	154	154
Share premium, opening	127,050,078	157,802,824
Return of capital	-	(30,752,746)
Share premium, ending	127,050,078	127,050,078
Capital reserve, opening	26,405,078	-
Capital injection	-	25,669,440
Employee share scheme	-	735,638
Capital reserve, ending	26,405,078	26,405,078

The share capital of the Company consists of 100 ordinary share with a par value of \$154 issued to Ratings Acquisition Corp. The issued share capital has been paid.

A share premium in the amount of \$127,050,078 (2016: \$127,050,078) is recorded and represents the additional amount shareholders paid for their issued shares that was in excess of the par value of those shares. In 2017, the Company made \$nil (2016: \$30,752,746) of return on capital payment to the parent company.

For the current year, the Company received \$nil (2016: \$25,669,440) from a capital injection from the parent company and \$nil (2016: \$735,638) from an employee share scheme. The employee share scheme represents a conversion of restricted stock units to common shares.

**7 Financial instrument risk management**

The Company holds no derivatives and has not identified any embedded derivatives which require separate accounting for in accordance with IAS 39 'Financial Instruments Recognition & Measurement'. The following table sets out the carrying value of the Company's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/ liabilities.

2016	Amortized Cost			Total \$ USD
	Loans and receivables	Liabilities	Non-financial assets / liabilities	
	\$ USD	\$ USD	\$ USD	
<b>ASSETS</b>				
Non-current assets				
Cash and cash equivalents	3,671	-	-	3,671
Investment	-	-	153,455,368	153,455,368
<b>Total assets</b>				<b>153,459,039</b>
<b>LIABILITIES</b>				
Current Liabilities				
Trade and other payables	-	13,134	-	13,134
Loans payable to related companies	-	16,858	-	16,858
<b>Total liabilities</b>				<b>29,992</b>

**AAA UK Holding Co. Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 November 2017**

**7 Financial instrument risk management (continued)**

2017	Amortized Cost		Non-financial assets / liabilities	Total
	Loans and receivables	Liabilities		
	\$ USD	\$ USD	\$ USD	\$ USD
<b>ASSETS</b>				
Non-current assets				
Cash and cash equivalents	8,081	-	-	8,081
Investment	-	-	153,455,368	153,455,368
<b>Total assets</b>				<b>153,463,449</b>
<b>LIABILITIES</b>				
Current Liabilities				
Trade and other payables	-	14,627	-	14,627
Loans payable to related companies	-	42,358	-	42,358
<b>Total liabilities</b>				<b>56,985</b>

The Company's financial instruments include cash and cash equivalents, trade receivables, trade and other payables, and loans payable to related companies. The fair value of the Company's financial instruments other than loans payable to related companies approximate their carrying value due to the short term to maturity of these financial instruments.

The Company is exposed to various risks in relation to financial instruments. The main types of risks are credit risk, market risk, foreign currency risk and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and establishes and monitors risk management policies to: identify and analyse the risks faced by the Company; to set appropriate risk limits and controls; and to monitor risks and adherence to market conditions and the Company's activities.

**Credit risk**

Credit risk is the risk of an unexpected loss if a customer fails to meet its contractual obligation. The Company has no exposure to credit risk as at November 30, 2017 (2016: \$nil).

**Market risk**

Market risk is the loss that may arise from changes in factors such as interest rates and foreign currency exchange rates. The Company is not subject to interest rate risk as there is no interest bearing financial instruments.

Most of the Company's administrative expenses are carried out in U.S. dollars. Exposure to currency exchange rates arises from the Company's related party loan which is denominated in Canadian Dollars and Pounds Sterling. Market risks are monitored regularly against defined risk limits and tolerances.

**Foreign currency risk**

A portion of the Company's assets and liabilities are denominated in foreign currencies. The Company does not enter into forward exchange contracts to mitigate the exposures to foreign currency risk, as the amounts denominated in foreign currencies is not significant.

**AAA UK Holding Co. Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 November 2017**

**7 Financial instrument risk management (continued)**

**Foreign currency risk (continued)**

The financial assets and financial liabilities denominated in foreign currencies that expose the Company to currency risk are as follows:

**2016**

	Canadian Dollar	GBP	Pesos	United States Dollar
Cash	4,929	-	-	-
Investment in Subsidiary	155,856,232	-	1,000	25,000,000
Loans Payable to Related Parties	(5,000)	(10,500)	-	-

**2017**

	Canadian Dollar	GBP	Pesos	United States Dollar
Cash	4,822	-	-	4,342
Investment in Subsidiary	155,856,232	-	1,000	25,000,000
Loans Payable to Related Parties	(10,000)	(21,888)	-	(5,000)

**Liquidity risk**

Liquidity risk is the risk that the Company will be unable to meet its obligations as they fall due. The Company's principal source of liquidity is Ratings Acquisition Corp, DBRS Ratings Limited, DBRS, Inc. and DBRS Limited who have funded startup costs for the Company. Liquidity risk is managed by maintaining the availability of funding through related parties.

The Company's financial liabilities have contractual maturities as follows:

**2016**

	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
	\$ USD	\$ USD	\$ USD	\$ USD
Trade and other payables	13,134	-	-	-
Loans payable to related companies	-	-	16,858	-

**2017**

	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
	\$ USD	\$ USD	\$ USD	\$ USD
Trade and other payables	14,627	-	-	-
Loans payable to related companies	-	-	42,358	-

**AAA UK Holding Co. Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 November 2017**

**7 Financial instrument risk management (continued)**

**Fair value measurement**

The Company recognises fair value measurements for each class of financial instrument as follows:

<b>2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>\$USD</b>	<b>\$USD</b>	<b>\$USD</b>
Cash and cash equivalents	3,671	-	-
	3,671	-	-

<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>\$USD</b>	<b>\$USD</b>	<b>\$USD</b>
Cash and cash equivalents	8,081	-	-
	8,081	-	-

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

**8 Loans payable to related companies**

DBRS Limited, DBRS, Inc. and DBRS Ratings Limited provided services to the Company throughout the year as follows:

	<b>2017</b>	<b>2016</b>
	<b>\$ USD</b>	<b>\$ USD</b>
Intercompany payable to DBRS Limited	3,877	3,723
Intercompany payable to DBRS, Inc.	8,877	-
Intercompany payable to DBRS Ratings Limited	29,604	13,135
	42,358	16,858

The costs charged by DBRS Limited, DBRS, Inc. and DBRS Ratings Limited are considered to be in the normal course of operations and were recorded at the amounts agreed to between the companies. Loans and intercompany payables relate to amounts paid on behalf of the holding company and are due on demand and non-interest bearing. However, the companies have provided written representation to AAA UK Holding Co. Limited that these loans will not be callable within a year.

**9 Taxation**

There is no tax payable or receivable for the current and prior year.

**AAA UK Holding Co. Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 November 2017**

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**10 Capital management**

The Company's objectives of capital management are intended to safeguard its ability to support the Company's normal operating requirements on an ongoing basis.

The capital of the Company consists of the items included in shareholders' equity. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets. In order to maintain or adjust its capital structure, the Company may issue new shares, make or receive capital contribution or disbursement, issue new debt or issue new debt to replace existing debt with different characteristics. Total capital of the Company is summarized below:

	2017 \$ USD	2016 \$ USD
Total borrowings	42,358	16,858
Less: cash and cash equivalents	(8,081)	(3,671)
Net debt	34,276	13,187
Total equity	153,406,464	153,429,047
Total capital	153,440,740	153,442,234

There is no restriction on the Company to pay dividends other than cash flow considerations and the availability of distributable profits.

To date, the Company has not paid any dividends and there has been no approved plan on future dividends.

To effectively manage its capital investments, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

The Company is not subject to any externally imposed capital requirements such as loan covenants or capital ratios.

There were no changes to the Company's approach to capital management during the current year.

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**11 Operating Expenses**

The operating expenses relate to audit fees payable to PricewaterhouseCoopers LLP of \$14,627 (2016: \$13,134) and charges for secretarial and bank fees.

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**12 Subsequent event**

We have considered all subsequent events through 13 April 2018, and no material events have occurred during the year.

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**13 Directors Emoluments**

None of the directors received remuneration for their services to the Company during the year. Directors are remunerated by fellow group undertakings. Of the emoluments paid by fellow group undertakings, nil related to the services to this Company, which were of negligible value.

Daniel Curry's employment with the Company ceased on 7 September 2016. In accordance with the terms of his service agreement and the Company's remuneration policy, it was agreed that Daniel Curry would receive a payment in lieu of loss of office. This amount was paid by DBRS, Inc.

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**AAA UK Holding Co. Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 November 2017**

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**14 Reconciliation of loss before taxation to net cash outflow from operating activities**

	<b>2017</b>	<b>2016</b>
	<b>\$ USD</b>	<b>\$ USD</b>
Loss before taxation	(22,583)	(10,894)
Adjustments for:		
Foreign exchange loss	190	2,240
Increase in trade and other payables	1,493	8,654
Increase in loans payable to related companies	16,388	-
	<u>(4,512)</u>	<u>-</u>

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**15 Related party transactions**

On occasion, DBRS Inc., DBRS Limited and DBRS Ratings Limited pays vendor invoices on behalf of the Company, the cost of which is recharged to the Company.

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**16 Approval of the financial statements**

The financial statements of AAA UK Holding Co. Limited on pages 8 to 22 for the year from 1 December 2016 to 30 November 2017 were approved and authorised for issue by the Board of Directors on 13 April 2018.

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**Ratings Acquisition Corp**  
(operating as DBRS Group)

Consolidated Financial Statements

**November 30, 2017**

(expressed in thousands of Canadian dollars, unless otherwise indicated)



April 13, 2018

## **Report of Independent Auditors**

### **To the Board of Directors of Ratings Acquisition Corp**

We have audited the accompanying consolidated financial statements of Ratings Acquisition Corp which comprise the consolidated balance sheet as of November 30, 2017, the related consolidated statements of operations and comprehensive income (loss), share capital and other shareholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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*PricewaterhouseCoopers LLP  
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5  
T: +1 905 815 6300, F: +1 905 815 6499*

\*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ratings Acquisition Corp as of November 30, 2017, and the results of its consolidated operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

# Ratings Acquisition Corp

(operating as DBRS Group)


## Consolidated Balance Sheet

(expressed in thousands of Canadian dollars, unless otherwise indicated)

As at November 30, 2017

	Notes	November 30, 2017	November 30, 2016
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 40,100	\$ 14,240
Accounts receivable, net	3	32,468	29,767
Prepaid expenses and other		5,449	4,442
Deferred tax assets	7	455	2,207
		<b>78,472</b>	<b>50,656</b>
Investments		704	677
Property and equipment, net	4	9,025	7,717
Other assets		255	275
Intangible assets	5	324,482	356,405
Goodwill	5	298,322	303,399
Swap receivable	13	2,962	8,000
		<b>\$ 714,222</b>	<b>\$ 727,129</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 12,282	\$ 10,859
Employee incentive plans	8	28,237	18,883
Income taxes payable		-	1,064
Current portion deferred revenue		31,436	29,126
Current portion of long-term debt	6	2,902	3,022
Other	9	1,584	1,125
		<b>76,441</b>	<b>64,079</b>
Deferred revenue		18,363	16,080
Long-term debt	6	277,421	287,885
Deferred tax liabilities	7	84,732	93,430
Unrecognized tax benefits	7	2,672	2,780
Asset retirement obligation		303	275
Other	9	1,471	2,005
		<b>461,403</b>	<b>466,534</b>
<b>Commitments (Note 15), Contingencies (Note 17) and Subsequent Event (Note 18)</b>			
<b>Mezzanine equity</b>			
Class A preferred shares	10	85,779	91,039
<b>Share capital and other shareholders' equity</b>			
Share capital	10	197,972	197,972
Treasury shares	11	(571)	-
Dividends paid		(1,320)	(584)
Contributed surplus		(276)	1,122
Deficit		(31,001)	(35,489)
Accumulated other comprehensive income	14	2,236	6,535
		<b>167,040</b>	<b>169,556</b>
		<b>\$ 714,222</b>	<b>\$ 727,129</b>

Approved on Behalf of the Board

 Director

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

## Ratings Acquisition Corp

(operating as DBRS Group)

### Consolidated Statement of Operations and Comprehensive Income (Loss)

(expressed in thousands of Canadian dollars, unless otherwise indicated)

For the period ended November 30, 2017

	Notes	Period ended November 30, 2017	Period ended November 30, 2016
<b>Revenue</b>			
Fees	\$	208,587	\$ 168,547
		208,587	168,547
<b>Expenses</b>			
Salaries and benefits	\$	85,688	\$ 82,674
Employee incentive plans		26,564	21,159
General and administrative		29,701	35,436
Rent and operating		7,874	7,471
Amortization and depreciation	4,5	32,763	31,970
Provision for (recovery of) doubtful accounts		27	(61)
		182,617	178,649
<b>Operating income (loss)</b>	\$	25,970	\$ (10,102)
<b>Other expenses</b>			
Interest		22,522	23,898
Foreign exchange (gain) loss		(2,854)	3,896
Transaction and other		94	(781)
		19,762	27,013
<b>Income (loss) before income taxes</b>	\$	6,208	\$ (37,115)
<b>Income taxes</b>			
Current	7	7,372	3,341
Deferred	7	(5,652)	(14,512)
<b>Net income (loss)</b>	\$	4,488	\$ (25,944)
<b>Other comprehensive income (loss)</b>			
Currency translation adjustment		(4,299)	1,557
	\$	189	\$ (24,387)

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

# Ratings Acquisition Corp

(operating as DBRS Group)

## Consolidated Statements of Share Capital and other Shareholders' Equity

(expressed in thousands of Canadian dollars, unless otherwise indicated)

For the period ended November 30, 2017

		Share capital	Treasury stock	Dividends paid	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total shareholder's equity
Balance, December 1, 2015	\$	206,335	\$ -	\$ -	\$ 1,122	\$ (9,545)	\$ 4,978	\$ 202,890
Share issuance		34,251	-	-	-	-	-	34,251
Return of capital		(42,614)	-	-	-	-	-	(42,614)
Net loss		-	-	-	-	(25,944)	-	(25,944)
Dividends paid		-	-	(584)	-	-	-	(584)
Currency translation adjustment		-	-	-	-	-	1,557	1,557
Balance, November 30, 2016	\$	197,972	\$ -	\$ (584)	\$ 1,122	\$ (35,489)	\$ 6,535	\$ 169,556

		Share capital	Treasury stock	Dividends paid	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total shareholder's equity
Balance, December 1, 2016	\$	197,972	\$ -	\$ (584)	\$ 1,122	\$ (35,489)	\$ 6,535	\$ 169,556
Treasury shares repurchased		-	(571)	-	(1,398)	-	-	(1,969)
Net income		-	-	-	-	4,488	-	4,488
Dividends paid		-	-	(736)	-	-	-	(736)
Currency translation adjustment		-	-	-	-	-	(4,299)	(4,299)
Balance, November 30, 2017	\$	197,972	\$ (571)	\$ (1,320)	\$ (276)	\$ (31,001)	\$ 2,236	\$ 167,040

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

# Ratings Acquisition Corp

(operating as DBRS Group)

Consolidated Statement of Cash Flows

(expressed in thousands of Canadian dollars, unless otherwise indicated)

For the period ended November 30, 2017

	Period ended November 30, 2017	Period ended November 30, 2016
<b>Cash Provided By (Used In)</b>		
<b>Operating Activities</b>		
Net Income (Loss) for the Period	\$ 4,488	(25,945)
<b>Items Not Affecting Cash:</b>		
Amortization and depreciation	32,763	31,970
Amortization of deferred lease inducements	400	(101)
Swap receivable	5,037	(390)
Unrealized foreign exchange on balances	(9,346)	716
Deferred income taxes	(5,652)	(14,512)
Asset retirement obligation	17	296
Goodwill adjustment	-	(1,360)
Discount on loans paid to third parties	3,853	3,971
<b>Net Changes in Non-Cash Working Capital Related to Operations</b>		
Accounts receivable	(2,720)	(727)
Income taxes	906	8,127
Prepaid expenses and other	(1,028)	(1,027)
Accounts payable and accrued liabilities	(488)	(1,509)
Lease abandonment payable	(464)	(1,182)
Employee incentive plans	9,542	(4,864)
Deferred revenue	5,315	3,082
<b>Net cash flows from operating activities</b>	<b>42,623</b>	<b>(3,455)</b>
<b>Investing Activities</b>		
Purchase of fixed assets	(3,428)	(9,031)
Purchase of intangible assets	(2,572)	-
<b>Net cash flows from investing activities</b>	<b>(6,000)</b>	<b>(9,031)</b>
<b>Financing Activities</b>		
Proceeds from issuance of share capital	-	34,251
Interest payable on related party loans	-	(3)
Return of capital	-	(42,614)
Treasury shares	(571)	-
Redemption of preferred shares	(5,260)	(8,961)
Dividends paid	(736)	(584)
Loans paid to third parties	(2,921)	(2,971)
Loans (paid) received from related parties	-	(10,461)
<b>Net cash flows from financing activities</b>	<b>(9,488)</b>	<b>(31,343)</b>
Net change in cash	27,135	(43,829)
Effects of exchange rates changes on cash	(1,275)	4,412
Cash, beginning of period	14,240	53,657
<b>Cash, end of period</b>	<b>\$ 40,100</b>	<b>\$ 14,240</b>

See note 16 for supplementary cash flow information

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

# **Ratings Acquisition Corp**

(operating as DBRS Group)

## **Notes to Consolidated Financial Statements**

(expressed in thousands of Canadian dollars, unless otherwise indicated)

**November 30, 2017**

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### **1 Description of business and organization**

#### **a) Description of business**

Ratings Acquisition Corp (Ratings) is a private company incorporated on December 17, 2014 in the Cayman Islands. The subsidiaries consist of DBRS, Inc. (DBRS US), DBRS Limited (DBRS Canada) and DBRS Ratings Limited (DBRS UK) and DBRS Ratings Mexico, Institucion Calificadora de Valores, S.A. de C. (DBRS Mexico). References herein to the Company refer to Ratings and its wholly owned subsidiaries.

Each wholly owned subsidiary is a recognized international full-service rating agency that provides timely and comprehensive rating opinions to the world's markets. Privately owned and independent, the subsidiaries offer in-depth credit ratings on issuers of commercial paper, bonds, long/short-term debt, and preferred shares, as well as asset-backed securities in the corporate, financial institution, public finance, and structured finance industries. The subsidiaries also offer industry analysis, rating reports, and ratings indices for issuers and investors in North America, Europe, Asia, and Latin America.

All references to \$ or dollars are to the currency of Canada unless otherwise indicated. All references to US dollars or US\$ are to the currency of the United States unless otherwise indicated. All references to British pounds or £ are to the currency of the United Kingdom unless otherwise indicated.

### **2 Summary of significant accounting policies**

#### **Basis of presentation and principles of consolidation**

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP).

The consolidated financial statements include the results and balances of the Company and its wholly owned subsidiaries (DBRS Canada, DBRS US, DBRS UK and DBRS Mexico, AAA UK Acquisition Co Limited., and AAA UK Holding Co Limited.). Intercompany balances and transactions among consolidated entities have been eliminated on consolidation.

The Company's reporting currency is the Canadian dollar.



# **Ratings Acquisition Corp**

(operating as DBRS Group)

## **Notes to Consolidated Financial Statements**

(expressed in thousands of Canadian dollars, unless otherwise indicated)

**November 30, 2017**

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### **2 Summary of significant accounting policies (continued)**

#### **Foreign currency translation**

The functional currency of the Ratings Acquisition Corp is the US dollar, as the majority of its cash flows are in US dollars. The functional currency of each of the Company's subsidiaries is typically the primary currency in which each subsidiary operates, which is primarily the Canadian dollar, US dollar, pound sterling or Mexican peso. Foreign currency balance sheets are translated using the period-end exchange rates, and the consolidated statement of operations and comprehensive income (loss) and consolidated statement of cash flows are translated at the average exchange rates for each period. The translation adjustments resulting from the translation of foreign currency financial statements are recorded in accumulated other comprehensive income (loss) in the consolidated statement of financial position.

#### **Use of estimates**

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include: revenue recognition, valuations used when assessing potential impairment of long-lived assets and goodwill, the estimation of the useful life of property and equipment, the liability for employee incentive plans, deferred tax assets, derivative financial instruments, fair value of assets and liabilities acquired in a business acquisition, and valuation of share-based compensation. Estimates and assumptions used are based on factors such as historical experience, the observance of trends in the industries in which the Company operates and information available from the Company's customers and outside sources. While management applies its judgment based on assumptions believed to be reasonable under the circumstances and at the time, actual results could vary from these assumptions, and estimates may vary depending on the assumptions used. The Company evaluates and updates its assumptions and estimates based on new events occurring, additional information being obtained or more experience being acquired.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and balances with banks. Cash equivalents principally consist of investments, which are highly liquid and have original maturities of three months or less.

# Ratings Acquisition Corp

(operating as DBRS Group)

## Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars, unless otherwise indicated)

**November 30, 2017**

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### 2 Summary of significant accounting policies (continued)

#### Accounts receivable allowance

The Company records an allowance for estimated future credit notes as a reduction of revenue based on management's best estimate. The estimated amount of uncollectible receivables is recorded as an allowance for bad debts. Credit notes issued for uncollectible amounts are charged against the allowance. The Company evaluates its accounts receivable allowance by reviewing and assessing historical collection and adjustment experience and the current status of customer accounts. The Company also considers the economic environment of the customers, both from an industry and geographic perspective, in evaluating the need for allowances. Based on its analysis, the Company adjusts its allowance as considered appropriate in the circumstances.

#### Comprehensive income

Comprehensive income represents the change in net assets of a business enterprise during a period due to transactions and other events and circumstances from non-owner sources including foreign currency translation impacts.

#### Property and equipment - net

Property and equipment are stated cost less accumulated amortization and are amortized using the straight-line method over their estimated useful lives. Major improvements are capitalized while expenditures for maintenance and repairs that do not extend the economic useful life of the related assets are expensed when incurred. The amortization rates for property and equipment are as follows:

Computer equipment	3 years
Office equipment	5 years
Leasehold improvements	shorter or useful life or lease term

#### Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

Goodwill is tested for impairment on an annual basis and more often if an event occurs or circumstances change that indicates impairment might exist. The Company tests its goodwill at the appropriate reporting unit level. The Company's impairment review for goodwill consists of a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount, and if required, followed by a two-step process of determining the fair value of the reporting unit and comparing it to the carrying value of the net assets allocated to the reporting unit. If the two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit's goodwill. Fair value of the reporting unit is determined using a

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### 2 Summary of significant accounting policies (continued)

#### Goodwill (continued)

discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed.

The Company will perform its annual impairment review of indefinite-lived intangible assets as at March 1 of every fiscal year or when a triggering event occurs between annual impairment dates. An impairment analysis was performed as of March 1, 2017 and no impairment or triggering events were noted. As at November 30, 2017 no impairment or triggering events were noted.

#### Other intangible assets, excluding goodwill

Intangible assets, excluding goodwill, consist of definite-lived and indefinite-lived intangible assets. On recognition of an intangible asset, the Company makes a determination as to whether it is indefinite or definite-lived, taking into consideration the expected use of the asset, expiry of agreements, nature of the asset and whether the asset value decreases over time. The Company's indefinite-lived intangible assets consist of the DBRS trade name in Canada, the United States and Europe (trademark) and definite-lived intangibles assets consist of customer relationships, technology and computer software obtained for internal use.

Indefinite-lived intangible assets are not amortized, are reported at cost less accumulated impairment losses and are tested for impairment at least annually.

The Company will perform its annual impairment review of indefinite-lived intangible assets as at March 1 of every fiscal year or when a triggering event occurs between annual impairment dates. An impairment analysis was performed as of March 1, 2017 and no impairment or triggering events were noted. As at November 30, 2017 no impairment or triggering events were noted.

Definite-lived intangible assets are stated at cost less accumulated amortization and any recognized impairment. Definite-lived intangible assets are amortized on a straight-line basis over their following useful lives:

Customer relationships	4 - 13 years
Technology	6 years
Computer software obtained for internal use	3-5 years

#### Computer software developed or obtained for internal use

The Company capitalizes costs related to software developed or obtained for internal use. These assets, included in intangibles and goodwill in the balance sheets, relate to the Company's systems. Such costs generally consist of direct costs of employee compensation, in each case incurred either during the application development stage or in connection with upgrades and enhancements that increase functionality. Such costs are amortized over their estimated useful lives on a straight-line basis. Costs incurred during the preliminary project stage of development as well as maintenance costs are expensed as incurred. Capitalization of costs begin when the preliminary project stage is completed and management

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### **2 Summary of significant accounting policies (continued)**

#### **Computer software developed or obtained for internal use (continued)**

authorizes and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended.

#### **Impairment of long-lived assets**

Long-lived assets, such as property and equipment, investments held at cost and definite-lived intangible assets, are tested for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable (triggering event). If it is determined a triggering event has occurred, an undiscounted cash flow analysis is completed on the affected asset group to determine whether the future expected undiscounted cash flows of an asset group are sufficient to recover the carrying value of the assets. If it is determined that the undiscounted cash flows are insufficient, then the asset group is deemed to be impaired. The fair value of the long-lived assets is estimated primarily using third party appraisals or discounted cash flows, as appropriate. If the fair value of the asset group is less than the carrying amount, an impairment loss is recognized for the difference between the carrying amount and the fair value of the asset group.

#### **Income taxes**

The Company uses the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for accounting purposes as compared to tax purposes. A deferred income tax asset or liability is determined for each temporary difference based on the currently enacted tax rates that are expected to be in effect when the underlying items of income and expense are expected to be realized, except for a portion of earnings related to foreign operations where repatriation is not contemplated in the foreseeable future. Income taxes reported in the consolidated statement of operations and comprehensive loss include the current and deferred portions of the expense. Income taxes applicable to items charged or credited to equity are netted with such items. Changes in deferred income taxes related to a change in tax rates are recognized in the period when the tax rate change is enacted. In addition, the consolidated statement of operations and comprehensive loss contains items that are non-taxable or non-deductible for income tax purposes and, accordingly, may cause the income tax provision to be different from what it would be if based on statutory rates. When considered necessary, the Company records a valuation allowance to reduce deferred tax assets to the balance that is more likely than not to be realized. To determine the valuation allowance, the Company must make estimates and judgments on future taxable income, considering feasible tax planning strategies and taking into account existing facts and circumstances. When the Company determines that the net amount of deferred tax assets could be realized in greater or lesser amounts than recognized, the asset balance and income tax expense reflect the change in the period such determination is made. Due to changes in facts and circumstances and the estimates and judgments that are involved in determining the valuation allowance, future events could result in adjustments to this valuation allowance.

A tax benefit from an uncertain tax position may be recognized in the consolidated financial statements only if it is more likely than not that the position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized on ultimate settlement. Changes in judgment that result in subsequent recognition, de-recognition or a change in measurement of a tax position taken in a

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### **2 Summary of significant accounting policies (continued)**

#### **Income taxes (continued)**

prior period (including any related interest and penalties) are recognized as a discrete item in the period in which the change occurs. The Company classifies interest related to unrecognized tax benefits in interest expense in its consolidated statement of operations and comprehensive loss. Penalties, if incurred, would be recognized in income taxes in the consolidated statement of operations and comprehensive loss. The Company classifies a liability associated with an unrecognized tax benefit as a long-term liability, except for liabilities that are expected to be settled within the next 12 months.

The determination of income tax expense takes into consideration amounts that may be needed to cover exposure for open tax years. The number of tax years that remain open and subject to tax audits varies depending on the tax jurisdiction. A number of years may elapse before an uncertain tax position, for which the Company has unrecognized tax benefits, is audited and resolved. While it is often difficult to predict the final outcome or the timing or resolution of any particular uncertain tax position, the Company believes that its unrecognized tax benefits reflect management's current estimate of the expected outcomes. Unrecognized tax benefits are adjusted, as well as the related interest and penalties, in light of subsequent changes in facts and circumstances. Settlement of any particular uncertain tax position may require the use of cash. In addition, the resolution of a matter may result in an adjustment to the provision for income taxes, which may impact the effective tax rate in the period of resolution.

#### **Deferred lease inducement and rent expense**

The Company records rent expense on a straight-line basis over the life of the lease. In cases where there is a free rent period or future fixed rent escalations the Company will record these items rateably over the term of the lease. Additionally, the receipt of any lease incentives will be recorded as a deferred lease inducement which will be amortized over the lease term as a reduction of rent expense.

#### **Share-based compensation**

Ratings maintains several incentive plans under which non-qualified share options, incentive units and restricted stock units (RSUs) may be granted to employees, non-employee directors and management. The Company recognizes share-based compensation costs for awards granted by the parent to employees of the Company and its subsidiaries. No consideration is provided for the awards and as such is considered a capital contribution. The Company recognizes share-based compensation expense based on the grant date estimated fair value of each award using an estimated expected life, net of estimated forfeitures, over the employee's requisite service period. For share-based compensation with a service and a performance condition, share-based compensation cost is recognized on a straight-line basis over the vesting periods when it is probable the performance condition will be met.

#### **Pension obligations**

The Company operates a defined contribution pension plan. The Company provides no other post-retirement benefits to its employees, including directors. The defined contribution pension plan is privately administered and the Company pays contributions on a contractual basis. The contributions are recognized as a staff cost as they fall due.

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## **Notes to Consolidated Financial Statements**

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### **2 Summary of significant accounting policies (continued)**

#### **Derivative instruments**

The Company recognizes and measures all derivatives as either assets or liabilities at fair value in the consolidated statement of financial position.

The Company has a policy prohibiting speculative trading in derivatives. The Company may enter into derivatives that are not initially designated as hedging instruments for accounting purposes, but which largely offset the economic impact of certain transactions. Gains or losses resulting from changes in the fair value of derivatives are recorded in the consolidated statement of operations and comprehensive loss.

The Company limits its counterparty risk associated with derivative instruments by generally entering into international swaps and derivatives association agreements with its financial institution. The Company continually monitors its positions, and the credit ratings of its counterparties, and adjusts positions if appropriate.

#### **Fair value measurements**

- **Fair value hierarchy**

Certain assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustment in certain circumstances. These items primarily include: (a) assets acquired and liabilities assumed initially measured at fair value in connection with the application of acquisition accounting; (b) long-lived assets, reporting units with goodwill and intangible assets for which fair value is determined as part of the related impairment tests; and (c) other assets and liabilities included on the balance sheet.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market, or if none exists, the most advantageous market, for the specific asset or liability at the measurement date (the exit price). Valuation techniques used by the Company to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value should be based on assumptions that market participants would use when pricing the asset or liability. The measurement of fair value is based on three levels of inputs, as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;
- **Level 2** - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or, other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities; and
- **Level 3** - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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### **2 Summary of significant accounting policies (continued)**

#### **Fair value measurements (continued)**

Assets and liabilities that are measured at fair value are categorized in one of the three levels on the basis of the lowest level input that is significant to its valuation.

- **Fair value of financial assets and liabilities**

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, investments, certain other assets, accounts payable and accrued liabilities, and long-term debt.

Certain derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves and currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

The carrying amounts for cash and equivalents, accounts receivable and accounts payable and accrued liabilities approximate fair value based on the short-term nature of these accounts.

The fair value of the investments is not readily determinable as these are investments in private entities classified as Level 3 inputs within the fair value hierarchy.

The fair value of the Company's long-term debt is measured using quoted offer-side prices when quoted market prices are available. If quoted market prices are not available, the fair value is determined by discounting the future cash flows of each instrument at rates that reflect rates currently observed in publicly traded debt markets for debt of similar terms to companies with comparable credit risk. For long-term debt measurements, where the rates are not currently observable in publicly traded debt markets of similar terms to companies with comparable credit, the Company uses market interest rates and adjusts that rate for all necessary risks, including its own credit risk. In determining an appropriate spread to reflect its credit standing, the Company considers credit default swap spreads, bond yields of other long-term debt offered by the Company, and interest rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's bankers as well as other banks that regularly compete to provide financing to the Company. Fair values of variable rate term debt are classified as Level 2 inputs within the fair value hierarchy.

#### **Contingencies**

The Company evaluates the need for loss accruals under the requirements of Topic 450 of the FASB ASC – Contingencies. Certain conditions may exist which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss

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### **2 Summary of significant accounting policies (continued)**

#### **Contingencies (continued)**

contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they arise from guarantees, in which case the guarantees would be disclosed. Contingencies are disclosed in Note 17.

#### **Employee incentive plans**

The Company has a certain cash settled long-term incentive plan for certain eligible employees recorded as a liability in the consolidated statement of financial position. Employee incentive plans are recognized as a compensation cost over the vesting period as defined by the incentive plans. Adjustments are made to the long-term incentive amount based on the fair value calculated at each measurement date, resulting in the measure of compensation recorded as salary and benefits in the consolidated statement of operations and comprehensive income (loss).

#### **Revenue recognition**

Revenue is recognized when persuasive evidence of an arrangement exists, the services have been provided and accepted by the client, fees are determinable and the collection of resulting receivables is considered probable.

Revenue attributed to initial ratings of securities is recognized when the rating is issued. Revenue attributed to new issuer fees are recognized upon execution of the engagement letter. Maintenance/ surveillance revenue attributed to monitoring of issuers or issued securities is recognized over the period in which the monitoring is performed. Revenue from the sale of research products and from credit risk management subscriptions is recognized over the related subscription period.

Pursuant to the guidance in ASC 605-25, "Multiple-Element Arrangements" ("ASC 605-25"), when a sales arrangement contains multiple deliverables, the Company allocates revenue to each deliverable based on its relative selling price which is determined based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE of selling price is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available.

The Company's products and services qualify as separate units of accounting under ASC 605-25. The Company evaluates each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value to the customers and if the arrangement includes a customer refund or returns right relative to the delivered item, and the delivery and



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### **2 Summary of significant accounting policies (continued)**

#### **Revenue recognition (continued)**

performance of the undelivered item is considered probable and substantially in the Company's control. In instances where the aforementioned criteria are not met, the deliverable is combined with the undelivered items and revenue recognition is determined as one single unit.

Amounts billed in advance such as for maintenance/ surveillance and subscription services, are reflected on the balance sheet as deferred revenue and classified as current when they are expected to be recognized within one year of the balance sheet date. Fees that are not expected to be recognized within one year are classified as long-term. Volume based fees for ratings for single purpose vehicles that issue Commercial Papers are calculated as a percentage of the outstanding security, and billed quarterly or annually in arrears. Furthermore, for certain annual monitoring services, fees are not invoiced until the end of the annual monitoring period. Revenue is accrued over the monitoring period.

#### **Newly released accounting standards not yet adopted**

In May 2014, the Financial Accounting Standard Board issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfil a contract. ASU 2014-09 is effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently evaluating the effect that this pronouncement will have on its financial statements and related disclosures.

In November 2015, the Financial Accounting Standard Board issued a new leasing standard where non-public companies will be required to apply for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. For non-public calendar year-end companies, this means an adoption date of January 1, 2020 and retrospective application to previously issued annual financial statements for 2019 and 2018. The Company is currently evaluating the effect that this pronouncement will have on its financial statements and related disclosures.

On January 26, 2017, the Financial Accounting Standard Board issued guidance to simplify the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The revised guidance will be applied prospectively, and is effective for calendar year-end SEC filers in 2020. Other public business entities will have an additional year. All other entities that have not elected the private Company goodwill alternative are required to adopt in 2022.

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### **2 Summary of significant accounting policies (continued)**

#### **Newly released accounting standards not yet adopted (continued)**

In January 2016, the FASB issued ASU 2016-01, which eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities, requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. The amendments are effective for non-public entities are effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. No other early adoption is permitted. The Company is currently assessing the impact the adoption of this standard will have on the Company's financial position and its related disclosures.

In August 2016, the FASB issued ASU 2016-15, which affects all entities that are required to present a statement of cash flows under Topic 230. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. For non-public entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The amendments in this update should be applied using a retrospective transition method to each period presented. Early adoption is permitted, including adoption in an interim period. The Company is currently assessing the impact the adoption of this standard will have on the Company's disclosures.

In August 2014, the FASB issued ASU 2014-15, which provides guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This standard is effective for all entities for fiscal years and interim periods within those years, beginning after December 15, 2016. Early application is permitted. The Company is currently assessing the impact the adoption of this standard will have on the Company's results of operations, financial position, and its related disclosures.

In November 2015, the FASB issued ASU 2015-17, which simplifies the presentation of deferred income taxes, the amendments in this update require that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. For non-public entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018.

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#### 3 Accounts receivable - net

Accounts receivable as at November 30, 2017 consist of the following balances:

	As at November 30, 2017	As at November 30, 2016
Trade receivables	\$ 32,376	\$ 28,861
Other receivables	142	940
Less: Allowance for doubtful accounts	(50)	(34)
	<u>\$ 32,468</u>	<u>\$ 29,767</u>

#### 4 Property and equipment - net

Property and equipment, net as at November 30, 2017 consists of the following:

	Cost	Accumulated Amortization	November 30, 2017 Net Book Value	November 30, 2016 Net Book Value
Computer equipment	\$ 1,746	\$ 1,270	\$ 476	\$ 655
Office equipment	1,756	549	1,207	737
Telephone system	856	439	417	462
Leasehold improvements	9,596	2,671	6,925	5,863
	<u>\$ 13,954</u>	<u>\$ 4,929</u>	<u>\$ 9,025</u>	<u>\$ 7,717</u>

Amortization expense on property and equipment of \$2,176 for the period (2016 - \$2,192) was recorded in amortization expense in the consolidated statement of operations and comprehensive income (loss). Amortization is recognized on a straight line basis over the life of the asset.

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### 5 Intangible assets - net including goodwill

Intangible assets as at November 30, 2017 consist of the following:

	Cost	Accumulated Amortization	November 30, 2017 Net Book Value	November 30, 2016 Net Book Value	Weighted average life
Definite-lived intangible assets:					
Customer relationships	\$ 276,308	\$ 69,326	\$ 206,982	\$ 233,769	8.5
Technology	25,150	11,527	13,623	18,001	6
Computer software obtained for internal use	6,346	2,151	4,195	2,705	3 - 5
Indefinite-lived intangible assets:					
Trademarks	99,682	-	99,682	101,930	
Goodwill	298,322		298,322	303,399	
	<u>\$ 705,808</u>	<u>\$ 83,004</u>	<u>\$ 622,804</u>	<u>\$ 659,804</u>	

Amortization expense on definite-lived intangible assets of \$30,587 for the period (2016 - \$29,778) was recorded in amortization expense in the consolidated statement of operations and comprehensive income (loss). Amortization is recognized on a straight line basis over the life of the asset.

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

	\$
Balance- November 30, 2016	\$ 303,399
Foreign Exchange	<u>\$ (5,077)</u>
Balance- November 30, 2017	<u>\$ 298,322</u>

Amortization of the intangible assets are as follows:

Year ending November 30,	
2018	30,717
2019	29,497
2020	29,267
2021	27,816
2022	24,453
Thereafter	<u>83,051</u>
	<u>224,801</u>

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### 6 Long-term debt

Long-term debt as at November 30, 2017 consists of the following:

	2017	2016
Secured term loan facility	\$ 282,304	\$ 297,107
Less: Debt issuance costs	1,981	6,200
	<u>280,323</u>	<u>290,907</u>
Less: Current portion	2,902	3,022
	<u>\$ 277,421</u>	<u>\$ 287,885</u>

On March 4, 2015, DBRS Canada and DBRS US, as co-borrowers entered into a credit agreement with Credit Suisse AG (credit agreement), which provides for a term loan with a principal amount of US\$225 million under a secured term loan facility (term loan) and a revolver facility (revolver) of up to US\$40 million. The US\$225 million term loan has been allocated US\$125 million to DBRS Canada and US\$100 million to DBRS US, respectively.

The term loan matures on March 4, 2022 where the principal amounts amortize in quarterly instalments, with the balance due at the maturity date. Interest accrues at a rate of LIBOR plus 5.25% per annum on the term loan. Early prepayments can be made on the term loan at no penalty, provided the payments are made after the 12-month anniversary of the closing date of the credit agreement. Interest expense of \$18.5 million (2016 - \$22.5 million) was recorded related to the term loan for the period.

The revolver matures on March 4, 2020 and accrues interest at a rate of LIBOR plus 4.50% or 5.00% annually, depending on certain leverage ratios. Interest expense of \$150 thousand (2016 - \$1 million) was recorded related to the revolver for period.

Also included in the credit agreement is a swing-line facility of US\$10 million, which was not utilized at November 30, 2017. The fair value of long-term debt as at November 30, 2017 approximates its book value.

#### Covenants

The credit agreement contains a number of affirmative and negative covenants that, among other things, limit or restrict the ability to incur additional indebtedness and liens, sell assets, fundamentally change business models, acquire other companies, or make certain investments. The credit agreement requires the maintenance of one financial ratio.

Senior secured first lien net leverage ratio means, as of any date of determination, the ratio, on a pro forma basis, of: (i) consolidated senior secured first lien indebtedness as of such date to; (ii) consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) for the most recently completed test period.

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### 6 Long-term debt (continued)

If the sum of the aggregate principal amount of the revolver outstanding at the end of the period plus the aggregate principal amount of swing-line loans then outstanding exceeds 30.0% of the aggregate principal amount of revolving commitment then the senior secured first lien net leverage ratio is not permitted to exceed 7.25:1 until May 31, 2016 and 7.00:1 thereafter. As at November 30, 2017, the Company was in compliance with all covenants of the credit agreement.

#### Deferred financing costs

In connection with the credit agreement, the Company incurred US\$10.6 million of deferred financing costs that was recorded as a direct reduction against the term loan and is being amortized over the term of the loan into interest expense using the interest rate method. The amortization of deferred financing costs included in interest expense was \$3.8 million for the period ending November 30, 2017 (2016 - \$4.0 million).

#### Maturities

The aggregate maturities of long-term debt as at November 30, 2017 are as follows:

	\$
2018	2,902
2019	5,078
2020	5,804
2021	5,804
2022	262,716
	<u>282,304</u>
Less deferred financing fees	<u>(1,981)</u>
	<u><u>280,323</u></u>

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### 7 Income taxes

The tax-effected temporary differences, which gave rise to deferred tax assets and liabilities as at November 30, 2017, consisted of the following:

<b>Deferred tax assets</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Current:		
Temporary differences related to:		
Lease abandonment costs	\$ -	\$ 184
Net operating loss carry forwards	-	2,229
Ontario minimum tax	-	613
Deferred lease inducement and deferred revenue	253	2
Accelerated capital allowances	100	7
Employee Incentive Plans	-	53
Other	102	62
	<u>\$ 455</u>	<u>\$ 3,150</u>
Long term:		
Temporary differences related to:		
Tax depreciation in excess of accounting depreciation on property and equipment	\$ 153	\$ 432
Net operating loss carry forwards	3,132	5,253
Finance costs	768	593
Net capital losses	120	-
Deferred lease inducement and deferred revenue	5,078	4,024
AMT Credit Carryforwards	219	-
	<u>\$ 9,470</u>	<u>\$ 10,302</u>
<b>Deferred tax liabilities</b>		
Current:		
Temporary differences related to:		
Employee incentive plans	\$ -	\$ 934
Accrued interest	-	9
	<u>\$ -</u>	<u>\$ 943</u>
Long term:		
Temporary differences related to:		
Tax depreciation in excess of accounting depreciation on property and equipment	\$ 458	\$ 300
Intangible assets	91,447	100,954
Unrealized gain on swap	339	437
Tax reserve	1,385	1,421
Unrealized loss	562	607
Other	11	13
	<u>\$ 94,202</u>	<u>\$ 103,732</u>
<b>Net Deferred Tax Liability</b>	<u><u>\$ 84,277</u></u>	<u><u>\$ 91,223</u></u>

# Ratings Acquisition Corp

(operating as DBRS Group)

## Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars, unless otherwise indicated)

**November 30, 2017**

### 7 Income taxes (continued)

Income tax expense for the period comprises the following:

	<u>2017</u>	<u>2016</u>
	\$	\$
Current tax provision:		
DBRS Canada	7,046	3,227
DBRS US	326	114
	<u>7,372</u>	<u>3,341</u>
Deferred tax provision:		
DBRS Canada	(5,243)	(3,124)
DBRS US	(212)	(12,344)
DBRS UK	(164)	956
AAA UK Acquisition Co. Limited	(33)	-
	<u>(5,652)</u>	<u>(14,512)</u>

DBRS UK had trade loss carry-forwards of £8,133 as at November 30, 2017 (2016 - £10,250). These losses are not subject to expiry.

As at November 30, 2017, the Company had \$2,672 (2016 - \$2,780) of uncertain tax positions (UTPs). The Company classifies interest related to UTPs in interest expense in its consolidated statement of operations and comprehensive loss. Penalties, if incurred, would be recognized in other non-operating expenses. During the period to November 30, 2017, the amount of net interest accrued for UTPs was \$92 (2016 - \$152). As at November 30, 2017, the amount of accrued interest recorded in the Company's consolidated statement of financial position related to UTPs was \$358 (2016 - \$266).

A reconciliation of the beginning and ending amount of UTPs is as follows:

	<u>2017</u>	<u>2016</u>
	\$	\$
Balance - Beginning of period	2,780	2,628
Interest accrued	92	152
Foreign exchange	(200)	-
Balance - End of period	<u>2,672</u>	<u>2,780</u>



# Ratings Acquisition Corp

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### 7 Income taxes (continued)

The Company's subsidiaries are subject to Canadian income tax, US federal and state income tax as well as income tax in the United Kingdom. Tax filings in Canada and the US since 2011 remain open to examination. Tax filings in the UK since 2012 remain open to examination.

It is also possible that new issues might be raised by tax authorities which might necessitate increases to the balance of UTPs. As the Company is unable to predict the timing or conclusion of these audits, the Company is unable to estimate the amount of changes to the balance of UTPs at this time. However, the Company believes it has adequately provided for its financial exposure for all open tax years by tax jurisdiction.

A reconciliation of the statutory tax rate to the Company's effective tax rate on income before provision for income taxes is as follows:

	For the period from December 1, 2016 to November 30, 2017	For the period from December 1, 2015 to November 30, 2016
Statutory Rate	19.33%	20.00%
Difference between local and foreign tax rates	7.46%	16.42%
Non deductible expenses	4.96%	(1.60%)
Change in tax rate	10.44%	6.17%
Timing differences with respect to losses	-	(9.40%)
Current tax true up	(1.44%)	(0.32%)
Deferred tax true up	(5.81%)	(0.01%)
Non taxable portion of gains and losses	(2.13%)	(0.17%)
Non qualifying depreciation	-	2.03%
Unrecorded temporary differences	(8.42%)	(0.17%)
Other	3.33%	(1.38%)
	<u>27.71%</u>	<u>31.57%</u>

### 8 Employee incentive plan

	2017	2016
	\$	\$
Bonus payable (short term incentive plan)	27,513	18,074
Long term incentive plan	724	809
	<u>28,237</u>	<u>18,883</u>

# Ratings Acquisition Corp

(operating as DBRS Group)

## Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars, unless otherwise indicated)

**November 30, 2017**

### 8 Employee incentive plan (continued)

Effective December 1, 2013, the predecessor Company, DBRS Holdings Limited, established a cash settled long-term incentive plan (the 2014 LTIP) for eligible employees of DBRS Canada, DBRS US and DBRS UK, subsidiaries of the Company. The 2014 LTIP awards were granted in early 2014 and vest evenly over a three-year term. \$724 were accrued as of November 30, 2017 (2016 - \$809) and were paid in January 2018. The Company records a liability as the awards vest, no further awards will be granted under the 2014 LTIP.

### 9 Other liabilities

Other liabilities consists of the following balances:

Current:	2017 \$	2016 \$
Lease abandonment payable	-	478
Deferred lease inducement	1,584	647
	<u>1,584</u>	<u>1,125</u>
Long Term:	\$	\$
Deferred lease inducement	1,471	2,005
	<u>1,471</u>	<u>2,005</u>

### 10 Capital stock and mezzanine equity

Authorized

Unlimited common shares

Unlimited Class A preferred shares

Issued

	2017		2016	
	Shares	Amount \$	Shares	Amount \$
Balance - Beginning of period	24,950,210	197,972	20,633,508	206,335
Shares issued	-	-	4,316,702	34,251
Return of capital	-	-	-	(42,614)
Balance - End of period	<u>24,950,210</u>	<u>197,972</u>	<u>24,950,210</u>	<u>197,972</u>

# Ratings Acquisition Corp

(operating as DBRS Group)

## Notes to Consolidated Financial Statements

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November 30, 2017

### 10 Capital Stock and Mezzanine Equity (continued)

Holders of common shares are entitled to one vote per share, and to receive dividends and, on liquidation or dissolution, are entitled to receive all assets available for distribution to shareholders. The holders have no pre-emptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. Common shares are subordinate to the Class A preferred shares below with respect to dividend rights and rights on liquidation, winding up and dissolution of the Company.

#### Class A preferred shares

	2017		2016	
	Shares	Amount \$	Shares	Amount \$
Balance - Beginning of period	91,038,876	91,039	100,000,000	100,000
Shares redeemed	(5,259,988)	(5,260)	(8,961,124)	(8,961)
Balance - End of period	85,778,888	85,779	91,038,876	91,039

In connection with the transactions, 100,000,000 Class A cumulative compounding perpetual voting preferred shares were issued at a total purchase price of \$100 million or \$1.00 per share (the Purchase Price). No issuance costs were incurred.

The Class A preferred shares will accrue an annual dividend of 6.0% until March 4, 2022, at which point the dividend will increase by 100 basis points to a maximum of 8.0% as at March 4, 2024. The dividend is only payable upon approval by the Board, or when a liquidity event occurs. The annual dividend will accrue on a daily basis on the sum of the value of the shares plus all accrued dividends, whether or not there are funds legally available for the payment of dividends. All accrued dividends accumulate and compound on a quarterly basis.

All outstanding Class A preferred shares are mandatorily redeemable in the event of liquidity or the option of the Company in whole or in part subject to certain restrictions. Liquidity events are events that result in significant changes to the ownership of the Company. During the year ended November 30, 2016 the Company agreed to redeem an agreed amount of Class A preferred shares based on a pre-set schedule, assuming the Company meets certain criteria at each repayment date. The agreement continues indefinitely, and is subject to certain restrictions, including ensuring the redemption does not cause a violation of any debt covenants. Assuming the Company in compliance with all covenants, the Company would be required to pay approx. 6% of the face value of the preferred shares per year.

Holders of the Class A preferred shares have voting rights equal to 10.1% of the issued voting share capital of the Company. Except as otherwise provided holders of the preferred shares and common shares vote together as a single class.

The Class A preferred shares are presented outside of permanent equity and are measured at their redemption amount. The liquidation value is \$100 million.

# Ratings Acquisition Corp

(operating as DBRS Group)

## Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars, unless otherwise indicated)

**November 30, 2017**

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### 11 Treasury shares

Treasury shares of 803,303 shares were repurchased at a premium in 2017 (2016: nil) and of those, 600,000 were reissued for a net cash outlay of \$571.

### 12 Share-based compensation

#### Ratings Acquisition Corp. 2015 Stock Option and Restricted Stock Unit Plan

On March 4, 2015, and restated as at March 31, 2015, the Board of Directors approved the Ratings Acquisition Corp. 2015 Stock Option and Restricted Stock Unit Plan (2015 plan) granted to certain employees and directors of the Company.

As part of the 2015 plan, there were 708,943 options authorized and granted as of November 30, 2017, whereas each option can be exercised, once vested, for one common share. The exercise price is equal to the fair value of a common share on the grant date and the term of the options shall commence on the grant date and expire on the tenth anniversary thereof, unless the options shall have been earlier terminated in accordance with the terms of the 2015 plan.

Options granted include a service component as well as a performance component. The service component vests in five equal instalments annually on each of the first five anniversaries of the grant date. The performance component vests pursuant to the achievement of certain performance conditions and is expensed based on a graded vesting schedule if performance conditions are met. The performance condition would mean any event such as a change of control or an Initial Public Offering. The Company reassesses the probability of vesting at each reporting period for awards with performance conditions and adjusts compensation cost based on its probability assessment.

During the operating year, 88,000 additional options were granted and 3,333 options were forfeited. No options were exercised during the period. As at November 30, 2017 there were 708,943 options outstanding.

The following table summarizes the options outstanding under the 2017 plan:

	Number of options	Weighted average exercise price \$
Outstanding- Beginning of period	624,276	7.93
Granted	88,000	9.08
Vested and settled	-	-
Forfeited	(3,333)	7.93
Outstanding- End of period	<u>708,943</u>	<u>8.07</u>

## Ratings Acquisition Corp

(operating as DBRS Group)

### Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars, unless otherwise indicated)

November 30, 2017

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#### 12 Share-based compensation (continued)

The following table summarizes the RSUs outstanding under the 2016 plan:

	Number of options	Weighted average exercise price \$
Outstanding- Beginning of period	-	-
Granted	310,238	9.67
Vested and settled	-	-
Forfeited	-	-
RSU's- End of period	310,238	9.67

#### Ratings Acquisition Corp. 2015 Incentive Share Plan

On March 4, 2015, and restated as at March 31, 2015, the Board of Directors approved the 2015 Incentive Share Plan (2015 Incentive Plan) granted to certain employees of the Company.

As part of the 2015 Incentive Plan, there were 1,842,981 Class A incentive shares authorized to be granted.

The Class A incentive shares granted include a service component as well as a performance component. The service component vests in five equal instalments annually on each of the first five anniversaries of the grant date. The performance component vests pursuant to the achievement of certain performance conditions and is expensed based on a graded vesting schedule if performance conditions are met. The performance condition would mean any event such as a change of control or an Initial Public Offering. The Company reassesses the probability of vesting at each reporting period for awards with performance conditions and adjusts compensation cost based on its probability assessment.

The Company granted an additional 230,441 Class A incentive shares during the period. During the period 718,047 shares were forfeited and none have vested or settled. At November 30, 2017 1,842,981 Class A incentive shares were outstanding.

The Company recorded stock-based compensation expense of \$nil for the period of December 1, 2016 to November 30, 2017 (\$nil for the period of December 1, 2015 to November 30, 2016) since the performance event is not probable. The compensation cost will only be recorded if a liquidity event is deemed probable.

#### 13 Financial instruments

##### Cross currency interest rate swap

The Company entered into a cross currency interest rate swap with Credit Suisse International to manage its exposure related to changes in interest rates on \$198 million of variable rate debt instruments most particularly the US\$225 million variable rate LIBOR debt entered into to finance the Transaction (note 6). The cross-currency interest rate swap had a notional amount totalling US\$158 million and matures on February 2020. The fair value of the interest rate swap as

# **Ratings Acquisition Corp**

(operating as DBRS Group)

## **Notes to Consolidated Financial Statements**

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### **13 Financial instruments (continued)**

#### **Cross currency interest rate swap (continued)**

at November 30, 2017 is an asset of \$2,962 (2016 - \$8,000) and is recorded in other assets in the consolidated statement of financial position. The fair value of the interest rate agreement was calculated using a net present value of future discounted cash flows using the following significant inputs: the term of the swap, the notional amount of the swap, discount rates interpolated based on relevant swap curves, the rate on the fixed leg of the swap and a Level 2 input.

By effectively converting the interest rates from variable to fixed, the Company has eliminated the volatility.

#### **Credit risk**

The Company is exposed to credit risk resulting from the possibility counterparties may default on their financial obligations. Financial instruments that potentially subject the Company to credit risk principally consist of cash and cash equivalents, restricted cash, accounts receivable and derivative instruments. The Company manages its credit risk exposure on cash and cash equivalents by allocating its cash equivalents among various high grade term deposits and money market mutual funds. Credit risk on accounts receivable is managed through credit management procedures in place to ensure clients are creditworthy and to mitigate the risk to any one party and to the aggregate balance. Management does not estimate the Company has any significant credit risk with respect to any single client. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, the Company is not exposed to the counterparty's credit risk in those circumstances. The Company minimizes counterparty credit risk in derivative instruments by entering into transactions with high quality counterparties. The derivative instruments entered into by the Company do not contain credit risk related contingent features.

### **14 Comprehensive income**

Comprehensive income includes all changes in equity during the period, except those resulting from transactions with shareholders. Comprehensive income is comprised of net income and other comprehensive income. Accumulated other comprehensive income reported on the consolidated statement of financial position consists of foreign currency translation adjustments.

## Ratings Acquisition Corp

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### Notes to Consolidated Financial Statements

(expressed in thousands of Canadian dollars, unless otherwise indicated)

**November 30, 2017**

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#### 15 Commitments

The minimum lease payments under operating leases are as follows:

	\$
2018	5,845
2019	5,805
2020	5,861
2021	5,618
2022	4,518
Thereafter	32,363
	<u>60,010</u>

The Company, in support of the lease commitments, had issued letters of credit in the amount of \$2.0 million at November 30, 2016, which expired July 31, 2017, as security deposits on the leased office spaces. There are no letters of credit outstanding as at November 30, 2017.

#### 16 Supplemental cash flow information

	2017	2016
Income taxes paid - DBRS Canada	\$5,173	\$820
Income taxes paid - DBRS US	410	-
Interest paid on debt - DBRS Canada	10,250	12,828
Interest paid on debt - DBRS US	10,038	10,739
	<u>\$25,871</u>	<u>\$24,387</u>

#### 17 Contingencies

DBRS Group is not involved in any legal proceedings which are expected to have a material effect on its business, financial position, results of operations or liquidity, nor is DBRS Group aware of any proceedings that are pending or threatened which may have a material effect on the business, financial position, and results of operations or liquidity.

#### 18 Subsequent events

We have considered all subsequent events through April XX 2018 the date the financial statements were available for issuance.

On December 13, 2017, DBRS Limited sold its 16% stake in ICR for \$921,384 (US\$720,000). A gain on sale was recorded in 2018.

# **Ratings Acquisition Corp**

(operating as DBRS Group)

## **Notes to Consolidated Financial Statements**

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**November 30, 2017**

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### **18 Subsequent events (continued)**

On December 22, 2017 the United States Tax Reform bill was enacted, with certain provisions effective January 1, 2018. Management is currently assessing the impact of this enacted bill on its financial statements for the fiscal year ending November 30, 2018.

On January 24, 2018, AAA UK Acquisition Co. Limited incorporated an entity in Germany named DBRS Ratings GmbH.

### **19 Changes to prior year comparatives**

Prior year comparatives have been restated to conform to the current year presentation. The only changes are the inclusion of additional sub-categories of disclosure as management are of the view that this further detail will provide greater clarity to the users of the financial statements. The following financial statement lines were impacted:

#### **Balance Sheet**

- Property, plant, and equipment
- Intangible assets

#### **Statement of Cash Flows**

- Amortization of deferred financing fees
- Purchase of property, plant, and equipment
- Purchase of intangible assets